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HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 1

Bill 84

An Act to amend the Canadian Farm Loan Act

TUESDAY, MARCH 6, 1956

TUESDAY, MARCH 27, 1956

WITNESS:

Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

72336—1

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Argue
Ashbourne
Balcom
Benidickson
Bennett (*Grey North*)
Blackmore
Cameron (*Nanaimo*)
Cannon
Carrick
Crestohl
Dufresne
Eudes
Fairey
Fleming
Follwell
Fraser (*Peterborough*)
Fraser (*St. John's East*)
Fulton
Gour (*Russell*)
Hanna
Hellyer
Henderson
Hollingworth
Huffman
Johnson (*Kindersley*)
Johnston (*Bow River*)
Macdonnell (*Greenwood*)
MacEachen
Macnaughton
Matheson
Michener
Mitchell (*London*)
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Quelch
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Stewart (*Winnipeg North*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver

Eric H. Jones,
Clerk of the Committee.

Note: The name of Mr. Charlton was substituted for that of Mr. Dufresne after the morning sitting on Tuesday, March 27, 1956.

ORDERS OF REFERENCE

HOUSE OF COMMONS

THURSDAY, January 26, 1956.

Resolved,—That the following Members do compose the Standing Committee on Banking and Commerce:

Messrs.

Anderson	Fraser (*St. John's East*),	Noseworthy
Ashbourne	Fulton	Pallett
Balcom	Hanna	Philpott
Benidickson	Hellyer	Power (*Quebec South*),
Bennett (*Grey North*),	Henderson	Quelch
Blackmore	Hollingworth	Richardson
Cameron (*Nanaimo*),	Huffman	Robichaud
Cannon	Hunter	Rouleau
Cardin	Johnson (*Kindersley*),	St. Laurent
Carrick	Johnston (*Bow River*),	(*Temiscouata*)
Crestohl	Macdonnell	Stewart (*Winnipeg*
Dufresne	MacEachen	*North*)
Dumas	Macnaughton	Thatcher
Eudes	Matheson	Tucker
Fairey	Michener	Viau
Fleming	Mitchell (*London*),	Weaver—50.
Follwell	Monteith	
Fraser (*Peterborough*)	Nickle	

(Quorum 15)

Ordered,—That the Standing Committee on Banking and Commerce be empowered to examine and inquire into all such matters and things as may be referred to them by the House; and to report from time to time their observations and opinions thereon, with power to send for persons, papers and records.

FRIDAY, March 2, 1956.

Ordered,—That the name of Mr. Vincent be substituted for that of Mr. Cardin; and

That the name of Mr. Gour *(Russell)* be substituted for that of Mr. Anderson on the said Committee.

TUESDAY, March 6, 1956.

Ordered,—That the quorum of the said Committee be reduced from 15 to 10 members.

Ordered,—That the said Committee be granted permission to sit while the House is sitting.

Ordered,—That the said Committee be empowered to print such papers and evidence as may be ordered by the Committee and that Standing Order 66 be suspended in relation thereto.

72336—1½

THURSDAY, March 8, 1956.

Ordered,—That the following Bill be referred to the said Committee:
Bill No. 51, An Act to amend the Small Loans Act.

MONDAY, March 12, 1956.

Ordered,—That the name of Mr. Valois be substituted for that of Mr. Dumas; and

That the name of Mr. Argue be substituted for that of Mr. Noseworthy, on the said Committee.

THURSDAY, March 22, 1956.

Ordered,—That the following Bills be referred to the said Committee:
Bill No. 84, An Act to amend the Canadian Farm Loan Act.
Bill No. 165, An Act to amend the Industrial Development Bank Act.

TUESDAY, March 27, 1956.

Ordered,—That the name of Mr. Charlton be substitued for that of Mr. Dufresne on the said Committee:

Attest

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

TUESDAY, March 6, 1956

The Standing Committee on Banking and Commerce begs leave to present the following as its

FIRST REPORT

Your Committee recommends:

1. That the quorum be reduced from 15 to 10 Members and that Standing Order 65(1)(d) be suspended in relation thereto.

2. That permission be granted to sit while the House is sitting.

3. That it be empowered to print such papers and evidence as may be ordered by the Committee, and that Standing Order 66 be suspended in relation thereto.

Respectfully submitted.

JOHN W. G. HUNTER,
Chairman.

(Note: The Second Report of the Committe dealt with two Private Bills in respect of which verbatim evidence was not recorded.)

MINUTES OF PROCEEDINGS

TUESDAY, March 6, 1956

The Standing Committee on Banking and Commerce met at 11.00 a.m. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Balcom, Benidickson, Bennett (*Grey North*), Blackmore, Cameron (*Nanaimo*), Cannon, Carrick, Crestohl, Dumas, Fairey, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Hanna, Huffman, Hunter, Macdonnell (*Greenwood*), Michener, Mitchell (*London*), Monteith, Noseworthy, Philpott, Power (*Quebec South*), Quelch, Richardson, Robichaud, Tucker and Weaver.

In attendance: Mr. K. R. MacGregor, Superintendent of Insurance; Mr. H. R. Douglas, Parliamentary Agent, and Mr. C. W. Gale, appearing on behalf of The Canadian Equity Insurance Company, Mr. F. A. M. Huycke and Mr. M. B. Dix, appearing on behalf of The Interprovincial Trust Company.

Mr. Hunter thanked the Committee for electing him Chairman.

Before proceeding with the Orders of the Day, the Chairman suggested that certain resolutions pertaining to future conduct of the Committee be considered.

On motion of Mr. Richardson,

Resolved:—That the Committee recommend to the House that it be empowered to print such papers and evidence as may be ordered by the Committee, and the Standing Order 66 be suspended in relation thereto.

On motion of Mr. Fairey,

Resolved:—That the Committee recommend to the House that its quorum be reduced from 15 to 10 members, and that Standing Order 65(1)(d) be suspended in relation thereto.

On motion of Mr. Cannon,

Resolved:—That the Committee recommend to the House that it be authorized to sit while the House is sitting.

It was ordered that the Chairman make a report to the House embodying the preceding resolutions.

(Note: The Committee then considered two Private Bills in respect of which verbatim evidence was not recorded.)

At 12.00 o'clock noon the Committee adjourned to the call of the Chair.

ANTOINE CHASSÉ,
Acting Clerk of the Committee.

TUESDAY, March 27, 1956

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Ashbourne, Balcom, Bennett (*Grey North*), Blackmore, Cameron (*Nanaimo*), Carrick, Fairey, Fleming, Fraser (*Peterborough*), Gour (*Russell*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Johnson (*Kindersley*), Johnston (*Bow River*), MacEachen, Michener, Pallett, Philpott, Power (*Quebec South*), Quelch and Richardson.

In attendance: Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

On motion of Mr. Bennett (*Grey North*),

Resolved,—That Mr. Valois be Vice-chairman of the Committee.

On motion of Mr. Carrick,

Resolved,—That a Sub-committee on Agenda and Procedure be appointed, to be comprised of the Chairman and Messrs. Benidickson, Fleming, Fraser (*St. John's East*), Huffman, Macdonnell (*Greenwood*), Quelch, Stewart (*Winnipeg North*) and Valois.

The Committee proceeded to consider Bill 84, An Act to amend the Canadian Farm Loan Act.

On motion of Mr. Richardson,

Resolved,—That the Committee print 750 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of Bill 84.

Mr. Chester was called; he read a prepared statement of the operations of the Board under the Canadian Farm Loan Act.

There was debate as to whether farm organizations should be invited to attend and make representations to the Committee, or, alternatively, whether the Sub-committee should consider this question and make a recommendation to the Committee.

It was agreed that the Sub-committee on Agenda and Procedure meet following the adjournment of the Committee at 5.00 p.m. this day to consider and recommend in this matter; and that, for the purpose of that meeting the following substitutions be made, viz., Mr. Hollingworth for Mr. Benidickson, Mr. Charlton for Mr. Macdonnell (*Greenwood*) and Mr. Johnston (*Kindersley*) for Mr. Stewart (*Winnipeg North*).

Mr. Chester was questioned on the operations of the Canadian Farm Loan Board.

At 1.00 o'clock p.m., the Committee adjourned until 3.30 o'clock p.m. this day.

AFTERNOON SITTING

At 3.30 o'clock p.m., the Committee resumed its consideration of Bill 84, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Bennett (*Grey North*), Blackmore, Cameron (*Nanaimo*), Carrick, Charlton, Eudes, Fairey, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Hanna, Hellyer, Henderson, Hollingworth, Huffman, Hunter, Johnson (*Kindersley*), Johnston (*Bow River*), MacEachen, Macnaughton, Michener, Pallett, Philpott, Power (*Quebec South*), Quelch, Richardson, Tucker and Valois.

In attendance: The same as at the morning sitting.

Mr. Chester was further questioned on the operations of the Canadian Farm Loan Board.

At 4.52 o'clock p.m., the Chairman withdrew to attend the House and the Vice-chairman took the chair.

At 5.00 o'clock p.m., the Committee adjourned to the call of the Chair.

Eric H. JONES,
Clerk of the Committee.

EVIDENCE

TUESDAY, March 27, 1956
11 a.m.

The CHAIRMAN: Gentlemen, we have a quorum now and I suggest that we proceed. Some others may appear later on. There is a motion to be moved by Mr. Bennett.

Mr. BENNETT: (*Grey North*): Mr. Chairman, I move that Mr. Valois be Vice-chairman of the committee.

The CHAIRMAN: All those in favour? Contrary, if any? I declare Mr. Valois to be Vice-chairman. Now, Mr. Carrick?

Mr. CARRICK: Mr. Chairman, I move that a Sub-committee on Agenda and Procedure be appointed, to be comprised of the Chairman and Messrs. Benidickson, Fleming, Fraser (*St. John's East*), Huffman, Macdonnell (*Greenwood*), Quelch, Stewart (*Winnipeg North*), and Valois.

The CHAIRMAN: You have heard the motion, all those in favour? Contrary, if any? I declare the motion carried.

As you know, we are here to deal with Bill 84, An Act to amend the Canadian Farm Loan Act, which was referred to the committee on March 22. In that connection I think it is in order that we have a motion regarding printing.

Mr. RICHARDSON: Mr. Chairman, I move that the committee print 750 copies in English and 200 copies in French of its minutes of proceedings and evidence in respect of Bill 84.

The CHAIRMAN: All those in favour of the motion? Contrary, if any? I declare the motion carried.

In connection with this bill, I think you all have a statement, or has it been distributed yet? Could we have the statement distributed?

I suggest that Mr. Chester read his statement to the committee and then if the committee have any questions, they may put them to Mr. Chester at the end of his statement and he will try to answer them, after which we shall proceed with the actual consideration of the clauses of the bill.

Mr. Chester, would you kindly come up here and read your statement. Mr. Chester is Chairman of the Canadian Farm Loan Board.

Mr. F. L. Chester, Chairman, Canadian Farm Loan Board, called:

The WITNESS: Mr. Chairman and Members of the Parliamentary Committee:

The Canadian Farm Loan Board came into existence in 1929 as a result of the demand for: lower interest rates, longer repayment terms, and a dependable source of funds for farm mortgage lending in Canada. The original Act provided for a co-operative scheme between the Federal Government, Participating Provinces, and the Borrower each contributing to the extent of 5% of the amount loaned to the capital of the Board and the lending funds of the Board were provided by the Federal Government. All Provinces in Canada, excepting Ontario, Saskatchewan and Prince Edward Island, participated from the outset. In 1934, the Canadian Farm Loan Act was amended and the Federal Government became the sole owner, having repaid the capital provided by the Provinces and the Borrowers. Lending was then extended to

all Provinces in Canada and has since been continued uninterrupted. The Canadian Farm Loan Board maintains a Branch Office responsible for the processing of all loans in each Province excepting Newfoundland.

The original and main purposes for which the Canadian Farm Loan Board was set up were:

(a) To reduce farm mortgage interest rates of between 7 and 12 per cent then being charged in Canada;

(b) To provide a dependable source of funds for farm mortgage lending across Canada under varying economic conditions;

(c) To provide mortgage loans for a long period of years (twenty-five), that is the present number of years;

(d) To provide for the orderly repayment of farm mortgage loans with maximum ease by amortizing the loan through equal annual or semi-annual instalments of principal and interest.

To provide moderate and stable mortgage interest rates for farmers across Canada by this Board has always been predicated upon a competitive and self-sustaining operation without the benefit of Government subsidies, so that the mortgage interest rates charged to farmers by all mortgagees could properly and fairly be influenced by that charged by this Board.

The Canadian Farm Loan Board makes loans to farmers across Canada without restrictions as to age, residence, sex or nationality. Since commencing loaning operations in 1929, this Board has made mortgage loans of over $100,000,000 to more than 43,000 farmers across Canada. At the present time, there are more than 20,000 borrowers on its books owing over $44,000,000. The collection experience of the Board has varied with prevailing economic conditions but, generally speaking, it has been considered good with only $173,381 of interest arrears representing ·439% of outstanding principal as at March 31, 1955. The low point was in 1949 with $60,837 interest arrears or ·196% of outstanding principal. The high point was in 1935 with $511,446 interest arrears or 8·02% of outstanding principal. Foreclosures of loans have always been kept to the lowest minimum consistent with safety of investment and have been resorted to when the borrower's position was, apparently, hopeless. The Board's record of real estate acquired shows 684 securities from 1929 to 1949 and 17 securities from 1949 to 1955, a total of 701.

Actual losses sustained by the Board since its inception total $716,917. These losses have been taken care of by the reserve for losses built up through the years and which now totals $2,349,258.

The amount of loaning by the Board has gone up and down according to the requirements of its borrowers, the largest year being 1935 when $9,269,188 was disbursed on first mortgage, the lowest year being 1944 when $1,251,949 was disbursed on first mortgage. In 1954-55, the second largest amount $8,207,002 was disbursed and the combined totals of 1954 and 1955 will exceed any other two-year period in the Board's history. The present investment of the Board is at its greatest amount since inception—$40,277,496. (March 31, 1955)

The Board in 1955 required 123 employees to place 2,137 new loans totalling $8,207,002 while administering an investment of $40,000,000. This compares with 178 employees in 1940 to place 2,380 new loans totalling $4,149,000 while administering an investment of $37,000,000. Experience and improved methods of operations have, in the main, accounted for the decrease in personnel. It cost this Board 1·39% of investment in 1955 to administer 20,982 loans. The average cost over 25 years has been 1·28% of investment and since 1946 has not been below 1·29%, the highest point being 1·505% in 1951. Salaries and wages account for more than 75% of all administrative expenses. It is worthy of note that of the 123 employees on the payroll as

of March 31st, 1955, 12·8% had over 20 years of service with the Board, 26·4% had between 15 and 20 years and 10·4% between 10 and 15 years, or practically 50% of the staff had over 10 years of service.

A history of the Board's maximum loan limits on first mortgage is as follows:—

1929 to July 2, 1934	50% of appraised value of land and 20% of permanent insured improvements thereon not to exceed	$10,000
July 3/34 to April 16/35	50% of appraised value of land and 20% of permanent insured improvements thereon not to exceed	$ 7,500
April 17/35 to June 17/52	50% of appraised value of land and buildings not to exceed ..... (These are on first mortgage).	$ 5,000
June 18/52 to present	60% of appraised value of land and buildings not to exceed	$10,000
Proposed amendments	65% of appraised value of land and buildings not to exceed	$15,000

A history of interest rates charged by the Board on first mortgage is as follows:—

	Interest Rate Charged	Cost of funds to Board
1929 to Oct. 12/34	6½%	5%
Oct. 13/34 to May 22/35	5½%	4%
May 23/35 to April 1/45	5%	3½%
April 2/45 to March 31/52	4½%	3%
April 1/52 to present	5%	3¾%-3⅛% present cost 3¼%

Repayment periods:

1929 to April 16/35	Interest plus 1 or 2% of Principal at option of borrower. Equivalent to amortization on a 23 or 32-year plan.
April 17/35 to present	Repayment on amortized plan not in excess of 25 years.

My associates and I, Mr. Chairman, will endeavour to answer questions and supply information regarding the administration of the Canadian Farm Loan Board which you and the committee members may require. I can assure you that we will welcome criticism and suggestions which might result in increased service to the farmers of Canada through this Board.

The CHAIRMAN: There will be some questions, I have no doubt.

Mr. QUELCH: Mr. Chairman, before we start with the questions, is it the intention to call representative farm organizations to submit briefs on this bill?

The CHAIRMAN: It has not been decided to do so. We have received no requests by them to do so.

Mr. QUELCH: There is quite a lot of interest among the farm organizations regarding the policies of the Canadian Farm Loan Board.

The CHAIRMAN: They will by now surely know that the act is up for amendment, and there has not been the slightest indication by them to ask for permission to make representations.

Mr. QUELCH: Is it not customary to send out letters to notify them to attend?

The CHAIRMAN: I think it is when putting in some new act. I have never heard that it was the custom with amendments, but I may be wrong.

Mr. ARGUE: Speaking from my knowledge of some of the farm organizations and of the people in them, I think that if they were made aware that this committee was sitting, and that the committee would be quite prepared for them to appear, I am sure they would be only too pleased to do so.

The CHAIRMAN: I do not think that any of those farm organizations that I have ever run up against are ignorant of parliamentary procedure. They seem to be very knowledgeable groups, and they know that this act has been up for amendment, and that it has had second reading and has been referred to this committee.

Mr. JOHNSON (*Kindersley*): If any farm organization had the desire to appear before us, they would not have had time to hold their meetings and make the necessary request.

Mr. ARGUE: Surely this committee could hold some of its sittings after the Easter recess, in which case the farm organizations would have plenty of time to learn about the procedure that is being followed, and could decide on that basis whether they wished to send representatives. As far as the farmers' unions are concerned, particularly the Saskatchewan farmers' union, I would be surprised personally if they would not be more than pleased and anxious to appear before us.

Mr. BENNETT (*Grey North*): This bill was mentioned in the speech from the throne. The resolution was in the house a month ago. The head office of the Canadian Federation of Agriculture is right here in Ottawa, and I think that if they wanted to make representations they would have said so before now.

The CHAIRMAN: I am confident that they are fully aware of the bill and of its contents. These farm organizations have never been noted for being asleep.

Mr. ARGUE: If within the next few days the Chairman should receive a request from any of these organizations asking for the privilege of having witnesses appear before us, would he have any objection?

The CHAIRMAN: The Chairman does not control the Committee. A steering committee has been appointed, but it in turn does not control the committee. The steering committee simply makes recommendations to the committee and it is up to the committee then to decide. We have received no representations and we are anticipating something which may never happen. I have received no requests.

Mr. JOHNSTON (*Bow River*): It does seem to me that if there are farm organizations which desire—and I too am one of those who think that the farm organizations would desire to come before this committee—if they knew they were going to be permitted to do so.

The CHAIRMAN: You know perfectly well that any farm organization that has ever asked to come before a committee—when they were a legitimate farm organization—has never been refused.

Mr. ARGUE: That is not true!

The CHAIRMAN: That is your opinion.

Mr. JOHNSTON (*Bow River*): If that is your opinion, all right; but it is almost Easter now, and it is not the practice of this committee to sit right up to the day before we adjourn before Easter, or any other committee. It

seems to me that we are putting this bill in a position to close it off before Easter, that is, we are endeavouring to finish it up before Easter. I do not think we should do that. We should allow it to stand over the Easter recess on the understanding, and I say this advisedly, that the farm organizations will be permitted to come down if they so wish.

If you, as Chairman of the committee, desire not to publicize it wholesale, that the farmers are being asked to come down, that is your privilege, but I think it should be made known to the farm organizations that if they desire to come down after Easter, they would be given plenty of time when we have meetings, and to submit proof that they could do so, and that they would be welcome to do so if they so desired. That seems to me to be the proper way to solve this thing when it is so close to the Easter recess.

Mr. JOHNSON (*Kindersley*): I do not think that the initiative should be left to them. We have had a lot of farm organizations appear before this committee and I think we should extend an invitation to all bona fide farm organizations to submit briefs before this committee.

Mr. QUELCH: While some organizations may write in and ask to appear, nevertheless in the past it has been the practice for the agenda committee, from the very start of the sittings, to discuss what organizations should be invited, whereupon invitations have been sent out. And if we should receive additional requests from other organizations, it may be that we might consider whether or not they should be included. That has always been the practice, to send invitations out to the organizations which we think have a special interest in the legislation before the committee.

Mr. HUFFMAN: If we delay this unduly, the advantage that would be gained from extending the ceiling from $10,000 to $15,000 would be lost.

Mr. QUELCH: Such a disadvantage might be offset by the advantages gained by bringing in some worth while amendments to the present bill.

Mr. ARGUE: Surely no farmer will be denied a loan under this legislation if we hold it up until after Easter. The government has been sitting around for twenty years waiting to make this particular amendment, and after they have made it, it is not a matter of hours and minutes in getting it passed. We should have a thorough discussion of this whole issue, and I do not think there is any aspect of government policy as it affects agriculture that has received more universal criticism than the operation of the Canadian Farm Loan Board and the operations of this act. I say that after having given some thought to it, that the farm organizations have expressed criticism with respect to members of parliament in every political party, including the government, and that they have expressed what I consider to be very severe criticism of the administration of this act. I submit that we would only be doing our duty if we asked the farm organizations to appear before us, and I think that if we asked them they would be only too happy to respond.

Mr. FRASER (*Peterborough*): It would only mean a matter of a week or so after Easter when this bill would go through, and I understand that the Farm Loan Board will not pass on a farm when there is snow on the ground; the ground has to be clear of snow before they process a loan. I think, however, that the snow will be gone after Easter and then everybody would be satisfied.

The CHAIRMAN: I would hesitate to be as optimistic as you are, that everybody would be satisfied.

Mr. ARGUE: In that case, they really should be called in.

The CHAIRMAN: I am not sure we could ever satisfy you, Mr. Argue.

Mr. ARGUE: I do not expect that you ever will! Having made the plea as well as I know how, that the farm organizations may appear, we should remember that the Canadian Federation of Agriculture—some of them—are only two blocks away.

The CHAIRMAN: Yes, and they know what is going on!

Mr. ARGUE: You could have the Farmers' Union people here, and they could get here in 48 hours; and I am sure that they could give this committee some very valuable information, and make some very valuable recommendations. I would go so far as to say that if such witnesses did appear, the result of their representations would no doubt have to do with the administration of it.

Mr. BENNETT (*Grey North*): I think we should get on with the bill, Mr. Chairman, and get these amendments passed as law, so that they will work for the benefit of the farmers; and as far as the snow being off the ground, Mr. Fraser may come from a snow belt, but in my riding the snow is already pretty well off the ground, and there inspections could be made at any time. So I suggest that if we could pass this bill before Easter, the farmers would have the benefit of these important amendments earlier.

Mr. QUELCH: There is bound to be criticism if we go ahead with the bill without calling the farm organizations. We have heard it said in the House of Commons time and again concerning certain legislation being brought down without farm organizations being consulted, and I think it is only an act of common courtesy to do so.

Mr. JOHNSON (*Kindersley*): Anyone who represents a farming constituency would want to have the thinking of the farmers before this committee, and I think we would be far better advised to follow the suggestion initially made, and to suggest that we have no objection to farm committees appearing before us, and to follow that important suggestion with invitations to be sent out to them.

There are other bills which will be referred to this committee, such as the small loans legislation, and at that time they will have representatives appearing before us. I am confident that the time-table of the sittings of this committee might be arranged to suit their pleasure, and I think the same principle should apply to the farm organizations.

Mr. FLEMING: I am late in arriving, Mr. Chairman, because I had to attend a meeting of the estimates committee which is continuing, but I would like to say that I think this matter should have been carefully considered by the steering committee before this point, and that the farm organizations might yet be called before the committee to make representations or be given an opportunity to do so.

With respect to the sittings of the committee, in view of our discussion at the outset, a couple of weeks ago, about the matter of afternoon sittings while the house is sitting, I thought that all this was to be cleared through the steering committee before any afternoon meeting was called, particularly during the budget debate, and more particularly in this short week.

I support the proposals made to give an opportunity to interested organizations to appear here, in keeping with the practice of the committee. I do not suggest that we throw it open to all and sundry such as purely local bodies, but only to bodies which have a recognized status to speak for large groups, and that they should be given an opportunity to make representations if they desire to come here.

Now the period of the Easter recess will give an opportunity for such organizations to make their wishes known in that respect, and I would urge that that be done.

This bill is not a lengthy one. Nevertheless there has not been a review of the act by a parliamentary committee for some time and judging by the tone and the extent of the discussion in the house, it is a matter of very great interest to a number of members. I think that is a reflection of the fact that it is of interest to a great many people who might hope to obtain benefit from this act. Therefore I urge that as a committee, it is our duty to offer them an opportunity to come here, and that we should take the bill up directly after the Easter recess.

The CHAIRMAN: No one is trying to deny to any interested group the right to come here. These amendments have received a lot of publicity. They have all known that the amendments are there. From my short experience with committees—which is not as long as that of many others—I have always found that when there is something of interest to a profession, a business, or a group, that is coming up before parliament, if they are vitally interested, then their representations start coming in long before the legislation has even reached first reading.

If these people have been fully aware of this, they have not even had the curiosity or interest to write in and to ask. Surely that would indicate that they have not had any great or vital interest in it. We are not trying to thwart anybody. The government is anxious to get this into operation and they asked that the meetings of the committee be held to consider the amendments. Therefore I think that the committee should consider those amendments.

Mr. BENNETT (*Grey North*): Just to show how right you are, Mr. Chairman, during the last ten days I have received five or six letters from farmers in my constituency about the amendments, and there has been a good deal of publicity given to them.

Mr. JOHNSTON (*Bow River*): Commendable or otherwise?

Mr. BENNETT (*Grey North*): Yes, commendable. I know what my farmers think about it; I have talked to my farmers and with other people who represent farming constituencies, who know the farmers' problems, and they inform us that they come right from the farmers. So I think we should get on with this bill.

Mr. JOHNSON (*Kindersley*): I am not surprised that the farmers in that area would be able to get at least something out of this government, but there is also the man from the Canadian Federation of Agriculture, a Mr. Broderick of St. Catharines, who made an intensive study of the whole matter of agricultural credit, and several suggestions were made at their annual meeting. So doubtless they are aware of what the government is doing. But is the government aware of what they want to have done? That is what we should be concerned with at the moment.

The CHAIRMAN: Just a minute, Mr. Johnson. The mere fact that somebody wants something does not necessarily mean that the government should do it. You are saying that we should do everything that somebody wants done. That is your argument.

Mr. BALCOM: Are some of the members saying that the farmers are not receiving anything out of this? Surely $100 million distributed to 42,000 farmers is something.

The CHAIRMAN: There has been a little exaggeration, I would suggest.

Mr. QUELCH: The reason I am particularly interested in getting a report from the Canadian Federation of Agriculture is that in the brief which they submitted to the cabinet they made a two-page reference to the Canadian Farm Loan Board, and I think they should be brought here to answer ques-

tions on that brief. I think that when a brief like that has been submitted, at least this committee should have the privilege of questioning them regarding the brief which they submitted to the cabinet.

The CHAIRMAN: Submitted when?

Mr. QUELCH: This spring—"A statement of policy regarding farm credit as adopted by the board of directors of the Canadian Federation of Agriculture, January 26, 1956". I think they should be brought before this committee and we cannot do that unless we have representatives from the Canadian Federation of Agriculture here to answer questions regarding it. They claim that if the board were a little less conservative, it would be possible for them to reduce their interest charges by one per cent.

The CHAIRMAN: Why not question the chairman? He is here.

Mr. HENDERSON: Mr. Chairman, as Mr. Fleming has said, this matter should not be denied. We are not denying anyone. But we must consider the fact that for our ancestors in this country farming was a basic concern; and the fact that farmers have a great deal of initiative; and the fact that their farm unions and organizations have a great deal of initiative too. I submit that we should ask them to come before us, and I think we would be casting a reflection on the farm union and their members if we failed to do so, to the effect that they have not been doing their job because they have not attempted to come before us. I also have farmers in my riding, and I have had no complaints about this. Therefore I urge that we get on with the legislation, and I think it would embarrass the farm union for us to say that they could not appear.

Mr. RICHARDSON: I now move, Mr. Chairman, that we proceed to a consideration of the bill.

Mr. ARGUE: I do not think that such a motion is in order, because we are now considering the bill, and we are engaged in a general discussion on the activities of the Canadian Farm Loan Board, and of its organization.

Mr. RICHARDSON: Mr. Chairman, I move that we now proceed with the first clause of the bill.

The CHAIRMAN: Mr. Chester is here, and if you have any questions to ask him he is available.

Mr. BLACKMORE: I wonder when the steering committee began to influence this meeting. We have only appointed it this morning; surely the steering committee should have something to say.

The CHAIRMAN: The steering committee is simply a committee set up by this committee to consider matters and to report back to this committee. The steering committee has no authority.

Mr. BLACKMORE: Surely this is one of the most important matters which will be before us.

Mr. CAMERON (*Nanaimo*): What other function has it got?

The CHAIRMAN: It will have a great deal to do.

Mr. CAMERON (*Nanaimo*): Surely this is the type of thing that a steering committee is set up to deal with, to arrange the business and how it is to be done.

The CHAIRMAN: You and your colleagues obviously do not wish to go on with the bill, Mr. Cameron.

Mr. JOHNSTON (*Kindersley*): I do not think we can assume that because the government has decided to bring in some amendments to the Canadian Farm Loan Act that it is to be an end all. One aspect is to increase the amount of the assessed value of the land from 60 per cent to 65 per cent.

The CHAIRMAN: It is not the assessed value.

Mr. JOHNSON: (*Kindersley*): The loan is going to be made on 65 per cent of the assessed value.

The CHAIRMAN: Not on the assessed value.

Mr. JOHNSON (*Kindersley*): Oh well, on the appraised value.

The CHAIRMAN: That is quite different.

Mr. JOHNSON (*Kindersley*): That is one of the points, that there have been errors by the assessors, and that if we on this banking and commerce committee are to be responsible for giving serious consideration to any change being made in the legislation we should not deny ourselves the opportunity to have the farm organizations before us who have a definite approach which is quite different from the one which this committee has taken on this particular section. The Canadian Federation of Agriculture has advocated that the loans be made up to 80 per cent of the appraised value.

If you want to put yourself in the position of knowing more about the interpretation which should be placed upon this than the Canadian Federation of Agriculture—as perhaps we would expect you to do, on the basis of government policy—it would certainly be in opposition to the democratic procedures which have been extolled on various occasions.

We will find that the Minister of Agriculture is one who approves calling upon farm organizations and appreciates the value of them, which seems to be at variance with what some of the government members of this committee feel, that the farm organizations are isolated.

In the five days since the bill was referred to this committee and the time that this committee was called,—I received my notice only yesterday—you expect the farm organizations to have made urgent requests to you for permission to present their case before you.

Mr. BENNETT (*Grey North*): We said we were prepared to go on with the bill.

Mr. JOHNSON (*Kindersley*): It was suggested here, and I think the record will show it, that some of us have considerable reliability in the status of farm organizations in Canada, and that we should all take the opportunity to invite them before us so that we may have something to gain by it. We would not be embarrassing the farm organizations by having them come before us to present their views on the matter of agricultural credits. The only people who will be embarrassed will be the government in their niggardly approach to this whole matter of farm credit.

Mr. HOLLINGWORTH: I represent the farmers of York Centre, and they would instruct me to proceed with this bill, because it is of benefit to all the farmers. Therefore I think we should proceed with Mr. Richardson's motion. Mr. Johnson has said that we have small loan legislation coming up after the recess, but I do not see why we should not go ahead this morning. I have some of the most prosperous dairy farmers in Ontario in my riding and I am sure they would be pleased to have us go ahead this morning and proceed with this bill.

The CHAIRMAN: This sort of conversation could go on for ever!

Mr. BLACKMORE: And it probably will, too!

The CHAIRMAN: I do not think we are here to discuss a point like this. We are hear to discuss the bill and to ask questions of Mr. Chester, and I think we should get on with it. I think we should open a full discussion on this matter. Nobody is unaware of your brief. You have made it very clear.

Mr. JOHNSTON (*Bow River*): I am amazed that you are trying to cut down discussion on this bill.

The CHAIRMAN: No, not on the bill. We have not got the bill as yet.

Mr. JOHNSTON (*Bow River*): I am amazed that you are trying to curtail discussion at this point, because I think that the chairman should show the lead in promoting the admission of all people who are interested in coming before the committee to make their representations.

The CHAIRMAN: The only thing you want me to show is the lead that you go on talking.

Mr. JOHNSTON (*Bow River*): You are trying to exclude the farm representatives from coming here. I think that is certainly a very unfair attitude particularly for one to take who is in the position of chairman. And I am indeed surprised as well to hear the government supporters on this occasion coming out and doing their level best to rush this through to the exclusion of having farm representatives come before us to give us their views on this matter. This is a very important thing, and from the very fact that we are going to charge 5 per cent, when other organizations in Canada have been getting it at 3½ per cent, it seems to me that we should be offering the farm representatives an opportunity to come here to say if they agree with that type of thing.

The CHAIRMAN: If you are getting on the specific details of the bill, there is obviously a proper place to discuss them.

Mr. JOHNSTON *(Bow River):* Let us not get too technical on this thing.

Mr. CAMERON *(Nanaïmo):* You have overlooked the fact that what we are discussing at the pretsent time is the brief which was presented by Mr. Chester and that it is in that brief that the interest rates are set forth.

The CHAIRMAN: That is a very good point.

Mr. CAMERON *(Nanaïmo):* So I suggest that Mr. Johnston is out of order and is ridiculous.

Mr. RICHARDSON: On a point of order which I would not have raised except that my friend raised a point of order; I submit to you, Mr. Chairman, on a point of order, that I have, as a member of this committee, made a motion, and that motion is before the chair. The motion is that we proceed now to clause 1 of the bill.

Mr. JOHNSTON *(Bow River):* May I make an observation. I have been here a long while too, and if there are to be points of order and observations made, nobody should interfere with me because he wanted to raise a point of order.

Mr. RICHARDSON: I sat down and you should have sat down.

Mr. JOHNSTON *(Bow River):* We are discussing the brief now. You admit that, and it is obvious why we refused to hear the others.

The CHAIRMAN: We have not refused to hear the other people. If you say that anybody has refused to hear these organizations, then you are simply stating something that is plainly untrue, and I do not want to hear it again because it is not right.

Mr. JOHNSTON *(Bow River):* I shall say this to you, Mr. Chairman, and you are going to hear it whether you like it or not. The first thing is that we are endeavouring here, consciously, to push this thing through. We are in fact closing off these other organizations. We are stopping them from having an opportunity to come down here and give their brief. Whether we like it or not, the effect is the same; I submit that these organizations should be given the opportunity; they should be asked to make their representations,—because this is vital to them, and if it did not concern them very much I would agree with the chair—but this is of vital interest to farm organizations and I think we should be lenient and say to them, "if you want to come,

all right; but if you do not want to come, then it is still all right". And after Easter we will proceed with the bill, and I think we would all be quite satisfied to proceed. Thank you.

Mr. HOLLINGWORTH: We are not trying to push this thing through. I just want a discussion on it.

Mr. FLEMING: Mr. Chairman, I hope that I can contribute something to harmony here. The discussion we are having this morning resolves around the problem of how we are going to go about our tasks in this matter, and it seems to me that it points to the fact that we have a steering committee to do this very thing. That is the whole point of a steering committee, to save the time of the main committee and to avoid a discussion of this kind. That is the function of a steering committee.

Some members have been here longer than I have, but I have had eleven years on this committee and I do not remember a jangle in this committee on how we are going to go about our test on any particular bill. It may be that we have had such discussions on other committee, but I do not think we have had them in this committee, and it has been largely due to the fact that the chair has been in consultation with the parties, either through a steering committee or directly, in regard to what is the acceptable and sensible way of going ahead with the task. We have a steering committee.

The CHAIRMAN: It was only set up this morning and it has not had an opportunity to meet as yet.

Mr. FLEMING: I was going to comment on that. It was decided at our first meeting some two weeks ago that a steering committee would be set up and would in fact be operative. Our party indicated to you about ten days ago our nominees to the steering committee. It should be called together without delay to review this matter, when some acceptable procedure could be worked out. I am sure that the further we go along with this type of discussion, the more difficult it will be to arrive at some generally acceptable procedure.

The CHAIRMAN: I think that is a sensible statement and I suggest that we get on with the question and that, after this morning meeting adjourns, we have a meeting of the steering committee and get ahead with it, so that we can make recommendations to the main committee.

Mr. FLEMING: I would like to add an observation about the matter of our hearing farm organizations. So far as the rest of us are concerned, I do not think anybody here wishes to find himself in the position of holding back legislation whether it meets his views or not, when that legislation is going to be of benefit to anybody. We are all here to get on with the business, and to act as expeditiously as we can. But we always have those who may wish to be heard with respect to legislation of this nature, and I am going to urge the view that this matter is of sufficiently wide-spread importance that I think that national organizations of the kind which we customarily recognize in this committee should be given the opportunity to be heard if they so wish. But that is not to say that we have to go out and urge them to come here. It is simply a matter of offering them the opportunity. It is not a matter of inviting local organizations in. It is a matter of finding out those organizations that we normally deal with and whose status is recognized to be national.

Again on this matter of sittings, we have all had very short notice. There may be others like myself who should be in other committees right now; and then there is the matter of sitting this afternoon while an important debate is proceeding in the House. I have to speak in that debate this afternoon so I cannot be here. We only learned about this meeting last night. We all recognize that there is not time to force it through in two days now so, let us arrive at a procedure that we are going to adopt in a calmer atmosphere than

we have here this morning. In that way I believe we will get along faster—if we could have a meeting of the steering committee and could sit down in a calm atmosphere and try to arrive at something which is generally acceptable as far as possible.

Mr. CARRICK: If the steering committee meets and considers a course which should be followed, would that committee be obliged to make its recommendation to this committee?

The CHAIRMAN: Yes.

Mr. CARRICK: What would be the difference?

Mr. FLEMING: There is this difference, and it is the same with the recommendations of the sub-committee of all committees of the house, the general committee knows that all the parties are represented on the sub-committee and that the questions have all been thrashed out by that steering committee before it brings back its recommendations.

The CHAIRMAN: They are unanimous.

Mr. FLEMING: Quite so, and I think that in this committee in the past they have always been unanimous. They may not be unanimous on every occasion, but at least the committee does not go through the sort of thing we are going through here this morning.

Mr. QUELCH: I have been serving here on this committee since 1936 and this is the first time anything like this has come up. It has always been the custom of the steering committee to meet first, and had it been able to meet at this time, and had a request been made to it for representatives of the Canadian Federation of Agriculture to appear before this committee, I do not for one minute believe that such a request would have been refused. It has never been refused before. On other occasions when any of us have asked the steering committee to invite certain organizations which have a very definite interest in the matter before the committee, that request has been granted. But unfortunately coming up as it has—and I was the one who raised it—not with the idea of a discussion like this taking place—but unfortunately the discussion that has taken place has now grown into a partisan affair, and I think most of the members of this committee would agree that it is reasonable to ask that the Canadian Federation of Agriculture should appear before this committee, because they have submitted a brief.

If they do not appear, then Mr. Chester will be answering questions and I want to bring before Mr. Chester some points which were raised by the Canadian Federation of Agriculture, and he would know certain answers. But we will not know what was exactly in the mind of the Canadian Federation of Agriculture when he is questioned about the charges which are in this brief. Therefore I think that the Canadian Federation of Agriculture representatives should be here at the same time as Mr. Chester in order to answer questions regarding their brief.

I was surprised at the attitude taken by Mr. Bennett when he said this was just an amendment and not a new bill. But he knows very well that before the veterans committee, when we have had amendments to the Veterans Allowance Act, it was always the practice for the veterans' associations to appear before that committee and make representations.

Mr. BENNETT (*Grey North*): In the case of the Veterans Affairs Committee, the Legion and other veterans' organizations always wrote in to say that they wanted to appear, and we acknowledged their request, as national organizations, and they had that opportunity. But I do not think we should get into a partisan debate. I know how my farmers feel about this bill. The bill was mentioned in the Speech from the Throne. The Federation of Agriculture has included a reference to it in its brief. Their headquarters is right here in

Ottawa, and you would have thought that if they wanted to appear before this committee, the Federation and the Farmers Union would have said so. There is no harm, and if they wish to appear we should not exclude them. But I urge that this bill be proceeded with so that the benefits for the farmers may be realized.

Mr. FLEMING: How can you do that? It has to go to the house, and in the house it has been said that today and tomorrow are to be devoted to the budget debate so there is no possibility of the bill being considered there before the recess, and the Senate has already risen.

Mr. BENNETT (*Grey North*): The Senate has risen, has it? Well, it is not possible to get it through before Easter, then. But my point was that we were anxious on this side to get on with the bill and to get this provision in force. I would like to say to Mr. Johnson, who rather imputed that the government members were against the farm organizations. The Canadian Federation of Agriculture and the Farmers' Union are very strong in my riding. In fact, the Farmers' Union started in Grey North, and I have worked with them both and they have helped me a great deal. I have said in the house that I have farmers who have argued more and more for farm organizations and marketing boards as at least a solution to part of the farmers problems, and we on the government side speak from the strength of these two great farm organizations, and we listen to their advice.

I discussed this matter with the Canadian Federation of Agriculture and with my Farmers' Union people and I would suppose that every member would have done that before he came to this committee. I do know how my farmers feel and I am prepared to represent them, and I can go on with the bill without listening to farm organizations. However, I do agree that the steering committee should thresh this out. But could we not have a compromise, and go on with the questioning of Mr. Chester for the next half hour or hour, and then rise, with the agreement that the steering committee will meet and try to settle what we are squabbling about, because there is no doubt we could go on squabbling here for two or three hours? But let us take the opportunity of asking Mr. Chester some questions.

The CHAIRMAN: That is the very suggestion I made before, and I think it is only fair to point out that the steering committee could not meet before it was appointed.

Mr. BENNETT (*Grey North*): If the Senate has risen, then my view is changed somewhat, because we could give an opportunity to the farm organizations to come here. I was anxious to get on with the bill before Easter, but if that is not possible, it would not hurt us to have the farm organizations.

Mr. FLEMING: The Senate has adjourned to a date after the middle of April.

Mr. FAIREY: Until April 24.

Mr. JOHNSTON (*Bow River*): I want to make one reference to what Mr. Bennett said a moment ago. I appreciate his point. He said that he gets home every weekend where he can discuss these things with his farm organizations. That is probably so, and he is thereby in a position to speak on behalf of his farmers. But those of us who come from western Canada, cannot do that over the weekend. We would have to travel 2,000 or 3,000 miles. So the only thing we can do in this case is to have the farm organizations come before us, and then we would be able to contact them and see what their opinions are. So in that regard we are possibly quite different from Mr. Bennett.

The CHAIRMAN: There is such a thing as Her Majesty's mails.

Mr. JOHNSTON (*Bow River*): With the winter we have had out at Bow River it would be a superhuman person who get in contact with his farmer organizations in that time. But I would point out the difference between those of us

who come from the east and those who come from the west in regard to our local organizations.

The CHAIRMAN: It is obvious that the bill cannot go through before Easter.

Mr. JOHNSON (*Kindersley*): I think Mr. Bennett's suggestion is a very good one. The steering committee should accept the responsibility for this thing and it should clarify this whole business of appearances before this committee. I do not think we should go on the promise of anyone who wants to appear before the committee. Anyone who wants to appear before this committee should have the responsibility of taking up the time of this committee. But I think our responsibilities should rest with us in sending out invitations to various organizations that we want to have before us, and I think on the basis of the Banking and Commerce Committee in past years that is a very important item indeed. I do know that the Canadian Federation of Agriculture does want to appear before this committee since they have a policy on small loans, and they are desirous of appearing before this committee and presenting their policy to us in that regard.

The CHAIRMAN: There is one other thing I think I should mention. Nobody wants to sit in the afternoon if they can help it. But we have been slow in getting under way because when the small Loans bill was referred to us Mr. McGregor requested that it should be held over until after Easter because he did not yet have the 1955 figures. But he will have them after Easter. Then we have the Industrial Development Bank reference, and the report of the Bank of Canada, both of which the committee is going to get into, and it is very heavy stuff. I think it is going to be almost unavoidable that we shall have to sit twice a day sometimes.

Mr. FLEMING: We can discuss that in the steering committee.

The CHAIRMAN: Nobody is trying to force it on you.

Mr. FLEMING: Nobody will deny the problem, but I am sure that everybody will be cooperative.

The CHAIRMAN: That is why I am axious to use this one day on this bill.

Mr. JOHNSON (*Kindersley*): In the changing of any agricultural policy consideration must be given to the desirable end of that policy and I notice in the statement of the Canadian Farm Loan Board the fact that it came into existence because of a demand for lower interest rates, longer repayment terms, and a dependable source of funds for farm mortgage lending in Canada. I think we must consider this in the light of what is being done in other countries. And as to the pattern that we should follow here in Canada, I know that the members of the committee would appreciate it if Mr. Chester would give us a résumé of what the Farmers' Home Administration does.

The CHAIRMAN: What is the feeling about the steering committee as to when it can meet? If we meet at 2 o'clock it only gives us half an hour which does not amount to very much. Do we want to leave it until after the Easter recess?

Mr. JOHNSTON (*Bow River*): I think it should be done before then, otherwise we would then be in the same position as now.

The CHAIRMAN: Why not have it tomorrow morning? That would get everybody, would it not, or do you have a caucus?

Mr. ARGUE: Yes, Wednesday morning is caucus morning for most parties. I do not argue against it, but I point out that Wednesday morning is caucus morning.

The CHAIRMAN: I am trying to get some time which would be most convenient for everyone. If I call it for 2 o'clock I am sure I would get everyone but they would be here only for half an hour before the orders of the day.

Mr. QUELCH: We can have a meeting of the whole committee while the house is in session.

The CHAIRMAN: There is one scheduled for this afternoon, yes.

Mr. QUELCH: Could we not have it while the house is in session?

Mr. JOHNSTON (*Bow River*): Could we possibly proceed with the second meeting this afternoon if we finished with Mr. Chester's statement this morning, because everybody will not be discussing the bill? And I think we could finish with the statement pretty well this morning.

The CHAIRMAN: You expect to finish this statement this morning?

Mr. QUELCH: Do not be too optimistic.

The CHAIRMAN: I think you are showing undue optimism.

Mr. ARGUE: I do not know what the procedure will be, and I do not know if it is necessary for us to consider the statement in a formal way. It is just a general statement on the subject.

The CHAIRMAN: It is really to give the committee background, and to give the members an opportunity to ask questions if they wish.

Mr. ARGUE: Mr. Chester will be before us for some time and I do not think it is necessary in a formal way to dispose of this statement at any given moment.

The CHAIRMAN: It is not ever disposed of. It is something intended to be of assistance to the committee.

Mr. ARGUE: That is what I take it to be.

The CHAIRMAN: Let me urge that the steering committee meet here right after the afternoon meeting.

Mr. ARGUE: Why not right now?

The CHAIRMAN: Well, Mr. Fleming has gone, Mr. Macdonnell is not here, Mr. Benidickson is not here and Mr. Valois is not here; Mr. Fraser is not here and Mr. Stewart is not here, so the thing would be completely abortive right after this morning's meeting. But I can get some of them on the phone to see if we can arrange for a meeting later on today. I do not know how long it will be this afternoon before we finish with this report.

Mr. JOHNSTON (*Bow River*): Are all the members of the steering committee here in Ottawa, or have some gone home?

The CHAIRMAN: Mr. Valois is coming in on the noon train. Mr. Benidickson, Mr. Fraser (*St. John's East*), Mr. Fleming and Mr. Stewart are in the building. Most of them are here.

Mr. FRASER (*Peterborough*): Mr. Charlton will take the place of Mr. Macdonnell. He will be put on the committee this afternoon.

The CHAIRMAN: I suggest that as soon as we finish with this statement we have a meeting of the steering committee. Would that be agreeable? As soon as we finish consideration of the statement and the questioning of Mr. Chester this afternoon?

Mr. ARGUE: The statement being this?

The CHAIRMAN: Yes. Let us call it a preliminary canter.

Mr. ARGUE: I suggest that you should set the time for the meeting of the steering committee, and that the time should depend on the committee passing this statement.

The CHAIRMAN: We are not passing it, but simply finishing the discussion on it for the time being.

Mr. ARGUE: Let us set a time and not say that the discussion is finished.

The CHAIRMAN: If the steering committee meets this morning, several of its members will be unable to attend.

Mr. JOHNSON (*Kindersley*): Set it for five o'clock.

The CHAIRMAN: Very well.

Mr. FRASER (*Peterborough*): Mr. Fleming will be speaking this afternoon on the budget. I am not sure when he is on, but I would like to hear him.

The CHAIRMAN: Why don't you have him delegate Mr. Michener or yourself to act for him on the steering committee? Naturally I want to accede to everybody, but we cannot do everything. If Mr. Fleming is as active as he always is, then we cannot be sure of pleasing him.

Mr. JOHNSTON (*Bow River*): Somebody else could take his budget speech for him in the house!

Mr. BLACKMORE: Would it not be worth while trying to avoid having a meeting while the budget debate is in progress? That would not delay us very much. There will be only one or two more days delay and, in that case we would not have a meeting this afternoon.

The CHAIRMAN: We are anxious to get along as fast as we can, because we are going to have a very heavy list of meetings after the recess, and they will go on indefinitely. So let us say 5 o'clock today for the steering committee. This meeting will reconvene at 3.30 and the meeting of the steering committee will be held at 5 o'clock.

By Mr. Johnson (Kindersley):

Q. I wonder if Mr. Chester would give us, roughly, the background of the Farmers Home Administration?—A. I do not know Farmers Home Administration but I do know our counterpart in the United States, that is a government scheme of loans that are under the federal government of the United States. Is that what you have in mind?

Q. You would be familiar with that detailed information, and how they operate in the United States?—A. Their system is not the same as ours in Canada. They have what they call Federal Land Banks; there are twelve of them in various areas in the United States, but they are not too directly connected with the government of the United States, although there is strong connection but not financially. Then, I understand they issue bonds to the public, which bonds are income tax free, so to that extent I would say that they are subsidized by the United States Government. However, what you want to know, no doubt, is their loan limits.

Q. Yes, the Farmers Home Administration.—A. This is a federal land bank, and from their offices in the United States they lend money under government supervision.

Q. The federal land bank is different?—A. No. That is the only thing you can compare us to in the United States.

The WITNESS: The loan limit in the United States is 65 per cent of the appraised normal value. They have what, applied to Canada, would be a fantastic dollar limit; it was $100,000 in 1955 and I believe it is even greater than that at the present time. This information is dated August 21, 1955, and I do not know of any other changes which have been made since.

The length of loan which they are authorized to make is up to 40 years, and the most common loans they have been making have averaged around 30 years. Their interest rates vary as between the areas; they have twelve areas and the lowest interest rate in the United States, from the federal land bank, is 4 per cent. The next rate is 4½ per cent, and the other rate is 5 per cent. So there are three rates of interest charged on mortgage loans in the United States in varying areas by the Federal Land Banks.

By Mr. Johnston (Bow River):

Q. How do they designate the areas?—A. They have a bank at Louisville, New Orleans, St. Louis, St. Paul, and Omaha. I can give you the names, but I cannot describe the particular areas.

Q. Does it depend on the economic condition of the area?—A. No, I think it is because the United States is a larger country and requires twelve banks, whereas we can do it in Canada with one farm loan board. That is probably the background of it, but I am only guessing. However, they are pretty well sorted out by what you might call farm economic areas.

Q. May I ask another question. I noticed in your statement on page 2 that the mortgage rates charged to farmers by all mortgagees could properly and fairly be influenced by that charged by this board. Would that be the same incentive in the United States? Would they be setting their rates in order to comply with the statement which you have made?—A. I cannot tell you what their policy or purposes are. All I can tell you is what I know to be the facts, and that is the loan limits, and the percentage that they charge their borrowers. What the thinking back of it is I cannot tell you.

By Mr. Blackmore:

Q. Would you mind just proceeding with your statement?—A. That is my statement.

Q. Is that all you have?—A. Yes.

By Mr. Johnston (Kindersley):

Q. I was lead to believe that the Royal Commission on agriculture and rural land went into the federal home administration question.—A. They were comparing the wrong types of business if they did, because the type of business we carry on is only comparable to the Federal Land Banks in the United States.

Q. The farm loan organizations are established to consolidate the farmers' debt and assist him in purchasing equipment; and isn't that more or less the purpose of the Canadian Farm Loan Board?—A. I think your conception of the Canadian Farm Loan board might be wrong, because we are a land mortgage loaning company, we are neither an establishment agency nor a benevolent society.

Q. Then you had better change the details in the last few pages of your annual report because there you say:

"Purposes for which made:

To pay debts, to purchase livestock and farm implements, to make farm improvements, to erect new buildings, to repair buildings, to provide for expense of farm operation, to assist in the purchase of farm land, etc."

Is that not identical with the function of the farmers home administration in the United States?

The CHAIRMAN: Where is that?

Mr. JOHNSON (*Kindersley*): I took it from page 14 of the annual report of the Canadian Farm Loan Board for the year ended March 31, 1955.

By Mr. Blackmore:

Q. I understood that when the Canadian Farm Loan Board was set up it was intended that its function should be limited only to dealing with mortgages. One would think that if that was the case, we ought to have a change of attitude today because just for one reason, the cost of modern machinery for one establishing himself as an economic farm is tremendous. It runs into some $20,000 to $30,000; and if this particular organization is not designed to aid a farmer in the accomplishment of a business set-up, then

surely we should have some bill or board in Canada which would do that. Am I wrong in my thinking about that?—A. What is your question, please?

The CHAIRMAN: Mr. Blackmore, I do not think you should ask Mr. Chester to express an opinion on government policy.

By Mr. Blackmore:

Q. No, what I am trying to do is to get further details concerning the function of the Canadian Farm Loan Board. I gathered from something the witness said a few minutes ago that the Canadian Farm Loan Board was designed to function purely in respect of mortgages which farmers might have on their land, and it helped them only with these mortgages.

I wondered if that had been the only purpose of those who set up the board and if that was the purpose today for our amending the act.—A. It is not a purpose; it is a method. The only way we can loan money in Canada is by a mortgage, a first mortgage on the farmer's property. That is our security; that is our method!

Q. A person can do anything he wants to do with the money he borrows, I presume?—A. No, not altogether. We have certain limitations. We can pay his debts, assist him in purchasing land, and assist him in agricultural purposes; but we do not lend money to send a man to Florida for the winter, if that is a fair comparison. That is a thing we avoid.

By Mr. Blackmore:

Q. I would agree with you completely, but would you not loan a man money with which to buy a new tractor or combine?—A. Oh yes, that is an agricultural purpose; it is in our act, and we are allowed to lend money for that purpose. The Farm Improvement Loans Act was set up particularly for that purpose, but we can do it as well.

By Mr. Johnson (Kindersley):

Q. Is it the function of the board to establish a farm as an efficient unit? Is that the objective of the act?—A. What do you mean by the establishment of a farm as an efficient unit?

Q. It is obvious.—A. We are set up to assist a person to establish himself on a farm. It is expected of course that he will be able, from his own resources, to assist himself to a degree. That is inherent in the 65 per cent limit of our loan.

Q. I can see where it differs from the Farmers Home Administration. Its function is to establish the farmer as an efficient unit.—A. I think it is more along the line of the P.F.A.A. Ours would not assist the farmer in the sense that we give something that is not paid back.

By Mr. Argue:

Q. Let us take the case of two farmers who come in and each one makes an application for a loan. Farmer A is a small farmer, a young man who is married and has a family, and certainly on the basis of social need he needs money. He appears in your judgment to be a fairly good risk. You are inclined to pass him.

Then let us suppose another man comes in, Farmer B. He has a lot of money with two or three sections of land. He could go to any mortgage company for a farm loan, but it is a matter of choice with him, and he prefers to come to the Canadian Farm Loan Board and make application. There is no question in the mind of the Canadian Farm Loan Board that this man is an excellent risk. There is no doubt that, following an investigation, some money will be loaned to him in accordance with the purposes of the board. Does

farmer B who is less in need of money, and is perhaps a better risk, in the business sense than Farmer A—is he given a preference in respect to his application?—A. No, he is not; and quite likely from your description of farmer B he would not get a loan from the Board.

Q. Do you want to go ahead? It is my information—and it could be wrong, but it is my information derived from personnel of the Canadian Farm Loan Board—that the main requirement, the governing factor, is whether the man is a good risk in the monetary sense or not, and that may or may not have been borne out by your statement a little while ago that you are in the mortgage business, and you have not the same purposes that they have in the United States.

I am very pleased to hear you say that if a man comes in who obviously does not need a loan in the sense that he cannot get it in any other way, that it is the policy and practice of the board to turn such people down. I have been told that the board in fact, and the people who process the applications, in fact look at them in precisely the same way as a mortgage company would look at them, mainly from the standpoint of making a return on the investment. —A. No, that is not so. Our major purpose in our processing, when we approve a loan, is not for the purpose of making money. That is what you infer there, but it is not our major consideration whatsoever. As a matter of fact, I do not think it is ever considered.

Q. You are not interested in making any money. But you are interested in not losing any money?—A. We are interested in not losing any money, yes, if we can avoid it.

By Mr. Bennett (Grey North):

Q. You do apply a second test, do you not? If farmer A has a farm which is worth $5,000 and you are willing to advance him up to 60 per cent you are still looking at his implements and his livestock to find out if he can make a go of that farm, even though that farm could be sold for $5,000 and your security would be safe. This is not a question. I am, rather, complaining that the Canadian Farm Loan Board is pretty conservative in granting loans under such a situation. Where the fellow needs money, and he has not got much in the way of cattle, hogs and farm equipment, I think that the Canadian Farm Loan Board could be a little bit more generous sometimes in the granting of a loan in such cases. The only question I have to ask is this: Is it true that you apply that second test? In other words, you are not going to grant money for a farmer who has no chance of making a go of it, because your first test is the security for the land, and secondly, whether he can make a go of it. I appeal to you that with farm income down and many farmers in need, I think that with respect to test No. 2 you might be a little bit more generous than you have been in the past.

By Mr. Carrick:

Q. With respect to Mr. Argue's farmer B, you said you would probably refuse that loan. Why?—A. Because the man did not need the money. If the need for money was not a need for agricultural purposes, he would not get the loan.

By Mr. Argue:

Q. No. It was for agricultural purposes.—A. You said that he did not need the money. You said that he had a lot of money.

Q. I am saying that he obviously wants some money for something or he would not go in and make an application. He already has three sections of land, and he is in the one per cent class of farmers who have large farms.

But there is a half section of land across the road and he wants to buy it. He has not got any cash, but he may be worth $100,000, or even more. He could go to the Huron and Erie Mortgage Company, or to any mortgage company, but he thinks that the Canadian Farm Loan Board has a somewhat lower rate of interest, he likes their long amortization period, and he thinks that it is probably preferable, all other things being equal, to deal with a government agency. So he comes in and applies for a mortgage. In the case of a man like that, is his application likely to be approved, or is that man likely to be turned down because he could go somewhere else?—A. I would have to know a whole lot more about that farmer and his farm. To try to put it in a certain category is almost impossible. We are lending on the basis of the farm, and the purpose of the loan, the money we lend, has got to be for agricultural purposes.

Q. Surely!—A. If the man has a valuable farm, let us say one worth $10,000, and we appraised it at $10,000, upon an application for a loan of let us say $1,500, the chances are that the loan would go through if it was for agricultural purposes. But we are only talking about hypothetical cases and I do not see how I can answer you specifically without more details.

The CHAIRMAN: Perhaps, Mr. Argue, you should ask Mr. Chester what the factors are which they consider in making loans?

By Mr. Argue:

Q. Yes.—A. In making a loan, our appraiser, who is probably the most important employee of the board, will give us a picture of that farm at the time that he gives us his appraisal, and if it is wrong, it is going to be wrong all down the line. Appraisals are made by the employees of the board. There are many factors which are taken into consideration such as the type of soil, and the crop records. Anything that has to do with the productivity of the land is always considered by these experienced appraisers in assessing the value. Then there is the matter of the buildings; they are all included—and thus we arrive at a price. We know the district and we would have a report on the immediate district and we would know the comparability of the security that is being offered to us—how it compares with other farms in that district.

By Mr. Quelch:

Q. How do you apply that scale?—A. If you will kindly wait until I have finished, I would appreciate it, because I want to keep my trend of thought going.

The CHAIRMAN: I am making a list of those who want to speak. I have Mr. Henderson, Mr. Quelch, and Mr. Michener.

Mr. BENNETT (*Grey North*): I think it is significant that you mentioned $100,000 for a western farmer.

Mr. ARGUE: I did not say "western" farmer.

Mr. BENNETT (*Grey North*): There is no farmer in my riding who comes close to $100,000.

Mr. ARGUE: I did not even speak about your riding. There are corporation farms in eastern ridings. I am opposed to big farms wherever they are; but I am sure there are many big farms on the prairies.

The CHAIRMAN: Let us get on with this. Let Mr. Chester finish his statement.

The WITNESS: After we have a description of the security, the district, the soil, the buildings, and everything which comprises the physical security, then we have, as a rule, a personal report on the applicant for the loan which goes into some fair amount of detail. We have a record of his previous

years' production, a record of the five previous years' production, we have a record of his cash receipts and cash expenditures during the preceding year; we have a list of his organization such as his livestock and his equipment; we have a list of all his current debts, and when they were incurred, and we have a pretty fair idea of his attitude towards debts. It is on these factors along with others that go with the loan business that we form the basis on which we arrive at whether the man is going to get a loan or not, or how much of a loan he is going to get if we so decide.

By Mr. Henderson:

Q. One of the purposes for which we are here today is to find out why the loan should be 65 per cent of the appraised value of the land. My concern has to do with the appraised value of the land, and up to that point we can get a loan up to 65 per cent. I was interested to hear you say that the appraiser was the most important person. I would like to ask about this personnel and those whom you consider competent to do this work, because, as you have said, if they are wrong, in your own words, they are wrong all down the line. In my experience appraisals in most instances have been too low. What type of personnel do you employ as appraisers in the Canadian Farm Loan Board?—A. Well, you are speaking of Ontario, I presume?

Q. Yes.—A. Well, if you are particularly referring to Ontario, our appraisers—I do not know how you would type them, but they are experienced in business. I am thinking of one appraiser at headquarters; he has been in the business practically all his life. We have several bachelors of science in agriculture acting as appraisers.

Q. What other qualifications would they have beside that?—A. They all have to have a farm background to begin with. I think that is most necessary; and many of them are experienced farmers. We also have a lot of part-time appraisers.

Q. You say they are mostly experienced farmers?—A. Not necessarily. A man may have a lot of experience in the first 25 years of his life, and then go into the loan business for the next 25 years, and you would not call him a farmer at this stage; but all our appraisers without exception have a farm background and experience, as well as other qualifications.

Q. Do you mean that they farmed themselves?—A. Pretty well, yes.

Q. Some of these people have been in the department for a long time. Would they have any experience gained from working out in the field before they went into the department, or were they simply taken out of a certain category in the civil service and made appraisers?—A. I suppose you could say, about anybody who starts with us who is under 25 years of age, that his life work would be appraising.

Q. Yes. And when would these college graduates start appraising, following their graduation from agricultural school?—A. If you will tell me which one you are referring to, I will give you the answer. I cannot give you a general answer. We do not look to anybody as an appraiser who is too young; 27 or 28 is as low as we like to take them.

Q. Have any of these men had experience in real estate?—A. Some have, yes.

Q. Experience gained outside your department?—A. Yes.

Q. When they do their appraising—I am not talking about after it comes to you—but when they do their appraising, what are they to consider in order to appraise a farm properly?—A. I think I have outlined to you the security that we require.

Q. Not security; the farm itself, and the value of it in the district in which it is situated; do they take into consideration the market value of that

farm?—A. It is taken into consideration. The appraiser puts in his report what he considers to be ordinary sale value of the farm under ordinary conditions.

Q. What do you mean by "ordinary conditions"?—A. There are forced sale conditions. I am not talking about that sort of thing now, or of unusual conditions. I just mean ordinary conditions.

Q. Some farms in Mr. Huffman's district are worth a great deal more money than they would be if they were located just outside of Ottawa. Would that be taken into consideration when they are determining their appraisal?—A. Are you referring to farms which are adjacent to a city?

Q. No. I am referring to a farm in a particular area where it has a higher market value due to its geographical location than it would have elsewhere.—A. The loan must be repaid from the production of the farm, and if a man cannot produce sufficient to repay our loan, then he cannot few exceptions, have gone up very rapidly, in some places much more so than in get a loan. The sales value of farms all across Canada, probably with very others; and in an area which is close to Toronto, for instance, there are farms which 20 years ago you could have bought for from $60 to $70 an acre, but today you would have to pay from $3,000 to $5,000 an acre.

We cannot take the real estate value into our appraised value because our act says that our appraised value must represent something on which we can lend, and it is the product of that farm on which we lend, from which we must get our repayment.

Q. Do they take your loan on the floor price as in a forced sale of that land?—A. No, it is the productive value. These things are only of interest; the sales value and forced sale are interesting, and we try to keep fairly close because it shows the trend. But that is not the value on which we lend. It is productive value of the farm.

Mr. QUELCH: At a given price for the product?

The WITNESS: Oh yes. When products go up, then the income goes up and the value of the farm goes up, if it goes up for that reason.

By Mr. Henderson:

Q. Taking all that into consideration, some people have bought farms when they were run down. It is an advantage to this country to build up such farms. But we cannot do that in one year. It takes time. Suppose a man wanted to purchase a farm in a district which is run down. How can you determine the purchase value of that farm? And yet it seems to me when he is going to get a loan I think it is more of an advantage to have flexibility than straight productivity. I would like to have your opinion on that?—A. That farm you are referring to has not been operated for some time. With an abandoned farm we would know the farm and the soil, and we would know about the surrounding farms and we would take that into consideration.

Q. You would take that into consideration in helping him to get his loan? —A. Yes.

Q. I was interested to hear about your appraisers.

By Mr. Quelch:

Q. I think that most of us who are familiar with farming conditions will agree that the main criticism we hear is that the board is too conservative in its loan policies. I think Mr. Chester would agree that that is the charge that is probably made most often. I was interested in the description he gave of the basis upon which they established their loans. He mentioned a personal report. Where would that personal report come from? Do you go to the banks?—A. It is made as a confidential enquiry.

Q. You have a branch in each province?—A. Yes.

Q. Have you any advisory council or advisory body in the provinces, to consult with?—A. We have loan committees in our branch offices which would pass on a loan.

Q. Do you not actually use several bodies to help you arrive at your conclusions? Do you not make use of the V.L.A.?—A. In what sense?

Q. For the purpose of making an appraisal?—A. Only where we cannot make them ourselves; that is when we use the V.L.A. appraisors, but only when we cannot make them ourselves with our own employees.

Q. I asked you that question because the main criticism—I think a lot of the V.L.A.—but my own criticism has always been that their appraisals are ridiculously low. I say that from personal experience gained over a number of years, and I have found that to be so for years. Many of them still appear to make their valuations on a pre-war basis and they fail to recognise the real value of a farm today in my part of the country. Does the same thing apply to the Board? Do you recognise what the value of the farm land is today? You gave a description, but do you take into consideration the marketable value of the land at the present time?

Mr. BENNETT (*Grey North*): May I defend the V.L.A. for a few minutes. Our V.L.A. appraisers, our field men, are sent down for courses of instruction. For example, a man from my own riding was down for four weeks last month. Efforts are made to keep them up to date, and I am proud of the appraisers under the V.L.A. Other departments use them.

Mr. QUELCH: They are very safe!

Mr. BENNETT (*Grey North*): I have not had one complaint since I became parliamentary assistant about the appraisals under the V.L.A. These people are given these courses, and I think they represent the best body of appraisers in our country. If Mr. Quelch has any cases of complaint, I wish he would bring them to our attention, because in all the branches of the Department of Veterans Affairs, I think that of the Veterans Land Act stands out.

By Mr. Quelch:

Q. I think it is an outstanding department, myself, but I do question the appraisals. They are very low. I have had case after case referred to me in the past several years in which I tried to obtain higher appraisals, but it could not be done. On the question of their being too conservative, it is a fact that you maintain reserves considerably in excess of those required by law, do you not?—A. With respect to reserve funds, we have the statutory reserve which was set up in the act, and which has a total somewhere in the neighbourhood of $778,000, I think at the moment, but we have no use for this fund. We cannot charge losses to it nor make use of it in the ordinary accepted terms of reference with respect to losses.

You will also see that under our act we are required to set up a reserve against losses. If that is what is meant by statutory requirements, then both of them are statutory requirements, because both are in the act; one is a clause in our act and the other is a requirement for the establishment of a reserve for future losses.

Q. But are they in excess of the statutory requirements?—A. I would say no, they are not in excess of the statutory requirements in the sense that I have just given you the statutory requirements. This is a matter of opinion about the reserves, whether they are too large or too small.

Q. Perhaps you would care to comment on this statement taken from the brief of the Canadian Federation of Agriculture on page 7, and I quote:

> In a recent report the Auditor-General noted that the Farm Loan Board is providing for reserves substantially in excess of the requirements of the act under which it operates, and that nothing in the accounts pointed to the necessity for such reserves. Because of its relatively small volume of lending, its costs per loan are high. If the board were to discontinue setting aside its special provision for losses above the legal requirements, the interest rate could be reduced by ½ of 1 per cent. If further, its present low volume of lending (less than $8 million in 1953-54) could be doubled or better, lowered costs would, no doubt, compensate for a further ½ of 1 per cent reduction in the interest rate.

Would you agree with that statement? I presume it must be a correct statement?—A. Which statement are you referring to, the one which the auditor made?

Q. This refers to the Auditor-General's report. He says that the Farm Loan Board is providing for reserves substantially in excess of the requirements of the act under which it operates.—A. Did you say legal requirements?

Q. They say: rates under the act.—A. But you have got two statements, one from the Auditor-General, and one from the Canadian Federation of Agriculture. Have you our report? I think it should be read.

Q. If you are quoting what the Federation of Agriculture said, that is why I thought it would be better if they were here.—A. I shall now read to you what the Auditor General said, from page 7 of the report of the Canadian Farm Loan Board for the year ended March 31, 1954, as follows:

> The required reserve has been maintained, and at March 31, 1954 amounted to $861,952. As well as this, the Board has followed the policy of making additional provisions against losses on loans computed, generally, at the rate of ½ of 1 per cent on the principal of the first mortgage loans outstanding as at the close of each fiscal year plus the total amount of retained earnings on second mortgage loans. At March 31, 1954, the remaining balance of these provisions was $2,292,089. Attention is drawn to the amount reserved because nothing noted in the examination of the accounts pointed to a necessity for such a large reserve. It may be noted from the balance sheet that as a result of the accumulated earnings to March 31, 1954, under Parts I and II of the Canadian Farm Loan Act, having been appropriated in full to the "Provision against Losses on Loans", there is a deficiency in the Board's surplus account in the amount of the accumulated loss of $5,295 under the Canadian Fishermen's Loan Act.

Mr. JOHNSTON (*Bow River*): Before we get too far away from what Mr. Bennett said—

The CHAIRMAN: Mr. Johnston, you are further down on the list. The next one on the list is Mr. Michener.

By Mr. Michener:

Q. Before we adjourn I would like to ask a question arising out of what was just said. The interest rate was changed from 4½ to 5 per cent on April 1, 1952, according to your report, by parliament, and the rate is a statutory rate? —A. No, the only rate charged by us is determined by the Board and it is not a statutatory rate.

Q. I wondered if you had made any estimate of what difference it would have made in your reserves or in dollars if the interest rate had been continued at 4½ per cent from April 1, 1952 down to the present time—that is

a period of about 4 years. Probably that is a question you cannot answer off-hand, but I would be interested if you could make some observation on the effect it would have had on the balance sheet of the board if the rate had not been increased by that half per cent over that four year period, in order to get some idea whether an unneccessarily high rate was being charged to meet your operating expenses.—A. Our cost of operation was 1·39 per cent of our investment in 1954-55. The cost of our money at that time also increased from 3 per cent to 3¾ per cent, so that while charging 5 per cent interest we were paying 3¾ per cent. Our margin for operating was less than our operating cost had been the previous year, and also less than our average cost of 1·28 per cent for 25 years.

By Mr. Michener:

Q. With this average cost you have established a reserve of how much?—A. In 25 years we have established $2,200,000 approximately.

Q. How much has the reserve increased in the past 4 years?—A. We will take 1955, that is 1954-55; our fiscal year-end is March 31 of each year, and this would be as at March 31, 1955. In 1954-55 we added to reserves $57,000 and charged against reserves $1,140, so the difference is about $55,600, approximately.

Q. Have you the figure at which your reserve stood on April 1, 1952?—A. Yes. Would you like to do it in that way, and subtract them?

Q. Yes.—A. 1952 is $2,031,749.42.

Q. And today it is how much?—A. $2,349,258.39.

Q. That is an increase of $318,000 in that period of four years?—A. Yes.

Q. And your cost experience has been fairly constant established at 1.39 per cent of money on loan?—A. Our average is 1·28 per cent; that goes for 25 years, and last year it was 1·39 per cent.

Q. And, of course, the difference between the rate you pay for money and the rate you charge on your loans is variable? I notice your report shows it would be 1¾ per cent different now?—A. That is right.

Q. So that you have ½ per cent over and above your average 25-year costs today; just about half of one per cent?—A. 1·39 per cent against 1¼ per cent.

Q. Your average was 1·28 per cent over 25 years, you told me?—A. Yes, but that takes into consideration years when administration costs were much lower. Let us take the present time.

Q. That is the average of the whole operation, 1·28 per cent?—A. Yes.

Q. And now operating at 1·75 per cent?—A. Yes.

Mr. MICHENER: Thank you.

The CHAIRMAN: For after lunch I have Messers. Gour, Fraser, Johnston, Argue and Pallett, in that order, as wishing to speak.

AFTERNOON SITTING

3.30 p.m.

The CHAIRMAN: Gentlemen, we now have a quorum and we might as well start. I believe the Conservatives have somebody they want to substitute on the steering committee.

Mr. FRASER (*Peterborough*): Mr. John Charlton.

The CHAIRMAN: He will be there instead of Mr. Macdonnell.

Mr. FRASER (*Peterborough*): That is right.

The CHAIRMAN: Mr. Benidickson from our party has to be away so Mr. Hollingworth will act on the steering committee.

Mr. CAMERON (*Nanaimo*): Mr. Johnson will act in place of Mr. Stewart for us.

By Mr. Fraser (Peterborough):

Q. I would like to ask Mr. Chester how this farm loan act fits in with provincial farm loan acts which some provinces have, and whether the elimination of some of the clauses in this bill is owing to the fact that you feel that second mortgages—with the ceiling raised to $15,000—that some of these farmers will not need second mortgages?—A. In answer to your last question, the bill provides for the elimination of second mortgages.

Q. I know that. That is why I asked if you feel that on account of raising the loans up to $15,000 it is not necessary for a farmer to ask for a second mortgage.—A. The second mortgage that we administer has been a short term loan, a five-year loan. They have been at higher interest rates and it was mandatory to take as collateral a chattel mortgage with them. For these reasons they have been very objectionable. The farmers and borrowers have found many faults with them and objected to them many times. As far as our board is concerned we have to keep a separate set of accounts governing first mortgage loans and second mortgage loans. This was very cumbersome, and costly too. We feel that the borrower is going to benefit from the opportunity of having his loan placed on a first mortgage instead of making a division as between first and second and chattel. Does that answer your question?

Mr. QUELCH: What about Quebec?

By Mr. Fraser (Peterborough):

Q. With respect to that, do you have any regulations which prohibit a farmer from taking a second mortgage if he can get it some place else?—A. Once he has his loan we have no prohibition, no control. From there on he can do as he pleases. If he can get a second mortgage or borrow on a chattel mortgage, or anything of that kind, it is up to him.

Q. He is welcome to do so?—A. Oh yes, once we have made our loan.

Q. How does the federal farm loan act fit in with the provincial loans?—A. The difference as between the Ontario Junior Farm Loan Board?

Q. Yes.—A. It has a different set-up again. You know our set-up, and there is no use in my going into it again.

Q. No.—A. The Ontario set-up is what they call the "Ontario Junior Farm Establishment Loan Corporation". They can only make loans to young farmers under the age of 35. I am not sure if it is up to 35 years or you have to be under 35, but, in any event, 35 is the limit. They must have three years residence in the province, with three years farming experience, and must be able to become established as full time farmers.

Their loans are secured by first mortgage only. They loan up to 80 per cent of the appraised agricultural value, and $15,000 is the loan limit. They have repayment terms of 25 years.

They have two rates of interest; loans up to 20 years are at 4 per cent; loans from 20 to 25 years are at 4½ per cent.

Q. You mean it is 5 per cent all the way through?—A. 5 per cent? They have two rates.

The CHAIRMAN: Is there anything further?

By Mr. Fraser (Peterborough):

Q. You said it was 4 per cent and 4½ per cent for Ontario?—A. 4 per cent if the loan is up to 20 years; and if the loan is for more than 20 years, it costs them 4½ per cent.

Q. Another question is this: With the rate at 5 per cent is there any possibility that that could be reduced and you could still carry on with farm loans?—A. Our rate, you mean, the 5 per cent rate?

Q. Yes. Could it be reduced to 4½ per cent?—A. In setting the interest rate I think there are many considerations which have to be gone into. I do not think you want to have a fluctuating rate. I think you want to look forward, if you are going to reduce the interest rate—you want to look forward to a period in which you can maintain that reduced interest rate. If you take a look at your investment at the time you consider the problem as to whether the interest rate should be lower or higher, you will find that one half of one per cent either way represents on our investment well over $200,000, and it is conceivable that you can lower the interest rates before you have that amount of money in service; but I think it is also necessary that you come reasonably close to having that amount of money available for the purpose. We have not got that amount of money available.

Q. That is why you set it at 5 per cent?—A. The reason we increased our rate to 5 per cent in 1952, I think it was?

Q. Yes.—A. The reason was that we had been paying 3 per cent interest on borrowed funds, and then it went up to 3¾ per cent. This increased interest charge increased our costs by three-quarters of one per cent. But we only increased the cost to our borrowers by one-half of one per cent, so we absorbed the other one quarter of one per cent additional cost within the board.

Q. You feel you have to work on a margin of one and one-half per cent?—A. That has been the historic margin of the board and I think it has been pretty well the historic margin in most lending institutions.

Q. You went from 1929 to 1954, under that one and one half per cent?—A. It has been just exactly that; when we were lending at 6½ per cnt, our money cost us 5 per cent; and when we were lending at 5 per cent our money cost us 3½ per cent; and when we were lending money at 4½ per cent our money cost us 3 per cent. Uu until 1952 we always had a 1½ per cent margin; in 1952 we absorbed one-quarter of one per cent of the cost, and our margin was reduced to 1¼ per cent. There has since been that fluctuation in the cost of our money from three and three-quarters per cent down to three and one-eight per cent, and it is now up to three and a quarter per cent, and we anticipate a further increase.

Q. Despite the fact that you just got a one and one half per cent lee-way, you have had a surplus practically every year.—A. The amount we put towards surplus or reserves in the last four years—the last three or four years—has been considerably less than one half of one per cent which we normally, as a practice, had put away towards reserve funds.

Q. Thank you.

The CHAIRMAN: Now, Mr. Johnston.

By Mr. Johnston (Bow River):

Q. My question is a short one. I started to ask this question just before we rose at noon. What I wanted to ask the witness was a question in regard to the appraisers. You will note that Mr. Bennett was speaking about the appraisers that they used in the V.L.A. He stated that they have a refresher course every year so as to keep their appraisers more up to date. I wondered if the appraisers in the Canadian Farm Loan Board are given a refresher course, and, if so, when was the latest one was held.—A. The latest one was held in Woodstock last week.

Q. Are they called in from all over Canada?—A. It is done by provinces; each provincial office administers the loans within that province, and these refreshers are generally in that province.

Q. You have a special refresher course for these appraisers?—A. That is what I said.

Q. Is there one given in each of the western provinces?—A. There is one in Saskatchewan, either this week or the coming week, I am not sure which. In Manitoba, I believe they have had their appraisers in; I am certain about that. But let us put it this way: our appraiser season will open—depending on the weather—in western Canada about the middle of April or the first of May. And before the appraisal season begins there will be a meeting within each province of the appraisers with the branch office officials.

Q. Would the witness tell us briefly what type of course is given to these appraisers?—A. Well—

Q. What is the type of work that you outline for them, and what is the course of study and so on?—A. You know, appraisal work is not an exact science. A great amount of judgment and a great deal of common sense goes into an appraiser's work. Without that he is not going to make a good appraiser at any time, no matter what instruction you may give him now.

The CHAIRMAN: In other words it is an "informed guess"?

The WITNESS: You are coming pretty close to it. It is a matter of opinion. One person's opinion about the value of a farm will vary with that of another, even as between a husband and wife, or son.

By Mr. Johnston (Bow River):

Q. He does not attempt to enter into that does he?—A. The instructions given to our appraisers are based on the experience of our branch managers and reviewing officers, the branch office employees of the board who are responsible for our loans. They have accumulated a tremendous amount of experience over a number of years. There is no set school or agenda, if you want to call it that. It is not a school in the sense that you have certain questions to answer and you have to write an examination. It is a refresher in work that has been done during the past year, and certain individual cases are brought out and discussed, and when it is all over they have all refreshed their minds on the type of work they should be doing.

Q. It is a good-time meeting to discuss their problems?—A. I would not say it was any more a good-time meeting than this one.

The CHAIRMAN: There is one thing I expected you to bring up, namely, the discussion we had before we actually started the questioning of this witness. There is no doubt that it will not add anything to posterity, and I was wondering if we might instruct the reporter to start his transcription of our proceedings with the questioning of the witness.

Mr. JOHNSON (Kindersley): Mr. Chairman, I think it is a necessary part of the meeting in making our decision.

The CHAIRMAN: The committee has power to strike it out if it so wishes.

Mr. FRASER (*Peterborough*): I do not think we should strike it out. It is part of the evidence and we should leave it in, just as you would in court.

The CHAIRMAN: I am confident that posterity will get no benefit from it.

Mr. CAMERON (*Nanaimo*): On that basis there would be very few reports from parliament.

The CHAIRMAN: Now, Mr. Gour.

By Mr. Gour (Russell):

Q. Can you let us have the losses by provinces?—A. I do not appear to have that information with me but I can secure it for you.

Q. Thank you. I think we should have it.—A. Do you wish to have it this afternoon?

Q. Oh, later on will do.—A. We will bring it to the committee.

Q. Very well. Now, I think most of you are familiar with this subject. I am talking about appraisers. I have nothing to say against your appraisers. Some of them are very nice people but I must say that some of the employees of your board set the amount too low for the real value. I would say that happens in 75 per cent of the cases you have to deal with.

I think I know, just as well as any man could know, the value of a farm. But the trouble is this; they will say that a building occupied by a firm of undertakers with a good house is worth $10,000; but if you put that same house in a small village they will say it is worth only $7,000; and if you should put it in Ottawa, near my riding, they will say it is worth $10,000 and they will lend $10,000 on that house. Therefore I understand you have to work on the revenue of the farm. Is that correct?—A. That is right.

Q. But after all, you have to consider whether the farm could be sold later, when some other farmer will get twice as much for it. I know that you have to depend on the person who seeks to borrow the money. I also know that sometimes a good farmer will never make a dollar; he may owe everybody; he may be a no-good, and lazy, and so on.

From my own experience I have found that your appraisers about 75 per cent of the time will appraise the farm at a figure at least 25 per cent less than it should be. You are setting the ceiling now at 65 per cent, but I would like to see it go to 75 per cent, and I would like to see us lend up to 80 per cent, because you are lending to city people at over 80 per cent on their houses. I hope you will raise the ceiling again, because we ought to keep our farms. You say that you are just practically close, but I would like to see in what part of the country your losses are suffered. That is all.—A. Probably I should say this: that with regard to the buildings and the evaluating of buildings for loan purposes—the board is not allowed to value buildings at a greater amount in total than the value of the farm—the land. Is that clear?

Mr. GOUR (*Russell*): Yes. I am not speaking of the price of buildings, but, where there is a good building on a farm, they will insure it by fire insurance, and on a good farm there will always be somebody working it.

The WITNESS: Probably I should also say the difference between lending money in an urban centre and on a farm is that on a farm we must look for repayment of our loan from the farm and the products of the farm. It is entirely different from where a person is working for wages.

By Mr. Carrick:

Q. I wish to ask a question or two about the appraisers. We hear from time to time about the difficulty in getting good people for that job in the civil service on account of competition in industry and other occupations. Do you suffer in that way at all in connection with your appraisers?—A. I will say we have not suffered in the quality of the appraisers we have been able to engage. I would say also that it is not easy to get good appraisers. As you suggest we are in competition with everybody who engages appraisers for farm purposes, and they are not a dime a dozen on the market. We have experienced some considerable difficulty in certain areas in getting men whom we think would do the work satisfactorily. We try to gauge the salary we pay them to the salaries paid by other people who are hiring similar types of men. There no doubt about it that there is considerable competition, because there are not too many available, especially with experience. I would say that, in the case of 90 per cent of the men we employ, we really have to train them before they become first class appraisers. This is quite a problem; there is no question about that.

Q. Apart from paying higher salaries, is there anything which can be done to get a better type of appraiser?—A. We have tried. I am wondering if you have any suggestion.

Q. No; I was just wondering.—A. We have done everything we can to get the right type of appraiser. That is one thing we do; we try very earnestly. As I remarked this morning, if the appraiser is not right, we are not right all down the line, so we have to get a good type of man for that job.

Q. You have mentioned a committee considering the applications for loans. I am not quite clear on that. Would you mind explaining what that committee does, and what stress they place upon the evaluation of the appraiser?—A. The committee is within the branch office, and then, of course the loan application is dealt with again at head office, before the loan is approved. Each branch manager, as I said before, has been there for quite a number of years and has a lot of experience. He knows approximate values in various areas and also knows the individual appraisers. Some of our appraisers are inclined to be low and others are inclined to be high; some stress one thing and some stress another thing. All those things are considered at the time they are reviewed at the branch office with the benefit of the knowledge that the branch manager and the members of his staff have of the individual appraisers in their employment, by experience.

Q. So more information is brought to bear in determining the appraised value of the land than just the appraisal report brought in by the appraiser himself?—A. Oh, yes.

The CHAIRMAN: I believe Mr. Cameron is next.

Mr. JOHNSON (*Kindersley*): I thought Mr. Argue was next on the list.

The CHAIRMAN: He has already been by-passed.

Mr. JOHNSON (*Kindersley*): I will take his place.

The CHAIRMAN: I think not. If you wish to be on the list I will put you on.

Mr. JOHNSON (*Kindersley*): Am I not on it now? Where do I fit in?

The CHAIRMAN: Right at the end.

By Mr. Cameron (Nanaimo):

Q. Could Mr. Chester tell us on what basis the board sets its rate of putting aside reserves for losses? Is it on the basis of past experience of losses or is there an arbitrary percentage?—A. We started with no reserve, of course, in 1929, and what we have now has been built up in 25 years. The broad principle in effect up until about two or three years ago was that we would put about one half of one per cent of our investment into reserve. We have not been able to do so for some time, and are not able to do that now. Last year, if my memory serves me correctly, it was $50,097 we put into the reserve. One half of one per cent of our investment is well over $200,000 which we are nowhere close to now.

Q. What about your rate of loss experience?—A. We have lost in the neighbourhood of ¾ of a million dollars.

Q. I know you have a figure for the loss and total loan, but I do not know whether you can take that as your basis for the rate of loss. I suppose you could over the period of the life of the board. There has been a ratio of three-quarters of one per cent.

The CHAIRMAN: It would be less than one per cent—about three-quarters of one per cent.

Mr. CAMERON (*Nanaimo*): Yes.

The WITNESS: Very close to it.

By Mr. Cameron (Nanaimo):

Q. Well, I wonder Mr. Chester, in connection with that amount which you put aside for reserves for losses, you have on the top of page 2 in your statement that the interest rates have always been predicated on a competitive and self sustaining operation without the benefit of government subsidies. Now, has that affected the rate of interest that you have charged? Are those considerations; or have they been affected purely by your loss rates and the cost of funds?—A. I would say that the cost of funds is the biggest factor, and I would say that any prudent loaning organization should have a reserve. Now, it is a matter of opinion as to how much that reserve should be.

Mr. CAMERON (*Nanaimo*): Thank you. That is all I have.

The CHAIRMAN: Mr. Argue, you had some questions?

Mr. ARGUE: I will ask them at another time. I relinquish my place to Mr. Johnson.

The CHAIRMAN: He is well down on the list. Mr. Pallett.

By Mr. Pallett:

Q. I have a series of questions. First of all, could we be told how many applications were processed by the board, and how many of the applications received resulted in loans being granted?—A. For when and where?

Q. For the last year?—A. 1955, and for where?

Q. For everywhere?—A. For Canada?

Q. Yes.

The CHAIRMAN: The number of applications and the number of granted?

By Mr. Pallett:

Q. Yes—A. During our fiscal year ending March 31, 1955, we received 4,193 applications and we made 2,145 loans. Is that the information you wish?

Q. Yes.

Mr. ARGUE: What is an application? At what point do you count it an application?

Mr. PALLETT: Would you wait until I am finished? I think I can carry on with this all right.

By Mr. Pallett:

Q. What is the explanation for the small percentage of loans granted? In each application, I gather you took a $10 valuation fee, and some 2,700 loans were rejected. Does not that seem to be a pretty high percentage of rejections? I understand that is a complete rejection?—A. Well, of course, they are rejected in this sense, that we do not proceed with their application. Many of those are not even elegible. Many people do not even own their farms to begin with and have no intention of buying them. Many of them cannot provide a mortgage. There are many, many reasons why these applications should never have come to us in the first place.

Q. They would be filed at your own office with your own representatives? —A. Yes.

Q. And before they would be considered, an application would be completed in your office?—A. No, no. You mean in a personal interview?

Q. Or some forms completed.—A. When a person wants a loan through us they write our office and we send an application form. It is returned to us sometimes with the $10 fee, and sometimes without it. If it is an application, it has the $10 fee; it is not considered if it does not. Amongst

those are this large group—I do not have the breakdown—who are not even eligible for a loan under the act. We do not consider we can vary that result too greatly.

Q. So that we might get the record straight, you said there were 4,193 applications and 2,145 loans granted?—A. Yes.

Q. So that it is less than 50 per cent that were granted?—A. Yes. Probably it might be well to give you the trend of that. Would you like that over the years?

Q. Yes.—A. This is loan applications received and loans approved. From 1929 to 1952, 39·4 per cent of our applications turned into loans; from 1952 to 1955, 42½ per cent of our applications turned into loans; in the year 1955, 43·8 per cent of our applications turned into loans.

Q. Do I understand the $10 was taken on all these applications which never resulted in a loan?—A. Only if an appraisal was made.

Q. I thought you said it was not considered an application unless the $10 accompanied it?—A. If he made out a formal application form with the $10, it is an application. And if we do not make an appraisal we return the $10. If we do make an appraisal, whether a loan is made or not, we retain the $10. Probably at the same time I might give you an idea of the trend in the size of loans. This is by five-year periods: 1930, $2,200; 1935, $1,700; 1940, $1,800; 1945, $2,300; 1950, $2,600; 1955, $3,800. Those are only averages and do not mean very much, but they show a trend, that is all.

Q. I have some further questions. You mentioned, in explaining the basis for your loans, the repayment possibility of the farm. What factors do you use in determining that? Do you take the income earned off that farm for the previous year, the current year, or on what basis is it taken?—A. We have crop records for the area and we can anticipate what should be taken off by an average operator.

Q. It is based on an average of the area as much as on that individual farm?—A. No. The average of the area, of course, has some importance; but the individual farm is what we are loaning on in the area.

Q. There is one further question. Supposing income tax had not been paid by the board over the years, have you any figures to show what you would have in reserve at the present time?—A. We would have the amount of income tax we have paid. It is fairly substantial.

Q. Would you make that figure available to the committee?—A. Yes. We have paid $214,142 corporation income tax up until March 31, 1955.

Q. Over what period?—A. 1952, I believe, when we started; about 3 years.

Q. Are you able to give us a rough breakdown of the type of farms which represent the majority on which loans are given—mixed farming, grain farms or what?—A. That depends on the area.

Q. There is no preponderance of any one type of farm obtaining loans? —A. In Saskatchewan, yes, grain farms; in Ontario, yes, mixed farms or dairy farms. It depends on the locality entirely. I do not think we have invested any overwhelming amount in any one type of farming; I am sure we have not —it is well spread around.

Q. Do you have any table which indicates today what the average investment is to start an average farm? Is the board aware of that? Has the board any figures to show what it would cost a person to set up the average farm today?—A. I have heard a lot of figures and I would think you could get as many estimates as there are people who give them. I think the only guide I would have to that is what is the average value of farms in the province.

The CHAIRMAN: That figure is very meaningless.

Mr. PALLETT: It is quite meaningful.

By Mr. Pallett:

Q. For example, on what do you base your figure of $15,000 maximum as being enough?—A. Are you particularly interested in Ontario?

Q. Take Ontario.—A. The average value of farms and buildings in Ontario —and this comes from the Dominion Bureau of Statistics, and as I understand it those figures are voluntary figures given by owners of farms, somebody might correct me if I am wrong there—the average value of a farm in Ontario, including land and buildings, is $9,467.

Mr. BLACKMORE: Excluding machinery?

The WITNESS: The farm.

Mr. PALLETT: That is real estate?

The WITNESS: Yes.

Mr. ARGUE: Would you give me some averages for other provinces—Saskatchewan?

The WITNESS: $10,560.

Mr. ARGUE: About the same size as Ontario?

The WITNESS: Very close.

By Mr. Pallett:

Q. Do your figures go further and say what size is the average farm in Ontario in your figure of $9,000 which you are suggesting?—A. The average farm acreage in Ontario—these are 1951 figures; there has not been a census since then—139·2 acres.

Q. 139·2 acres is the average farm valued at $9,000?—A. $9,467. Those are Dominion Bureau of Statistics figures.

Q. This is 1956. How much have your appraisers shown that land is increasing, and the value of farms is increasing since 1951 in Ontario?—A. I would say that many appraisals that have come across my desk would indicate to me that the increased appraisal value of a great number of farms —I am not going to say all farms, but by far the large proportion—would run about 50 per cent in the last several years.

By Mr. Carrick:

Q. Would those D.B.S. figures be market value?—A. They are not a great deal of use. They are certainly market value, given by the person who owns the farm; the figure at which he can sell it. I would say they are high figures for the average for loaning purposes.

Q. They are not comparable to the prices at which you would value them? —A. No.

By Mr. Pallett:

Q. You would say, roughly, for loaning purposes, the average farm in Ontario today is worth about $13,500? I am adding 50 per cent to your figure. —A. No. I said we have increased our appraised value by 50 per cent.

Mr. CAMERON (*Nanaimo*): It comes to the same thing.

The WITNESS: No. We do not use the $9,400.

By Mr. Pallett:

Q. What do your figures from your own board then show that the average farm is valued at on the loans you have processed in the last year—take your own figures. Your application shows the values of the farms at which the farmers have valued them?—A. I think that when you get into averages you are getting into dangerous ground. If I quote averages to you it does not

mean very much. We want to take individual farms. We will discuss any individual farm, or combinations of farms, but I think it is very dangerous for us to start talking about averages, for loaning purposes.

The CHAIRMAN: I think you have established your point, Mr. Pallett.

By Mr. Pallett:

Q. Are there some farms in Ontario that are valued considerably in excess of $25,000?—A. Let us put it this way: per acre we have some very high priced land in Ontario.

Q. Based on production?—A. All our values have to be based on production, yes.

Q. Am I correct in saying actually the $15,000 today in many instances would not represent 65 per cent of the lending value or the borrowing value of many farms in Ontario?—A. That might be; I would not like to say it would be a large proportion of the farms in Ontario.

Q. But a substantial proportion?—A. In a certain limited area.

Q. So that the effect of this $15,000 limitation would preclude a substantial number from borrowing 65 per cent of the value of the farm?—A. I would not think so. When you get to 65 per cent and $15,000, you are getting pretty close to a $24,000 farm that we can loan on; that takes in a lot of farms in Ontario, as well as any place else.

Mr. ARGUE: Probably 98 per cent.

By Mr. Fraser (St. John's East):

Q. Could I refer to page 1 of your statement. I see there in the first paragraph, in the last sentence, "The Canadian Farm Loan Board maintains a branch office responsible for the processing of all loans in each province excepting Newfoundland." I would like to ask Mr. Chester where an applicant from Newfoundland would apply? Would it be to Ottawa?—A. Yes.

Q. Have many applications been received from Newfoundland for loans; have there been any at all?—A. Yes. We have received very, very few in number, and we have approved one loan.

Q. I notice in the report that no loans were approved for 1955?—A. That is right. We have only had one loan approved since Confederation.

By Mr. Fairey:

Q. I wish to follow along on Mr. Johnson's remark about the training of appraisers. It seems to me the key to the whole question in any company in the matter has been the skill of the appraiser or assessor. Would you agree it would be of value to have a proper syllabus of training drawn up for the appraisers as they do for the work under the Veterans Land Act. We found, on the municipal and provincial level, in order to achieve an evenness of appraisal, it has been necessary to get them together and train them in appraisal technique. Would that not be something for your board to consider?—A. Yes. It might be a very good suggestion. As a matter of fact it is a problem which I have been wrestling with for some months.

The CHAIRMAN: Now, Mr. Charlton.

By Mr. Charlton:

Q. Mr. Chester, I take it that many of your appraisers are part-time men, is that not true?—A. What part of the country are you speaking about?

Q. Any part; your appraisers are not all full-time employees?—A. No. Are you referring to Ontario?

Q. Many of your appraisers are part-time employees?—A. Some are, yes.

Q. Many of your appraisers are included among the 123 permanent employees?—A. Permanent appraisers are, but not the part-time appraisers?

Q. That is what I am trying to get at. You said you had 123 employees as of now?—A. Yes.

Q. How many full-time appraisers do you employ? I mean how many do you employ full-time? A. We have 19 full-time appraisers, and 2 seasonal appraisers who work from the opening of the season to the end of the season; then we have 36 part-time men, making a total of 57.

Q. I take it that your 19 full-time appraisers would be only road inspectors going around with the part-time appraisers in their duties?—A. This varies from province to province depending on the volume of business that is available to us. In a province where we have a fairly substantial amount of business we have districts, and these full-time men are district appraisers. They take care of the area, while the part-time men—or some of them—will work in that area; but with the full-time men employed, their responsibility is for that division of the province.

Q. In other words he has to check every appraisal made by the part-time men?—A. No, no. That would be impossible! But he goes with, he accompanies, the part-time man, probably for seven or eight appraisals, and then he will leave him on his own for a while, and then come back with him and give him further instruction.

By Mr. Johnston (Bow River):

Q. That is not given in a course?—A. No, not a course, but we have a refresher for the full-time men. We have complete control of the part-time men's work.

Q. I thought that you said that you called all the appraisers in from a certain locality.—A. Yes, that is right.

Q. Not just the leaders?—A. We call the permanent men of the board in, and we often call an individual part-time man in and give him individual instruction.

Q. You do not have any definite course, such as Mr. Fairey pointed out that he thought you probably should have?—A. They have a definite course within the branch office and it is organized with a printed syllabus which is made up there.

Q. Do you happen to have one?—A. If you call any instruction which is on an agenda a syllabus, it is done within the branch, individually within the provinces. They know the conditions within that province and they are responsible for the loans that are made there, and for everything that the appraiser does.

The CHAIRMAN: It is really Mr. Charlton who is having his day in court.

By Mr. Charlton:

Q. Thank you, Mr. Chairman. I take it that the 19 full-time appraisers have been reduced considerably over the past few years. You say that you had 178 employees in 1940. Are these employees now reduced from 178 to 123—are they full-time appraisers, office staff, or what?—A. Most of the reduction has been in office staff. This is pretty close to the average for the past several years of the number of full-time appraisers we have in our employ.

Q. I am trying to get at the reason for the delay in the processing of these loans from the application stage to the appraisal stage, and to when the money is actually received.—A. Well, all I can say about that is that it is a problem of administration that is facing us every day in the year, and we are trying to do the best we can with it. Sometimes we are a little disappointed,

and we have to make certain corrections, as you can understand, in our administration. But you must also bear this in mind: that every loan which we make goes through several hands from the time the appraiser makes his appraisal until the loan is approved. That is our responsibility and that is what we are looking at all the time, and we try to keep that time to a minimum so far as possible.

But from there on, you have to deal with the borrower, with the insurance agent, with his creditors, with his lawyer who is disbursing the loan, with the municipality in regard to taxes; you have to deal with the title and the registry, and there are many and various people who come into it over whom we have no control.

We get the blame, I am sure, for a good deal of delay after the loan is approved, with which we have nothing to do, and the blame is not ours whatsoever. We have to have co-operation between all these people, otherwise there will be delays, and when we see an individual case being delayed we try to get on to it and help it along as much as we can. But we do have to have the co-operation of many people outside of our board after the loan has been approved in order to expedite the disbursement of the loan, and that is where you get delays.

Q. You do not have your own lawyers processing mortgages or searching titles? You depend on part-time employees for that?—A. We have a lawyer in our department in the Toronto branch office, and we have one in Quebec; other than that it is done by agents.

Q. You are actually, in effect, a profit organization?—A. A profit organization.

Q. Yes, a profit organization!—A. If, having had a surplus, after being in operation is a profit, then we are a profit-making organization, but that is not fundamental to what we are out to do.

Q. I did not have that idea of the Farm Loan Board, and I was rather surprised that you are actually paying as much as you are in the way of income tax, because, after all, I thought this was intended to help the farmers, not intended to make money. You say that 75 per cent of your cost is in salaries or wages?—A. That is right.

Q. You have proven by your report that you are processing more loans now with 55 less employees than you did back in 1940?—A. Yes.

Q. So your costs are going down per loan, as they should be?—A. If wages had not gone up, I would agree with you; but you have a factor in there of advancing wages.

Q. But the number of loans is increasing too?—A. That is right.

Q. And that should take up your increases in wages. And when there are very many less employees you are showing a margin of 1·39 per cent, and you are charging the country 3¼ per cent, making a total of 4·64 per cent, and you are charging 5 per cent. Your loans do not anyways nearly take up that difference, and naturally so, or you would not be making a profit. You gave us some D.B.S. figures on the average price of farms, and your figure was $67 per acre. Do you use that figure in valuating farms at all?—A. In no way whatsoever.

Q. Do your appraisers use the assessed value for municipal taxes?—A. In no way whatsoever!

Q. They are instructed not to?—A. They do not need such instructions; they just did not do it. They would not be with us long if they did.

Q. I do not have this as first hand information, but I am told that many, many applicants have been refused when the valuation was above the assessed value of the farm.—A. All I can say to you is that I doubt if that is possible.

Q. Anyone who has ever come to me has had as his main complaint that the appraisers have taken too much of his valuation from the assessed value of his property.—A. He has been reading the newspapers, I am afraid.

Q. These people, in odd cases, have had trouble in trying to get loans and that was the reason for it.—A. You will find many people can give many reasons why they did not get a loan.

Q. That is very true. I have found that out in my own experience; but at the same time I do not know of the odd case where it has been correct.—A. As far as this is concerned, it is impossible for it to be correct.

Q. There is no assessed value which is considered whatever?—A. On any property which our appraisers value, the assessed value has no value whatsoever to us.

Mr. ARGUE: Would you please give us your formula for arriving at the assessed value?

The CHAIRMAN: Please let each member have his day in court.

By Mr. Charlton:

Q. It is just based on the earning power of the farm?—A. That is right, on the productive capacity of the farm.

Q. As I understand it, the buildings cannot be valued at more than the land?—A. That is right.

Q. No matter how good the house or buildings are, that is not taken into consideration unless the land is of a similar value.—A. Well, let us put it this way; we value the land this way; add to that the value of the buildings and in the net result, our final valuation must still be the productive value of that farm.

Suppose you put a brick factory worth $100,000 on that farm, that is not going to increase the productive value of the farm whatsoever. I could put it another way: a man may have an acre or two of land, may be classified as a farmer because he has an acre of green-houses, but he would not get a loan on the basis of the value of his green-houses.

Q. Yes, and, by the same token, if a man had ten acres he could be producing hogs with practically no land at all. But you would say there was no capacity to that farm?—A. I think that would be bordering on a business, would it not?

Q. It is still a farm. He may be buying a lot of his feed, but he still has earning capacity.—A. It is the earning capacity of the land for agricultural purposes.

The CHAIRMAN: You would not grant a loan for a couple of acres of rock where they happened to have a chicken farm?

The WITNESS: No.

By Mr. Charlton:

Q. You do not take that into consideration at all—A. What?

Q. If he had a wonderful barn, and let us say he is producing 1,000 hogs.—A. All that is taken into consideration; if he has a barn valued at $25,000, and the farm is valued at $5,000, we would not value the farm at $30,000. Another farmer may have the same operation and is able to achieve the same result with a $4,000 barn.

Q. Maybe the $4,000 barn would not hold 200 hogs.—A. I think probably it might.

Q. Very well.

By Mr. Richardson:

Q. My question has been anticipated already, but it does seem to me that one of the very important things is the appraisal. Might I ask Mr. Chester if there is any syllabus or manual of instruction whereby there are certain principles recognized as standard and uniform throughout the country, and others in which an area of discretion may be available for the appraisers?—A. We have instructions to appraisers laid down. It is a volume of this size indicating type closely, and it goes into detail with respect to the types of land, the types of soil, undulating, rolling, stoney, etc., as far as the actual soil is concerned; and it goes into the value of buildings, and it goes into the value of crop averages, and P.F.A.A. assistance in the west, and into the records of the area; all those things are considered. I think it is far more important that an appraiser use his head than go too much by the book, because he can get into an awful lot of trouble.

By Mr. Johnston (Kindersley):

Q. Mr. Chester, does the board cover its operational and administrative expenses from the percentage difference between the cost of the funds and the interest rate which is charged to the borrower?—A. That is right.

Q. By that token, there would be constant pressure imposed to keep your administrative costs at a minimum, and in addition to that to induce you to make a loan where there is a marginal risk?—A. I do not know what you mean by "constant pressure"; there is no pressure placed upon me.

Q. If you only have one and one-half per cent to operate on, you cannot take much in the way of marginal risks and keep on making your one and one-half per cent?—A. I do not know that we are called upon to take undue risks, where it is almost a forgone conclusion that we will lose money before we take them. I do not think that is the work of any person who is trying to administer this board.

Q. I would compare that with the Farmers Home Administration in the United States where the funds for it come from a direct contribution from the government, and therefore are not hinged on a limitation of a one and one-half per cent interest rate, and where they use the principle that they want to establish the farmer as an economic unit, and where there appears to be stress on the independence of the farmer and his chance of success. Is that not a conclusion?—A. Are you making a statement or asking me a question? I cannot tell you because I do not know how the federal F.H.A. operates.

Q. You mean the Farmers Home Administration?—A. The Farmers Home Administration; I cannot tell you how they operate.

Q. I think it is surprising that the chairman of a board operating in Canada has by its own admission said that he knows nothing about the Farmers Home Administration in the United States.

The CHAIRMAN: That is an unfair statement. It puts me in exactly the same category.

By Mr. Johnson (Kindersley):

Q. If there is objection raised by members of the government to my statement—

Mr. RICHARDSON: Not by members of the government, but by members of this committee. I object to it as well.

Mr. JOHNSON (*Kindersley*): I submit that we should be in a position to compare this with other systems in operation in other areas if we are to make this a proper credit administration.

The CHAIRMAN: I point out that the terms of reference to this committee are to consider the amendments before it and not to make recommendations concerning new types of legislation. The proper place to bring that up is in the House of Commons.

By Mr. Johnson (Kindersley):

Q. It has already been brought out in the House of Commons that the Farmers Home Administration makes its loans on a basis of 100 per cent of the appraised value, while ours is to be 65 per cent.—A. I think I should interject that I told you this morning the only comparable government sponsored organization in the United States that we may be compared with is the Federal Land Banks, and I gave you information in regard to them.

Q. The Royal Commission on Agriculture and Rural Life in Saskatchewan put this on the agenda of their report on agricultural credit, and I would recommend to the chairman of the board that he read it because it certainly ties in with the Farmers Home Administration very closely and with that of the Canadian Farm Loan Board.

But I am concerned with the fact that we have to operate within 1½ per cent margin which means that you have a maximum of efficiency within the operation of the board, but you will have the minimum number of appraisers, and that perhaps results in what Mr. Charlton has said, that there would be delay in making appraisals after the application has been made; and realizing how farms come up for re-sale, there cannot be too much drag between the time the supply of farm credit comes into operation and until they take hold, because the farm will in many instances be bought by someone else. I think the board would approve it if they operated on a different basis so they would not be tied down to 1½ per cent and could have a larger staff of appraisers in order to do the job efficiently.

The CHAIRMAN: You are discussing an entirely new form of legislation—you are suggesting that we should have a different form of legislation. Surely it is not relevant to this committee, to bring in a recommendation with reference to new legislation.

Mr. JOHNSON (*Kindersley*): We do not need to make it completely new.

The CHAIRMAN: You are arguing for an entirely new type of legislation, for subsidized loans, and I shall have to rule you out of order in discussing that type of thing, because we are not here to discuss something that you would prefer instead of this bill.

Mr. JOHNSON (*Kindersley*): If you have any modification to make now?

The CHAIRMAN: This is not a modification in the act.

Mr. JOHNSON (*Kindersley*): I will let that go for now, but this problem came up concerning the qualification of the appraisers, and it is an interesting one. On the basis of your farm experience, Mr. Chester, would you feel qualified to go out and appraise a farm and put a valuation on it?

The WITNESS: That is a hard question to answer. I suppose anybody could put a valuation on a farm, but whether it would be acceptable or not, I do not know.

Q. You would have to put it with reasonable accuracy. Do you think you could do that on the basis of your farm experience?—A. If I saw a valuation put on it by somebody else, I think I could come pretty close to saying whether it was a proper valuation or not.

Q. They have a responsibility to put a value on a farm without seeing someone else's figures. You say they pay no attention to the assessed value?

The CHAIRMAN: Obviously, how could they. Surely you know it has no relation to the actual value and that it varies in almost every municipality.

By Mr. Johnson (Kindersley):

Q. That is something we can argue at a later stage. I was coming to the statement that Mr. Chester made that appraising is not an exact science, and if appraising is not an exact science, how can someone put an appraisal on land in a western province and compare it with an appraisal in another province, and say whether it is burned out, or heavy clay, or light clay, without having technical knowledge of the soil of that area?—A. There are soil maps which are available.

Q. They cover a range anywhere from 4 to 5 sections.—A. The maps we see cover every section and quarter section, if you are referring to Saskatchewan.

Q. You base your assessment on the soil survey made by the university in the province of Saskatchewan there?—A. No; it is part of the factors that are considered, but only a part.

Q. What chart do your field men follow when assessing a quarter section in Saskatchewan?—A. What do you mean?

Q. They must have some pattern to go by, some standardized form to fill in on each quarter section that they are appraising.—A. I do not know what you are referring to. When a man appraises a farm, if it is a quarter section, he goes over it and takes a soil test in various parts of that quarter section, and he makes notes as he goes along, and makes a report later.

Q. How many test holes does he put down in a quarter section?—A. Oh, it would depend a great deal on the likelihood of a change in the soil conditions. He would probably put down many if there are changed conditions.

Q. How deep would those test holes go?—A. They are only for the top soil and subsoil; they would go down about a foot.

Q. In our area a lot of the factors which determine the productivity of the soil are much deeper than a foot; but coming back to that same problem; you have 123 on your staff, and one of the limitations might be that of the area which the appraisers have to cover. Could you provide us with information as to the area for which each appraiser is responsible and the name of the appraiser responsible for these territories?—A. It is Saskatchewan, I presume, that you are takling about?

Q. Yes.—A. We have five districts in Saskatchewan.

Q. What areas are they responsible for?—A. They follow the rivers; and they follow other things. I have not got the diagram here. There are two south of the Saskatchewan river and the Qu'Appelle river and there is one in the northwest of Saskatchewan, the eastern boundary of which is slightly west of Saskatoon; and there is a central area comprising northeastern Saskatchewan; and then there is a central area between there and the Qu'Appelle river.

Q. Who are these assessors and what are their qualifications?

The CHAIRMAN: Excuse me. I have a private bill which comes on at 5.00 o'clock in the house, and if you will excuse me I shall go now, but I will come back for the meeting of the steering committee. Will Mr. Valois, the vice-chairman, please take the chair while I am away?

Mr. FRASER (*Peterborough*): We are to carry on until 5.00 o'clock?

The CHAIRMAN: Yes.

Mr. MICHENER: Could we not adjourn at this time? We probably will not finish with this witness today, and some of the rest of us want to be in the House too.

The CHAIRMAN: The steering committee has a meeting at 5.00 o'clock.

Mr. MICHENER: They could come back here.

The CHAIRMAN: This meeting will be adjourning at 5.00 o'clock anyway.

(Mr. Valois took the Chair).

Mr. MICHENER: I move that we adjourn now!

Mr. JOHNSON (*Kindersley*): I have one little question. Can Mr. Chester provide us with a list of the names and qualifications of the appraisers in the three western provinces? That is all.

Mr. TUCKER: Mr. Chairman!

The ACTING CHAIRMAN: The chairman has been calling the names of members from a list, but I do not see any names on the list now.

Mr. ARGUE: We have a motion to adjourn.

Mr. TUCKER: I just wish to ask you a couple of questions and I would extend that courtesy to any other member of the Opposition.

Mr. ARGUE: The member for Rosthern is always complaining.

Mr. TUCKER: If ever there was a wailer in the House of Commons it is the hon. member for Assiniboia. Everybody will bear me out that there is no greater wailer and crier in the House of Commons than the member for Assiniboia.

Mr. ARGUE: The member for Rosthern knows the rules, and he knows that a motion to adjourn is not debatable. But instead of that he insists upon asking questions. Put the question, Mr. Chairman.

Mr. TUCKER: I said that I would extend the courtesy of asking a couple of questions to any member of the Opposition. The hon. member for Assiniboia has said there was no greater crier and whiner than myself in the House of Commons. That shows how vindictive a man he is. There was no reason for his making that statement.

The ACTING CHAIRMAN: Will you please allow me?

Mr. TUCKER: All I asked for was the indulgence of asking a couple of questions. But the CCF party objected to my asking those questions and insisted on an adjournment. If you want to put the motion to adjourn, that is all.

The ACTING CHAIRMAN: I am afraid that I am bound by the procedure that a motion to adjourn is not debatable.

Mr. MICHENER: I moved that motion to adjourn on the basis that we would not be finished with this witness today, but if Mr. Tucker thinks that he will be able to finish in a couple of minutes, then I withdraw my motion.

Mr. TUCKER: I would ask the indulgence of the committee to ask a couple of questions. The questions I wanted to ask were these: it may be that Mr. Chester has not got the answers here, but I think he will be able to get them. I wonder what the average appraised value was by provinces, during the year ending March 31, 1955, and the loans actually made during that period of the appraised value; the average appraised values by provinces, and then the average loans by provinces during that period; and then I wondered if this information had been given already; it may have been; but I wondered if Mr. Chester could give us the number of loans by provinces that were over $9,500 during that year. Those are the questions I wanted to ask.

The WITNESS: The number of loans?

Mr. TUCKER: Over $9,500 made during this period by provinces; and the reason for the question is this: the maximum now is $10,000, and it is being increased, and I wondered in how many cases you were approaching the limit in each province.

The WITNESS: We will have to get that information for you.

The ACTING CHAIRMAN: I would like to ask the members of the committee if they feel that they want to have the discussion which just took place deleted from the record or left so that everybody will see it?

Mr. JOHNSTON (*Bow River*): No, not if you start to delete certain parts.

The ACTING CHAIRMAN: I agree with you in principle.

Mr. JOHNSTON (*Bow River*): I could not agree to it.

Mr. ARGUE: I am not saying that the record should be changed, but if I said anything offensive in respect to the member for Rosthern, I will be quite prepared to withdraw it.

The ACTING CHAIRMAN: I asked the question of the committee so that we might have your answer.

Mr. TUCKER: I was probably out of order because there was a motion to adjourn, and I was asking for a chance to put a couple of questions, and there was an argument whether that indulgence should be given to me. If it would save the reporter a whole lot of work, and I doubt if he got down everything that was said because there were two or three people talking at the same time; but as far as I am concerned, he does not need to include it.

Mr. JOHNSTON (*Bow River*): No, let us keep the record as it stands.

Mr. CHARLTON: There is no motion for adjournment now.

The ACTING CHAIRMAN: There was a motion, but it was withdrawn. The discussion which took place was out of order at the time because we had a motion for adjournment, but it was withdrawn later.

Mr. CHARLTON: The motion was never put.

Mr. JOHNSTON (*Bow River*): You never put it, Mr. Chairman. It was never accepted by the chair.

Mr. TUCKER: If you wish to argue a point of order, my understanding is that somebody said the question was not put. But when such a motion is made by a member of the committee it is not debatable. That is true. It is not important that the chairman can avoid the rule by refusing to put the motion. The moment that the motion is made, it is out of order and I just asked for indulgence to present a couple of questions. Then my honourable friend from Assiniboia made a few aspersions against me and I do not care whether it is on the record or not.

Mr. QUELCH: Even if it is out of order statements appear on the record as a rule.

Mr. CHARLTON: You will find a blank page in the report if you do not put everything in.

Mr. FRASER (*Peterborough*): I move we adjourn.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 2

Bill 84

An Act to amend the Canadian Farm Loan Act

TUESDAY, APRIL 10, 1956

WEDNESDAY, APRIL 11, 1956

WITNESSES:

Mr. J. C. Brodrick, Chairman, National Policy Committee and Dr. E. C. Hope, Economist, both of the Canadian Federation of Agriculture.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

72380—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue
Ashbourne
Balcom
Benidickson
Bennett (*Grey North*)
Blackmore
Bryson
Cameron (*Nanaimo*)
Cannon
Carrick
Charlton
Crestohl
Eudes
Fairey
Fleming
Follwell
Fraser (*Peterborough*)
Fraser (*St. John's East*)
Fulton
Gour (*Russell*)
Hanna
Hellyer
Henderson
Hollingworth
Huffman
Johnson (*Kindersley*)
Johnston (*Bow River*)
Macdonnell (*Greenwood*)
MacEachen
Macnaughton
Matheson
Michener
Mitchell (*London*)
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Quelch
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,

MONDAY, April 9, 1956.

Ordered,—That the name of Mr. Bryson be substituted for that of Mr. Stewart (*Winnipeg North*) on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

72380—1½

MINUTES OF PROCEEDINGS

TUESDAY, April 10, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Balcom, Bryson, Carrick, Charlton, Crestohl, Fleming, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Henderson, Hollingworth, Huffman, Hunter, Johnson (*Kindersley*), Johnston (*Bow River*), Macdonnell (*Greenwood*), MacEachen, Pallett, Power (*Quebec South*), Quelch, Robichaud, Valois and Weaver.

In attendance: Mr. J. C. Brodrick, Chairman, National Policy Committee, and Dr. E. C. Hope, Economist; both of Canadian Federation of Agriculture; and Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

On motion of Mr. Fraser (*St. John's East*), seconded by Mr. Crestohl,

Resolved,—That Mr. Johnson (*Kindersley*) be substituted for Mr. Stewart (*Winnipeg North*) on the Sub-committee on Agenda and Procedure.

The Committee proceeded with its consideration of Bill 84, An Act to amend the Canadian Farm Loan Act.

The Chairman presented the First Report of the Sub-committee on Agenda and Procedure, as follows:

Your Sub-committee met at 5.00 o'clock p.m. on March 27, 1956, and agreed to recommend:

That the Committee meet at 11.00 o'clock a.m. and 3.30 o'clock p.m. on Tuesday, April 10th, and that at those meetings there be heard representative organizations interested in the amendments to the Canadian Farm Loan Act by Bill 84.

Your Sub-committee also met at 10.00 o'clock a.m. on April 10, 1956, and agreed to recommend:

That representatives of the Canadian Federation of Agriculture be heard by the Committee, and that the Committee receive briefs from the following organizations:

Interprovincial Farm Union Council, Eastern Irrigation District, Brooks, Alta., Lethbridge Central Feeders Association, Lethbridge, Alta., Alberta Sugar Beet Growers, Lethbridge, Alta., and

That Mr. G. Wyndlow, who has stated that he wishes to appear, be not heard by the Committee unless he is representing a representative farm organization, it not being the practice of the Committee to hear individuals, an individual having his remedy through his Member of Parliament.

Respectfully submitted.

The Chairman stated that, following the meeting of the Sub-committee on March 27th, a press release had been made to the effect that on April 10th the Committee would consider briefs from organizations interested in Bill 84,

which the Committee might deem to be representative farmers' organizations; and that this release had been given wide publicity. Briefs had been received from the organizations specified in the above report of the Sub-committee.

The First Report of the Sub-committee was adopted unanimously.

Mr. Brodrick was called; he read a brief from the Canadian Federation of Agriculture, was questioned thereon, and was retired.

It was moved by Mr. Macdonnell (*Greenwood*), seconded by Mr. Crestohl,

That Committee sittings be held in the mornings only, this day and subsequently, at the call of the Chair, until the Chairman again raises the question of afternoon sittings.

The motion was carried: Yeas, 10; Nays, 5.

At 1.05 o'clock p.m., the Committee adjourned to the call of the Chair.

WEDNESDAY, April 11, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Balcom, Benidickson, Bennett (*Grey North*), Bryson, Cameron (*Nanaimo*), Carrick, Charlton, Crestohl, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Hollingworth, Huffman, Hunter, Johnson (*Kindersley*), Johnston (*Bow River*), Michener, Pallett, Philpott, Power (*Quebec South*), Quelch, Robichaud, St. Laurent (*Temiscouata*), Tucker, Valois and Weaver.

In attendance: Dr. E. C. Hope, Economist, Canadian Federation of Agriculture; and Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

The Committee continued its consideration of Bill 84, An Act to amend the Canadian Farm Loan Act.

Dr. Hope was called; he spoke on the administration of the Canadian Farm Loan Act and on long-term farm credit; and was questioned thereon.

At 1.08 o'clock p.m., the Committee adjourned until 11.00 o'clock on Thursday, April 12, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

APRIL 10, 1956,
11.00 a.m.

The CHAIRMAN: Gentlemen, there is a quorum here and I would suggest that we commence our business.

I believe Mr. Fraser has a motion to make.

Mr. FRASER (*St. John's East*): Yes, Mr. Chairman. I would like to move, seconded by Mr. Crestohl, that Mr. Johnson (*Kindersley*) be substituted for Mr. Stewart (*Winnipeg North*) on the sub-committee on agenda and procedure.

Motion agreed to.

The CHAIRMAN: I declare Mr. Johnson as elected.

Pursuant to the appointment of the subcommittee on agenda and procedure, your subcommittee met at 5 o'clock p.m. on March 27, 1956, and as its first report, agreed to recommend that the committee meet at 11 o'clock a.m. and 3.30 o'clock p.m. on Tuesday, April 10, and that at those meetings there be heard representative organizations interested in the amendments to the Canadian Farm Loan Act by Bill 84.

Pursuant to the recommendation of the steering committee that information was given to the Canadian press and was published fairly broadly throughout the country in the interested sections. I would ask for your approval of the action of the subcommittee in making that recommendation.

Agreed.

Your subcommittee also met at 10 o'clock this morning and agreed to recommend to this committee that representatives of the Canadian Federation of Agriculture be heard by the committee, and that the committee receive briefs from the following organizations: Interprovincial Farm Union Council; Eastern Irrigation District, Brooks, Alberta; Lethbridge Central Feeders Association Limited; and Alberta Sugar Beet Growers, Lethbridge, Alberta; and that Mr. G. Wyndlow, who has stated that he wishes to appear, be not heard by the committee unless he is representing a representative farm organization, it not being the practice of the committee to hear individuals, an individual having his remedy through his member of parliament.

May I ask for approval of the action of the subcommittee.

Agreed.

Mr. Brodrick, would you present your brief? Mr. Brodrick, Chairman of the National Policy Committee of the Canadian Federation of Agriculture, will present their brief to the committee. I would ask that he be allowed to present his brief *in toto*, and then those who wish to ask questions later will please give me their names.

Mr. J. C. Brodrick, Chairman, National Policy Committee, Canadian Federation of Agriculture, called.

The WITNESS: Mr. Chairman, may I first say a word in explanation. We just a short time ago received notice that we were to appear before this committee. The following is a statement on all farm credit in so far as the Canadian Federation of Agriculture is concerned. There has been a National Policy Committee of our federation, consisting of six individuals from all across

Canada, working on different problems and bringing out policy statements to be approved at the annual meetings of the Canadian Federation of Agriculture. This statement on farm credit received approval in January of this year at the annual meeting in Hamilton.

Now, I am only going to read certain sections of this report, roughly to the bottom of the first paragraph on page 9, and then there are recommendations dealing specifically with the Canadian Farm Loan Board. The statement of the Federation is as follows:

A credit policy for Canadian agriculture should be designed to meet the needs of three general classes of borrowers:

1. The established farmer, who carries on a reasonably efficient farm operation.
2. The farmer who would become efficient except for lack of capital.
3. The young man starting in to farm.

In addition, natural disasters may place farmers from any of these general categories in a position where they require special emergency credit to carry them over the period of heavy loss.

Developing a sound farm credit policy to meet these needs requires arriving at answers to two fundamental questions.

The first is—what is the probable future earning power of farm capital?

The second is—what are other special features of farming that affect the type of credit needed?

The third is—what trends are developing in the available sources of farm credit?

Earnings From Farm Capital Available for Loan Repayment

It is possible to make an estimate of the probable long time returns of the farm operator for the total of his own labour, that of his unpaid family help and for his management after allowing a modest interest return for the capital invested in his farm.

The following tabulation shows for the 29 years, 1926 to 1954, the average value of farm capital (real estate, livestock and machinery) per farm operator, the average net income per farm operator and the returns to the operator after allowing an interest return of 3½ per cent on his capital.

Avr. value capital per farm (1926-54)	$8,630[1]
Avr. net income per farm operator (1926-54)	1,269[2]
Less int. on avr. capital at 3½ per cent	302
Avr. return to operator, for his labour and management and wages of unpaid family help	967
Avr. annual wage for hired farm labour (1926-54) (Employee boards himself)	748[3]
Avr. return to farm operator for his management and wages of his unpaid family help—(29 per cent of hired labour's wage)	219

[1]Total farm capital (real estate, livestock and machinery) as reported annually by the D.B.S. divided by the average number of farm operators using census data and the Labour Force Survey since 1945.

[2]Net farm income including supplementary payments as reported by the D.B.S. with interest paid on farm debt added back into net farm income—all divided by average number of farm operators.

[3]Average annual farm wage for males hired by the year without board; i.e. employee pays his own board out of this wage.

These figures require some comment. If it can be argued that the wage of a hired man is at least a living wage then it is clear that over a long-term period the farm operator has received a very modest figure for his management and a relatively low return on his capital invested in the farm business.

This long-time low rate of return on capital invested in farming is the hard core of the problem of financing agriculture, particularly the young man starting to farm.

Special Features of Farming Affecting Farm Credit Problems

The amount of capital that a farmer needs to reach reasonable efficiency varies at the present time from, perhaps, $16,000 to $50,000 or more. Moreover, earnings are usually seasonal. The farmers' need for credit of all kinds —long, intermediate and short, is, therefore, very considerable.

An important factor in the farm credit picture is the periodic necessity of refinancing farms, whenever existing operators die, retire or move to other farms or occupations. This is quite different from corporate businesses which, once financed, need not be financed again except in case of dissolution or sale of the company. The result is a constant need for large volumes of long-term capital for financing farms, apart altogether from any expansion in the capital employed in agriculture as a whole. It is this fact that provides a good part of the justification for state loaning agencies in the farm credit field, which will at all times be available as a dependable source of funds for farm financing.

No credit system can hope to cope with the extreme fluctuations in income which have been experienced in the past, and it must be the task of organized farmers to obtain greater security and stability of farm returns. Yet at best considerable instability will remain. A sound farm credit policy will recognize that whatever the current situation may be, farms are always bought for the long pull. Also, farm credit institutions must avoid contributing to alternate inflation and deflation of land values. Land appraisal practices take on great importance in connection with farm credit, and deserve constant and careful study and review.

Land is normally a non-depreciating asset, to be used by a farmer both as a home and a place of business throughout his working lifetime and then passed on. In view of the low average earning power of farm capital, mortgage credit should be available which will extend the period of repayment, if required, over the whole period during which a man farms.

Livestock represents a semi-permanent investment since it may be renewed by reproduction. A sound farm credit policy will recognize as fully as possible that livestock to a farmer is in the nature of a fairly long-term investment.

Farm machinery is subject to depreciation and obsolescence. Here again however, the fact that farming is not a business yielding high returns on capital must be recognized, and suitably lengthy periods for repayment should be provided for.

The individual farmer has considerable need for informed advice on the use of farm credit, and on sources of credit available. Also, a real problem is created for the lender, who is faced with the task of trying to be closely acquainted with the affairs and prospects of a very large number of individual, and different, businesses. This accounts in part, no doubt, for the wide use by farmers of local private credit. There is a clear need for the best possible advisory and extension services in the field of credit and farm management. In addition, some supervision by the Canadian Farm Loan Board should be provided in some cases.

The Young Man Starting in to Farm

Of the various classes of farm borrowers, it is the young man starting to farm whose needs and problems are at the present time causing the most concern. For the most part it is no longer possible to begin farming with homestead land and next to no capital. Mechanization of farming has considerably increased both the size of the efficient farm unit, and the amount of capital equipment needed to operate it. How, then, is a young man with little equity, going to get started in farming on a basis that will hold out some hopes that he will be able to make a living?

An interesting picture of the measures now being taken to try and meet this problem is provided in the forum findings of a National Farm Radio Forum broadcast held in December, 1954, entitled "Getting Started".

In answer to the question: "To what sources do young farmers in your area look for credit when they are establishing their own farm?", parents headed the list by a wide margin (the VLA ran a close second but this source of credit will presumably diminish in importance). Private loans were the next most frequent source, and then the Canadian Farm Loan Board, banks and farm improvement loans were important sources of credit. Junior farmer loans in Ontario and Land Settlement Board loans in New Brunswick and Nova Scotia were of considerable importance (as is the Quebec Farm Credit Act). Credit unions ranked relatively low, their importance varying sharply, no doubt, from area to area.

The second discussion question was: "How can a young farmer avoid unduly heavy investments in land, livestock and equipment when he is getting started." This question, of course, gets to the bottom of the credit problem for young farmers. Here there was a considerable variety of answers. The most commonly mentioned solution was to rent farms, on the one hand, and on the other hand to share the use of equipment with family and neighbours. To start out on a small scale, and to buy second hand machinery were also high on the list. Other methods mentioned, of lesser importance, were to start raising livestock on shares; to use custom work; to buy machinery co-operatively; to use horse-drawn equipment; to engage in very specialized farming; to work for neighbours in return for use of their machinery. Although parents were given in the first question as a major credit source, partnership arrangements with parents placed very low on the list as a means of getting started.

Since there is no point in a young man assuming more debt than he can carry, the conclusion is inescapable that it is not possible to start farming without having a very substantial equity. The difficulty of the situation is illustrated by this example:

Suppose a young man were to wish to begin farming on a farm with real estate worth $10,000, and with livestock and machinery (second hand), worth $6,000. On the basis of long time returns on farm capital (3½ per cent) he could reasonably expect $560 for paying the interest and principal on a loan in addition to a little better than hired man's wages for his living expenses.

Under the present (January 1956) Canadian Farm Loan Board legislation he could borrow $6,000 on the real estate. This would require an annual payment of $435 for 25 years (7·25 per cent interest and principal). The balance for further debt payment would amount to $125 ($560—$435). He could obtain a second mortgage from the Farm Loan Board of $1,000, which would require annual payments of interest and principal averaging about $125 for 10 years. As his total capital requirements are $16,000, he would therefore need to have a minimum equity at the start of not less than $9,000. For more valuable farms, the problem rapidly increases in difficulty. These are calculations familiar to every young man looking around for a way to start farming.

Answers of a more or less satisfactory nature are, of course, found to the problem. In some cases sons inherit their fathers' farms after helping run them under a wide variety of more or less informal arrangements. In other cases, young men start out in a modest way as tenants, under machinery-sharing arrangements and so on.

Unless a deliberate decision is made, however, to provide the young farmer with credit at lower interest rates than are required for regular loans to established farmers, the requirements for a sound, government operated credit policy to supply his needs are not greatly different from a sound farm credit policy for farm lending in general. Various provinces (Quebec, Ontario, Nova Scotia, New Brunswick) have special legislation for providing credit to young men, in ways suited to the provinces' special situations. On a national basis, it is doubtful that any special lending plan or lending agency is required to deal with men starting in to farm.

In this connection, it should be kept in mind that there is no point in giving to the young farmer more credit than he can repay. It should also be kept in mind that to give special low interest rates to young farmers may be, in part, self-defeating because of the tendency such low rates would have to increase the demand for farms and push up land values. The seller would gain by this (and the seller, of course, should get a fair price for his land) but the benefit of the especially low interest would not all accrue to the young farmer, and would not, in the end, solve the problem of helping him get established.

THE CANADIAN FARM LOAN BOARD

The Canadian Farm Loan Board makes first mortgage loans to farmers on farm real estate at 5 per cent with provision for repayment up to 25 years. On first mortgages it loans up to 60 per cent of the appraised value of the real estate. It will also take second mortgages on the real estate, the loans to be used for purchase of livestock and machinery, but its combined mortgages must not exceed 70 per cent of the appraised value of the real estate alone. The interest rate on second mortgages is 5½ per cent and the maximum term for repayment is 10 years. The Farm Loan Board provides only a relatively small proportion of the mortgage credit in this country—perhaps 15 per cent of the total. Its lending policies are conservative, and its own financial policies are also very conservative. In a recent report the Auditor-General noted that the Farm Loan Board is providing for reserves substantially in excess of the requirements of the act under which it operates, and that nothing in the accounts pointed to the necessity for such reserves. Because of its relatively small volume of lending, its costs per loan are high. If the board were to discontinue setting aside its special provision for losses above the legal requirements, the interest rate could be reduced by ½ of 1 per cent. If further, its present low volume of lending (less than $8 million in 1953-54) could be doubled or better, lowered costs would, no doubt, compensate for a further ½ of 1 per cent reduction in the interest rate. The Canadian Farm Loan Board is criticized also for its conservative policies, and for the allegedly excessive length of time required to get a loan through. It utilizes no advisory committees, at local, provincial, or national level. It obtains funds for lending from the Minister of Finance at current rates of interest. It should be possible for the board to considerably reduce its costs per loan by following a more aggressive policy of selling its services. It could also forego the accumulation

of unnecessarily large financial reserves. Instead of taking the cream of the mortgage business, this institution should perform its function of providing credit at minimum cost wherever the loan is reasonably justified.

In view of the very serious difficulties and handicaps experienced by farmers in the credit field, and keeping in mind the fact that history indicates that farmers are seldom if ever privileged to earn both a fair wage for their labour and a fair return on capital, it would not seem unreasonable to ask that the Canadian government should assume the relatively modest costs of administration of the Canadian Farm Loan Board program, and supply credit at the cost to the board of borrowing funds, plus the cost of setting aside legal reserves. In all, the board should be able to reduce its present rate of interest by at least 1½ per cent.

Though under such a policy as we have outlined, including elimination of excessive reserves and more aggressive loaning policy, the board's risk of losses would be increased, it would be giving much better service, and losses should remain small unless a serious farm depression occurred. It may be presumed that the reason a government board was set up was in order that it might assume a certain amount of this kind of risk.

Under its present policies, the Canadian Farm Loan Board lends a maximum on first mortgages of $10,000. For persons with sufficient equity to finance a larger loan, this maximum is too low in light of the size of the efficient farm unit in many areas, and should, therefore, be increased to $20,000. With proper amendment of the Farm Improvement Loan Act there would seem to be little need for its special program of making second mortgage loans.

Also, where loans are relatively small, the ability of the farmer to make mortgage payments during difficult periods by reducing his living standards or by other emergency means is considerably increased. A maximum loan of 60 per cent of the appraised value is fully justified for loans of the order of $20,000. For smaller loans a farmer should be able to borrow a higher percentage of the appraised value, provided an assessment of his plans and his personal capacities, indicates he is a realistic, efficient and responsible person. It should, therefore, be possible to borrow up to 80 per cent of the appraised value of the real estate on loans of up to $8,000. The size of the mortgage as a percentage of the appraised value should be reduced progressively for larger loans down to 60 per cent for loans, say, from $16,000 to $20,000.

At the present time the board will permit a mortgage to be paid off as rapidly as the borrower wishes. However, it should also be provided that payments could be made in excess of regular instalments in any year, these payments to be available later to meet instalments in years when earnings of the farm are down. This sort of flexible arrangement is very desirable in view of the instability of agricultural prices and income.

One handicap under which the board is operating is its lack of close contact with local conditions. It is strongly recommended that the board organize a system of advisory committees, to be established by regions, whose members are acquainted with farming conditions and the people in the region. Because of their present very careful policies, the board understandably does not feel the need for advisory committees. Somewhat more liberal lending policies, and a heavier volume of loans, will make such committees a real asset to it, however.

The board is at present under considerable criticism for the slowness with which loans are processed. Although it is recognized that there are difficult administrative problems connected with making farm mortgage loans, everything possible should be done to speed up procedures. It seems likely that a major source of delay is the time often consumed in satisfactory completion by

the borrower of the complex application form. One suggestion is that this form be completed at the time of the assessors visit, and with the assessors' assistance, thus avoiding much error and delay.

Now, gentlemen, will you please turn to the recommendations on page 13 of our printed statement, the third page from the back?

RECOMMENDATIONS

In the field of national farm credit policy, the Canadian Federation of Agriculture recommends that:

1. Apart from a plan for emergency farm credit assistance, no new federal institutions in the field of farm credit should be established, provided the need for modification and improvement of present institutions and policies is met.

2. There is inadequate information available relative to the type, quantity, sources and nature of all forms of farm credit and its distribution by provinces. An annual survey of farm credit should be made and published by the federal government in co-operation with the provinces in as complete form as possible.

3. Credit unions and other co-operative credit agencies are ideally suited to giving a flexible and sympathetic lending service, and the possibilities for increased service in this field should be carefully studied.

4. The Canadian Farm Loan Board policies should be changed to:
   (*a*) Lengthen the repayment period of first mortgage loans to a maximum of 40 years.
   (*b*) Increase the maximum loan on first mortgages to $20,000.
   (*c*) Change the present maximum percentage loan on the appraised value of real estate to 80 per cent on loans up to $8,000, with graduated reductions in this percentage down to 60 per cent for loans of from $16,000 to $20,000.
   (*d*) Reduce the interest rate charged on first mortgage loans from 5 per cent to the cost of the money plus the legal reserve, leaving administrative costs to be borne by the government.
   (*e*) Actively go out to get a greatly increased volume of farm mortgage business.
   (*f*) Set up regional advisory committees which could advise Farm Loan Board officials with respect to loans.
   (*g*) Speed up procedures in the making of loans.
   (*h*) Farmers should be permitted to make advance repayments on their indebtedness which could later be considered to apply in place of payments which had to be missed due to loss of income.
   (*i*) Ensure that where she is a bona-fide farm operator no distinction should be made between women and men in considering them as prospective borrowers.
   (*j*) First motgages should be available on the security of land without buildings where a legitimate claim is established, but in such cases these loans should, whatever the amount, be a maximum of 60 per cent of the appraised value of the real estate.
   (*k*) Borrowers who are given loans to the value of from 70 to 80 per cent of the appraised value of the real estate should be provided with adequate supervision, if required.

The CHAIRMAN: Are there any questions? I believe Mr. Argue has some questions to ask.

Mr. ARGUE: Mr. Chairman, I think Mr. Brodrick in presenting his brief to the committee has indeed rendered a valuable service and I certainly welcome the submission that he has placed before us. There are two criticisms which this committee has heard and about which members have spoken—two main

criticisms of the Canadian Farm Loan Board as now constituted, and I think you made reference to both in the course of your presentation. I wonder if you would care to make any comment on the statement that is made repeatedly, namely that the appraisal of loans is too slow? Can you give us some idea of the length of time you have found, from your own experience, it takes from the time a farmer makes a formal application until he is in a position to close the deal? It seems to me that this is a very important matter, because I know from my own experience in relation to the purchasing of land that the time element plays a very important part; if you do not close a deal when the opportunity exists the opportunity may not occur for long.

The WITNESS: That is a difficult question to answer because the experience is quite varied. I would say that the extreme length of time, possibly, might be up to six months, which is considerably too long. I quite agree—this is a complaint we have heard all across Canada. I think I am safe in saying that this is just too long a period. There certainly is a decided request from all farmers across Canada that this period which elapses between the appraisal and the actual granting of the loan should be shortened as much as possible.

Mr. ARGUE: You have said that a long period of time might be six months. Have you any idea what the general length of waiting time is? Is it a couple of months? I do not expect you to know the answer exactly.

The WITNESS: I am sorry, I cannot answer that question. Professor Hope...

An Hon. MEMBER: On that point, Mr. Chairman...

Mr. ARGUE: I do not mind being interrupted, but if we are taking turns in asking questions all around the circuit, then I would like to conclude. However, if we are going back and forth—which I personally prefer—I would be quite happy to give way for questions from other members.

The CHAIRMAN: We shall continue to take questions in order. Members who wish to ask questions will please let me know.

Mr. ARGUE: You mentioned, Mr. Brodrick, that you had one suggestion as to how the process of dealing with an application might be speeded up; I believe you suggested that the application form might be simplified. I do not wish to ask you too much on that particular aspect of the question, but could you tell the committee how you feel the appraisal could be speeded up; what is the trouble? Are the appraisals inefficient? Have they got the wrong instructions? What do they need to do in order to appraise a piece of land properly? Do they have to wait until the snow goes off, for example, and is that one of the reasons for the six months' delay?

The WITNESS: That is part of it. I think it is due to the lack of personnel and, as we foresee, the Canadian Farm Loan Board increases its volume of business, this is an operation in which the local advisory committees would fit in and be of assistance in speeding up the appraisal service.

Mr. ARGUE: Have you some general idea from your own knowledge how the appraisal is carried out? Can you tell the committee what an appraiser does when he starts on a case from the time an application is made?

The WITNESS: Yes. I have got a loan on my own farm.

Mr. ARGUE: Does he take soil tests, for example?

The WITNESS: Well, I can only speak in regard to my own specific case, and probably this would be the best way to answer the question. In that particular case it was the reeve of our own township who made the appraisal. This took place, of course, a matter of some eight or ten years ago. The loan is paid off now. The reeve of our township was the appraiser and it was just a matter of local knowledge in that particular case.

Mr. ARGUE: He just said, from his own general knowledge that the farm was worth that loan. That was the appraisal, right there?

The WITNESS: That was eight or ten years ago.

Mr. ARGUE: Was this particular man who carried out the appraisal an employee of the Canadian Farm Loan Board or did he act on a part-time basis?

The WITNESS: On a part-time basis.

Mr. ARGUE: Had he carried out a number of other similar jobs?

The WITNESS: I imagine he did at that time.

Mr. ARGUE: Have you any idea what appraisers do in other parts of Canada? What you have told us is from your own experience.

The WITNESS: That is my own experience, and as far as I can guarantee.

Mr. ARGUE: If I may make a comment here, we were told the last time we met that no consideration whatsoever was given to the municipal assessment on a piece of land in making an appraisal. That was the statement. Since I come from Saskatchewan, I had great difficulty in understanding it—

The CHAIRMAN: I do not think the statement was actually made in that form, Mr. Argue.

Mr. ARGUE: I have the record here but I am not able to search it and continue to speak at the same time. I think what I have said is a fair interpretation of what was stated but if you wish to look at this copy of the record, Mr. Chairman and look up exactly what was said I will, if necessary, amend anything that I have said. But, as I understand it, no consideration at all is given to the municipal assessment and, as I say, coming from Saskatchewan I find that a rather difficult thing to comprehend. In the province of Saskatchewan we have what I consider to be a very excellent assessment system. It is not something that came about with the particular government and party with which I am associated; I had the privilege of attending some lectures by Dr. Hope, and I believe at various times he made reference to the assessment system in Saskatchewan, as did a number of other professors at the university, and we were told, and it was explained to us, just what an excellent system we had in that province. It was probably in existence long before I had the opportunity to learn about it. Dr. Hope could explain it here better than I could, but it took into account such things as soil types, topography, stoniness, nearness to markets, the general level of production in the area, the general grade of grain produced, nearness to schools, and just about every factor that could be taken into consideration in an assessment.

I would be the first to admit that you cannot appraise a farm for sale value by taking the assessment, but at any given time—certainly in the province of Saskatchewan—I think you could use the assessed value as a fairly general indication of what the sale value would be at a particular time, and therefore of what the appraised value would be. One usually does not like to refer to definite cases—

Mr. CRESTOHL: On a point of order, Mr. Chairman, is this a question period or is Mr. Argue making an address or a statement?

The CHAIRMAN: At the moment it is a monologue. If you have a question, Mr. Argue, I think you should put it to the witness.

Mr. ARGUE: I did not think we were confined in a committee merely to asking questions. It has never been so yet in any committee of which I have been a member. I will not press the point, but I just wanted to explain some aspects of the assessment system we have in the province of Saskatchewan.

Mr. CRESTOHL: I do not mind if Mr. Argue wants to make a statement, provided we can question him on that statement.

Mr. ARGUE: I would be happy to answer questions on any statement I might make.

The CHAIRMAN: I do not think the committee will wish to follow that course.

Mr. ARGUE: I am about to conclude my remarks, Mr. Chairman.

Mr. MACDONNELL (*Greenwood*): May I say, Mr. Chairman that I think this is very relevant. We have a difficult subject here, and I think a discussion would help us all.

Mr. CARRICK: I must say, Mr. Chairman, that I was puzzled by what Mr. Argue has been saying. I have no objection to his making any statement he wishes to this committee, but I think that if he wants to make a statement the place to do it is in the witness box. Looking at the record as this matter stands leaves one in a state of uncertainty; it is a question of procedure, Mr. Chairman, and I was going to ask this: if we call witnesses, should we not try to get information from the witnesses rather than give information ourselves on the matter under discussion?

The CHAIRMAN: That is the whole point I am making. If you wish to give evidence, Mr. Argue, apply to the committee and they will consider whether you are a suitable witness. If the committee feels the evidence is sufficiently valuable, they can grant the privilege of appearing as a witness. In the meantime, with due deference to you, Mr. Macdonnell, I do not think that Mr. Argue's statements are something which should be heard.

Mr. JOHNSTON (*Bow River*): I think we would be getting into a very difficult position if we were to abide by the suggestion which has been made because in effect, Mr. Chairman, you are saying now that no member of this committee may express an opinion other than by means of asking a question of the witness . . .

The CHAIRMAN: What I said . . .

Mr. JOHNSTON (*Bow River*): You may say, Mr. Chairman, that I am not interpreting your remarks quite accurately. But what is the difference between expressing an opinion and developing an argument? Who is going to say where an argument starts and where it stops? I think we would be getting into a great deal of trouble here if we were to try to decide a question of this kind.

The CHAIRMAN: I think there is a great deal of difference, Mr. Johnston, between a comment and a speech.

Mr. JOHNSTON (*Bow River*): How long does it take a comment to become a speech? Who is going to decide? Will it be the chairman, or some of the Liberal members or the committee?

The CHAIRMAN: The committee will decide if necessary. I am deciding right now. If you are not prepared to accept my suggestion I will put it to the committee.

Mr. JOHNSTON (*Bow River*): I think that if we try to carry out the suggestion that no member of the committee may express an opinion on these things we should have a very definite ruling as to how long a question must be, otherwise . . .

The CHAIRMAN: I am just trying to adhere to proper court procedure, as the Privy Council does, until the case is presented, no decision is made.

Mr. JOHNSTON (*Bow River*): I am really referring not to yourself but to some of the decisions made by members of this committee, Mr. Chairman. I know you are perfectly fair and just.

The CHAIRMAN: We are wasting a lot of time on this, and Mr. Argue has already stated that he is almost through.

Mr. ARGUE: I think I am correct in saying, Mr. Chairman, that the rules governing discussion in committee are the rules covering discussion in the

House of Commons. I have had some experience in these matters and I think it is a fact that Beauchesne and the rules quoted by the other authorities are rules which apply to discussion in committee. I do not, therefore, feel that because statements are made by a member in committee they are out of order, or should be considered as such. But, as I said, I am about ready to conclude.

We might be able to develop this point a little further here if the committee were prepared to hear Dr. Hope at a later stage on this particular matter and, indeed, on the whole credit field with which I know he is very conversant. I think the statement made by the witness with regard to how the farm—the farm on which he had the loan—was appraised is an excellent example of one of the ways in which we might speed up appraisals.

The CHAIRMAN: This is one of the methods that has been used. It is one that has been used already.

Mr. ARGUE: But anyway, Mr. Chairman, if it is already in use—

The CHAIRMAN: The witness has stated it is something that happens.

Mr. ARGUE: All I am saying is that it is an indication of a method by which we could reduce the period of these six-months appraisals. The witness spoke of this one example, and he had only one example of a case in which an assessment was made in short order.

Now I want to deal with the second general criticism that has been made in parliament and in this committee, and that is that the appraisers have been too conservative in making their appraisals. What would you say to that, and can you give some idea of the extent to which their appraisals are too low?

The WITNESS: I cannot answer that question truthfully. Possibly Dr. Hope can do so.

The CHAIRMAN: Let us finish hearing this witness.

Mr. ARGUE: I will save that question for the time being.

Mr. MACDONNELL (*Greenwood*): I may say that Mr. Argue's question is, in my view, a relevant question and I hope we are not leaving it unanswered.

The CHAIRMAN: I understand that Dr. Hope will be called later.

Mr. ARGUE: You made a statement in your brief, Mr. Brodrick, that the Canadian Farm Loan Board had followed a very careful policy. Could you elaborate on that? It might be tied up with the appraisal and other factors but I think the evidence that the amount of business done by the Canadian Farm Loan Board was between 15 and 20 per cent of the farm mortgage business certainly indicates that the policy of the board is quite conservative. It is recommended in the brief that a more aggressive policy of extending farm credit should be followed and that up to the present time the Canadian Farm Loan Board has been taking the so-called "cream" of the farm mortgage business.

The WITNESS: We have stated here in the brief that in our opinion certainly a more aggressive policy of extending farm credit has to be followed, and that up till the present time, in our opinion, the Canadian Farm Loan Board has been taking the so-called "cream" of the farm mortgage business.

Mr. ARGUE: That was the next phrase I had in mind—the "cream" of the lending business. I take it that it is your view that the Canadian Farm Loan Board at the present time prefers to make loans to farmers who are in a relatively good financial position, and at a relatively small risk?

The WITNESS: I would say so, yes.

Mr. ARGUE: Would it be fair to say that in many instances—or in a number of instances—loans are made to farmers who are now operating fully economic units—that they are made normally to people who might be called

relatively large farmers in order that they may extend their operations still further? I will tell you what I have in mind, it is something like this...

The CHAIRMAN: Those are pretty leading questions, are they not, Mr. Argue?

Mr. ARGUE: Definitely, but I think they are important questions.

In your experience, Mr. Brodrick, and in the light of your statement that the Canadian Farm Loan Board mostly takes the "cream" of the lending business, would you say that a man who is a relatively larger farmer—and on the prairies a relatively large farm might extend to 1,000 acres—who approaches the board in a decent financial position, and having a clear title to his land and a full line of equipment would be more likely to get a loan, say of a few thousand dollars to buy some more land than a farmer with two or three hundred acres of land who still owes half of the purchase price?

The WITNESS: If I were in the lending business I think I would rather lend to the type of person you mentioned first than to the other.

Mr. ARGUE: And that is what you mean by the phrase "taking the cream of the business"?

The WITNESS: Yes. I think the Canadian Farm Loan Board has been operating largely in that field. In other words, they are taking the atitude of the banks: lending money to a man who relatively does not need it, but declining to lend money when he does need it.

Mr. MACDONNELL *(Greenwood)*: Are loans being made to those who, in all probability, could get them elsewhere?

The WITNESS: That could be, yes, I will say so. The only advantage, of course, lies in the interest rate. The interest charged by normal loan companies for private individuals is inclined to be higher—roughly six per cent, I would say now.

Mr. ARGUE: I have not concluded.

Mr. GOUR *(Russell)*: I am not going to listen all the time—

Mr. ARGUE: I have the right to ask questions until my questions are completed.

The CHAIRMAN: You have been quite a long time, Mr. Argue.

Mr. ARGUE: They tell me that Mr. Fleming asked questions for two and a half hours in the estimates committee the other day, and I do not think members should be too impatient.

The CHAIRMAN: I hope you are not going to follow that precedent.

Mr. ARGUE: Since we have been informed that the Canadian Farm Loan Board in its general policy is taking the cream of the lending business and very often lending to farmers who could go elsewhere, is it your suggestion that the policy of the Canadian Farm Loan Board should, in addition to paying its way, have a social object in its policy, namely the establishment of economic units, assistance to young farmers in purchasing equipment, provided they hold certain equity, and so on? To put it in another way, what do you think the general policy of the Canadian Farm Loan Board should be in order that it might get away from this current policy of making loans to farmers who could raise the money elsewhere?

The WITNESS: May I say, sir, that in our consideration of this question of farm loans and farm credit, in so far as the policy committee of the CFA was concerned, although the individual was considered, we actually approached this problem from the viewpoint of the industry as such and in the light of what was considered an efficient farm credit policy by any lending agency, whether it be the Canadian Farm Loan Board or any other. We were looking at this from the point of view of the agriculture industry as a whole. For

instance, the question may be raised—and I hope it will be—with regard to the period of repayment, and a suggestion that it be lengthened from 25 to 40 years. Some question might be involved there as to the ability of the individual farmer to live that long; but we felt that in order to provide agriculture, as an industry, with an efficient form of credit, this period was the maximum length of repayment period necessary. We were not primarily considering the individual within the industry. I realize, sir, that we may possibly have been a little too "cold" with regard to the social issues, but we were trying to provide a flexible system of repayments, a longer period of repayment and lower annual repayment rates so as to provide agriculture with what we considered to be the necessary credit machinery.

Mr. ARGUE: Your suggested interest rate of three and a half per cent assumes a three and a half per cent rate and a repayment period of 40 years. What would that otherwise work out at—would it be five per cent?

The WITNESS: I am afraid I cannot answer that. It is a question of economics; and I am not too fast with a pencil.

The CHAIRMAN: If the witness cannot answer . . .

The WITNESS: I suppose it would be around five per cent.

Mr. ARGUE: I would guess that just by looking at the figures. I may be wrong. In your table on page 2—and this is my last question—you set out a certain number of figures—the average capital per farm, and so on—and then you take the interest on the average capital at three and a half per cent. What I am driving at is this: assuming that the government accept your recommendations—and I only wish there was some real hope that they would—you would get a repayment rate of approximately five per cent?

The WITNESS: That is right.

Mr. ARGUE: Taking this case history, the five per cent would increase the amount to $450, or something in that neighbourhood and further reduce the return to the operator for his labour and management to a figure somewhere in the neighbourhood of $800 per annum. My question is this: do you actually think that a farmer can pay five per cent over a period of 40 years and still be able to provide for his family, in return for his labour and management, and income anywhere near to the general level of income derived by other Canadians in other industries? Or, if the government should go this far, even with that further assistance is it not likely that farm incomes would still be a good deal less than the incomes derived from other businesses?

The WITNESS: The question might be answered in this way: we approached this as representing the barest minimum always. By that, I mean we felt that the average farmer had to have at least this amount on which to live, and that over a 30 year period the largest rate of interest he could afford to pay was three and one half per cent.

Mr. ARGUE: So that even with this further assistance which you suggest, in purchasing land, is it not correct that the farmer would have to accept a lower general income than appertains in other industries in order to make the payments?

The WITNESS: That is quite right.

By Mr. Charlton:

Q. First of all, Mr. Chairman, I want to commend the federation for its very splendid brief which Mr. Brodrick has presented.

According to the brief you have suggested that more use should be made of local committees. Do you not think by the same token that there should be more local inspectors instead of so many full time inspectors; that there should

be part time inspectors across the country who might be made more use of?—A. We have had a look at the system set up for co-operative credit in the United States and we thought that a portion of that system—in so far as the advisory set-up was concerned, within that co-operative credit system in the United States—might be used in the setting up of these local regional committees. I agree that possibly part time appraisers might be used to advantage.

Q. You have made no direct mention of the local inspector aspect?—A. No.

Q. You just mentioned local committees and I wondered if the inspectors would not be of advantage to the farmer as well as to the board because it would cost less money on a piece basis.—A. May I correct my former statement; these local or advisory committees were considered as bodies to work along with a permanent inspector.

Q. You mean to say that in your suggestion you intimate that the local advisory committee would be in charge of the assessments for loan services?—A. That is right, to work very closely with their appraisers.

Q. You included that in your suggestion?—A. Yes.

Q. I do not think it is quite clear just what you do mention. According to your brief it is obvious that you do not agree that this board should be a profit-making organization?—A. That is right.

Q. Which it obviously is when the income tax paid last year was $37,341. Is it not a fictitious understanding that this board is supposed to be set up to help farmers who find it difficult to get a loan any place else?—A. That is right.

Q. So it would naturally follow that these loans are not just the cream off the top, and that the Canadian Farm Loan Board could not be expected to make a good profit, and yet do the things it is supposed to do for the farmer?—A. I think our recommendations are self-explanatory.

Q. On page 5 of your brief, Mr. Brodrick, in the last paragraph you say:

> Under the present (January 1956) Canadian Farm Loan Board legislation he could borrow $6,000 on the real estate. This would require an annual payment of $435 for 25 years (7·25 per cent interest and principal).

Does that make sense?—A. He could borrow $6,000 on a $10,000 farm or a $10,000 investment.

Q. That is true. And the amount of repayment he would have to make on his $6,000 loan you have figured at $435 for 25 years.—A. That is right.

Q. And you mention in your paragraph 7·25 per cent interest.—A. That is for amortised payments.

Q. Do you know how that figure is arrived at?—A. I would have to refer to Mr. Hope.

Q. The total amount is four, eight, seven, five; and the loan is for $6,000 which would appear to be more than 7·25 per cent. However, I have no more questions.

Mr. MACDONNELL (*Greenwood*): Might I make one preliminary observation, Mr. Chairman? I will not take more than 30 seconds.

The CHAIRMAN: You may.

Mr. MACDONNELL (*Greenwood*): What we are considering here is something of the very greatest importance because it seems to indicate that we have in farming a depressed industry. We should find out if that is a fair statement, and if so it seems to me that this is a situation which should greatly concern us all because I do not believe that a nation can go on being prosperous if farming is depressed. At the present time it seems to be prosperous, but with depressed farming, I do not think that can continue indefinitely. Now, my first question is in regard to a matter which has already been discussed. I hope we can get officials of the board to tell us how long it takes them to make an inspection and to make a loan. I am not satisfied. If people say that it takes weeks, then I want to know why. Why can't it be done in days?

If we need more inspectors, then we should have them. And I would like, before this committee adjourns, to feel that we have a real answer. I may be a little prejudiced against committees. Committees always frighten me a bit because they always seem to me to like spending a lot of time. I would be more reassured if we could have some one individual who could be put on the carpet if it takes longer than would seem reasonable. Now I want to ask one question which may be difficult to answer.

At the top of page 2 we have a statement to this effect:

> Average value capital per farm (1926 to 1954) $8,630.

Now if we turn over to page 3 we have a statement at the top of that page which reads:

> The amount of capital that a farmer needs to reach reasonable efficiency varies at the present time from, perhaps, $16,000 to $50,000 or more.

As the negro-gentleman said "dem two figures don't paralyse!" I do not feel that I quite understand it when he said that the average capital value per farm is $8,630 when on the next page he says "the amount of capital that a farmer needs to reach reasonable efficiency varies at the present time varies from $16,000 to $50,000 or more". Is that an average based on the totality of the Canadian farms, including marginal farms?—A. That is right.

Q. It leaves me still perplexed.—A. May I answer just briefly in this way?

Q. Yes.—A. I realize that from 1926 until 1940 or 1941 the size of a farm was fairly constant; the lack of mechanization was fairly constant, but in the last ten years with the mechanization that has taken place the farms across Canada have tended to become larger units in order to support that mechanization, and they are now efficient operating units which has increased the value to the $16,000 to $50,000 figures.

Q. Could you tell us about the sizes of farms and about conditions east and west? I am only a city fellow and I do not know the answers.—A. Dr. Patterson made a survey in Ontario. He is head of the economic branch of the Department of Agriculture, and he made a survey in Ontario of the average capital investment on the farm and of the average size of the farms in Ontario, and he said it is now roughly around $28,000.

Q. You say $28,000?—A. $28,000 and that is quite true.

Mr. GOUR (*Russell*): Yes, that is true.

The WITNESS: In speaking for the west it is rather difficult as far as I am concerned, but I think Mr. Bobier who is a member of our committee said that in his opinion the average value would vary between $30,000 and $50,000 for an efficient operating unit in the west.

By Mr. Argue:

Q. One is average and one is efficient. These things are not quite comparable.—A. That is right. But I cannot tie that in as far as the west is concerned.

By Mr. Macdonnell (Greenwood):

Q. Perhaps we could have from the officials of the board, what their approach to this is. It comes to me as a surprise that the board is regarded as a profit-making operation. I thought the object of the board was public service, and to make provisions for loans. The idea that it should be a profit-making organization took me by surprise. Perhaps that is a question I might ask the board of officials.

The CHAIRMAN: Yes, Mr. Chester is still here. Perhaps we should finish with this witness first.

By Mr. Macdonnell (Greenwood):

Q. Very well, I shall leave that. Now may I just add one question; you say on page 3:

> An important factor in the farm credit picture is the periodic necessity of refinancing farms, whenever existing operators die, retire or move to other farms or occupations. This is quite different from corporate businesses which, once financed, need not be financed again except in case of dissolution or sale of the company.

Now, I find it hard to understand this. I realize the question that arises when an operator dies, but with regard to the asset itself, would it not be true to say that a well-managed farm should need less refinancing as an operation than a plant which wears out, while the farm does not wear out if it is well operated? Is there anything in that, and can that statement be explained, because I find it hard?

The CHAIRMAN: This is a statement made by the organization. You may agree with it. Personally I think it is completely erroneous. I would have thought that to say "a corporate business... once financed, need not be financed again...", is simply, in fact, a laugh.

By Mr. Macdonnell (Greenwood):

Q. You and I are agreed on that, but I thought perhaps I was not doing justice to this statement and I thought we might have an explanation of it because I think it is a very important statement.—A. The question is that a corporate business can be carried on regardless of the loss of the individuals who are in that business; if it is a share capital business, it is carried on regardless whether the shares are sold or the operator dies. But in so far as a farm is concerned, it is usually owned by one individual and upon his death, or upon the sale of that farm, there is a question of refinancing, complete refinancing.

By Mr. Pallett:

Q. You mentioned Dr. Patterson. Did his survey not show that the average farm in Ontario was refinanced every 20 years?—A. From 20 to 25 years. That is correct.

Q. And that was a scientific estimation?—A. That is right.

By Mr. Macdonnell (Greenwood):

Q. It is quite true that when a man dies a problem arises with regard to the carrying on of the farm, and my bet that is a different matter from refinancing. You are not using the word refinancing in that sense; you are using it in the sense of the change of ownership?

The CHAIRMAN: It is really a re-purchase.

Mr. MACDONNELL (*Greenwood*): Perhaps my question should not be pursued, because we are not talking about the running down of the physical assets at all.

The WITNESS: No.

By Mr. Gour (Russell):

Q. You have said that you tried to be fair. You said that you got the cream of the loans. But did you check up with the richest province, Ontario? Did you check the farms in the province of Ontario which has the richest farms of all Canada? Take the case of a young couple—I think they could be considered the cream of farming. If you talk about the cream, I know something about farming and loans myself. A lot of people have money to lend

to farmers provided they consider the loan is a safe one. I do not suggest that they would get less return from a farm loan than from a comparable investment elsewhere, but I want to be fair. Such people realize the dangers and they will provide money quickly in appropriate cases. That is why I want to establish the fact that in Ontario they lend money. Until 32 or 33 years ago we could talk about low rates. I find that the province of Ontario makes loans at 4½ per cent, not 3½ per cent, and these farmers are well off.

Mr. PALLETT: No, it is 4 per cent.

Mr. GOUR (*Russell*): I have proof in connection with 80 per cent of the small loans that we do not lend in proportion with the assessment that we make on the farm. I appreciate what you said a moment ago that it would make more money for the farmers in Ontario because the farms are larger, the wages are higher, the hours are shorter, and that they have larger farms mechanized than they did about 40 years ago, and I think that is longer than the average working life.—A. Perhaps I should offer some explanation as to the length of the term. We were approaching this thing from the industrial standpoint and we thought that we should have annual payments kept in a position where possibly we could assist the young farmer starting to farm, or the efficient farmer, who through lack of capital cannot efficiently operate his farm, in order to keep those annual payments down. We also accompanied that with the flexible system of repayment, not necessarily confined to annual, semi-annual or monthly repayments, or payments, but we did suggest that there might be a repayment system set up whereby the farmer could in a good year pay for three or four or five payments, and that could be applied to those years in which he has a bad crop loss.

Q. I think that is a good thing.—A. I do not know if I have answered your question, but we tried to approach this thing from an industrial point of view rather than from an individual point of view.

Q. How about the length of time it takes? You said six months. I have had some experience with this over twenty years ago and I can say that it takes over two years from the province when the application comes from northern points. Are efforts made to check up on the acreage of the farm? I think they should have longer time. I think they should have more loans. The things should be checked up and they should get a lawyer to do the job. There is a six month's delay. I don't care what you say; I know what I am talking about. I don't want to bring the lawyers in because I think they are overworked; they should get more lawyers. There are not enough. The same applies to the federal and provincial; the people do not make out the applications properly and it takes too long for the appraiser to come. This applies under the Canadian farm loan and the Ontario farm loan. I do not mean in the winter because you cannot appraise a farm in the winter. That is my point. I think there should be a lower rate. They take the money they make on the farm and buy a house in the city and do not pay the mortgage on the farm. They buy a house in the city where they make more money than they make on the farm. That is all. Thank you.

By Mr. Quelch:

Q. I also think that the federation of agriculture should be complimented on presenting their lucid brief. I had underlined a number of passages and a number of questions which I wanted to ask, but they have already been asked, therefore I shall avoid repetition as much as possible.

I think any of us who have come into contact with this act will agree wholeheartedly that the policy has been slow, and there has been too much delay. I have often discussed this problem with farmers, and they said they have taken out mortgages from the line mortgage companies rather than to come to the Canadian Farm Loan Board because they thought there was too

much red tape and that it took too long. Now I have a couple of points: on the question of advisory committees, I take it that you have in mind a number of men in a certain region being appointed as advisors, and that they would actually advise on each application, where there is any question as to whether the loan should be made or not.—A. Correct.

Q. Not merely on the policy but on the application.— A.That is right.

Q. And then on page 9 in the top paragraph, you have this to say:

> It seems likely that a major source of delay is the time often consumed in satisfactory completion by the borrower of the complex application form. One suggestion is that this form be completed at the time of the assessor's visit, and with the assessor's assistance, thus avoiding much error and delay.

Actually you would be advocating two application forms, one, a very brief and simple one which would be filed when making the application, and at that time the $10 would be paid, while the other complicated and longer, would be brought by the assessor and at that time it would be signed by the farmer?—A. Right. I would imagine that is the way it would work in practice.

Q. You have to have some kind of an application made before the assessor?—A. Yes.

Q. Have you found a lot of delays caused by the forms being filled in incorrectly?—A. Yes.

Q. I think this would probably be more true in western Canada than in the east. Have you come in contact with any localities that have been blacklisted where it is practically impossible for a loan to be obtained?—A. No.

Q. There have been districts in western Canada. We will probably have a chance to discuss that when the board is here.

By Mr. Crestohl:

Q. Mr. Brodrick, I would like to refer for a moment to the figures you quoted which, to me, are somewhat disturbing. Am I correct in assuming that your figure of $967 represents the average return to an operator for his labour and management for a whole year?—A. $967 plus $219.

Q. How does that compare with other countries?—A. Well, I would say again I probably should refer this question to Doctor Hope. However, I would say we on the average are probably fifth or sixth in income with other countries.

Q. What do you mean by fifth or sixth? What are the average per year, say, in the upper brackets of countries?—A. Of course, you must realize that the average returns, for instance, in Great Britain on a subsidized agriculture are entirely different from Canada. Also in Australia, South Africa, United States; we are practically alone in that we are showing relatively nearer the true net returns of agriculture than any other country in the world because all of them are operating under subsidized systems.

Q. Do I understand your answer to convey the impression that in Canada we are showing the best possible returns for an operator for his labour and management than any other country in the world?—A. I am not saying the best possible returns.

Q. Or the highest?—A. No. Not the highest either. I am saying this—and this is rather involved—that our system of support prices that are operating in our whole agricultural policy—and I am talking of governmental agricultural policy as of now in comparison with other countries in the world—is perhaps the nearest to the free market.

Mr. ARGUE: Nearest to nothing.

By Mr. Crestohl:

Q. Would you consider it reasonably satisfactory?—A. I do not want to get involved in agricultural policy, sir. The answer is no.

Mr. ARGUE: Hear, hear.

By Mr. Crestohl:

Q. The answer is no because you quote those figures $967 and $219?—A. That is part of the answer.

Q. The figures which you have established are an average over the past 29 years?—A. Yes.

Q. Can you tell us what those figures would be, for example, during the past 5 years?—A. I think the average would be—again I would rather refer this question to Dr. Hope. It is an estimate as far as I am concerned and I hope you will consider it as such; but I would say the average would be around perhaps $1,400 or $1,500.

Q. Could you get the figures for us?—A. Yes.

Q. Why did you just pick 29 years for the determining averages? Why did you not pick 59 years? The average would be much lower if you had.—A. Yes.

Q. Why did you pick 29 years?—A. From 1925 to 1929, in the policy committee's estimation—and we discussed this thing in submitting a brief on support prices and so on to the government last year and again this year—we felt that 1926-29 gives the fairest picture of the relation of parity with agriculture with respect to our economy. Since that time we have had the depression—the dirty thirties—plus war, then post-war, and so actually, in order to get what we considered a fair average in relating the best of our economy, that is the reason we picked those particular 29 years.

Q. We were talking before about the making of loans. If you yourself could imagine yourself in the position of making loans to farmers, would you ask for greater or lesser security than what the Farm Loan Board is asking?—A. Less.

Q. You would ask for less security?—A. Yes.

Q. And you say that in all seriousness if you were a private lender of your own funds?—A. Well, I would say that if it is looked upon as a long-term investment; and I would say the records of the farmers, and in particular the record of farmers on farm loans, has been exceedingly good over the whole world—I am not speaking of Canada only. I do not think Canadian farmers are entirely different from anyone else.

Q. If you would expect personally less security, do you also say with equal frankness that you would ask for lower rates of interest?

Mr. ARGUE: I think it is assumed that the witness is frank; I think that is assumed.

By Mr. Crestohl:

Q. The witness can answer for himself. He does not need your protection.—A. I will take this one on; leave me be. Again I would have to refer you to this, that agriculture is a special industry and has to be considered as such. Generally speaking, agriculture across all the world is in the lower relationship with other sections of the economy. So, if we are going to have an efficient farm credit system we must consider agriculture in a special category, and this suggested 3½ per cent is the lower interest rate.

Q. My question was, if you personally, Mr. Brodrick, were a financier and were lending money as your business; you said before you would ask for less security than what the board requires now. That is clear. Is that right?—A. May I clear that one up?

Q. Yes.—A. If I was in the position of the Canadian Farm Loan Board, I would.

Q. What do you mean if you were in the position of the Canadian Farm Loan Board?—A. It is nonsense—if I may use the word—that a private investor is going to go out and lend money for less interest.

Q. That is what I would like to have. We will draw the conclusions. I would like a frank answer from you.—A. Is that frank enough?

Q. I still do not understand it. Apart from the glee that some gentleman find in the work of this committee, in all frankness, today, if you were a private lender of funds—we will make the comparisons and draw the conclusions later when we are discussing it—would you ask for more or less security than what the Farm Loan Board is asking now?—A. I would ask for more.

Q. And would you ask for more or less interest than the Canadian Farm Loan Board is now asking?—A. I would ask for as much as I could get. That is what money lenders usually do.

Mr. CRESTOHL: Thank you very much.

By Mr. Bryson:

Q. Mr. Chairman, I have no fault to find with the findings in the main brief; I think they are very well laid out. But I do find in the recommendations that there are one or two questions which I would like to ask the witness. First of all, in the brief he says that farmers need $15,000 to $16,000 for an economic unit, and how do you reconcile the recommendation that $9,600 would be enough money? Sixty per cent of $16,000 figures out, according to me, to $19,600. Now, if a man is going to get $16,000 would it not be better that he should get all of the $16,000 from the one source? We have to stabilize agriculture and I think the answer to Mr. Crestohl's question possibly is that private lenders are not interested in stabilizing agriculture, and they are.—A. That is right.

Q. They are interested in stabilizing their own private interests.

The CHAIRMAN: Have you not misread that? I believe it was 60 per cent of a value which would permit a loan of $16,000 to $20,000.

The WITNESS: That is right.

By Mr. Bryson:

Q. I am sorry; I have read it wrong. The next question is: You have—appraised—the situation very well when you say on page 3: "No credit system can hope to cope with the extreme fluctuations in income? ....." Yet, you have no recommendation that would seem to take care of that situation. As I understand it the V.L.A. do, to some extent, take into consideration the returns that would be available from a piece of land in maybe one year and make reservations in the repayments for that.—A. It is our first recommendation, in section 4 (a) of our recommendations to extend the repayment period to 40 years as far as the Canadian Farm Loan Board is concerned. There is another clause, clause (h) in our recommendations, on the flexibility of repayment, allowing repayments to be made. The last recommendation is supervision of loans, clause (k), and that would indicate possibly farm management supervision such as V.L.A. provides in cases where required.

Q. I would like to ask you why you did not recommend that the assessment be used? Now, I say that because at one time I had some experience with an assessor, taking him around, and I saw how he valued the land. They take a shovel and look at the soil and so on. Land is sold largely in the fall and in the spring. If it is sold in the fall when the snow comes the assessor's

hand is tied and the loan is held up for six months. The particular fellow I went around with said that under ideal conditions six months would be an average. If the assessment was taken into consideration it would remove a great deal of delay within the winter months.—A. I know in Ontario assessment values vary very greatly from county to county and from township to township; it would be absolutely impossible as far as Ontario is concerned.

Q. That is the answer. I am not acquainted with it.—A. However, the assessed value has some relationship to the sale value. You could possibly figure that relationship, but not to take it as the true value.

Q. I did not mean that. I meant that his judgment would be based on the assessment.—As far as Ontario is concerned as between counties one is low and one high, and so on.

Q. In recommendation (j) you say: first mortgages should be available on the security of land without buildings being taken into consideration. Now, in the province of Saskatchewan that has applied in the case I pointed out. —A. The Canadian Farm Loan Board?

Q. Yes. Buildings were not taken into consideration.—A. May I ask you, sir, was that a question of a farmer who had buildings and was purchasing another piece of land without buildings? In other words he was expanding his operation?

Q. No. There were buildings on the land in each case.—A. That is different. The reason that this recommendation is in is primarily because of the young farmer who was willing to live with his father on his father's farm, was going to start on his own and was purchasing land possibly without buildings. It is the policy of the Canadian Farm Loan Board at present that they will not grant a loan on the land without buildings. He must live on it, in other words, in order that a loan may be granted. It is also the case where, for instance, a farmer as I mentioned previously through mechanization has to increase the size of his farm; actually more buildings are a detriment in so far as that particular case is concerned. He might wish, because of lack of capital possibly, to place a mortgage on the whole farm to expand and could operate more efficiently. Those are the two principle reasons why we are suggesting that loans should be granted on land alone without buildings.

By Mr. Carrick:

Q. Mr. Brodrick, I have just a couple of questions. You were asked some questions about the length of time involved in getting a loan through. I know you want to be fair, but the impression one gathers from your brief and from what was said is that you think there is unnecessary delay on the part of the Canadian Farm Loan Board. Mr. Chester was asked about that and he said, as I recollect it, that as far as the Canadian Farm Loan Board was concerned he does not think there is any unnecessary delay, but that there was delay in completing transactions for reasons which did not lie within the control of the board. Have you taken this up with the Canadian Farm Loan Board to ascertain the causes for the assumed delay?—A. The committee had a discussion with some officials of the Canadian Farm Loan Board a matter of a year or so ago, and that was among the questions asked.

Q. You were not a member of that committee?—A. Yes.

Q. What were the delays that you learned of at that time that could have been avoided?—A. Well, of course, in so far as the operation of the Canadian Farm Loan Board is concerned, their story and the stories we sometimes get from the farmers vary. I am not saying either one is right. I am not accusing anyone, but I am saying this: that because of the need for legal assistance more staff is, possibly, necessary within the Canadian Farm Loan Board itself.

Q. But Mr. Chester states that legal work is done outside the farm loan board?—A. But it is necessary in order to obtain a loan—is that correct?

Q. I am not familiar with the procedure, but I was taking Mr. Chester's statement at its face value.—A. That legal work has, of necessity, to be done—the drawing up of mortgages and so on. Those are normal transactions in any business.

Q. Has the farm loan board any control over the length of time that takes? —A. I do not think they have. But should they have? That is the point.

Q. Well, I do not know. I am just asking.

By Mr. Macdonnell (Greenwood):

Q. You could change the solicitors. Would not that be an effective control? —A. Several things could lead to delay—for instance, the speed or lack of speed, with which the property has been assessed after the application was made; possibly, also, incorrect information appearing on the application because of lack of understanding of what was required. All these things can lead to delay; also you have to take into account that often the land is covered with snow in the wintertime.

By Mr. Carrick:

Q. You would not blame the Canadian Farm Loan Board for that?—A. No, but all these factors add up to delay, delay, delay.

Q. When you speak about this delay, you do not say it is necessarily due to the fault of the Canadian Farm Loan Board?—A. It is due to a combination of factors, not necessarily all due to the Canadian Farm Loan Board. But the whole thing is this: that the amount of "red tape" considered necessary with regard to an application for a loan from the Canadian Farm Loan Board sometimes drives people away from the Farm Loan Board to the private loan companies, even though the latter charge a higher rate of interest; and we do not feel that that should be so.

Q. One other question: you were saying about the Canadian Farm Loan Board that it was "taking the cream of the mortgage business". Now, from your contacts with the Canadian Farm Loan Board, have you any knowledge of the applications which they received and which they rejected?—A. No, no exact knowledge.

Q. When one speaks of "taking the cream of the business" one usually thinks of taking the best business, the business that is most profitable?—A. That is right.

Q. If you have no knowledge of the propositions which they have rejected, are you in a position to say they are taking the cream of the business? —A. I presume you are a legal man, sir. I would say this: that from the fact that the Canadian Farm Loan Board has only taken about 15 per cent of the farm loan business and in view of the loss ratio which the board has suffered—it has been almost nil; in fact the board is making profits—the conclusion could be drawn that if they are not taking the cream it is near the top.

Q. You make the statement that they take the cream of the business because they have made a profit and because their ratio of loss is small, only 15 per cent. Beyond that you do not make any serious assertion that they are refusing business which they ought to take?—A. No. It is a combination of factors, sir. This factor of delay is one thing which makes farmers hesitate to use the services of the Canadian Farm Loan Board. That as I say, is one factor and it is possibly among the most important. The question of this rather involved form of application is another.

Q. What has that got to do with "the cream of the business" we are talking about?—A. Well, it all tends to drive the farmer away from the Canadian Farm Loan Board.

Q. I have a little difficulty in following you.—A. I think, sir, you have to understand the farmer's approach to this particular problem of farm credit. I think we all have to realize this, that there has always been a hesitancy on the part of most farmers to use existing sources of credit such as the banks. Farmers hesitate even to apply for credit money and anything that stands in their way—although they may need the money—tends to drive them in the direction of the easiest door to which they can find entrance. It is just part of a farmer's make-up.

Q. Reverting again to this assertion that the board takes the cream of the business—you are not asserting or implying that the Canadian Farm Loan Board refuses business which they ought to be taking?—A. No, I do not think they actually refuse business.

By Mr. Fraser (Peterborough):

Q. I have one or two questions which I would like to ask. On page 6 of the brief it says:

> "In this connection, it should be kept in mind that to give special low interest rates to young farmers may be, in part, self defeating because of the tendency such low rates would have to increase the demand for farms and push up land values."

Now, in the recommendations in paragraph 4 (a) you say the length of the repayment period should be extended to 40 years. Does not one proposition contradict the other?—A. We are recommending no special concessions at all to young farmers in this particular brief. We are recommending a general policy for all farmers which, we think, would be of benefit to the entire industry.

Q. Still, you would give a young farmer 40 years in which to repay?—A. Oh yes.

Q. You mentioned some time ago that the "red tape" of the form was driving people away from farm board loans to other sources of money. Do you mean by that that you think, or feel, that the Canadian Farm Loan Board has too much "red tape" connected with the application?—A. Let me put it this way: I think I am right in stating that the majority of farm credit is held by local individuals, retired farmers and people of that sort—local gentlemen who know the details of the individuals and of the particular transactions in which they are engaged. They are thought of in terms of "old Bob down the road" and it is easier for a farmer to borrow money from a source of credit of this kind, although he may have to pay a little more for it. A farmer just goes along and talks with an individual who says: "Okay, I agree to lend you so much money." On the other hand you have this rather involved form of application presented by the Canadian Farm Loan Board wanting to know how many fillings you have in your teeth, and so on, and whether they are gold or silver.

Q. You mentioned that the farmer has an objection to things of that sort; would you not say that the average individual, no matter whether he is a farmer or not, would have a similar reaction?—A. I cannot answer that because I am not an average individual; I happen to be a farmer. I say I don't like it. The average individual can answer for himself.

Q. That is a really good answer.

I have just one other question. You mentioned that on account of "red tape" and one thing and another a farmer might prefer to go to a private individual, such as a retired farmer, in order to raise a loan even though he would

have to pay a little more. Is not that source drying up now owing to the fact that the majority of these retired farmers are putting their money in stocks, common or preferred?—A. That might have happened quite recently, sir, but I will say that up until the past three or four years—

Q. That is what I mean—in the last four or five years?—A. I cannot answer that question accurately sir. It would only be a guess.

Q. That is all.

By Mr. Huffman:

Q. I would like to refer to page 6 and make an observation, Mr. Chairman. It is stated on page 6:

> It should also be kept in mind that to give special low interest rates to young farmers may be, in part, self-defeating because of the tendency such low rates would have to increase the demands for farms and push up land values.

Then, on the following page, you suggest that if the Canadian Farm Loan Board were to extend its operation the board should be able to reduce its present interest by at least one and a half per cent.

Then again, in your recommendation at paragraph 4 (d) you say this:

> Reduce the interest rate charged on first mortgage loans from five per cent to the cost of the money plus the legal reserve, leaving administration costs to be borne by the government.

I was just wondering what you consider to be of more importance to the borrower—the reduction of the interest rate or the observation which you make here that if the interest rate were reduced appreciably no great benefit would result, on account of the increased land values.—A. I think we are taking two things into consideration there. I think I tried earlier to explain what we had in mind in paragraph 6, which refers to young farmers. We are making no special recommendation here insofar as the young farmer starting to farm is concerned. The whole thing is based on the ability of farmers to repay. We have tried to show that the average interest on capital is roughly around three and a half per cent across Canada. I think, with regard to the other interest rates mentioned on page 7 of our statement, we say:

> In all, the board should be able to reduce its present rate of interest by at least one and a half per cent.

This would bring the rate of interest down to, roughly, three and a half per cent.

With regard to the recommendation made in subparagraph (d) I think the explanation has been given in the paragraph just referred to. We surmise that by a more aggressive loan policy on the part of the Canadian Farm Loan Board and by the government absorbing the cost of administration it would be possible to reduce the present interest rate from five per cent by one and a half per cent to three and a half per cent.

Q. There is one other question I would like to ask: was there a period, recently, when agriculture returns were, in terms of percentage, ahead of industry and labour—on the basis of 1925-1929?—A. No. I think the figure might have been slightly above the average in 1951. Mr. Hope would have to answer that question; I am sorry that we cannot, apparently, call him in. But I think it was in 1951 and only in that year that the agricultural rates achieved parity.

The CHAIRMAN: Gentlemen, there is another meeting set for 3.30 this afternoon, and Mr. Macdonnell has a few remarks to make on this.

Mr. MACDONNELL (*Greenwood*): Thank you, Mr. Chairman, I would like to raise a question which I raised at the steering committee but did not press at that time. Is it necessary at this early stage of our committee meetings to sit

twice a day? I would urge that it is not necessary, particularly while the budget debate is on. We could, perhaps, defer holding afternoon sessions without taking up the time of the committee in a long discussion, and in order to sound out the feeling of members I propose to move to that effect.

I feel, myself, that attendance in the House of Commons during the budget debate is something which I, personally, feel desirable; I suppose I had better be honest and tell the committee that I think my own leader is speaking this afternoon and that I should like to be there on that occasion. Also, I believe, Dr. Hope lives in Ottawa and I imagine he would not be too greatly inconvenienced by attending on another occasion.

I therefore move that the committee do not sit this afternoon or, let me put it this way:

> I move that committee sittings be held only in the morning today, and until the chairman brings the matter to the notice of the committee again.

This would be done according to your own judgment, Mr. Chairman, if you felt we were lagging behind and the pressure of business justified it.

The CHAIRMAN: I feel that right now, of course, but members of the committee have heard the motion. Is there any seconder?

Mr. CRESTOHL: I think the request is very logical and I would be pleased to second the motion.

Mr. CARRICK: May I ask whether the committee is through qustioning Mr. Brodrick as a witness?

The CHAIRMAN: There are no further questions on my list.

Mr. BALCOM: Could we ask additional questions if we sit this afternoon?

Mr. ARGUE: I can understand the need to speed things up as much as possible as I can see some need for holding two meetings today, let us say, and two meetings on Thursday if the committee's sittings are to be confined to Tuesdays and Thursdays. I am going to support the motion, but I can also say that as far as I am concerned I think the committee could meet on a Monday and also on a Friday.

The CHAIRMAN: Except for this fact—that there are a great many members of the committee who are away on Mondays and Fridays.

Mr. ARGUE: We might reduce the quorum and so adjust the matter.

The CHAIRMAN: There are no further questions down here, but we are not exactly through with the witness. I think it is time we moved on with this bill; if we do no get it through the House of Commons and into the Senate we will not get it into operation this year.

Mr. HENDERSON: We should remember that Dr. Hope has come up here to give evidence and that we have set the hearing for today. There are probably others who are involved, and I think it is unfair that they should be asked to stay over.

Mr. CHARLTON: I think it was understood that Mr. Brodrick would not be asked any further questions and that Dr. Hope would carry on.

The CHAIRMAN: I may say that Mr. Brodrick's home is in St. Catharines.

Mr. QUELCH: If the witness lives outside of Ottawa and would have to come back, then we should have a meeting this afternoon.

Mr. CHARLTON: I think it was understood that Mr. Brodrick was not to be asked any more questions and that Dr. Hope would carry on.

The CHAIRMAN: Unless anyone else has any further questions—Mr. Brodrick's home is in St. Catharines. Dr. Hope, I believe, lives here.

Mr. CRESTOHL: Could we not sit tomorrow morning?

The CHAIRMAN: Yes, but let us sit today and get the bill through so it can get into force. It is "stall", "stall", "stall", all the time. We want to get the bill through the House of Commons and into the Senate so it can be implemented, and so that the people can borrow money.

Mr. ARGUE: And we want to get a better bill. This bill is not good enough.

The CHAIRMAN: I know you do. Mr. Argue is not going to get a better bill.

Mr. ARGUE: Then no one will get a better bill. That is just more insolence.

Mr. CARRICK: I think we ought to consider the convenience of the witnesses as well as the convenience of the members of the committee.

Mr. ARGUE: There is a good explanation now of why the chairman did not want witnesses heard at all.

The CHAIRMAN: You get them here and then you do not want to hear them.

Mr. CHARLTON: Are there any other witnesses from outside of the city to be heard today?

The CHAIRMAN: As far as I know there are none.

Mr. HOLLINGWORTH: Perhaps you would ask the committee if anyone else wants to question the witness, and, if not, I would be willing to wait until tomorrow. Otherwise we should sit this afternoon.

The CHAIRMAN: If anyone wants to ask any more questions of the witness, the witness is here. I do not want any more suggestions that we are stifling examinations of witnesses and that we do not want to hear representatives from agriculture. Does anyone want to question this witness?

Mr. MACDONNELL (*Greenwood*): I imagine Mr. Brodrick would not think it unreasonable, if there were a dozen of us whose convenience would be helped by not sitting this afternoon, and perhaps we could sit right on now.

Mr. ARGUE: The question.

The CHAIRMAN: You have heard the motion. The motion is that we do not sit this afternoon, and that the next meeting be held at the call of the chair.

All those in favour?

Mr. CARRICK: Is the motion that we do not sit this afternoon?

Mr. ARGUE: Could that motion be read?

Mr. MACEACHEN: Is it clear that Mr. Broderick is finished?

The CHAIRMAN: That is my understanding. The motion is that we do not sit this afternoon, and, as I understand it, that the next meeting will be at the call of the chair.

All those in favour of the motion?

Agreed.

The CHAIRMAN: I declare the motion carried.

APRIL 11, 1956,
11.00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum and I suggest we begin.

The first witness who will be appearing before you today is Dr. Hope, the Economist of the Canadian Federation of Agriculture. I will ask Dr. Hope to come forward now and give his views. Immediately afterwards, he will be available for questioning by members of the committee. If members have questions to ask I would appreciate it if they would reserve their questions until Dr. Hope's preliminary work is done; perhaps they would also indicate their names to me and I will keep a list in order of their requests.

Dr. E. C. Hope, Economist, Canadian Federation of Agriculture, called.

The WITNESS: Mr. Chairman and gentlemen, I consider it a privilege to be here today to add what I can to the remarks Mr. Brodrick made yesterday on behalf of the Canadian Federation of Agriculture on this very important subject of long term farm credit.

I think I might begin by answering a couple of questions which were put to Mr. Brodrick yesterday and to which he did not have the answer at that time. One question put to him was this: why do we take the period 1926-1954 as a basis for our analysis of probable long term net earnings of agriculture in Canada? I did the work, so I guess I can answer the question. The Department of Agriculture—or rather the D.B.S.—publishes net income figures for Canadian farms only with regard to the period since 1926, and therefore we took the longest possible period we could, namely the period from 1926 to date. We had no other motive than that of seeing the long term result of farming in Canada. 1954 was the last year for which official figures are available for Canadian agriculture.

The next question asked was what would the net income situation be—or the net earnings picture—for the last five years? Using the same method of calculation as appears in the table in our brief, I worked out yesterday afternoon that for the five years 1950-1954 inclusive the average farm operator would receive 3½ per cent on his average capital, and the average capital for that period reported by D.B.S. worked out to $15,457. I may say, of course, that D.B.S. does not work out the average per farm. They give the total figure and we have to divide that by the estimated number of farms in Canada. That is how we get the figure of $15,457 as the average farm capital for that period. In addition to the 3½ per cent earned on that investment the farmer received hired hand's wages, which for that period amounted to $1,391, plus a bonus, as it were, of 68 per cent above that. Members of the committee will recall that the table in the brief showed that over a long period the farmer apparently received a 3½ per cent return on his average farm capital, hired man's wages for his own work and an average bonus of 30 per cent more than a hired man's wages. For the five years I have been quoting, that bonus was 68 per cent. I might add also, Mr. Chairman, that I believe the five year period from 1950-1954 is probably, on the average, one of the best periods. So in one of the best periods, the farmer has received this return on his investment: hired man's wages plus 68 per cent, which also covers returns for labour from his family who help with the work, because family help is not included.

There may be other questions, the answers to which Mr. Brodrick was not clear on and which I have forgotten. However, some member of the committee may raise them, in which case I will attempt to answer. The questions I save answered, Mr. Chairman, are the two I picked out.

The CHAIRMAN: Mr. Johnson, you had a question to ask.

By Mr. Johnson (Kindersley):

Q. Dr. Hope, do you feel that in the Canadian economy at the present time while we are in a period of population transition, and when in many cases sons are taking over their fathers' farms, there is a need for specific consideration being given to establishing young farmers in Canada agriculture?—A. Yes, I think there is. It is not so much that we need it any more now than, say, 20 years ago; we have always needed it, and this transition is always taking place, but I think the difficulties of making the switch today are greater than they used to be. I refer now to a time some years ago when this country was in horse farming. A young man could start farming by buying a team of horses and some horse equipment, and it was not a very expensive

process. He might even buy four horses with the usual equipment, and then he could start farming. Today he cannot start by getting a team of horses; he has to buy a small tractor which represents quite an investment—this power machinery is more expensive, relative to the work it will do, than machines worked by horses. In addition, he can no longer keep his machines moving by raising oats and hay as he used to do. A farmer used to "raise his gasoline" but now he has to get credit for gas and power repairs. Thus he finds himself in the kind of economy where more initial capital is required to get started. This does not, of course, necessarily represent long term loans alone, but it does involve intermediate loans, and it all represents capital. Then again, operating expenses are greater than they were. A farmer today should fertilize his land; he did not 30 years ago. That means either raising a loan with which to buy fertilizer, or credit from the dealer. It is, you will see, a cash economy in which a man is starting out, and thus it presents more difficulties than it did in the past.

We investigated this problem because we realized from letters received in our office and statements made at our conferences and meetings across Canada that the demand for measures to help a young man get established is increasing.

Q. Recognizing that need, Dr. Hope, does the present Canadian Farm Loan legislation give any assistance to young farmers, and what suggestions would you have on behalf of the Federation for improving the Canadian Farm Loan Board, possibly on the basis of what they are doing in other countries toward the satisfaction of that need?—A. I would not be surprised if the Canadian Farm Loan Board today does help a certain number of young farmers to get established. We have, of course, no record from the annual reports.

Q. But the conservative policy which Mr. Brodrick drew attention to....

Mr. FLEMING: Be careful with that word "conservative".

By Mr. Johnson (Kindersley):

Q. I put quotation marks on that. Dr. Hope, do you not think that the policy to which Mr. Brodrick drew attention would work with disadvantage against a newly established farmer?—A. Oh yes, because most borrowers in agriculture tend to be over-optimistic and probably most lenders tend to be over-pessimistic. That is fairly typical, and people who have made studies of this problem in the United States have found that the biggest trouble facing those who start out farming is that they often assume too heavy an annual charge. The present Canadian Farm Loan Board charges a rate of 5 per cent which, amortized, comes to 7¼ per cent, which is a fairly heavy annual charge, and from what we can see, as we analyzed it in our brief, the younger man in such a set-up requires a very high amount of capital, perhaps $6,000 or $7,000 in order to get started because this is 5 per cent on a 25 year term.

We therefore tried to work out a plan whereby any young man who had, say, $4,000, could start. I admit we tried to get it down to that figure. We, in the Federation of Agriculture, do not think that young men in agriculture should have something handed to them—we do feel that they have got to prove themselves, and one of the ways of proving themselves is to save some money. At least the father should realize that the boy is helping on the farm and give him an equity or something. With around $4,000 initial capital, if the farm loan period were lengthened to 40 years, and the interest rate lowered, then we believe that a young fellow with about $4,000 could start. That is quite a sum of money, even today, $4,000, unless you are in industry; and with a young fellow working at farm wages it would take some years to accumulate $4,000. In six or seven years he could just about do it. That fact has been recognized

throughout the world in the last ten to fifteen years, in practically all countries —in every country I have looked at; they have been lengthening the terms of long-term mortgages, from 25 now, up to 40 years; and the Quebec Farm Loan Act has 39 years. The Farm Credit Administration in the United States has 33 years terms.

There is a special branch of lending down there called the Farm Home Administration, and it provides a 40 year loan. The purpose is to reduce the annual payments so that he will require less equity to start. I cannot see that it makes the loan any weaker particularly, by doing it.

A question was raised yesterday about security and interest rates when a retired farmer lends money to a neighbour—and, by the way, in Canada about one half of the farms are financed that way. It is a risky proposition because the loan is to one farmer, with one type of farming, in one district, and the rates are high, from 6 to 6½ per cent. The Canadian Farm Loan Board lends on all types of farming in all the provinces, to average farmers of all grades. Therefore I suggest that the risk venture of the Canadian Farm Loan Board is far less risky than any individual lending to a farmer, to a single farmer, because the security of the entire agricultural economy should be and is behind the system.

Therefore that is why we feel that the rate should be lower than five per cent, if you have any faith at all in agriculture, in total, from coast to coast in the different provinces and in different types of farming. Now to continue along a line that was discussed yesterday. The Farm Economics branch of the Ontario Department of Agriculture made a very complete survey of mortgage indebtedness in eight counties of Ontario, and they published their report a few years ago. This report deals with eight counties scattered right across Ontario. They made a very methodical search of the titles and the mortgages on those farms from 1900 to 1950. There were 733 farms. I shall just quote two things of interest.

They found that out of 733 farms in Ontario, this sample, 8 per cent of those farms were always mortgaged for fifty years and were never free. They found that 14 per cent were mortgaged from 41 to 48 years; 14 per cent were mortgaged from 33 to 40 years; 17 per cent were mortgaged from 25 to 32 years; 16 per cent were mortgaged from 17 to 24 years; 13 per cent were mortgaged from 9 to 16 years; 12 per cent were mortgaged from 1 to 8 years, and only 6 per cent were never mortgaged.

Moreover, they found that 50 per cent of the mortgages given in those 50 years came from individuals who were not the sellers of the farms, while 33 per cent came from sellers of the farms, that is the men who sold the farms and quit farming. Nine per cent came from loan companies and institutions; 4 per cent came from family mortgages; 3 per cent came from governments, and 1 per cent came from the Veteran's Land Act, and the soldiers settlement.

Institutions have virtually withdrawn from the mortgage field in Canada. For different reasons, they have withdrawn. Now we have to realize farmers can only borrow from individuals and the Canadian Farm Loan Board, and in the province of Quebec they also have the Quebec Provincial Farm Loan Board; and in Nova Scotia they have a provincial board; but apparently the farmers in Nova Scotia are not particularly satisfied with their provincial Farm Loan Board, because they have only last month appointed a Royal Commission to investigate the farm mortgage situation, or something like that—in the province of Nova Scotia.

Therefore, coming back to the young man again; this problem is going to increase and not decrease, because agriculture is not yet fully mechanized. In some provinces like Quebec and New Brunswick where they are not yet very highly mechanized, but they will eventually become more mechanized, and there will be more difficulty in getting sufficient capital to start. It will require

more capital than now. The operating costs will need more cash as time goes on, and we will have more complaints of young men not able to get started.

We approached this and said, "what can we do about it?" Some people advocate supervised loans, and we looked at that pretty carefully. But we recognize the fact that the supervised loan is costly. The Soldier Settlement Board supervises, probably, three-quarters of the loans in all. I imagine that if we looked at the cost of that supervision we would find that it is quite costly for the taxpayers of Canada. However they are doing a good job.

The Farm Home Administration in the United States, which I talked about for a moment, lends money to farmers, to young men and to older farmers, who are not in a credit position to borrow from any other agency, either a private institution or from the Farm Credit Administration; they are not eligible; and the Farm Home Improvement Association then, or system, will lend up to 100 per cent of the appraised value of those farms at 4 per cent for 40 year terms.

Every county has an administrator and three farmers who form an advisory committee to the administrator. Their funds come directly from the United States Treasury each year by a straight direct grant. All those loans are supervised by highly trained individuals, men fully qualified, men experienced in farming and experienced in farm management and home planning, because, before those loans are given to that kind of people who need guidance. A very complete analysis is made of the farming operation, the home set-up, the budget for the coming year, and for the future years. And then the man is visited pretty frequently to see how the plan is coming along.

Now they claim they are doing a good job with that type of people, but it is costly. The Americans consider it to be worth while. We did not advocate that the Canadian Farm Loan Board should step right into that field, as much as that, and I will say this, that when we went to our annual meeting last February and presented the policy committee's report on long term credit, we had no reference whatever to supervised loans.

Immediately we were attacked by our members, people getting up here and there, "That is wrong. Young men should have some advice, guidance". We told them that the committee had studied this, and had come to the conclusion that it is pretty costly. Therefore, we had left it out. They insisted we put it back in again; so you will notice in our recommendations, which came right from our farmer members themselves, who said that if the young man is going to get a loan for 40 years at a low interest rate and up to as high as 80 per cent on the appraised value of his farm, then they felt that he should accept supervision. So, therefore we put in our recommendation that the loan should be supervised when considered necessary by the Farm Loan Board.

By Mr. Johnston (Bow River):

Q. What is the meaning of that word "supervision"?—A. This is my conception of supervision, when a young man applies for a loan, he has not got much money, we will say. Therefore it is not a big loan, and you are going to lend him up to the maximum, we recommend, 80 per cent on the appraised value of the farm. We realize it is quite high and so the risk is a little greater. Therefore he accepts supervision of this kind. The supervisor sits down with him, plans the farm operations for the coming year or so, writes down what kind of crops are going to be grown, what stock is going to be on the farm, what are the anticipated yields from crops and animals, what are the anticipated expenses and revenue. The young farmer must show the supervisor how there will be enough net revenue to service that loan after a moderate living allowance.

Q. Are these supervisors agricultural experts?—A. Yes. After the plan is drawn up, the man will be visited—how frequently, I don't know. It would depend upon the quality of the young farmer. Maybe once a month, maybe every three months, but he would certainly be contacted a few times during the year to see how he is coming along. That is where the cost comes in. These men, the supervisors, have to be well trained men with good judgment. Under the Soldiers Settlement Board and the Veterans Land Act, all their men are of that nature. They train them well, and I believe they are pretty well qualified for that kind of work.

By Mr. Fleming:

Q. How, in a country as large as the United States, do they achieve any satisfactory measure of uniformity of supervision in the approach of the supervisors to the financial aspects of the work of supervisors?—A. It is based upon the county. They take a sort of county average, and they try—their whole program is based upon the county average situation, expected yields, and so on.

I do not quite get your question, Mr. Fleming. I may have missed the exact import of it. Would you make it more specific?

Q. I think you answered it in a large part. It is a matter of concern as to some measure of uniformity in a country as large as the United States, under the system of supervision such as you describe on a supervised loan, to make sure there is some effective approach to uniformity.—A. It is largely county type farming, and the county experience of county yields, and the county office is quite familiar with the local conditions there. Each individual, as I understand it, is related to the type of farming, the kind of farming, in that county. The supervisor and the three farmers who advise the supervisor and also pass the loan, probably in most cases would know the individual farmer. I am told that even down there some farms are turned down, even under that plan. They are probably turned down chiefly because they are on submarginal land. You see, there is always a danger under a plan like that that you might tend to keep farmers on obviously submarginal farms.

By Mr. Michener:

Q. I would like to ask at this point, if I may, about these loans which run as high as 100 per cent. I think you referred to them as the—A. The farm home improvement loans.

Q. Farm home improvement loans. They would be exceptional loans, I suppose and would not come to very much. Have you any idea of the proportion of loans on farms, from public funds, that run as high as 100 per cent?—A. No, I am sorry. I have not got that. I am sorry I have not got the exact figures. If I had known, I might have brought them with me.

Q. It would be interesting if we could see—A. Three per cent of the total loans.

Q. The total farm loans in the United States, of public funds?—A. Yes.

Q. And how are they divided up among these three different schemes that you mentioned?—A. Three per cent of the total loans, Mr. Chester said.

By Mr. Johnston (Bow River):

Q. I am sure we are all grateful to Dr. Hope for having made such an efficient study the farm loans, and for the information he has given us here. Do you happen to have information with regard to deterioration, say in the last few years?—A. Now, up to 1953 the loans were being satisfactorily serviced.

Q. The loans were quite small?—A. Yes. But I have not knowledge about 1954 and 1955, but economic conditions had deteriorated a little bit. Maybe they had some trouble then, but in most cases they carried them to this extent.

as the administration would not force a good farmer out. The administration is there for building people and building farms. They are patient and they work with the farmer. Unless the man is a complete dud they will just help him along as far as they can.

Now, we have hoped that the Canadian Farm Loan Board would give a somewhat similar kind of assistance in special cases—not as extreme as I have pointed out, but something which would be of service, of real service to you men starting out.

Now we have about $4½ billion worth of land in Canada, an agricultural value on farm land— about $4½ billion. I do not know but I think the Canadian Farm Loan Board has got about $40,000,000 worth of loans out, and they loan about $7 million or $8 million a year. Now I do not want to be critical of Mr. Chester, or my friends over on the right here, but I know you want a frank statement. The Federation has examined this situation and we feel that maybe it is the legislation—let us put the blame on legislation. In view of the fact that the institutions have withdrawn from the farm mortgage field, we are left with the Canadian Farm Loan Board and the private individual, and this agency is not assuming enough of the responsibility to service agriculture in a big way. Maybe I am wrong, but Mr. Chester will correct me on this; the cost of administration of these loans probably runs about 1½ per cent.

Mr. CHESTER: 1·39 per cent.

The WITNESS: I thought it was roughly 1½ per cent, the last time I looked at it. Now, down in the States a few years ago they had a loan scheme there, under the old farm credit administration where the loan had to be made to the farmers at not more than one per cent above the cost of the borrowed money. We thought that if this Canadian Farm Loan Board legislation could be adapted in such a way so that it could go all out and solicit loans just as a business would, then it would be doing a much greater service for agriculture. It would mean they would not wait back for some people to apply to them for loans, but that they would be competing with other people who are lending money at 6 per cent and 6½ per cent, and they would show the farmers what their terms are. We feel they would double their business, they would double the number of loans, and double the size of the loans. That is to say, instead of the average loan amounting to about $3,500 it would go up to $5,000 or $6,000. We feel that in such a way the cost of lending would be lowered a great deal and probably it would come down to one per cent and so the Board would be of real service to agriculture. This would mean a broadening of the outlook of the Canadian Farm Loan Board.

For instance, my guess would be that a great deal of the increase of the business of the Canadian Farm Loan Board in the last two or three years has been in the refinancing of loans where farmers have got into default under the Farm Improvement Loans Act. Is that correct?

Mr. CHESTER: I have not got the figures here.

The WITNESS: I think it will be found that many of the loans under the Farm Improvement Loans Act have gone into arrears, for farm machinery and so on, and they have been re-financed by the Canadian Farm Loan Board.

By Mr. Argue:

Q. Is it the suggestion that they should be encouraged to do that? That would be a very bad move.—A. It is due partly to the fact that the farm improvement loans are for too short a term, only for three years for farm machinery, for instance.

By Mr. Jonhson (Kindersley):

Q. The figures you gave on the need for loans in Ontario will doubtless be duplicated in other provinces. That seems to me to point out one of the

important problems with which agriculture is being confronted today, particularly when, as Mr. Brodrick pointed out, it is a depressed industry. Have you any estimate as to the relationship of undercapitalization of farms to the efficiency of a farm? Undoubtedly, if a farm is undercapitalized, it will tend to be inefficient?—A. I see your point. To a certain extent it is largely a matter of intermediate credit. The undercapitalized farm, as a rule, means a farm undercapitalized in productive equipment or productive livestock. It might be undercapitalized also in terms of size or area.

Q. That is the point to which I was referring, the insufficiency of land.—A. The percentage of such farms would be small. It is a question of judgment as to what is an adequate size. In the case of Quebec, a man might be very satisfied with a 50-acre farm, whereas in Ontario the same type of man would say the farm is too small. It is a regional question.

Q. You will be familiar with the assessment setup in Saskatchewan and the situation in relation to the Canadian Farm Loan Board in the appraisals of land. Do you feel that in Saskatchewan the assessment would be a valuable factor to keep in consideration in making an appraisal of a farm?—A. Yes. I would say it would be a very valuable factor to keep in consideration and to use as a check. The system of rural farm assessments in Saskatchean is very good, probably the best in Canada. Actually, they do not assess buildings; the assessment is only on the land and is based on the productive value of the land, with respect to the market situation and so on. In Saskatchewan, the relative position or value of farms with respect to each other all over the province is very good, due to the different bench marks. That is to say, unless one changes the base, it would be related, say, to a certain price for wheat. The likelihood now is that it may be basically a little low because of that but, on the other hand, in relation one to another probably it is quite all right.

Q. If there were someone working as an appraiser and he took the assessed value into consideration, rather than appraisal, would you commend him for that?—A. I would have that on my book and I would look at it. We have been talking about interest rates and long term rates, and also about the length of the term and the percentage of the loan on the appraised value. All these things are important but the key thing is appraisal, which is a most difficult thing to do. One can use certain semi-scientific methods of appraisal, I suppose, but after all it comes down to a matter of judgment or good basic opinion, a matter of your basic judgment. The Farm Credit Administration has struggled with that problem for years, as to the method of correct farm appraisal. Prior to 1930, in the United States they were pretty well appraising farms all over by sale value. Then came the depression and, of course, they were caught badly. The Farm Credit Administration then moved into the field in the middle 1930's and it was the first institution to do two important things. First, it gave a 25 or a 30 year amortized payment, which private mortgage companies were not doing, and that eased the burden on the farmer. Secondly, they also eased the burden on the farmer in terms of the basis of long-term productive values. Of course, in the 1930's, that basis of long-term productive values would raise the appraisal value considerably above the sale value. That helped to give the farmer a break, with respect to credit at that time. They have held that policy fairly well ever since then. They have been trying to appraise the farm on what they consider to be the long-term productive value. However, as the price level rises, they have been lagging behind the price level, of course. It may be—I do not know—that the Canadian Farm Loan Board is doing the same thing. We have no knowledge as to how they appraise farms. If they attempt the same thing, they also may be lagging behind, and that tends to give a very low appraisal value. That may

be the reason why their loans are so small. That may be the reason why so few farms can be serviced—if their appraisals are so low.

On the other hand, I can see their problem. None of us can predict the price level, and we do not like sale value alone as a sound basis of appraisal.

By Mr. Carrick:

Q. What about the value of assessment in Saskatchewan?—A. I do not know; in other provinces assessments vary from county to county, with no special basis. The assessors are not trained.

By Mr. Johnson (Kindersley):

Q. In relation to the statements just made, did you feel that a technical qualification—for example, a Bachelor of Science in agriculture—would be most desirable for an appraiser of the value of land?—A. It would be all right provided the particular B.S.A. came from a farm and provided that, after he got the B.S.A., he went through an intensive training in appraisal work.

Q. You say it is scientific work?—A. Yes, it is professional work.

By Mr. Charlton:

Q. Dr. Hope will agree that the greatest danger to agriculture in Canada today is the fact that so many young farmers are leaving the farms. It is a fact also that the C.H.M.C. activities result in a young man becoming discouraged on a farm. You find a young chap who, with 10 per cent down—which could be borrowed money—can build himself a home under C.H.M.C. and work in industry. Do you consider that one of the greatest factors in draining agriculture of young farmers across the country?—A. You mean to say the fact that a young man may leave the farm and go to the city and build a house on a 10 per cent loan—that is one reason why he leaves the farm?

Q. Yes. That is a factor.—A. Yes, it is a factor; but it is rather small. I admit you can build a home on very easy terms. Somebody has faith in non-agricultural pursuits, perhaps more faith than in agriculture, because you can, as you say, build a home on very low rates and assume that yau can always get a salary, a steady income. In agriculture they do not figure on a steady income apparently. I cannot answer it any better than that.

The CHAIRMAN: I think your 10 per cent is a little bit out, Mr. Charlton.

Mr. CHARLTON: No.

The CHAIRMAN: It is 90 per cent up to $7,000 or $8,000.

Mr. CHARLTON: You can still build a home for 10 per cent.

The CHAIRMAN: What kind of a home?

Mr. CHARLTON: Better than the homes which a lot of farmers live in.

By Mr. Charlton:

Q. Would it be fair to ask your comment on the fact that this being one of the greatest factors in agriculture in Canada, would the present amendments as suggested in the Canadian Farm Loan Board achieve what we are after in trying to keep younger men on the farms? Would it bring that about?—A. Of the two amendments that deal directly with that point, one is the raising of the maximum from $10,000 to $15,000; and the other is raising the percentage of the loan on the appraised value from 60 to 65 per cent. They are both in the direction of assisting what we have in mind; but I would say it is a very, very small step, extending the loan from 60 to 65 per cent. Actually the $5,000 raise is probably of no help to the young man anyway—not the $5,000 part. The young man starting a farm is probably going to be a small borrower

anyway. A $10,000 loan to this young fellow would probably be plenty, so the raising of the maximum by $5,000 does not help him there. The only thing which may help him is reducing his equity 5 per cent to get him started. It has not tackled the basic thing, which is reducing the annual payment.

Q. Lengthening out the period?—A. Yes; reducing the annual payment is the key thing. You can pick up any kind of literature you want, published by the Farm Credit Office—and they publish lots of them—on young men starting farming, and they always point out that the annual payment is the thing. The point is, if you want to make it reasonably small, you have to lengthen it to 40 years and try to get the interest rate down. This amendment does not touch the length of period or the interest rate. Another feature which it does not touch is this question of the prepayment of loans.

We have recommended a system whereby a man would be encouraged to make his normal payment in a good year, and an additional payment into a fund on which he would draw interest. Every time there is a good crop he puts more money into that fund and draws interest. When a poor crop comes along he is paid up-to-date because the money comes out of the fund which he has put into. This is an amendment which was brought into effect in the United States two years ago on the F.C.A., that can be put into this act with no harm to anybody; but it would not be of much use unless the administration of the Canadian Farm Loan Board brought it to the attention of farmers and pressed them to take advantage of it in good times.

Q. In your opinion the extension of the loaning period is one of the most important factors?—A. Very important.

Q. Would you say the interest rate decrease would be of next importance, or supervision of the loans?—A. I do not stress supervision too much; it is difficult. If we stress supervision—it is true that the Federation has asked for it—that is Federation policy and I cannot step beyond their policy. But I recognize if we are going to ask for supervised loans then you are going to have to change a lot of the administration of the Canadian Farm Loan Board. There will be a big change made. You have got to have more highly trained inspectors, inspectors more highly qualified, and schools for them, because the system would stand or fall, depending upon the appraiser and supervisor who visits the farm. It would depend upon how good the man is who visits the farmer, how practical is he, is he going to be kicked out the door by the farmer's wife, and is he going to be well trained, intelligent; they are hard to find. Some day, however, we may have to have this type of man.

Q. In your opinion would local farmers in certain districts concerned, that is practical farmers who may have retired or farmers whose farming operations may not carry them the full time, who may have some time which they could spend in this sort of work, be suitable as appraisers? Do you feel they would be adequate to take on the job as appraisers under the existing Canadian Farm Loan Act?—A. I think they would be adequate as appraisers provided they were given additional training. I would say you cannot pick up a farmer—I do not care how practical he is—and send him out to appraise a farm. There are a lot of things to take into consideration. If he is an intelligent farmer he would of course pick up the information you want him to use very rapidly. I would not underwrite him because he is not a B.S.A.; but it is partly a question of training him and having a policy fixed as to the basis of appraisal.

Q. I thought probably the local touch there with an appraiser would have a certain amount of value because he would not have to make so much outside inquiry as to the productivity of a farm as someone coming in there.—A. That is partly why we recommend advisory committees. It is a thing which was in the act and never used. We thought that the advisory committee of farmers

within a given region would probably know the surrounding territory, and in many cases may happen to know the farmer personally, and could be of assistance and help.

Q. Would it be possible to use one or all three of the members of that advisory committee as part-time appraisers and then they could get together to talk over the situation?—A. We had in mind operating farmers who would not have the time to go and work appraising farms.

Q. Not full-time, but part-time.—A. They might.

Q. In your opinion is there any established formula for appraising the productivity of a farm?—A. Well, there is no recognized formula that all agricultural economists or land economics experts would agree on as being the formula. There are a number of systems. I do not know whether I should take the time to explain them. But there are a number of systems of appraisal. One of the common methods is the capitalized net earnings method, where you attempt to get, say in Ontario, the rental value of the farm lands at so much per acre—say $4 an acre; and you subtract off that the rent the landlord pays—or rather subtract the taxes the landlord pays, and get a net figure of $2 an acre after taxes, and you capitalize that by dividing by a 5 per cent interest rate which would give you $40 an acre value of land. That is a fairly common check. Out west they do not take the cash rental; they take a share of the crop and they take the taxes off that and any other expenses paid by the landlord; they value the landlord's share of the crop at a certain price and capitalize that again by dividing by a certain interest rate; but then there is the argument of what interest rate to use; if you use a 3 or 4 per cent rate you get a different answer to your farm value. Economists have argued for long periods as to what should be the proper capitalization rate to divide by. Then, you have the other method of sale value—the long term average sale value for the district, with adjustments. There are a lot of different methods, and no method is perfect. I think that if I were appraising a farm I would use three or four methods, look them all over and find what seemed in my judgment or opinion gives the best overall picture for safe loaning: I would work out more than one calculation, because nothing is perfect.

Q. Did I understand you to say a few moments ago, Dr. Hope, that there were several farm improvement loans being paid off by the process of transferring the loans to the Canadian Farm Loan Board? Have you definite information on that?—A. No, you would have to find that out definitely from the Board, but I was told by a number of farmers out west that when things got bad out there a year or so ago, and they could not pay their farm improvement loans, they took out loans from the Canadian Farm Loan Board, to refinance their farm improved loans, to avoid falling into arrears in the payment of farm improvement loans at the bank. Some of that has been done.

Q. That would point, perhaps, to difficulties in the working of the Farm Improvement Loans Act, would it not?—A. It would point to the fact that maybe a three year term of repayment on farm machinery is a little short, sometimes. After all, farm machinery will last a lot longer than three years.

Mr. HUFFMAN: That is all. Thank you.

By Mr. Tucker:

Q. I was very interested in your Federation brief at page 6, Dr. Hope, in which you say:

> Various provinces (Quebec, Ontario, Nova Scotia, New Brunswick) have special legislation for providing credit to young men, in ways

suited to the provinces' special situations. On a national basis, it is doubtful that any special lending plan or lending agency is required to deal with men starting in to farm.

I ask you about that, Dr. Hope, because I have often wondered why, in the province of Saskatchewan, they entirely withdrew from the farm loan field on a provincial basis. I take it from your brief that you consider this was an improper action to take in the light of the experience of Quebec, Ontario, Nova Scotia and New Brunswick. I wonder if you would comment on what contribution has been made on a provincial basis in those provinces and tell us what you think in regard to the provinces which are not in that field?—A. First of all, Mr. Tucker, I will say that the wider the lending area, or the basis of a credit agency, the less the risk amounts to. A national organization is in the position of operating at less risk than a provincial one, especially with respect to western Canada. For instance, the Saskatchewan Loan Board were lending in one province subject to high variations of yields and prices, and that is probably one of the reasons why they could not function satisfactorily. It is true that in a province such as Quebec or Ontario that is not such an important factor, and that incomes do not vary so much. Ontario at one time was in the farm loan field, but they withdrew as Saskatchewan did. I think Alberta was also in that field but later withdrew. I am not sure what was the reason for Ontario withdrawing. Quebec has an act which is quite generous—a provincial act that makes loans at the present time of, I believe up to $7,000 at an interest rate of only 2½ per cent repayable over 39 years. I understand that they have done a lot to help Quebec farmers and to establish young men in that province. Farming there is already, I think, what might be called a subsidized industry. I am not sure what the Nova Scotia terms are now. Ontario came back into the lending field about two years ago with an act to assist young farmers, and that province will help young farmers up to the age of 35 years under a scheme which provides for loans up to 75 per cent of the appraised value of the land for, I think, 25 years. The provincial government was under great pressure from the farmers to do something to help the younger men, but I am not qualified to say just how successful that act in Ontario has been. I do not think it has been used a great deal.

I am not very keen about provincial acts. I cannot see why we should not treat this question in a national way under an arrangement whereby we could get money a little cheaper and spread the risk over the entire agricultural economy for every type of farming.

Q. I took it from the brief, Dr. Hope, that you are differentiating between ordinary lending and this problem of helping a young fellow to get started. I thought, from the brief your organization presented, that it considered that this was a matter for the provinces rather than one to be tackled by endeavouring to set up an over-all farm loan plan.—A. I do not think so. Where could you read that, Mr. Tucker?

Q. It says on page 6 of your brief:

"On a national basis, it is doubtful that any special lending plan or lending agency is required to deal with men starting into farm."

A. Yes.

Q. And this is based upon the fact that these other provinces mentioned have special legislation for providing credit to young men—legislation suited to the special circumstances of the particular provinces. I took it from the brief that you thought this was a special problem and that the provinces should give some attention to it. I gather from what you said that Quebec has done so, though, of course, conditions vary from province to province.

I also find this on page 4 of your brief:

> Junior Farmer Loans in Ontario and Land Settlement Board loans in New Brunswick and Nova Scotia were of considerable importance (as is the Quebec Farm Credit Act).

That was the opinion given—that these junior farmer loans in Nova Scotia and New Brunswick were of considerable importance. I took it from that that all these provinces were making some attempt to deal with this question of helping young farmers to get started, and I also took it that your organization was in agreement with that view. Now I understand from you that they are not.—A. No, they are not in agreement with that view. It is, of course, obvious that in provinces where these schemes exist, when inquiries are made the answer will be given that they are used quite a lot. The other provinces where schemes do not exist were, of course, not be mentioned.

We were thinking of whether or not there needed to be special federal legislation to assist young men as distinct from other farmers, and we finally said: no. If we take loans from 60 to 80 per cent of the appraised value—smaller loans which will be the loans to young farmers, up to 80% of the appraised value—and make them 40 year loans; then the young man could come in very successfully under that arrangement. On the other hand, the large loan— the $20,000 loan—is only 60 per cent of the appraised value of the land, so the young man would probably fall not into this category but into the category of the small loan. So we figured that the situation would be covered, and that we would not need any special legislation provided for young farmers providing—and always providing—the period of repayment is 40 years.

Q. Did not the organization face the fact that if the provinces of Ontario and Quebec, containing the majority of the people of Canada, are dealing with this problem, we in western Canada might find it difficult to say: "we do not ask our provinces to do anything; we want the federal government to deal with this"? Did your organization not face that fact that when the provinces of Ontario and Quebec are handling it there must be some tendency to feel that the other provinces should at least attempt to enter that field and so something about it?—A. No, because the Ontario Federation of Agriculture is strongly in favour of what we have put forward here. They don't look upon their legislation as the achievement of the millenium. The scheme they have now does not cover people over the age of 35, for instance.

Q. You said earlier that great pressure was placed on the Ontario government to do something about this problem. Do I take it that your organization played no part in exercising that pressure?—A. The Ontario branch of the Federation likely did, some years ago.

Q. You say you do not feel the provinces should give attention to this matter?—A. I do not know that I would say that particularly. It is just a matter of whether this question should be dealt with on a provincial basis or on a federal basis. I do not know, but certainly I feel that a national loan agency has less risk attached to it than a provincial one, and if one of the great problems facing agriculture is to get these interest rates down as low as possible, then it is clear that the security on loans raised by the federal government is greater and the avenues available to them for raising the money are better, with a consequent desirable effect on interest rates for farm loans.

Q. It appears that the Quebec government has managed its provincial loan scheme very well.—A. Oh yes, they subsidize heavily. I think that in Quebec anybody who is qualified can get loans. The scheme is not just for young men only.

Q. Do you know how much they have lent out in Quebec?—A. Very large sums. I cannot recall the exact amount.

Mr. BENIDICKSON: I have the figures here for Ontario, if members would like to have them.

Mr. TUCKER: I would be interested in hearing them.

Mr. BENIDICKSON: I am reading from the report presented this year. It says that:

> Since the setting up of the Junior Farmer Establishment Loan Corporation in 1952, the Government has made 1,569 loans totalling almost $10,300,000. Last year 460 applications for loans totalling more than $3,200,000 were approved and this year the Government plans to increase the maximum amount which may be outstanding at any time under the act from $10,000,000 to $20,000,000.

By Mr. Tucker:

Q. Have you got similar figures in regard to New Brunswick and Nova Scotia?—A. No, I have not got them here.

Q. I have one other question.—A. Generally speaking, Mr. Tucker, most provinces have withdrawn from the field, although some have come back to some extent.

Q. Do you not think there would be more of a tendency for them to come back now Ontario and Quebec are dealing with the matter, because they make up the majority of the people of Canada, and if those provinces are ready to assume that obligation, the majority of the people of Canada would feel that other provinces should do something along that line? Do you not think that would be the result?—A. I do not think that any of the three western provinces will ever come back into the provincial farm loan field. They have lost money heavily and they cannot get enough security. I do not think that Saskatchewan ever will, or Manitoba.

Q. Are you under the impression that the Saskatchewan Farm Loan Board lost any large sum of money? Have you got the figures?—A. They did lose money, a lot of money!

Q. I would be surprised if the amount was very much.

Mr. ARGUE: It was $7·5 million over 18 years, and they quit lending money in Saskatchewan at the end of 1935.

By Mr. Tucker:

Q. Yes. That took in the period of the great depression which hit Saskatchewan on account of crop failure and low prices harder than any other province.—A. And they would not lend money when farmers needed it.

Q. If they did not lend money, it would be hard to understand how they had the losses they had.—A. There were two things; they lost money on the loans that they had put out, and when it came to the depression the hard pressed farmers of Saskatchewan had no money, and they could not raise a bond issue to do any refinancing.

Q. Do you think they are likely to have the same experience as in the 30's again, which caused the provincial governments to have the difficulties that they had?—A. You will likely have the same low yield.

Q. But there are moneys coming into the province in other ways such as family allowances....

Mr. ARGUE: You cannot run a farm on family allowances.

By Mr. Tucker:

Q. If $20 million comes into our province in the way of family allowances, and another $20 million in the way of old age pensions, and another $30

million in the way of federal grants to assist the province in financing that will make a big difference. Is it not a fact, for example, that there is more money coming in in grants from the federal government than the entire provincial budget in 1944? Don't you think that if two provinces give more adequate financing and help in this field, then the other provinces would accept it as a proper field for provincial action, and they would take some interest in these matters?—. All I can say is this; I cannot speak for any provincial government; but my own feeling is that the experience they have had in the past out west in farm loans is such that they won't go into it again.

Q. You feel that they have done good work in Quebec and Ontario, but there would be no hope from asking the western provinces to enter into this field?—A. As far as Quebec is concerned they have done good work there because obviously, it is a highly subsidized interest rate. That is one reason. But as far as Ontario is concerned, I heard grumblings a year ago that the provincial loaning agency was not getting into the field as well as they could to help young farmers, even under the provincial act. In spite of those figures which were quoted. I did hear definitely that the act was not servicing the farms as well as it could. That was two years ago. Whether they have become more generous and loosened up since then I do not know.

Q. I suppose that one of the reasons, Dr. Hope, why there has been pressure to some extent on the Farm Improvement Loan angle is the desire of the Bank of Canada to have the banks curtail the extension of credit, to curtail the present movement in Canada. Has your organization made any representations that there should be some way sought whereby the banks or the Bank of Canada differentiate between certain regions and certain industries in regard to putting on pressure to curtail credit? In other words, while it might be desirable to curtail credit in areas where there is inflationary movement it is very undesirable in the agricultural industry as a whole, and, I would think, quite particularly in areas where it has been difficult to market crops. Has your organization made any representations that there should be a very real attempt made to have the banks understand that this deflationary policy should not be applied to the same extent over the whole of Canada, but should be applied, if possible, where it is needed, where there is inflationary movement, and that it should not be applied in areas where there is no inflationary movement? Has your organization made any representations like that?—A. No, we have not, but I would agree with you 100 per cent. I thought of it just lately. In fact, in our brief to the Royal Commission we have one small section on inflation, and it might be of interest to you to read it, if you have not read it yet. We segregated the agricultural index from the non-agricultural index, and we showed the striking rise since 1947 in the non-agriculture sector of Canadian prices. January of this year was higher than the peak of Korea, which was supposed to be the period of post-war inflation. At the present time the agricultural index is higher than in 1951, and the agriculture price index is away down. We pointed out that such a continuous rise was really an indication of inflation, and that the public of Canada really did not recognize it yet because it was offset by the non-agricultural index being down in terms of cost of food. We thought that in a year or so "the worm would turn" and agricultural prices would rise, and when they rose, you would really feel the effect of inflation. That is as far as we have gone to date in the question of inflation. I agree with you that when you have one sector of the economy, like agriculture, down, and the other sector of the economy is up, if you are going to offset inflationary tendencies—that credit curtailment should not be applied to the sector that is down. It may need credit leniency, although not necessarily expansion of credit. If you have faith in Canada, in our agriculture, that is

what we should do. But we have not gone to the Bank of Canada or any branch of the government in respect to the immediate credit situation. In all fairness, because I think to date we have not really been able to say that the credit agencies are tightening up on us. We have not had any real complaint yet, but it might come.

Q. From what you said about the farm improvement loan question, I would think too that the banks might be inclined to carry these loans, and not to press for repayment; but if they are being pressed now to curtail their credit they may feel they must apply this all along the line. I think the time has come when we should urge that consideration be given to what I have just suggested, that there should be certain places where this curtailment of credit should definitely not be applied, because it will make things worse instead of improving them. I wondered if your organization was prepared to join in urging that, if it was possible at all?

The CHAIRMAN: Are you finished, Mr. Tucker?

Mr. TUCKER: Yes.

The CHAIRMAN: Mr. Argue.

Mr. ARGUE: My first statement is to agree with the one made by Mr. Tucker wherein he emphasized the need to approach cautiously, any raising of the interest rates as a credit restriction policy. We are arguing this morning, at least some are, that the 5 per cent interest rate under this legislation should be less. Now, what bothers me is that the 5 per cent may not be held. I am all for the 3½; but with the credit restrictions and the increase in bank discount rates and so on, is the 5 per cent statutory in this provision we discussed?

The CHAIRMAN: No, the interest rates are set by the board, Mr. Argue, and have varied from time to time.

By Mr. Argue:

Q.Well, have you, Dr. Hope, made any representation at any time to the board to suggest not only a lowering of the rates, but also that the rates be held,—at least held?—A. No, we have not.

The CHAIRMAN: I think there is one thing that is very interesting: You have made history this morning when you agreed with Mr. Tucker.

Mr. ARGUE: Well, I am going to unmake history fairly soon.

Mr. TUCKER: I am glad you emphasized that. I could scarcely believe my ears, Mr. Chairman.

Mr. ARGUE: I have been looking at the experiences set forth by Mr. Chester in relation to losses of the Canadian Farm Loan Board, and while, of course, a great part of their loans are still outstanding, I see their statement on page two reads that they have made loans of over $100 million. The actual loss sustained by the board since its inception totals $717,000. That is a very creditable experience, I would suggest. It is less than one per cent, a loss of less than one per cent of the loans they have now made. I notice on the other hand that the experience with the Saskatchewan Farm Loan Board in relation to the loss was that the total loans were $17·2 million, and the total loss there to the end of 1950 amounted to $7·4 million, or about 43 per cent.

Mr. BENIDICKSON: What are you reading from there?

By Mr. Argue:

Q. I am reading from the province of Saskatchewan's Royal Commission on Agriculture and Rural Life, No. 3, page 53. My question is, do these statistics confirm to you, Dr. Hope, a suggestion that you have made that, with regard to certain of the prairie provinces, the thought of any substantial loans by

provincial agencies on farms is pretty well out of the question?—A. Yes. I think the fluctuations of income are so great in Saskatchewan that it is very difficult for a provincial farm loan scheme to function, unless it has tremendous resources behind it; but it is very difficult because of this violent fluctuation of income. Apparently the province has the willingness but not the strength.

Q. It further states here that the last loans were made at the end of 1935, which means they have been out of business for some 21 years?—A. I might say that when in Saskatchewan my experience was that the Saskatchewan Farm Loan Board loans, a very high percentage were on very poor soil, some of the poorest land in Saskatchewan that I visited. I am referring to lands that are classed as No. 1 and No. 2 in the Saskatchewan land classification map. I think they were at Mortlach, and Chaplin and all through there.

Mr. Tucker: They followed that policy through so that they actually could expect to lose money. They loaned in the cases where they felt a farmer should be given some credit and could not get it through the ordinary companies. So it would be expected that they would have some losses, I would think.

By Mr. Argue:

Q. Well, Dr. Hope, there have been a great many statements made in this committee by various people that one of the difficulties in the administration of the Canadian Farm Loan Board is the amount of "red tape", it has been called, in applying for a loan and getting the application processed. That has been stated to be the delay in many applications. Have you some concrete suggestions as to how this red tape may be cut and how the applications process may be speeded up?—A. I would have to ask Mr. Chester. Is it true that the applications for loans which are received in the provinces are sent to Ottawa for final review and approval?

Mr. CHESTER: Yes.

The WITNESS: If there were a regional director with a staff there, in whom one could have confidence—and one would not have him there otherwise—surely that office should have the authority to approve a loan without having to go back to Ottawa and have it examined, and then perhaps have it sent to Saskatchewan again? I do not know how many times it may come back; it may be once or twice.

By Mr. Argue:

Q. It always goes at least once?—A. Yes. Mr. Chester has said that it goes at least once. Sometimes it goes twice because of incorrect statements.

Mr. CHESTER: That would be very seldom.

The WITNESS: If the regional office were staffed with competent people in whom one had confidence, why could the business not be done as it is done in a bank? It would be a very large bank loan before the central office would be asked for approval. The local bank manager has authority to approve a loan. That is only one point and there may be others. I do not know a lot about Farm Loan Board administration, and do not feel competent to criticize, except in regard to that one little point, which could be examined.

By Mr. Argue:

Q. To me, at any rate, it is astounding to learn that before a loan may be made the question has to be put to Ottawa. The banks would not be in business at all if the local branch manager had not certain authority to approve, certainly the great bulk of the applications for loans. Certainly that is in regard to the great bulk of them.

The CHAIRMAN: Do you mean in numbers or in dollars?

Mr. ARGUE: The applications for loans do not have to go to the head office.
Mr. GOUR (*Russell*): Loans under $5,000.

By Mr. Argue:

One could get a loan approved in a few hours. It should not take days, weeks or months, going back and forth to Ottawa—for what reason, I do not know. I cannot see how people down here would expect to know more about an application than the technical people on the spot in the province where the application is made. That is certainly something which this committee could consider dealing with, in regard to making a recommendation. The witness is acquainted with Saskatchewan, and I am acquainted with Saskatchewan, and it is pretty hard to ask questions about provinces with which I am not well acquainted. With your experience in the appraisal field and your knowledge of agriculture generally, do you think it should be possible—at least, in certain instances—for an appraisal to be made in a short time on a certain application, even if that time were mid-winter? Supposing that some morning you were in Saskatchewan and wanted to buy a farm. If you read in the Leader-Post or in the Star-Phoenix that a certain parcel of land would be up for sale on the 1st of January at a certain price and if after one glance at the advertisement you thought it looked attractive and if you wanted to make some enquiries, do you think it might be possible that you could make the necessary enquiries, look at the records, check the piece of land, and talk to people in the community, if necessary, in order to be able to say you could make the purchase immediately, instead of waiting until the snow goes off the land, in which case someone else may come along to look for it?—A. As far as Saskatchewan is concerned, because of the very excellent soil survey which we have and our very excellent economic land classification work, many of the farms could be appraised in wintertime. In the vast body of land around the Regina plains the soil is mighty uniform, and also in the case of large chunks of it, around Melfort and Rosetown. If the farm is in the middle of a very big portion of such clay land, for instance, there is no reason why it could not be appraised in wintertime.

The section of the act which says that a farm must be appraised only when the snow is not on the land is a section which was put in many years ago, before there were soil surveys in Canada. At that time there were some bad blunders, when they had to appraise the soil "with a lantern". That was done many years ago. That section was put into the act to cover that point and it was a good thing then. However, in the light of modern knowledge, there are some places where the board, through its authority, surely should have power to waive that in certain cases, to speed up the process.

Q. When you look at the assessment records of a given piece of land in Saskatchewan, you can learn almost as much from those records and reports as you could learn sometimes if you farmed the piece of land yourself. The records are very detailed and the maps are excellent and all you have to find out in addition is whether the land is loaded with wild oats and other bad weeds, or to what extent there may have been soil erosion in the last few years. Let us take the summer conditions. If someone makes application for a loan, we know that it takes sometimes six months to make the appraisal. What would you suggest would be a reasonable length of time, to make an appraisal if you had a highly efficient staff, that is, for looking at a piece of land which was up for sale, where the owner was red-hot to sell?—A. I am not an official appraiser. I have seen how they work and I have had some experience of it. I would say that a qualified appraiser could go out on to a farm, starting in the morning, and in one day he could do all the necessary field work on that farm and finish his work out on the farm in that one day.

He might require another day or two days after that, to assemble certain basic information as to the farms around the area. However, if he is an appraiser working in a certain territory, a large amount of that basic data has been accumulated. He already knows the rainfall record, he has the yield record and he knows the distance from markets. He has all that information in his book.

Therefore, the actual appraisal should not take more than two or three days at the outside, even allowing for filling in his reports. Of course, it may be that he could not get there for some time. He may be busy doing something else. I am referring to the length of time when he gets there.

Q. There is a lot of work in processing the actual sale itself. I am no lawyer and do not understand what is involved at that stage. However, after the appraiser has said the land is worth a certain amount of money that a certain sum of money can be loaned on it, and if the two parties prepared to make a deal, is it not possible to have a deposit laid down and certain guarantees and other considerations entered into to make the deal binding?—A. I would say it could be done very rapidly, I believe the institutions in the United States which lend money can make fairly speedy appraisals.

I would like to say this about the annual report of the Canadian Farm Loan Board. I am not criticizing Mr. Chester particularly, or his staff, as apparently this has been the traditional method of turning out this particular report. This has been its form over the years. It is probably a good annual report from the point of view of finance, giving the amount of mortgage, the loans, and so on. However, from the point of view of the general public, trying to see what is going on in the board, it is a blank wall. We do not know the number of appraisals, what provinces they are in, the number of farms appraised, what the cost of appraisal is, how many loans have been turned down, what percentage of loans are turned down because the farmer cannot qualify, what percentage are turned down because the farmer is asking too big a loan, what is the difference between the average appraiser's value and what the farmer thinks the farm is worth. All these things that, in my opinion would be very useful in an analysis of the operations of a public body.

The answer might be that such work would take staff. My answer again would be that it would be very useful information for the board itself to possess. The board is handicapped today, I would say. Mr. Chester may have a different opinion, but I doubt if the board has a real research staff today. I believe it has not got a research staff as we know it. It would be a very useful additional expenditure of public money to ensure that the board had a qualified research staff, especially if we are about to expand its operations as we hope to expand them.

Q. I certainly agree with that statement and I think it would help the farmers, particularly in purchasing land, to make a good many purchases which now must be lost, in the ordinary course of events. Is it your opinion that, owing to this long delay, in many instances many of those who would like to use the facilities of the Canadian Farm Loan Board are unable to use them, and that the land is grabbed by someone else—or to prevent that happening the individual must go to some private lending institution where he can get the money in short order, so as to make the purchase? Is it the case that if he has to wait six months, someone else gets the land?—A. I am not really sure that very many farmers know of the services which the board can provide. Mr. Chester, do you advertise your facilities?

Mr. CHESTER: Yes.

The WITNESS: I am told that some farmers do not even know what the rate is.

By Mr. Argue:

Q. I think it is fair to say that the information about the board's activities, in the hands of potential applicants, is much less than in the case of the knowledge about the Farm Loan Improvement Act, through the banks.—A. Of course many branch banks help that system.

Q. You have suggested that the board was under-staffed, that they should have a greater staff, and you have made a number of suggestions. It occurs to me that perhaps one of the reasons why the board is not as efficient as we would like to see it is because the board is in essence attempting to do a job for agriculture but is working through the administration of the Department of Finance. It would seem to me if the board were working under the Department of Agriculture it probably would have access to certain technical people in the department perhaps more readily than transferring from one department to another. I suggest the people who know most about making loans on farm land are not necessarily the financial people but are the agriculturalists. Have you given any thought to the proposition that the Canadian Farm Loan Board should be in the Department of Agriculture rather than in the Department of Finance?—A. No. I have not given any thought to that. I am not too familiar with the staff of the Canadian Farm Loan Board except that I do know some years ago—20 years ago now at least—one of my former students, now at Washington, a Saskatchewan graduate and an agricultural economist, approached the former administration of the Canadian Farm Loan Board with the idea of setting up a research branch in agricultural economics within the Canadian Farm Loan Board. Negotiations went on for some time, but finally the matter was dropped. Now he has a very influential position in Washington. The Farm Credit organization there has a very big research organization. Almost every department of government in Ottawa seems to have some experts attached to its staff; the Bank of Canada has an agricultural economist, the Department of External Affairs has some, and the Department of Trade and Commerce, and the Department of Agriculture; all these different branches have their own little staffs. The Canadian Farm Loan Board staff do a $7 million or $8 million job and could do more; and they have to go to these departments to get information instead of having their own staff.

I think that perhaps you could get the very thing you are thinking of without transferring it to the Department of Agriculture; keep it where it is, provided you can build up a staff of agricultural economists on that staff who would then have close liaison with all the agricultural branches they would need to keep them in touch with what is going on—I do not say they do not keep in touch now; they probably do know what is going on now. It would be an advantage to have some agricultural economists who would work with the board. If the loans of the Canadian Farm Loan Board get larger it would be a great help to the board to have these economists.

Q. Have you any idea of the average interest rate on land mortgages being taken out now—not those made by the Canadian Farm Loan Board which is 5 per cent—by other mortgage companies and individual lenders, which Mr. Brodrick spoke of, and so on?—A. I do not know except that I do know there are two types, I think personal-friend loans and close-relative loans, which are sometimes loaned at 4 and 5 per cent; but there are a lot of others running around 6 and 6½ per cent.

Q. And with mortgage companies too?—A. As to a mortgage company my guess would be they would not be less than 6 per cent. I do not think there are many lending at the present time.

Q. I know as long ago as 1951 some companies had their rate up to 6½ per cent, and my offhand guess would be probably that it is now up to around

7 per cent—I do not know that for certain. You made a statement earlier that the value of the farm land in Canada was about $4 billion or $5 billion. Mr. Chester said the Canadian Farm Loan Board has out about $40 million. In my calculation that means that the Canadian Farm Loan Board has loaned 1/10 of 1 per cent against the values of farm land, or for every $1,000 of farm land the Canadian Farm Loan Board has $1 out on loan. You made the suggestion you would like to see the loans doubled. I am wondering if doubling would begin to do the job which you have in mind for agriculture? If you did double the $40 million over a period of a few years for this particular program would it accomplish much in the way of the objective you have set forth? I know it is a good thing, but I am suggesting you can raise your sights higher than double.—A. Doubling of the total loans, combined with higher loans would certainly reduce the loans from the private lenders, and to that extent farm loans would be more of a competitive field than it is now. Private lenders, if they are going to continue to lend at all, might have to cut down their rates a little or else lend money in the cities, and its effects might spread. But one of the basic troubles with private lending is that they will not give an amortized loan. A typical private loan is for 5 years and a few for 7 years. Then, the balance all comes due and payable at the end of the 5 years and has to be renewed, and when it is renewed there are legal costs.

Q. If you accomplish your objective of reducing the loaning rate from 5 to 3½ per cent would that have the effect of driving out private funds, and if that objective were obtained the $40 million would have to be increased many times.—A. Yes. If we ever got it as low as we are asking, the private individual would simply be lending his money in the cities. He would not lend in the country at 3½ per cent; a few might lend still in the country at 4 per cent.

Mr. TUCKER: Mr. Argue, I think you are a little bit out. It is not 1/10 of 1 per cent but 1 per cent.

Mr. ARGUE: I could be mistaken but I do not think I am. If I am mistaken I stand corrected.

The CHAIRMAN: I thought it was 1 per cent, but I thought I must be wrong.

Mr. ARGUE: I stand corrected. Even 1 dollar in 100 is still a pretty conservative lending rate and does suggest to me they might get it up 5 per cent, five times the amount of the loans now made. You want the interest rate down to 3½ per cent, and I take it the main reason you want that rate is that you do not think that agriculture can pay any higher rate, and that the farm family would have a better chance to live and pay off the loan?—A. Yes.

Q. Certain figures were put in the record which were very disturbing, such as the level of farm family income. It shows an industry which needs new legislation and new improvements if we want to change the farm family level from what it was in the last 29 years. Then, there were figures for a 5-year period from 1950 to 1954. I am wondering if you would care to give us your considered estimate of what the net farm income position may be in the coming 5 years as related to the last 5 years? In other words, can we reasonably expect with all present trends to hold the present level of economic prosperity for agriculture as we have had in the last 5 years?—A. That is rather a tall order, but I would say this, that net income in 1955 and 1956 is lower than the average of those 5 years undoubtedly. My guess would be in 1957, 1958 and 1959 it will gradually crawl up slightly, and therefore the average of 5 years from 1955 to 1960, although a little better than right now, will still be lower than the average of those previous 5 years. Historically agriculture does not stay low for a very long period provided we have an improvement in the rest of the economy. In the 1930's it lasted longer than

4 or 5 years because the whole economy was down, but as long as we maintain the present level of income of people in non-agricultural pursuits I think agriculture will crawl out of its present position slowly.

Q. That assumes a standard amount of production?—A. Assumes normal yields and production. It is partly based on cattle; the prices of cattle are low and will stay low for a few years, and then crawl upward; hogs are low today, and in a couple of years will be better. You can figure on agriculture picking up provided general economic activity is maintained.

Mr. Chairman, I understand the committee is about to adjourn. Could I make a one-minute summary?

The CHAIRMAN: Yes. There is one thing I would like to say first. There are a number of persons who would like to ask questions. This committee is sitting at 11 o'clock tomorrow morning. Would it be possible for you to make yourself available then?

The WITNESS: Yes, Mr. Chairman, as long as it is not too long. I am on very pressing work and almost should not be here; but we consider this legislation very important and it is not too often that we have an opportunity to talk to a committee of the house on farm credit. I do not know what good I can do for the farmers, but if I thought I could help to modify even the present bill a little bit in the direction in which we would like it to go, then I would certainly be willing to come back as long as it is not for too long.

The CHAIRMAN: I would not say that we could promise that the bill be modified.

Mr. TUCKER: May I say, Mr. Chairman, that I will not be able to be here this afternoon.

Mr. ARGUE: We are not sitting this afternoon.

Mr. TUCKER: I should have also said tomorrow morning. I feel I should say to Dr. Hope that I think this is a very splendid brief which the Canadian Federation of Agriculture has presented to us and speaking for myself only, I would like to express appreciation to the Canadian Federation of Agriculture for the brief and to Dr. Hope for the very clear explanations that he has given of their views on this subject—views which I think should be most helpful, not only to us but to the government.

The CHAIRMAN: I think we all agree in that.

Mr. CARRICK: I may say, also, that I shall not be here tomorrow, Mr. Chairman, and I would like to ask one question.

Dr. Hope you mentioned at one time your belief that the provincial governments which do not provide farm loans now are not likely to go back into that field. As you know, the British North America Act provides that responsibility for agriculture rests both with the provinces and with the federal government. I would like to ask you this: are there likely to be losses in the future as great as those which have been sustained in the past, and, if this is not likely, is it not true that the provinces which do not re-enter the loan field may be accused of shirking their responsibilities by placing those responsibilities on the federal government?

Mr. ARGUE: Mr. Tucker asked that question twelve times.

Mr. CARRICK: I would like to have my question answered by Dr. Hope.

The WITNESS: It is a good question. I will admit frankly that the policy committee and the directors did not go into that phase or aspect of the matter; we did not discuss it and in those circumstances anything I say has nothing to do with Federation policy but is a purely personal view.

With respect to long term future losses, I do not think that in the next 20 years, with the knowledge we have now both of agriculture and in the running of the whole economy, losses in lending to farmers would be as great

as we experienced in the thirties. On the other hand I do not know that that statement necessarily means that provinces should take over, because what we are trying to arrive at is, as I said before, the lowest possible interest rate, and that is based upon two things: the cost of the money you borrow and the risks involved in lending it. The federal government, with its power and strength on both scores, is in a position to borrow money at a lower rate of interest. Also, because the loans are spread across Canada by one agency, with all agriculture behind it, not just one province or one type of farm, the risk element would be less. Looking at those two factors we believe that a federal institution would be able to service agriculture and get a rate a little lower than any province could possibly quote over a period of years.

Mr. GOUR (*Russell*): I cannot be here tomorrow either, Mr. Chairman, and there is just one question I want to ask. If the government decides to put the interest rate at 4 per cent, and if there are losses that the board has to suffer—losses by way of administration costs and losses on mortgages—do you not think, Dr. Hope, that they should be carried fifty-fifty by federal and provincial governments? Would you not consider that in the provinces which do not wish to share in the 50 per cent loss, if any, there should be an interest rate of 5 per cent?

The WITNESS: That is a new one. I never thought of that.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 3

Bill 84

An Act to amend the Canadian Farm Loan Act

THURSDAY, APRIL 12, 1956

WITNESS:

Dr. E. C. Hope, Economist, Canadian Federation of Agriculture

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

72973—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Argue
Ashbourne
Balcom
Benidickson
Bennett (*Grey North*)
Blackmore
Bryson
Cameron (*Nanaimo*)
Cannon
Carrick
Charlton
Crestohl
Enfield
Eudes
Fairey
Fleming
Follwell
Fraser (*Peterborough*)
Fraser (*St. John's East*)
Fulton
Gour (*Russell*)
Hanna
Henderson
Hollingworth
Huffman
Johnson (*Kindersley*)
Johnston (*Bow River*)
Macdonnell (*Greenwood*)
MacEachen
Macnaughton
Matheson
Michener
Mitchell (*London*)
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Quelch
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

WEDNESDAY, April 11, 1956.

Ordered,—That the name of Mr. Enfield be substituted for that of Mr. Hellyer on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

72973—1½

MINUTES OF PROCEEDINGS

THURSDAY, April 12, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Balcom, Benidickson, Blackmore, Bryson, Cameron (*Nanaimo*), Charlton, Crestohl, Fairey, Follwell, Fraser (*Peterborough*), Henderson, Huffman, Hunter, Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener, Pallett, Quelch, St. Laurent (*Temiscouata*), Viau and Weaver.

In attendance: Dr. E. C. Hope, Economist, Canadian Federation of Agriculture; and Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

The Committee continued its consideration of Bill 84, An Act to amend the Canadian Farm Loan Act.

Dr. Hope continued his remarks on long-term farm credit and was questioned thereon. He emphasized certain of the recommendations contained in the brief of the Canadian Federation of Agriculture; and was retired.

It was ordered that certain briefs from representative farm organizations, which had been distributed to the Committee at the commencement of the sitting, be printed as appendices to this day's Minutes of Proceedings and Evidence, viz.,

Interprovincial Farm Union Council	*Appendix "A"*
Alberta Sugar Beet Growers, Lethbridge, Alta.	*Appendix "B"*
Eastern Irrigation District, Brooks, Alta.	*Appendix "C"*
Lethbridge Central Feeders Association Limited, Lethbridge, Alta.	*Appendix "D"*

At 12.50 o'clock p.m., the Committee adjourned until 11.00 o'clock a.m. on Tuesday, April 17, 1956.

Eric C. Jones,
Clerk of the Committee.

EVIDENCE

APRIL 12, 1956
11.00 a.m.

The CHAIRMAN: Gentlemen, we have a quorum.

Dr. Hope has some information which he has obtained overnight and I thought we should start off by having him give that information to us.

Dr. E. C. Hope, Economist, Canadian Federation of Agriculture, called.

The WITNESS: Mr. Chairman, I thought it might be of interest to the committee to know what the amortization payment would be on farm loans with certain interest rates over a 40-year period. The present Canadian Farm Loan Board operations are based upon a 25-year term at 5 per cent, which means that the annual charge for servicing that loan is 7·25 per cent of the loan, interest and principal combined; an equal annual payment of 7·25 per cent of the original loan. Now, if you have a loan at 3·5 per cent for 40 years, the equal annual payment is 4·68 per cent per annum for 40 years. A 4 per cent loan for 40 years is 5·05 per cent per annum. A 4·5 per cent loan for 40 years is 5·43 per cent per annum. A 5 per cent loan for 40 years amounts to 5·83 per cent per annum. These calculations, by the way, were obtained this morning from the actuarial branch of the Department of Agriculture, specifically from Mr. Fletcher.

Now, there is one more observation. I have before me the report of the Canadian Farm Loan Board for 1954,—the year ending March 31, 1954. On page 10 we have a statement of the income and expense for the year ending March 31, 1954. They have been lending money at 5 per cent on most of their loans, so I tried to make a rough calculation of what financial standing they would show for that year if they had loaned money at 4½ per cent; so, I took their interest on mortgage and reduced it ½ of 1 per cent, by ⅒. It indicates the net income from interest instead of being $648,000 would be $343,000.

By Mr. Michener:

Q. Excuse me. Dr. Hope, do you mean ⅒ or 1/10?—A. The interest rate was 5 per cent and I assumed it at 4½ per cent.

Q. That would be a reduction of 1 in 10?—A. Yes. I was wrong about that when I took ⅒ off. That would be 4 per cent.

Q. Yes.—A. That is correct—4 per cent. Then, reducing it down to 4 per cent—I am glad you brought that to my attention—that reduces the interest earnings $305,000 for the year which would give them a net loss of $147,000 for the year. They show a net profit of $157,000. Lending at 4 per cent would have shown a net loss of $147,000. You see, our contention has been that with a much greater volume of business, the rate could be much lower, as the 4 per cent rate shows only a $147,000 loss.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, does Dr. Hope mean that if there was an expected increase of business then that loss which he has indicated would be lower?

The WITNESS: It would be either lower or zero, no loss. The present volume of business is relatively small. Of course, this institution is set up as a profit-making institution. We conceive of the Canadian Farm Loan Board as really

a service institution, not for the purpose of making a profit. I believe under the amendment it will be changed; but after setting up the legal reserves, as I understand it, a certain amount goes back into the treasury. Would it be true then, Mr. Chairman, to say that the profit motive has been removed from the board by the proposed legislation?

The CHAIRMAN: The truth would be that instead of building up the larger reserve which they have they will only have reserves as set forth in the amendment. Previously they had larger reserves than they were compelled to have under the act.

The WITNESS: But after the legal reserves are met they pay income tax.

The CHAIRMAN: They pay income tax.

The WITNESS: It still operates as a profit institution.

By Mr. Michener:

Q. You do not advocate that it should be operated at a loss, do you?—A. No. But I would suggest this: if it is going to be a service institution over a time you can either have a profit institution which is supposed to show a profit or service at cost.

Q. I do not take it to be your position that it should be subsidized each year out of the public funds and operated at a loss?—A. Well, our federation did say that the money should be loaned at cost.

Q. That is a different thing. If you are trying to operate at cost, you may be in the red one year and up the next, but over the years you would break even.—A. Yes.

Q. A reduction to 4 per cent, in the example you gave, would necessitate a loss?—A. Yes, on the basis of the present volume of business.

Q. You do not advocate that we plan to have an annual loss in the future? —A. No.

By Mr. Argue:

Q. Your brief also suggests that the administration costs should be borne by the treasury.—A. Yes.

Q. Which is another way of saying it should be a permanent subsidy or payment from the treasury for the operation of the board, namely for administration?—A. Yes.

Q. Do you think that Canadian government policy, if it were along the lines you suggest paying the administration costs and providing a certain element of subsidy even though small, can be justified in relating that policy to the type of agricultural policies which may be in force in other highly industrialized or advanced countries?—A. Yes. I think I can. We have claimed that agriculture is a low earning industry—and this is partly a social problem as well as an economic one. I think there are advantages in having a reasonably stable agricultural economy over a period of years, and an agricultural industry which is not too small. We are slowly becoming a little bit less important segment of the economy all the time. Maybe the time will have to come when we will take a good look at agriculture and say how is it going, is it good policy to have agriculture becoming a gradually dwindling percentage of the total economy; should we go down and down until we are 90 per cent industrial and 10 per cent agricultural; is it a good thing in the long run for the economy? To that extent, then, if you believe you are liable in the long run to have a relative decline—to a very small percentage of the total economy—then you might say that a subsidy of some nature in administration costs might be something which would be in the national interest. That

is the attitude we have taken. We do not say specifically how low agriculture should go in its relative position to the total economy; but we feel the time will come when Canada will take a look and decide it has gone far enough.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, could I ask this question. I notice, Dr. Hope, you said, speaking of the board, "It was set up as a profit-making institution". Do you mean by that, that that was the deliberate intention of the government in setting it up, or do you really mean it has in effect been run as if it were intended to be a profit-making institution?

The WITNESS: The answer is your second proposition.

By Mr. Bryson:

Q. Dr. Hope, I understand that the government's thinking in setting up this legislation as a profit institution was done not to discourage private lenders from lending money on farming land; that is my understanding of that. According to your evidence you believe that the Canadian Farm Board is the only agency left that is actually lending money to farmers. Now, in the light of that how do you account for the fact that other lenders have disappeared and the source of credit has dried up? Would you say it was possibly the Farmers' Creditors Arrangement Act which has been in force which has discouraged it?—A. I would suggest—and some gentlemen here may know more than I do; this is my personal view—it is partly in some provinces based on the experience under the Farmers' Creditors Arrangement Act; but that is not the whole story. It is probably due to alternative earnings of capital at higher rates in cities where they have more confidence than they have in agriculture; the cost of servicing agricultural loans is higher. In Canada it takes longer to appraise farm land than city property. In the cities you can invest large amounts of money in blocks and therefore they tell you it is better than investing in small loans of $3,000, $4,000 or $5,000 scattered around the country. They have tried to streamline their investment programmes and they find it is better in the cities and in industry in general. I think that is the answer. The Farmers' Creditors Arrangement Act is of course part of the answer but perhaps not the most important one.

Q. Then there seems to be little or no reason why this board should remain a profit-making organization if these other people have left the field?—A. Well, it is true there has been a great gap appear since the 30's. The experience of the 30's was such that they withdrew as rapidly as they could and collected their money. Only in a few cases, in a few provinces, do I understand very occasionally they make a few loans. It is not universal. I can give you a personal experience. Six years ago I tried to get a loan on my farm for certain purposes. I was not eligible for a farm board loan at that time, and I scurried all around Ottawa to every loaning company, to every insurance company and every trust company that I knew of. Not one would advance a small loan, despite very good security, on a farm; not one! Eventually I went to a private lender and paid a very good interest rate.

The CHAIRMAN: I think there are a number of other reasons. I know that in our office we handle a great many mortgages, and therefore we have some idea of the viewpoint of the lending institutions, and one is that the cost of servicing city property—the actual cost of servicing the loan—is lower than in the case of farm property; inspections are cheaper and they can keep costs down pretty well to 1 per cent. Secondly, if the loan falls into default and they have to take the property over, the city property is much more easily managed; it does not deteriorate as rapidly as a farm, which, if not well managed, deteriorates quickly. Thirdly, there has been such a housing boom throughout Canada that practically every cent available for mortgage loans from lending institutions has been spoken for by builders of houses

before the money was even available. These are some of the very good reasons why lending institutions have not gone into the farm field. Of course, their experience was very bad in the western provinces, too.

Mr. QUELCH: There are quite a few mortgages out in western Canada still, are there not, in the hands of some of the insurance companies? It may be they are repeat mortgages.

The CHAIRMAN: Is the Canada Permanent still out there? They have been out there in a rather large way.

The WITNESS: The Great West Life Assurance Company had very heavy investments in farm property in the west, but hardly ever operated in Ontario. As I understand it, in the 'thirties the institutions which were lending were chiefly in the three prairie provinces, and very little in the east; and because the risks were not nation-wide they had their eggs in one basket—the basket that failed. Their experience was unfortunate chiefly due to the fact that the risk was concentrated in one area.

Mr. MACDONNELL (*Greenwood*): I think the reasons you have just given, Mr. Chairman, were very good ones but is there not an additional reason, that is, the assistance being given by public authorities for house building in cities, namely through the Central Mortgage and Housing Corporation? I think that has stimulated the trend. I have also heard, though I have no complete assurance on it, that a good deal of the lending done in the west by private institutions recently has been done in the cities and not to any great extent in the country, whereas formerly it was done almost wholly in the country.

Mr. QUELCH: Possibly they have doubts about the future of agriculture—they fear that prices are falling and that farmers may find difficulty in meeting their obligations.

Mr. MACDONNELL (*Greenwood*): I think the reasons given by the chairman are very strong. The demand in the cities has been there, and it is easier to collect payment and so on.

The CHAIRMAN: I know that building contractors have had to curtail their programmes in some areas, not because of physical difficulties but because there was not longer any money set aside by lending institutions for use during that year. Consequently, they had to defer part of their programme until the following year when they could expect an allotment from the lending institutions in respect of that year.

Mr. MACDONNELL (*Greenwood*): On the other hand, I think we could keep an open mind; this is a situation that could change, and you might find private institutions very ready to consider making loans again in farming areas when some of the pressure is off.

The CHAIRMAN: I think you might well find them returning to that field. Anyone familiar with Toronto will have noticed that vacancy signs are now to be seen outside a number of the apartment buildings which have been constructed as part of a great effort in this direction over the past few years, whereas formerly the mere rumour of a vacancy would attract about 500 people eager to have the rooms. That would indicate that the need for this type of housing has been fairly well satisfied.

Mr. WEAVER: I would like to thank Mr. Hope for the brief that he and Mr. Brodrick have presented. It is one of the most reasonable and sensible briefs I have seen in recent years on farm credit. I notice that on page 8 it mentions that there would seem to be little need for a special programme of making second mortgage loans, and I was wondering whether Dr. Hope would care to comment on that.

The WITNESS: Well, we thought that the chief purpose of the second mortgage from the Farm Loan Board was primarily for buying equipment and livestock for the purpose of getting increased productivity, and we thought that the board could simplify its operations if it just dealt with first mortgages only, the maximum loan being raised to $20,000. Then, we suggested some modifications in the farm improvement loans and we considered that the two acts, amended as we proposed, would make it unnecessary to have the board operating in the second mortgage field. I note, now, that in the proposed bill the power to grant second mortgages by the Board has been withdrawn.

Mr. CAMERON (*Nanaimo*): I was interested, Dr. Hope, in your remarks about the declining importance of the agricultural section of our economy, and I was wondering whether your estimate was based on a decline in the ratio which agricultural production bears to total production, or whether it was based on a decline in the proportion of the gross national income which is going to farmers. It seems to me that any action we might take would depend on the basis on which you have made your calculations. Obviously, if your estimate is based on a decline in the proportion of the gross national income which is going to farmers, then the solution is to increase that proportion. If, however, you feel that the situation is caused by a dangerous decline in the proportion of our gross wealth production as accounted for by agricultural products, that means an expansion of the agriculture industry. I was wondering on which basis you had proceeded.

The WITNESS: We do not try to refine our definition of relative decline too much. There are a number of indices which could be used—a decline in the relative labour force is one; the proportion of people engaged in agriculture is going down all the time. But this decline will, it is likely, begin to "taper off" pretty soon. The percentage of the total national income coming from agriculture is another index that could be used. We expect that to go down gradually, but that point was developed rather fully in the brief we presented to the Gordon Royal Commission. The situation will depend in part on our success in maintaining our exports. If we depend entirely upon our domestic consumption of food, it is definitely going to decline relatively; if we can maintain our export trade in some products we can prevent the relative decline being so rapid. In theory, we might be able to stabilize the situation if we could get our costs down low enough to compete with the rest of the world on a favourable price basis. In those circumstances we could maintain the agriculture industry relatively better than we could if we had a declining export trade.

Mr. CHARLTON: Speaking of exports, what is the percentage of exports of agricultural products?

The WITNESS: It totals about 30 to 35 per cent of our total agricultural production. That is based on gross value.

Mr. CHARLTON: What percentage of our total exports is represented by agricultural products?

The WITNESS: That is not very far from 30 per cent, also, I think.

By Mr. Argue:

Q. The main reason farmers get into difficulty in paying off loans is the fluctuation in the prices of agricultural products, and I think a great many of the problems involved in lending and borrowing money would be removed if there were suitable policies for the agricultural economy. I was wondering what stand the Federation is taking with regard to an agricultural programme into which our lending institutions would fit. In other words, what are your

suggestions for preventing a further decline in agriculture industry, which is in a state of semi-depression at the present time?—A. One of the ways in which we could maintain our export industry would be to achieve a continuous increase in our efficiency. We are competing against a large number of other countries which grow farm products for the export market, and to the extent we lag behind them it will be more difficult for us to maintain our position in the export trade and to maintain agriculture as a fair-sized business in our economy. Loans such as we are talking about—long term mortgage loans and farm improvement loans at a reasonable rate of interest—would allow farmers to equip themselves in order to achieve this end.

We must not forget that almost every country in the world—one might, indeed, say every country, including even the so-called backward countries—are going all out to make agricultural production efficient. They are holding interest rates on loans as low as they possibly can in order to enable farmers to buy productive equipment for this purpose. If we, in Canada, are going to lag behind the rest of the world we shall lose our export market, and to that extent even home-produced food would be dearer.

Q. Surely you must go further than this and say that a domestic policy of support prices—subsidies—use whatever term you like—is essential to maintain the efficiency of the industry and remove some of the results of these violent fluctuations in prices?—A. It is true we have advocated a price support policy, though not one of an extreme character. The Federation, we consider, has not gone all out and asked for extreme price supports, but we believe that if we can prevent prices falling too low we shall prevent them going too high later on, and thereby stabilize the price to the producer and to the consumer also, at a cost, perhaps, from time to time, of some subsidies. Some loss might have to be borne, but if you do not assume that there might be a loss occasionally, you will simply never stabilize agriculture.

In other words the farm economy in a completely free market with no price supports and no government intervention whatever would tend, over a period, to become more gradually violent in its price and income fluctuations.

Mr. QUELCH: Would you say that we are competing with the treasuries of other countries, rather than with the farmers of other countries?

The WITNESS: Yes, to some extent that is correct.

By Mr. Weaver:

Q. As an agriculture economist, Dr. Hope, can you tell us whether it is safe for the agriculture industry to depend upon 30 per cent of its product for export?—A. Let me answer that question this way: there is, I admit, always some risk in an international market, because no one knows what is going to happen to foreign countries. On the other hand, that 30 per cent is nearly all wheat, and if we leave wheat out it would not amount to more than 10 per cent. As far as wheat is concerned we must have a substantial export market because there is no other profitable one for the land, unless we want to put all that land into cold storage. We have got to send that wheat out. So, leaving aside the rest of the surplus of farm products today, it is not very great. In some cases, of course, it is still of importance—potatoes, to take one example, and, to a large extent, tobacco.

Q. I suppose you are of the opinion that a big influx of immigrants would largely remedy that situation by increasing consumption in the home market? —A. Yes, we advocate a good healthy immigration. We would like to see the home market expand.

Mr. BLACKMORE: Yes, but the immigrants would also increase production.

The WITNESS: That is so, but we do not consider the immigrants would increase farm production too much. They seem to like to work on a farm for a few months and then to leave for work in logging camps or in industry.

By Mr. Quelch:

Q. Mr. Chairman, does Dr. Hope know the percentage of our imports from the United States represented by agricultural products?—A. I am afraid I cannot answer that question exactly, except to say that it is very high because of cotton, citrus fruits, fresh vegetables and fresh fruits out of season. I would guess the figure would be at least half, or more than half, of our total imports from the United States. That includes, of course, imports which are non-competitive such as raw cotton which is of tremendous importance.

Q. What about sugar and coffee?—A. Yes, some sugar comes in, but coffee is not grown in the States unless you count Puerto Rico. Some rice comes from the United States. The percentage of our fresh fruits and vegetables coming from the United States is steadily increasing because of our wealth which results in an increase of our out-of-season consumption.

The CHAIRMAN: Dr. Hope, with the increased mechanization of farms, is it still more expensive to operate even though a farmer needs less hired hands? I was just wondering if the increasing expenditure on mechanization on farms was not to some extent counter-balanced by the fact that you need less people to operate?

The WITNESS: In other words, increased mechanization is counter-balanced by a smaller need for labour and results in lower costs?

The CHAIRMAN: Yes.

The WITNESS: On the basis of the cost required to produce the article, yes, you are correct; the reduction in labour costs more than off-sets the cost of the machinery, otherwise no one would farm along these modern lines. That is one answer. At the same time, mechanized farming does require more of the operating costs to be paid for in cash, and it requires more capital, because capital is replacing labour. I made a calculation once, a few years ago, rather roughly, and it appeared that it then required about $7,000 or $8,000 worth of machinery to replace one man in agriculture. That appeared to be the situation then. In the old days of horse farming a man needed to put out a lot less capital, although he had to have more labour. Labour was paid monthly. You did not have to borrow money to pay labour. You paid them monthly wages, or every other month, and it was a continuous process. But now you do not do that. You have to go out and borrow $5,000 or $6,000, and you have gradually to repay it with interest and principal payments, so it is a different kind of financial management from what it used to be.

By Mr. Quelch:

Q. Having in mind a farm that is largely a grain farm, and one in which the soil is of such character that the yield will be an average one, how large would you say that farm should be in order to make the most economical use of the full line of farm machinery? Did you not suggest some time ago that it would have to be around two sections?—A. Some years ago, when I was out west, I probably made such a statement. I was more familiar then with conditions; but I have not been out there for some years and I would hesitate to say now exactly what it should be. I do know that since I was out there combines are larger, one-way discs are larger, seeders are bigger, and I know that today it likely requires a larger unit in acres, to obtain a more efficient sized unit than when I was out there.

Q. I would imagine that is pretty well true today, and that a farmer would need a larger amount of capital to finance an efficient unit. We can hardly

expect the government to finance or subsidize an inefficient type of farming. That is probably why farm units are increasing in size, in order to operate on a more efficient basis.—A. That is correct.

Mr. ARGUE: In your study of agricultural policy in other nations of the world, do you know of any advanced nations which do less in the way of support prices and other policies for agriculture than is done by our country?

Mr. MICHENER: That is a pretty broad question!

The WITNESS: No, I do not know of any country that does less.

By Mr. Charlton:

Q. Coming back to the answer that you gave to the chairman's question; did you answer on the basis of the entire country, or on the basis of east or west? What proportion would there be in your answer with respect to east and west, and in the method of farming?—A. What was that again, please?

Q. The chairman questioned you and he asked you with respect to the cost of equipment on farms, would it probably offset the increase in labour previously, with labour instead of equipment. Would you say that perhaps the difference would be similar in the east and the west, or would there not be a much greater reduction in the west than in the east?—A. Yes, because the west is much more highly mechanized than the east. They have gone to the extreme, and I do not know if the west can reduce the labour content of their farm products very much more. But in Quebec you have the other extreme, where mechanization in Quebec has not gone very far.

There is an interesting point which I looked up the other day. It has to do with the value of horses in Canada. I found that the value of horses today in Quebec is about $150 per horse, while in the west it is $55. The value of horses in the western provinces since 1935 has not increased more than $5 or $6, starting away back in the thirties; but in the province of Quebec horse prices started low and have gone away up in price. Maybe horse dealers would make money through buying in Saskatchewan and shipping to Quebec. But, at the other extreme, New Brunswick is also somewhat similar but not quite so much as Quebec. I know that the demand for motive power in Quebec is still heavily influenced by the number of farmers who are horse farmers. There is probably a reason for that because Quebec farms are somewhat smaller, and maybe some of the land is a little rough and stoney. Therefore the Quebec farmers find that they make a better living right now with horses than they could by buying a tractor. That is because of the nature of their land and the longer winters and the deep snow, where they would use horses more often in the bush, and where the tractor is not very effective in the bush unless you equip it with half-tracks; but we feel that even this will change, and the day will come when the Quebec farmers will be highly mechanized. The problem then of financing farms, which is positively the greatest problem in the west, will be the same in Quebec as it is out west and even in Ontario and it will also occur in New Brunswick.

By the Chairman:

Q. Would that not entail a change in the type of land holding in Quebec?—A. It would require larger farm units in Quebec. They might adapt a small tractor and equipment to a small tract of land but it would not be very economical; it would probably require a somewhat larger farm in Quebec.

By Mr. Argue:

Q. The purpose for advancing money under this act is, I believe, to provide more efficient farm units. Whenever there is industrial unemployment

in Canada everybody says that it is a bad thing and that we should try to correct it. But when there is a lot of unemployment in the agricultural industry, that is not true, although you have a good deal of labour with certain very tiny units which are very definitely under-employed.—A. That is true.

Q. Could you give us some idea of that under-employment and the number of employees in the agricultural industry who, by and large, because of their tiny farms, are wasting their time by being in that industry, and adding practically nothing to the productivity of the country?—A. I hate to give a figure. The census should give you some guide as to the number of part-time farmers and the number of self-sufficient farmers just producing enough for their own home produce. That is the type of which you refer, but off-hand I do not think I had better make a guess on it.

Q. Would you say that there might be many of the 100,000 people, the labourers working in the agricultural industry, who work at no other industry, who are totally, or almost totally under-employed in the agricultural industry because they are attached to, let us say, a tiny and inefficient farm unit?—A. Yes, I think that 100,000 would include nearly all the family labour; that might be an approximation. There has been a great decline in the number of farms since 1946, and a big drop in the labour force in agriculture since 1946, but in spite of that decline, the volume of farm production keeps on going up.

Q. Surely.—A. We believe that the decline in itself has been mostly in the sector of fringe farmers that you are referring to who are dropping out of the picture.

In some cases their farms have been taken over by their neighbours; in some cases they are dropping right out of the picture and the land is going right back to forest. That is a process which has been going on rather rapidly in the post-war years, but we see an indication of it slowing up. Based upon what we can anticipate in Canada that decline will not go on much longer. The problem of course is, what can we do about those farmers?

By the Chairman:

Q. In what province would there be the greatest decline?—A. In New Brunswick and Quebec. The unpaid family labour force, the farm labour force, in Quebec has gone down quite substantially in the last ten years. I am not too familiar with Quebec agriculture, but I can say that part of the answer might be to look at the definition for unpaid family labour as used in the Labour Force Survey. A labour force survey defines unpaid family labour as a worker who works so many days per week on a farm. You can see by looking at some of the figures that the decline in the unpaid labour force in Quebec has been mostly in female unpaid family labour, which would lead me to believe that the farm women of Quebec perhaps do not go into the cow barn as much as they used to, and therefore they are dropping out of the unpaid farm labour force.

By Mr. Macdonnell (Greenwood):

Q. Perhaps they are going to work in the city?—A. Possibly so, but the girls may have decided not to do so much farm work, and the same thing goes for Ontario and all over the country. Women are withdrawing from the cow barn.

Mr. HUFFMAN: Perhaps it is because of milking machines.

The WITNESS: Yes, milking machines would be quite a factor.

By Mr. Quelch:

Q. In the west there are more girls running tractors now than ever before. —A. In the summer time that is a very important feature, and it is quite true. Although we are concerned with the sub-marginal farmer or the small farmer on land like that, we hear people talking about inefficient farmers and how we are subsidizing inefficient farmers. But you have got to take a look at both agriculture and non-agriculture, and when you consider a poor farmer with a low income. When you look at city people, I doubt very much if we have any greater percentage of inefficient people in agriculture than we have in industry. Take, for instance, non-farm labour. A farmer is always penalized if he is a poor producer. But in the city, people are not necessarily penalized if they happen to be poor producers. If you work as a labourer, well, you get a certain standard wage rate, and unless you are very bad, you will still stay on the job. But when a farmer becomes inefficient his income goes down before very long. So I do not think that agriculture is any worse in that respect, having regard to all the people of Canada. We hear people complain that we have so many inefficient small units.

By Mr. Macdonnell (Greenwood):

Q. That is why farmers are so much better than the rest of us.—A. There is another factor too. We must not forget those who have invested in farms in the back concessions of this country of ours. We often find a lot of happy people on small farms—some are mighty happy people. Usually they get low incomes, but they do not ask for a lot of things. They might be just as happy there as if they were shifted into some industrial job.

We would like to help them all we can, yet we do not think than any holus-bolus moving of them is going to be the final answer. However we do think this: what Canada does need, what we do need is a national policy of land classification right across the country. We definitely need a national policy of economic land classification by provinces so that we can mark out the areas which we consider are not suitable for farming and then take the people away from those lands and see if we can relocate them on some farms somewhere else, or in the city. Beyond that I do not see how far we can go. We have got that in the province of Saskatchewan. There the land is almost completely classified now. Alberta and Manitoba are also well along the way. Other provinces have got soil maps scattered here and there, but a real attempt to zone out the nation's resources of land has not been done. It is a long range programme that is very badly needed.

By Mr. Michener:

Q. Do you think there are many people trying to farm land who really are not suitable for farming?—A. Oh yes, there are lots of people like that, even in my own county.

Q. Is it desirable to help them to continue with such a thing?—A. No. The farm home improvement assistance administration in the United States points up how carefully you have got to be when you help a man through assistance, that you do not perpetuate him on a piece of land which is obviously unsuitable for agriculture. That is the judgment of the administrators.

By Mr. Charlton:

Q. Is that what Dr. Patterson meant when he said that some of these people on marginal farms should move to the city?—A. Dr. Patterson is a pretty sound man and if he said that, I am sure that is what he meant. I think he meant that if they were on sub-marginal land they would be better off if they were located in a city or on some better piece of land.

Mr. MacDONNELL (*Greenwood*): It may be that you feel that we cannot do anything about it. But I have been impressed by the thought that the agricultural problem is not one problem, but several problems. We are talking about an average farmer, but such a farmer does not exist. My point is this; it has become clear that farming conditions in the west are one thing; in Ontario they are another thing; in Quebec they are another thing, and in the Maritimes they are still another thing. You may say that there is nothing we can usefully do by way of trying to break that down, but it does seem to me that there is something artificial in trying to deal with an average situation, without trying to see how different the problems are in the various parts of the country. Perhaps when Mr. Chester returns, he can give us statistics to show how relatively important the loans are in various parts of the country. Perhaps you might consider that, Mr. Chairman. You need not give a ruling now; but it seems to me as I have listened that what we are discussing is something which is terribly concrete and real.

Mr. BLACKMORE: In every type of farm we have throughout the country, the interest rate charged on the loan is an important matter, and that is, after all what we are considering right now; and the next thing is the ready availability of the loan when needed, which is a very important matter, and that is another thing under consideration in this committee at the present moment.

By Mr. Pallett:

Q. Dealing with Ontario, you are probably familiar with Dr. Patterson's report to the Royal Commission. I was wondering if in his submission he pointed out the increasing size of the farm unit and the trend towards that increasing size, and if the maximum limits prescribed in the amendments to this act will be sufficient to take care of that trend. In other words, will a maximum loan of $15,000 be sufficient? Your recommendation is for $20,000.—A. We have suggested $20,000 as a maximum, which is $5,000 more than your proposed amendment. I might say that with the Farm Credit Administration in the United States their maximum is $100,000. That is the maximum loan which can be obtained in the United States under the Farm Credit Administration.

Mr. BLACKMORE: And their need for loans is no greater than ours!

By Mr. Pallett:

Q. There is this trend in Ontario towards larger sized farm units.—A. Yes.

Q. Am I correct in saying that if you want to start with an average 100 acre farm, let us say, in western Ontario, that in order to bring it anywhere near an efficient operation it would involve an outlay of between $40,000 to $50,000?—A. I cannot answer that question exactly. I am not sure of the capitalization of western Ontario farms. It would be much higher than would be the case in eastern Ontario, for a 100 acre farm here. I would not like to say what it would be in western Ontario.

Q. Is there any trend towards a specialized type of agriculture?—A. Very much so.

Q. Which involves a higher degree of mechanization and even research coming into it?—A. Yes.

Q. Involving a higher output of capital; and would you care to comment if there would be any merit in increasing the size of the land under this act to take care of this situation, or including it under the Industrial Development Bank, since farming is a special industry.—A. I would rather that agriculture was not financed by the industrial development bank. I would rather treat this as agriculture and not as an industry. We do not favour big corporation farms. I know there are big farms—even perhaps here in Ontario—with a big

capitalization. We do not feel that is the answer to agriculture. We still stress the family-type farm. I think it is important, and I do not think that you need a huge capital investment to make agriculture healthy. That is why we thought $20,000 would be ample to cover even a person who wants to get a large efficient farm unit.

Q. It is agreed, I believe, that there are a number of situations where the $20,000 loan would not be sufficient?—A. There would be some cases no doubt; but not to any great extent. Mind you, Mr. Chester could certainly answer that question better than I could. He would know the amount of loans which have gone forward. However, a $20,000 loan lending at 60 per cent of the appraised value of land means about $30,000 worth of land.

Q. A little better than that.—A. Yes. That is a pretty good-sized farm.

By Mr. Macdonnell (Greenwood):

Q. Accepting your view that that is a pretty good-sized farm, is there a feeling that as a farm gets larger it becomes less efficiently operated and the loan becomes less secure? Up to what point do you think a unit could be efficiently organized? What would be the test?—A. The test, of course, would vary with the province, whether a fruit farm, specialized poultry farm, and so on. You see, after you get to a certain point in any sized unit, if you expand it you simply double each unit, and get another combine, and so on. If you double it and get one more combine, you probably have not increased your efficiency.

Mr. CHARLTON: If you do not double it and still have to acquire the second combine, then you decrease you efficiency?

The WITNESS: Yes. If you have not doubled the acreage, then, of course, you would not.

By Mr. Macdonnell (Greenwood):

Q. Is there also a feeling that when you get to larger figures the man is operating on a scale where he can get his money elsewhere?—A. That is an element, but probably a more important element is age; it is very important. When I was in Saskatchewan at the university we studied that question carefully. We analyzed all the farm records taken over a period of years. We examined the age of the man when he bought additional land, and that research came out with the conclusion that the typical age of ceasing to expand the farm unit was 55 years of age. The typical farmer at 55 years of age slows down to the point where he does not think it worth while to expand his business. That may also be true in the city. I am 56 years old and I find the same thing. I am at the point now where I do not want to take on more work than I can handle. A few years ago I could gobble anything up, but now I think I am handling all I can handle. If a farmer reaches that point at this age he is not likely to want to buy more land unless he has a young son coming along.

Mr. BLACKMORE: There is a question which I think would be worth probing into to some extent. As I recall it, Dr. Hope pointed out that the United States has gone all out—if that is the expression he used—to make their farmers efficient. Is there any reason why Canada, everything being considered, such as her present industrial development, potential industrial development—is there any reason why Canada should be less inclined to go all out than the United States?

The WITNESS: Not a bit.

Mr. BLACKMORE: It seems to me that has an important bearing on this matter.

The WITNESS: I think producing our food as efficiently as possible is in the national interest.

By Mr. Michener:

Q. That is not the same thing as producing more food. It is not necessarily in the national interest to produce more food?—A. No. I said to produce it most efficiently.

Q. That is a very important distinction.—A. It is true that most of the techniques in agriculture to increase efficiency are also volume-increasing forces. That is a very important thing to consider. Supposing you want to get a higher yield per acre of oats, for instance, in Ontario, or a higher yield or lower cost of producing soya beans or sugar beets or something, how do you do it? By putting on more fertilizer. You get a lower cost per unit but more total volume. You want to produce milk cheaper per 100 pounds. You feed a better kind of feed and you get a lower cost per unit of milk produced, but also a larger volume. When you do these things you obviously have to look for an additional market if you can, either a home market or a foreign market for the result of the increased efficiency.

By Mr. Charlton:

Q. Is it not true in many cases where farm prices are down that the production goes up?—A. Well, I am sorry I have to disagree with that. That is what economists call a backward sloping supply curve. Some people have claimed that, but I have never been able to see it. It may be due to the time lag; that is, the farmer lags in response to price. But I know, for instance, that when the price of hogs goes down it is only a matter of months before there are less hogs produced.

Q. There is a tendency to try to increase production to take up the lag in the price?—A. I do not think that is the solution.

Q. What is the difference?—A. Here is an example. Supposing this farmer produces hogs, and sometimes some turkeys, and maybe some eggs, perhaps dairy products as well; hog prices go down, and he knows this coming year it will be down in hogs, and he may look around and say, "I have got to produce another $1,000 in income". He may go in for more turkeys. He may reduce hogs a little, but he will go in to turkeys to get the extra $1,000. That is why the total volume of farm production does not go down. Production of individual products shifts around, but the total keeps on going pretty steadily.

By Mr. Huffman:

Q. Doctor Hope, as I recall your observation yesterday, you predicted farm commodity prices would show a general increase over the period which we are now in. Will this trend mean there will not be a lesser demand for loans than there has been?—A. On the basis of a gradual recovery in agriculture from the present position, you are assuming that would mean a decline in the demand for loans?

Q. Yes.—A. Not exactly. There would be a decline in the loans of a refinancing type, but there would be an increased demand by young farmers. I do not think you could say that would be the result. The net effect would likely be no significant change in the overall demand for loans. We know this, that prosperous times bring out a great demand on the part of farmers for intermediate credit loans—a greater demand. In other words, in prosperous times the farmer is expanding and wants more fertilizer and equipment, and so on. There is more fertilizer put on when there are high prices than when prices are low. In hard times the farmer does not buy fertilizer.

Q. On page 6 of your brief you say this: "In some cases sons inherit their fathers' farms after helping run them under a wide variety of more or less informal arrangements." I would hope that you would stress that point still further because rather than the informal arrangements I would hope that there would be more formal arrangements, so that when an estate or a farm is transferred there would not be the problems which sometimes arise now in another department of government, namely, the National Revenue Department. —A. I agree with you. It is very tragic sometimes, the complete financial ball-up which some farmers get into with their own sons with respect to establishing arrangements, as to income tax and everything else. It is an extremely involved thing. I suppose it is partly carelessness. A young fellow will work with his father for years with no financial arrangements and then when the father dies everything is up in the air. I agree it is a bad thing. The federation has not really gone out on an educational program of that nature. I believe we should perhaps educate our members to do these things. We are now trying to get them to take out workmen's compensation. More farmers should carry workmen's compensation for farm help.

By Mr. Crestohl:

Q. Dr. Hope, I am concerned with one question put to you very bluntly, to which you gave an equally blunt reply. You were asked whether there was any country in the world in which the government does less for farmers than Canada. Your answer was a very direct "no". I want to know whether that "no" embraced all these phases of agriculture such as, is the necessity as great in this country to subsidize farmers as it might be in other countries, living conditions here in Canada might be good and perhaps better than they are in other countries, and the whole gambit of conditions might give your reply a very misleading effect. I would like you to enlarge on that.—A. That is a very good question. Of course, the way the question was put, the answer was correct.

Q. I do not doubt that.—A. There might be an implication behind it that we were completely dissatisfied. That is not correct.

Q. Would you enlarge on that?—A. Obviously, we feel that we do not have all the policies we would like to have; but we are not completely dissatified with what has been done to date.

Mr. ARGUE: Nobody is.

The WITNESS: I do not want my answer, Mr. Chairman, to mean we are dissatisfied and grouchy and complaining, because we are not. On the other hand, we must admit that if you survey the world and the various countries like Europe, New Zealand, France, and so on, they are obviously attempting to foster agriculture on what I suggest to you to be a more generous scale than Canada.

The CHAIRMAN: Is there not a different social and economic background that makes them do that?

The WITNESS: Yes. In the case of Europe it is a desire for national self-sufficiency because of the danger of war. There is no doubt in the world about that. For instance, Italy, Denmark, Holland, Great Britain, all have the fear of being caught unprepared and therefore they tend perhaps to subsidize their agriculture quite highly. There is also the political situation where in France there is a very high percentage of the voters who are rural. That is not so in Britain. I think in France the political situation enters into it.

Mr. ARGUE: As it does here.

The WITNESS: There is one more point about New Zealand. I do not suppose New Zealand particularly subsidizes her farmers very much, but they

do have a lot of assistance, state intervention and guidance, in their agriculture. They have set up nation-wide marketing boards there to handle their dairy products. They try to stabilize the farmer's income by means of these marketing boards. They have a very high quality of research, state-supported, because they know their major export products are dairy products and they have to compete with the whole world. Therefore they go all out to increase efficiency, and are very successful.

By Mr. Blackmore:

Q. I was interested in what you said about France.—A. I said that a very high percentage of the people are rural and agriculture has a very strong political voice. But, basically, looking at the world as a whole, it appears to be this: all countries have land—I do not care where they are—they all have soil, but they do not all have forests; they do not all have coal, nickel, aluminum, or waterpower; but they have land, all of them. That is the one resource they all have and they are going to develop it to the full. We have to compete with every country in the world that knows that, and they have all types of programs to boost their agriculture. That is the field we have to compete in. That is a national policy employed by all these countries.

Again, I want to say this, Mr. Chairman, do not take my answer to mean we are crabby. The question was put to me and I answered it correctly. I do not know of any country which gives less assistance. Some give more assistance. I would like to see a little more; not a subsidized farm economy exactly. Above all we need, maybe, a little more sympathy from city people, as to the problems we face on the farms.

By Mr. Crestohl:

Q. But you are quite content Canada could do more, but is doing reasonably well?—A. Yes, I would say we are doing reasonably well, but could do more. I am grateful to have had this opportunity to come before you gentlemen here to put our case.

Mr. ARGUE: We worked hard to get it for you, I assure you.

The WITNESS: I appreciate it. As a matter of fact, Mr. Chairman, I am quite convinced that every gentleman in this room here basically is friendly to agriculture. I am sure you realize that you spend a quarter of your income on food in this country, twenty-five cents out of every dollar. Twenty-five cents out of every dollar spent in Canada is spent over the counter for food we produce, and so surely you should be interested in an industry which takes one-quarter of your money.

Mr. ARGUE: How much do the farmers get of the 25 cents?

The WITNESS: About half.

By Mr. Blackmore:

Q. And of the food we buy how much comes from other countries without protection to our own producers?—A. We get, of course, a fairly amount of non-competitive products, but there is not very much of the products which we produce ourselves.

Q. How many of the products are really competitive on the market today, considering the subsidies given by even Turkey?—A. You mean how many products are sold on the world market completely free of any subsidy?

Q. No. Mr. Quelch said we are competing with the treasury of other nations, and that means we are placed at a handicap, but the general impression seems to be that our farmers should be able to surmount that handicap when they are competing with Cuban sugar, other people's potatoes, New

Zealand cheese, butter, wool, sheep, and all that sort of thing.—A. I am not sure how to answer. You did not put it as a question.

Q. I was leading a little bit. But, Mr. Chairman, I think it is a very important matter that we should realize that our farmers are not having an easy time. A short time ago Dr. Hope made a remark which I thought was very, very appropriate. He said the day will come when Canada will look over this situation and say we have gone far enough. By that time we will probably have destroyed a large portion of our agricultural potential. Would it not be wise to find out whether we have gone far enough now?—A. Perhaps. There is a small example, which is of interest to me. You have heard a lot of talk lately about the great expansion of engineering in Russia and how we are not turning out enough engineering graduates. It is stated that it is a great tragedy. We have men who come back from Russia and tell us that repeatedly. They tell us that we are away behind in engineering, and that there is a great danger.

Did it ever occur to you that the best place to train engineers is on the farm? It is really the best place to train a future engineer on the farm. running machinery, where he learns from the age of ten up, and when he goes to college he has practical experience and knows how to use his hands and his head; he has the kind of training which a boy in the city never has. I had a concrete case which I told to the Gordon Royal Commission, and will give again. My son, now a Carleton College student taking an engineering course, is about 22 years old. He was raised on the farm; at the age of 10 or 12 began to handle machinery. He repaired the machinery, constructed things himself, and built a wagon himself. He built a day elevator to elevate the bales of hay into barns, when 17 or 18 years old. He decided he wanted to go into engineering, agricultural engineering preferably, and decided to take a mechanical engineering course. About a year after he started the course my wife was talking to an engineering contractor and somehow in this discussion this fellow said. "What is your son going to do?" "He is going to become an engineer," was the answer. "Does he come from the farm?" She answered, "Yes". He said, "You know, Mrs. Hope, in my long years of experience in engineering and construction work I have had occasion to meet many engineers and by far the best engineers are the ones who were raised on the farm. "I always want the engineer who came from a farm background and then went to college. He is better than the other fellow." Therefore, I say we have a great training ground for future engineers in Canada right on our mechanical farms.

Mr. FRASER (*Peterborough*): At the same time, that is taking the young man off the farm, and that is not what we want to do.

The WITNESS: That would be correct to a degree, except that we know a certain number have to leave the farm. We do not worry too much as long as the good man who wants to stay has a fair chance to become established.

Mr. HUFFMAN: Mr. Chairman, I believe that Dr. Hope has given this committee desirable information, and I understand he will be called before the agriculture committee at which many similar questions will probably be asked. I wonder whether we have not rather exhausted the questions, possibly, at this time, as to the true position of agriculture? Perhaps we could relate any further questions we might wish to ask to the subject of long-term loans in which we are particularly interested.

The WITNESS: Following that statement, the hour is getting late and I feel, as Dr. Huffman said, that we have for the time being exhausted this subject. I am wondering if I might make a short statement and then, maybe, we could come to the end of the time when my presence is required here.

Some hon. MEMBERS: Agreed.

Mr. MACDONNELL (*Greenwood*): Before he goes on with that statement, may I ask Dr. Hope whether he would consider adding to it any comments about the possibilities ahead with regard to the export of agricultural products?

The WITNESS: It does not fit in, specifically, with what I have in mind, in a final statement, so I will just say this: So far as the export market is concerned our views are well set out in our brief to the Gordon Royal Commission. I can summarize them by saying that we feel we shall for many years to come need a good export market for wheat. We hope to be able to maintain it, but we do not look to see an expansion of the world total market. In view of what is going on in other countries of the world we shall be fortunate to hold it at about the present level.

With regard to the other products, we would expect tough competition from the European countries. We do not look for any great expansion in the export of farm products to the so-called backward countries, because they are embarking on great projects to try to feed themselves. Therefore, we would anticipate no great expansion in farm exports to these countries. We would hope to keep the American market open as far as we can because this is a close market to us, and we would very much like to see it kept open. With regard to the British market, we are not very hopeful that we shall be able to secure any great expansion or even be able to get into that market on any considerable scale, because of Britain's own domestic subsidy program and, also, because Denmark and Holland, both surplus-producing countries, are right next door. On the other hand, we are hopeful that our own domestic market will continue to expand at a sufficiently rapid rate to afford reasonable prosperity in the home market, and we are looking to that in the future.

Now, Mr. Chairman, I come to the few remarks with which I should like to close.

The main problem today with regard to long-term farm credit is the transferring of farms, which constitutes a relatively high cost to a young man establishing himself. This is mainly because, first of all, of the change from horse farming to power farming, and this process is still going on and will continue to go on. Secondly, a larger farm business is needed today to provide a moderate living standard compared with the situation some years ago. These two factors mean greater credit needs. They affect not only the young man himself—the young farmer whose case we have stressed so strongly—but they directly affect the father of the young man concerned—the father who wants to retire. In many cases he wants to transfer the farm to the son; the son only possesses a small amount of capital and the father cannot retire unless the farm is sold at a reasonable price together with the equipment and stock so that he will have enough to live on. Therefore this is a social problem as well as an economic problem; a father cannot retire because the boy is not able to secure enough money to finance himself under the present arrangements. As I say, this is a social problem as well as a financial one and it is growing all the time.

A suggestion was made here that we might transfer this burden to the provinces. Well, Quebec has handled it pretty well by subsides—low interest rates—but the Ontario scheme is working, I suppose, only moderately well. The West, I am quite convinced, cannot do it and therefore we look to a national scheme. I think this should be done on a national basis. I do not think the provinces would worry about it if you took this over and in any case we would not have to wait years and years until all provinces decided to do something. You could do it, in effect, this spring if you made a decision to do it, and you would be doing a real service for agriculture if you decided to do it right now.

Private mortgages do not fill the bill for two reasons: the rates are high and the terms of borrowing are short—five year terms renewable at the end of the five year period. Beside the cost of renewing the mortgage one must also consider the uncertainty which this imposes on a young man who is left wondering whether or not he will get an extension. Private institutions have practically withdrawn from this field and we see no evidence that they wish to return. They are happy in the lucrative field of lending to the city people.

What we need is a national organization to bridge this gap which now exists, and fill this particular field, and we feel that the field is wide open to the Canadian Farm Loan Board who could step right in and do a real service. I am quite confident that if the act were sufficiently flexible—if these gentlemen were given pretty wide powers, and if they could go out and do this job for agriculture they would do it even though it would probably mean hiring more men and arranging for some of their staff to have special training in giving assistance to farmers.

The Federation has asked for interest at cost, and a maximum of 40 year repayment terms with a $20,000 maximum loan, loans to range from 60 per cent of the appraised value to as high as 80 per cent on small loans, up to a maximum of $8,000. Of course, we would naturally like to see our recommendations fully implemented; it is only reasonable we should press for that. But if this is not possible we would earnestly like to see you stretch yourselves as far as you possibly can along the lines we have suggested. We believe there is nothing harmful in having a 40 year term as the maximum. It does not weaken the loan, it does not make the loan less secure; it just makes the loan somewhat easier for a man to pay. That does not mean to say that everybody is going to ask for a 40 year term. Some farmers may be afraid of it and say: "Oh, I will be dead before that time." This thing should be flexible. Some people may choose a 10 year period, or 15, or 20 years up to a maximum of 40 years and my guess would be that many farmers would not want to touch the 40 year term. At the same time I am quite sure that some young farmers with limited capital will accept the 40 year term with great satisfaction. That does not mean to say they are going to keep the loan on for 40 years. If the man concerned is an up-and-coming fellow, then after five or ten years he might decide to pay it all off. What we urge is that you should give him a chance to start—let him become an owner, taking an owner's interest in the land he farms. It is home ownership that we are trying to sponsor, and in our opinion the 40 year term will definitely help bring this about.

We consider that a lower interest rate is completely feasible even on the government's present borrowing rate of 3½ per cent if you do not demand that this corporation should always show a profit and if you do not worry too much should there be a little loss now and then, or put the board "on the spot" if they lose $100,000. What is $100,000 to an industry that has $4 billion worth of land behind it? With the expansion of the board's activities which could be expected as a result of this proposed new policy it would be quite practical to lower the rate of interest along the lines we suggest.

With respect to the percentage of the appraised value which we recommend, I would say that we are not unreasonable people. The Directors of Canadian Federation of Agriculture are farmers who are sound businessmen in addition to being practical farmers. They do not say that all loans should be 80 per cent of the appraised value of the property. We think that on a large loan you might make the figure 60 per cent of the appraised value because we consider that the element of risk attached to so large a loan is greater. A large farm can make a great profit, but it can also make a devil of a big loss. The young fellow starting out to farm would not likely be in the field for a big loan, anyway; he is not going to ask for a $20,000 loan.

We are interested in the fellow who may want to borrow $6,000, $7,000 or $8,000—a man who already has, perhaps, $4,000. If the man is an approved risk, and you have discussed the matter with him, make it 80 per cent of the appraised value. But, we say, in that case let the board make a decision whether in its opinion they think that lad needs supervision. That, of course, will mean the hiring of some more men and the training of more men to do the work. It may be that three quarters of the board's inspectors are not at present adapted to that type of work. Possibly, a few of them are. But if we double the dollar volume of the business being conducted by the board they will need more men anyway, and they should be well trained men who could carry out the kind of supervision which we have in mind. Obviously this means incurring some extra cost and it is possible that the board might lose money because of this additional administration cost. We consider that we should not shy away from this. We felt that it is in the national interest that a young fellow should have a chance to follow his father and that the father should have a chance to retire, even at the expense of the cost of some supervision.

We considered for a long time whether or not it was desirable to have two separate agencies, one an agency such as the Canadian Farm Loan Board acting or operating on a strictly business basis and the other a separate agency established to make assisted loans to young men starting out to farm, along the lines of the system operating in the United States. But, on reflection, we did not think we would get very far with the government of Canada if we asked for another agency. I think we know this government pretty well, and maybe there is some logic in not having two agencies. Therefore, we conceived the idea of taking the present board, expanding it a bit, and having a separate branch, maybe, to assist young farmers, leaving it to the discretion of the board to determine how far to go within the framework of the 80 per cent limit we have suggested. The board, and its inspectors, would be the ones who would decide whether or not a particular man needed a supervised loan.

There is one more thing which I would like to say, and that is on this question of the prepayment plan. There is nothing in this proposal which would hurt anybody, and no reason why this amendment should not be put in. It does not weaken the loan; it simply means that when a farmer has a good crop in his district an inspector is informed and he says: "this year you have a good crop, and we suggest that maybe you could make an additional payment now—your normal payment plus another, or maybe two, and we will give you interest; and when things do not go so well, just inform us and we will take your annual payment out of the fund." That could be arranged without any harm to this act.

Mr. FRASER (*Peterborough*): Would it not be better to reduce the payment for the balance of the year?

The WITNESS: Strictly speaking, that would go to another year and he would then be in arrears. They operate that system now. They do encourage that kind of repayment at the present time, but strictly speaking a man could get into arrears that way. The method we are suggesting would avoid this and the farmer would get interest on his money.

The final word I have to say is this: this is the last chance I would guess, for some years we shall have as organized farmers, of discussing this Canadian Farm Loan Board question. I do not know how often this matter is looked at, but, as I say, this may be our last chance for some years and I think you have an opportunity right now if not to solve the young farmer's problem completely, then to go an awfully long way to doing so without

hurting the taxpayers of Canada one iota by introducing longer terms of borrowing, a little lower interest rate and encouraging a biggar volume of business.

By Mr. Fraser (Peterborough):

Q. And less "red tape?"—A. Yes, you can say that. I do not know how much "red tape" is in it now, but certainly there should be some method of speeding up the making of loans.

Q. Yes, faster appraisals.—A. The whole thing could be changed in such a way that agriculture could say, at long last: we now have a plan whereby a young fellow starting to farm on a relatively small capital has a chance to get into operation. The bill as it stands right now is a very creeping little step in the direction I have been talking about.

Q. Even with the amendment?—A. Even with the amendment. It is in the right direction, but it is a very small step.

Now Mr. Chairman, I have talked for a long time; in fact I have overtalked myelf; I have talked too fast, sometimes, but I certainly appreciate, on behalf of the Canadian Federation of Agriculture, your kindness in inviting us here, and I hope we have helped a little in leading this committee along the road to—as we see it—the light.

The CHAIRMAN: I think, gentlemen, I can speak for everyone here when I say that Dr. Hope's discussion has been greatly appreciated. It has been a revelation to me as a "city slicker" and I am quite sure that it has been so to many others here, and I do thank you, Dr. Hope, on behalf of the committee for coming here, giving up your time, and being so helpful in our deliberations.

The WITNESS: Thank you very much.

The CHAIRMAN: Gentlemen, it is getting close to 1 o'clock. You have been given briefs by other organizations which have submitted them—the Interprovincial Farm Union Council, the Alberta Sugar Beet Growers, the Eastern Irrigation District, and the Lethbridge Central Feeders Association, and I suggest that these briefs be attached as appendices to the record of this meeting. Is that agreed?

Agreed.

(*See Appendices "A", "B", "C" and "D".*)

The CHAIRMAN: When you have read them, if there are any further questions you wish to ask in connection with them, or in any other connection, there will be an opportunity of your doing so.

Normally we should now go on to hear again from the chairman of the Canadian Farm Loan Board—if you want to continue for 10 minutes—

Mr. ARGUE: Let us adjourn.

Agreed.

The CHAIRMAN: Agreed. The committee is adjourned until 11 o'clock on Tuesday next, April 17th.

APPENDIX "A"

INTERPROVINCIAL FARM UNION COUNCIL

Submission to the

BANKING AND COMMERCE COMMITTEE

of the

HOUSE OF COMMONS

Ottawa, Canada - - April 10, 1956

As farm unions affiliated with the Interprovincial Farm Union Council, we welcome the opportunity of tabling before this committee on Banking and Commerce our views on some of the credit problems of farm people.

The area of greatest agricultural expansion in Canada since 1901 has been centred in the prairie regions. It is only natural that this should have been so, since it was at the turn of the century that a large influx in immigration and settlement took place on the newly-opened territories. Expansion was very rapid, and this new land opened up a ready market for manufactured goods produced by eastern industry.

The table on the following page illustrates the increase in farm values on the prairies from 1901 to 1951, in relation to the national increase during the same period.

TABLE I

FARM VALUES—PRAIRIE REGION AND CANADA

1901 to 1951

(Millions of Dollars)

	Total	*Land and Buildings*	*Implements and Machinery*	*Livestock and Poultry*
Prairie Region:				
1901	231	159	18	54
1911	1,789	1,417	110	262
1921	3,256	2,503	343	410
1931	2,530	1,949	351	224
1941	1,946	1,377	318	251
1951	4,698	2,727	1,147	824
Canada:				
1901	1,787	1,403	109	275
1911	4,232	3,344	257	631
1921	6,555	5,053	665	836
1931	5,248	4,053	651	544
1941	4,241	3,030	596	616
1951	9,471	5,527	1,933	2,010

Source: Handbook of Agricultural Statistics—August 1955.

With the opening of the prairie frontier, the Homestead and Pre-emption laws of the day provided ownership of farm lands by the settlers who had come to turn the first sod. This initial policy of farm ownership on the prairies was in keeping with the pattern set in other provinces, and in 1901, 92 per cent of prairie farms were owner-occupied, which compared favourably with the national average of 87 per cent. Prairie expansion coincided with the food

demand created by World War I, and so was accompanied by a great demand for credit. Non-governmental institutions proved a ready source, and many farmers borrowed heavily at exorbitant interest rates. Certain provincial governments set up lending agencies in competition with mortgage companies to meet threats of foreclosures.

However, when the Canadian Farm Loan Board Act was passed in 1929, most provinces discontinued their services. Because of the inflexible repayment policies practiced by mortgage companies, many farmers found it difficult to repay loans in the 1930's when low yields and low prices created an impossible situation. Debt legislation was introduced which prevented wholesale eviction of farmers. Nevertheless, a downward trend in the number of owner-occupied farms became evident, and from this shift developed an increase in the number of tenant and owner-tenant farms as well as a definite increase in the size of farm units. Table II illustrates the decline in owner-occupied farms on the prairies from the turn of the century to 1951 in comparison with other areas of Canada.

TABLE II

OWNER-OCCUPIED FARMS, CANADA AND REGIONS—1901-1951

Year	*Canada*	*Atlantic Region*	*Central Region*	*Prairie Region*	*British Columbia*
	(Per cent of total occupied farms)				
1901	87	95	84	92	80
1911	89	95	86	90	86
1921	86	95	88	78	85
1931	80	94	86	69	81
1941	75	92	85	59	80
1951	75*	92	88	61	85

* Including data for Yukon and N.W.T.

Sources: 1901-41, Census of Canada, 1941, Vol. 8
1951, Census of Canada, 1951, Vol. 6

The increase in size of farm units, too, has been more evident in the prairie region than in other areas of Canada which were already established agriculturally at the time the prairie region was opened for settlement. Table III on the following page illustrates this change.

TABLE III

AVERAGE SIZE OF FARM—CANADA AND REGIONS—1901-51

(Acres)

Year	*Canada*	*Atlantic Region*	*Central Region*	*Prairie Region*	*British Columbia*
1901	124	102	104	279	230
1911	160	105	104	289	150
1921	198	104	119	344	130
1931	224	112	122	381	136
1941	237	116	122	405	153
1951	279*	113	132	498	178

* Including data for Yukon and N.W.T.

Sources: 1901-1941, Census of Canada, 1941, Vol. 1
1951, Census of Canada, 1951, Vol. 6

Although the size of farm units increased most rapidly between 1911 and 1931, the actual number of farms in the prairies continued to increase during the nineteen thirties. Table IV below, illustrates the rise and fall in farm population by tenure and areas from 1901 to 1951.

TABLE IV

FARM HOLDINGS BY TENURE AND AREAS—1901-1951

Item by Province	1901	1911	1921	1931	1941	1951
Total number of occupied farms						
1. Man.	32,252*	43,631*	53,252*	54,199	58,024	52,383
2. Sask.	13,445*	95,013*	119,451*	136,472	138,713	112,018
3. Alta.	9,479*	60,559*	82,954*	97,408	99,732	84,315
Operated by owner						
4. Man.	28,663	36,385	43,169	37,769	38,293	37,184
5. Sask.	12,924	86,109	91,587	90,250	72,954	61,157
6. Alta.	9,076	55,688	65,900	70,751	62,366	52,871
Operated by tenant						
7. Man.	1,614	4,536	6,053	9,857	10,986	5,062
8. Sask.	212	3,497	12,942	21,044	34,093	16,495
9. Alta.	211	2,321	8,072	11,808	17,032	9,735
Part owner-part tenant						
10. Man.	1,975	2,710	3,549	6,369	8,367	9,780
11. Sask.	309	5,407	13,841	24,737	31,028	33,760
12. Alta.	192	2,550	8,253	14,540	19,761	21,098
Operated by Manager						
13. Man.	....	....	481	204	378	357
14. Sask.	....	....	1,081	441	638	606
15. Alta.	....	....	729	309	573	611

* For comparison with later censuses, deductions have been made as follows: In Manitoba, 243 plots under 1 acre in 1901 and 1,278 in 1911; in Saskatchewan 167 plots under 1 acre in 1901 and 317 in 1911, and in Alberta, 7 plots under 1 acre in 1901 and 500 in 1911. In 1911 and 1921, farms on Indian reserves were not included.

The 1930's were years of indebtedness, but improved crops and more favorable prices during the 1940's aided in liquidating farm indebtedness. Still, in spite of improved production and price factors in later years, the number of farm units in nearly all areas of Canada have decreased sharply, particularly in the prairie region which accounts for over one half of the total national decline between 1941 and 1951.

TABLE V

OCCUPIED FARM DWELLINGS 1941 and 1951

	Canada	*Atlantic Region*	*Central Region*	*Prairie Region*	*British Columbia*
1941	703,782	72,756	330,104	275,410	25,512
1951	629,785	67,155	296,880	236,010	29,740
	—73,997	—5,601	—33,224	—39,400	+4,228

It is probably well to consider some of the causes contributing to the large decline in farm population during this relatively favourable period. In passing through the bitter years of the 1930's, farming emerged into the 1940's with low capitalization and ill-equipped. The demand for improved mechanization could not be met until the end of World War II, when the virtual replacement of horsepower by mechanical power took place. These changes created heavy capital investment in farm machinery, making it necessary to increase the size of operations wherever possible for the sake of efficient and low-cost production. With high and invariable costs, many of the smaller and less efficient

farming units were absorbed by other operators. Still, many small units, by virtue of above-average yields of farm production in the last 10 years, have succeeded in weathering the economic storms to date, although Table VI, which follows, illustrates that the need for capitalization on prairie farms is still very great.

TABLE VI

SALE OF FARM PRODUCTS BY ECONOMIC CLASSIFICATION—1950

	Alberta	*Saskatchewan*	*Manitoba*
		(Number of Farms)	
All occupied farms	84,315	112,018	52,383
Value of products sold of:			
$20,000 and over	1,231	392	240
$15,000-$19,999	1,015	549	313
$10,000-$14,999	2,828	2,156	1,200
$7,500-$9,999	3,400	3,709	2,115
$5,000-$7,499	7,748	10,520	5,770
$3,750-$4,999	7,762	11,466	5,822
$2,500-$3,749	12,841	20,720	9,042
$1,200-$2,499	21,177	33,236	12,824
$250-$1,199	12,964	18,772	7,464
Small Scale Farms—less than $250	8,141	5,976	4,285
Part Time Farms	5,118	4,376	3,271
Institutional Farms	90	146	37

Source: Census of Canada—1951.

With a greater proportionate increase in machinery investment to land and building investment, the capital requirements of farm people have greatly increased. Similarly, a change in the kind and amount of agricultural credit has become necessary.

To this end, the Farm Improvement Loans Act of 1945 has played a major role in providing the necessary credit needs of farm people for machinery purchases. The annual report of this act for the year ending December 31, 1954, indicates that it has provided to farm people loans amount to $513,606,648 since its inception in 1945. Of this amount, 89·8 per cent was loaned for the purchase of farm machinery. Seventy-five per cent of the amount loaned has been collected and bad debt claims amounting to only $149,814 have been paid by the federal government.

The Canadian Farm Loan Board, on the other hand, has made disbursements of only $99,755,195 including second mortgage loans, since its inception in 1929 to March 31, 1955, in spite of the fact that the terms of reference for lending purposes are broadly similar in both acts.

In the case of that large group of prairie farmers who presently have an income of $2,500 or less, there exists an acute problem with respect to obtaining farm credit to rehabilitate or consolidate present farm holdings. In the throes of the current cost price squeeze, many farmers in this classification may soon find themselves displaced from agriculture unless some more liberal means of procuring capital is available to assist in their stabilization.

The Saskatchewan Royal Commission on Agriculture and Rural Life noted that during the period 1936-51, the number of quarter and two quarter farmers in Saskatchewan alone decreased by 28,892 and 11,271 respectively, and during this same period, the number of farm families in the province declined by nearly 30,000. The numerical increase in size of farms occurred in the four quarter and over operators, which indicates that this group were better capitalized initially than the small farmer and were thus able to enlarge their unit holdings.

The problem, therefore, exists, of minimizing the further displacement of farmers presently occupying one and two quarter section farms by extending to them a form of credit that will enable them to increase their farm holdings rather than to be absorbed into units which are already of an economic size. The magnitude of this problem is illustrated in the case of Saskatchewan, which alone had more than 57,500 farm units in the one and two quarter section classification according to the 1951 census.

A further credit problem also exists in the case of thousands of young farm people who have no means of establishing themselves agriculturally due to a lack of capital. No federal credit agency is available to extend assistance to these young people unless they already have a large portion of the initial capital requirements. In cases such as this, the assistance of the Canadian Farm Loan Board is not within reach either financially or morally.

The farm unions are concerned by the fact that 25% of all farm lands in Canada are presently owned by individuals or corporations who have assumed the role of landlords. Much of this land is farmed by tenant farmers on a yearly lease basis. There is little security to farmers in these circumstances—or encouragement to personal initiative. The death of a landlord may suddenly displace him from his occupation, and the land split by estate proceedings or offered for sale. In the case of the latter, lack of capitalization may deny him the opportunity of becoming permanently established.

Because the lending policy of the Canadian Farm Loan Board has been overly cautious, it has been unable to assist the three classifications of farm people whom we have described.

One of the considerations of this committee will be to raise the maximum of first mortgage loans from $10,000 to $15,000, and eliminate loans under second mortgages. Further, the basis for granting loans up to 65% of the appraised land value will be considered. We believe the proposed amendments simply beg the entire question of farm credit requirements.

It is not known what effect can be expected by increasing the maximum loans, if the inflexibility of Board lending policies continues. We observe that loans made by the board to prairie farmers in the year ending March 31, 1955, averaged only from $3,000 to $3,800—an unrealistic amount in terms of present capitalization costs.

The increase in the appraised value under which loans may be made from 60% to 65% will do nothing to assist in the rehabilitation and establishment of small operating farmers, young farmers, and tenant farmers. Smallness of previous loans extended by the board indicates that assistance has been largely limited to established farmers who required only marginal means of credit.

Instances have come to our attention of small operators who desired to enlarge their holdings, but because of the lengthy period required in processing loans, the opportunity for purchasing land was lost. This further indicates the need for greater flexibility in C.F.L.B. lending policies. By the too-cautious policies followed by the Board in extending loans, the human value and initiative of the applicant himself has little consideration.

The Veteran's Land Act Administration, to the contrary, has been less formal with its applicants and extended managerial assistance where necessary.

The matter of interest charges on C.F.L.B. loans, too, should, in our opinion, be reviewed. When only 3½% interest is charged for Veteran's Land Act loans, it is difficult to justify a 5% interest rate for those people who are ineligible to apply for V.L.A. assistance.

Credit requirements for the three classes of farm people we have described are met in the United States through the Farmers Home Administration Act of 1946. Under this agency, "credit is provided for specific types of farmers who

cannot get the financing they need elsewhere at reasonable rates and terms. Credit is supplemented where necessary by assistance to borrowers in planning and adopting sound farm practices which will promote success in farming."

RECOMMENDATIONS

In conclusion, we place for consideration by this committee in its studies of proposed amendments to the Canadian Farm Loan Board Act, the following recommendations:

(*a*) That the terms of reference for this Act be so broadened as to allow for its optimum application towards assisting in the establishment and rehabilitation of those classes of farm people who presently are unable to obtain credit elsewhere, and so raise their general standards of efficiency and livilihood.

(*b*) We recommend that the interest rates on long-term loans be lowered to a rate not in excess of 3½% as is presently being paid for V.L.A. loans.

(*c*) We recommend that the basis for calculating loans be raised from the proposed 65% of the appraised value to at least 80% of the actual purchase price of lands.

(*d*) We recommend that the maximum loan principal be increased to $20,000 and that a sliding scale for repayment be graduated downward from 40 years to complement the size of the loan and ability for repayment of the applicant.

(*e*) It is our suggestion that present amendments to the Canadian Farm Loan Board be considered only as a temporary device and that this committee recommend to the House consideration to the possibility of forming one credit administration out of the numerous agencies presently in operation, so designed as to handle efficiently and economically the credit requirements of all farm people for the greatest possible benefit of agriculture and our society as a whole.

APPENDIX "B"

ALBERTA SUGAR BEET GROWERS

Lethbridge, Alberta
APRIL 6, 1956.

Hon. J. W. G. Hunter,
Chairman,
House of Commons Banking Committee,
Ottawa, Canada.

Dear Sir:

The Directors of the Alberta Sugar Beet Growers are especially anxious to see the Canadian Farm Loan Act increase its services more in line with present requirements as proposed in the amendment to the legislation.

There is a great industrial expansion and improved employment generally across Canada while agriculture is in a seriously depressed condition especially in some areas because of lower prices, restricted market and increased costs. Under these conditions many young men are leaving the farms and finding employment in industry and construction. This condition is serious and it seems that Agriculture, the basic industry, is being temporarily abandoned by many young men. Late Dominion statistics state that the average age of farmers in Canada is 57 years and the present trend indicates that this might get worse.

On a family size irrigated farm there is little chance for a quick profit but there is an assurance of a good living for a family if agriculture bears a fair relationship to the general economy of the country. The density of population in an area where sugar beets and other specialized crops are grown make for good social environment, where schools, churches and recreational facilities are available to all, in towns or small communities within a reasonable distance from their homes.

High cost of land, buildings, machinery, for this type of farming as well as costly operating expenses, makes it practically impossible for a young man to start farming on a practical basis with an economic unit unless long term credit is available. Seldom can the older farmers or fathers of boys who might want to farm build up enough cash reserve that they can retire on their savings, they must get a substantial amount of money from their capital investment in land and machinery. The farm will not properly sustain two families so the young men are going to the cities, finding employment and often buying homes under N.H.A., and the father is renting the farm or selling to someone who can make sufficient down payment. If a similar amount of money that the son now gets under N.H.A. could be loaned to him by the Canadian Farm Loan Board, the father could receive enough to move to town and rent or buy a small place if he wished to leave the farm home to his son and both would be taken care of.

In 1954 Alberta Farmers borrowed $714,000.00 under farm loan act, this is equal to sixty $12,000 N.H.A. homes. A recent issue of the Calgary Herald stated that home building permits under N.H.A. had been issued recently for $3,500,000.00.

This contrast does not seem too great and we are pleased to see that the Government of Canada is considering a more realistic loan arrangement so that Agriculture will be placed more in line with the position it merits in our National economy.

Yours very truly

Board of Directors,

Alberta Sugar Beet Growers

Per: L. R. JENSEN,
President.

APPENDIX "C"

EASTERN IRRIGATION DISTRICT

BROOKS, Alberta,
APRIL 4, 1956.

Mr. J. W. Hunter, M.P.
Chairman,
Banking Committee,
House of Commons,
Ottawa, Canada.

Dear Sir:

We beg to submit the following statements which we believe to be worthy of consideration when revisions of the Farm Loan Act are being discussed.

Agriculture is a Business, it is also a Way of Life. Contrary to the belief held in many parts of the East, the majority of farms in Alberta are family farms, owned and operated by the resident farmer and his family. These

are the farms that continue to operate, in good times and bad, and lay the foundation for a successful agriculture and worthwhile citizenry.

Many of our farms have been operated by men who developed them from homesteads, and over the years have built and added to their original holdings in order that theirs would be a well and economically operated unit. Now we find thart many of the older families wish to retire and sell their farms to their sons. With the high cost of machinery, necessary to operate any farm, in most cases the farmer's son is unable to find sufficient capital wherewith to purchase either his father's place, or any other farm on terms which he can meet, by annual payments.

We definitely need in Western Canada some improved type of long term agricultural credit, for the purchase mainly of farm land. The experience gained across the line in States like Indiana should not be overlooked. With the present industrial boom, too many of our younger men and women are seeking employment and homes in the cities, despairing of their opportunities of procuring farms for themselves.

Some one in Farm Loan Board circles had at some time in the past promoted the belief that irrigation farms in Southern Alberta, by being liable for annual irrigation rate levy, were too risky an investment for Farm Loan Board participation. The experience of the Department of Veterans Affairs has shown that belief to be a fallacy.

In 1935 in the latter part of the depression seven hundred farmers in this District entered into a new twelve year contract for the purchase of their farms. Before the contract expired over 90% of the contract holders had met the payment in full and were able to take titles. We have opened and developed new farm land since then and have now a total of 1,300 farms, of which 80% of the operators now have title, demonstrating that these farms, under normal crop conditions will produce sufficient to pay for themselves.

Irrigation farms with their guarantee of water for optimum crop growth are an asset to the country, and when properly operated will show as good record of production and payment as any group of farms in any other good agricultural area in the Province. However, the average age of our operators is climbing. We need to arrange credit so that younger-stronger men can take over. Banks cannot finance land purchase over a period of years. Mortgage firms have limits under which they operate.

A revision of the Farm Loan Board Act, to arrange wider credits under reasonable repayment terms, with intelligent supervision, is one of the vital needs of Progressive Agriculture today. As conditions have changed for production in agriculture let us also endeavor to have assistance available, knowing that the producers need longer term credits to carry on their operations.

Respectfully submitted,

(sgd.) CARL J. ANDERSON,
General Manager.

APPENDIX "D"

LETHBRIDGE CENTRAL FEEDERS ASSOCIATION LIMITED

LETHBRIDGE, ABERTA,
APRIL 6, 1956.

The Banking Committee of
The House of Commons of Canada,
Ottawa, Ontario,
Canada.

A BRIEF RESPECTING FARMERS MORTGAGES

Whereas the House of Commons Banking Committee are considering an increase in mortgages to farmers under the Canadian Farm Loan Board, and whereas the Lethbridge Central Feeders Association Limited feel they have information which would be pertinent to this consideration, we hereby present the following brief.

The Lethbridge Central Feeders Association Limited, hereinafter called "The Association", consists of a co-operative group of approximately one hundred and sixty Farmer Livestock Feeders, and represent a good cross section of the Irrigated Farmer of Alberta. In the year 1952, before the outbreak of the Foot and Mouth Disease, the members of the association throughout southern Alberta, had livestock on feed valued at 2,618,000 dollars. Many of these livestock were nearly ready for market as at February 22, 1952. Upon the outbreak of the Foot and Mouth epidemic in southern Saskatchewan, the United States border was closed for the export of beef and mutton. The B.C. borders were closed shortly afterward, and there was no available market between Alberta and the Ontario border which was also closed.

According to the advice of the Minister, the feeders held their livestock, in some cases turning them out, but in the case of highly fed and finished cattle lambs, this was impossible and they continued to feed them, selling them some five to six months later at prices one third reduced from that at which they had been purchased. Many of these members did not realize the original cost of their cattle leaving alone the cost of feed, labour and other charges, which amounted in 1952 to at least 100 dollars per bullock.

Those who held onto their livestock and carried them over another year, were even less fortunate. As the price continued to depress, and by the time they had given them two years feed, and sold at prices reduced by half, they were left owing the association large sums of money. On the 31st of July, 1952, the fiscal year end of the association, the members were holding a carry-over according to the advice from the Mnister, of cattle and unpaid balances of 1,043,000 dollars. By July 31, 1953, one year later, this carry-over was reduced to 436,800 dollars. One year later, the figures stood at 247,000 dollars. July 31st, 1955, it was down to 150,000 dollars. There was approximately 50,000 dollars of the original 2,618,000 dollars that was lost completely to the association.

The prime conclusion which we wish to draw from these figures, is the time it took for these men to recover from the blow which they suffered. Our Board of Directors estimate that complete recovery from that disaster would take from five to ten years with three or four of our members never recovering, as they were put completely out of business. From this, it can be seen that our members are not as yet recovered from the disaster.

The greatest need, shortly after the time of the disaster, was for long term financing, but it was found that up until 1954 and 1955, mortgages on

irrigated farms were practically impossible to obtain. Since that time, it has been observed, that some mortgages have come through as small long term loans, but they are not sufficient.

Had there been mortgage money available, these men who were so seriously hurt by the Foot and Mouth epidemic, would have been able to place their losses on a long term repayment basis and carry on their normal operations, instead of operating on a reduced scale for several years, until they could re-establish their credit.

We would make one further observation. The young men in our organization are leaving the farms, and leaving their older fathers to carry on the farming operations. The reason being, in our estimation, the high cost of getting established in a farm of their own and the burden of Income Tax in attempting to repay short term loans used for getting established. The alternative to this, would of course, be longer term, low interest mortgages, allowing these young men to purchase farms, and pay for them without having to earn such income as would place them in a high tax bracket. We respectfully submit this brief.

Lethbridge Central Feeders Association Limited,

H. G. HOULTON, *President*,
S. W. HATCH, *Secretary-Treasurer*.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 4

Bill 84

An Act to amend the Canadian Farm Loan Act

TUESDAY, APRIL 17, 1956

WITNESSES:

Mr. George Wyndlow, Director, Vancouver Island Jersey Milk Association; and Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

73026—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue
Ashbourne
Benidickson
Blackmore
Bryson
Cameron (*Nanaimo*)
Carrick
Charlton
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fraser (*Peterborough*)
Fraser (*St. John's East*)
Fulton
Gour (*Russell*)
Hanna
Henderson
Hollingworth
Huffman
Johnson (*Kinderley*)
Low
Lusby
Macdonnell (*Greenwood*)
MacEachen
Macnaughton
Matheson
Michener
Mitchell (*London*)
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Quelch
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

ORDERS OF REFERENCE

HOUSE OF COMMONS,
THURSDAY, April 12, 1956.

Ordered,—That the name of Mr. Deslieres be substituted for that of Mr. Cannon on the said Committee.

FRIDAY, April 13, 1956.

Ordered,—That the name of Mr. Lusby be substituted for that of Mr. Balcom; and

That the name of Mr. Low be substituted for that of Mr. Johnston (*Bow River*), on the said Committee.

MONDAY, April 16, 1956.

Ordered,—That the name of Mr. White (*Waterloo South*) be substituted for that of Mr. Bennett on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

73026—1½

MINUTES OF PROCEEDINGS

TUESDAY, April 17, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Ashbourne, Benidickson, Blackmore, Bryson, Cameron (*Nanaimo*), Carrick, Charlton, Fairey, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Huffman, Hunter, Johnson (*Kindersley*), Low, Macdonnell (*Greenwood*), Philpott, Robichaud, Thatcher, Viau and Weaver.

In attendance: Mr. George Wyndlow, Director, Vancouver Island Jersey Milk Association; and Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

The Committee continued its consideration of Bill 84, An Act to amend the Canadian Farm Loan Act.

The Chairman read a telgram addressed to Mr. Colin Cameron, M.P., viz.,

NANAIMO, B.C., April 15, 1956.

The Vancouver Island Jersey Milk Association authorizes their delegate director George Wyndlow to present a brief to the Farm Loan Board enquiry commission.

David Fisher, president, and
Barney Wilson, secretary.

The Committee having agreed to hear Mr. Wyndlow, he was called. He read a brief purporting to be of the Vancouver Island Jersey Milk Association, copies of which were distributed to the Committee. He was questioned thereon and was retired.

Mr. Chester spoke briefly in regard to certain matters referred to in the brief. He expressed the opinion that to deal fully with the brief would doubtless entail the discussion of confidential information concerning Mr. Wyndlow.

It was moved by Mr. Charlton, seconded by Mr. Thatcher,

That the Sub-committee on Agenda and Procedure meet with officials of the Canadian Farm Loan Board, with Mr. Wyndlow present, and review the case presented by Mr. Wyndlow.

Following debate. the motion was negatived: Yeas, 10; Nays, 10; the Chairman casting the deciding vote.

Mr. Chester was further questioned on the operations of the Canadian Farm Loan Board.

At 1.00 o'clock p.m., the Committee adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

APRIL 17, 1956.
11.00 a.m.

The CHAIRMAN: Order gentlemen, let us begin. Mr. Cameron from Nanaimo has advised us that Mr. Wyndlow, who was here earlier and whom the steering committee recommended should not be heard in his individual capacity, has been authorized by the Vancouver Island Jersey Milk Association, of which he is a director, to present a brief on behalf of the association to the Banking and Commerce Committee. Mr. Cameron has further stated that Mr. Wyndlow would be available for the meeting of the committee today. I see here a telegram addressed to Mr. Cameron, stating:

> The Vancouver Island Jersey Milk Association authorizes their delegate director, George Wyndlow to present a brief to the Canadian Farm Loan Board Enquiry Commission.
>
> David Fisher, President and
> Barney Wilson, Secretary.

I believe Mr. Wyndlow is here, is he not?

Mr. WYNDLOW: Yes, sir.

Mr. CAMERON (*Nanaimo*): He is here, Mr. Chairman.

Mr. CHAIRMAN: Mr. Wyndlow has come a long way from the island, gentlemen. I understand his presentation will not be a lengthy one, and if it is agreeable to you I would ask that all those in favour of hearing him now should signify by raising their hands.

Is there any opinion to the contrary?

Then Mr. Wyndlow, I wonder if you would come forward. There are copies of the brief here, and I will ask that they be distributed.

Mr. David Kirk, Secretary of the Canadian Federation of Agriculture, telephoned to the clerk of the committee and asked me to convey to the committee the thanks of that organization for the hearing it gave to Mr. Broderick and Dr. Hope last week. Mr. Kirk emphasized that the Federation is very interested indeed in bill 84, but none of its officials will be able to attend further sittings of the committee on that bill because they are heavily engaged in attending other committees and meetings. The Federation wishes the committee to know that their non-attendance at future sittings of the committee is not due to any lack of interest in the amendments to the Farm Loan Act.

Mr. Wyndlow, would you care to commence the reading of your brief? I think it will be better to read it because nobody here has yet had an opportunity of becoming acquainted with it.

Mr. George Wyndlow, director, The Vancouver Island Jersey Milk Association, called.

The WITNESS:

It seems probable that this committe can obtain a clearer picture of the impact of the present administration of the Farm Loan Board upon the

agricultural and general economy of the country by a consideration of a specific example, and as the position of my wife and myself is no doubt fairly typical, I make no apologies for introducing our own affairs to the attention of your committee.

My wife and I have been farming for the past 24 years, during which time we have endeavoured to raise and educate a family of five children, and at the same time develop a farming operation capable of producing a reasonable income—all from a start consisting of a $500 equity in a quarter section in central Alberta.

Possibly the committee will accept the above as explanation for our continuing attempts to seek all the financial assistance which has allegedly become available from time to time through various government schemes and regulations set up ostensibly for the express purpose of promoting and facilitating agricultural endeavours.

Details of these attempts and their results are as follows:

1932. Applied for the $600 advance supposed to be available to holders of land from the dominion, provincial and municipal governments. Land inspected and approved. After six months delay, application refused.

Reason—Action would create a precedent.

1933. Application to Dominion Agricultural Credit Corporation for $250 advance to purchase the foundation stock for our present herd. After several months negotiations, application refused.

Reason—No guarantee that sufficient feed supplies were on hand to feed four animals. Pure rot of course.

Money thereupon obtained in five minutes from the Bank of Montreal. Animals purchased for $135. Money repaid in full in nine months. Herd, to which no other females have ever been added from outside sources, now number 70 head; and $10,000 worth of animals have been sold from it—some exported to California and Tennessee.

1941. Application to Farm Loan Board for $1,500 mortgage on quarter section (Alberta) for the purpose of taking advantage of offer by the official administrator, Edmonton, of substantial reduction in the amount due on agreement for resale, in return for cash settlement.

Result—Board required first mortgage and additionally chattel mortgage on all other assets. Total security asked $15,000. Terms refused by us on advice of our bank manager who pointed out that no working capital could be provided us by the bank if such arrangement were entered into.

Property sold four years later for $6,500, practically all cash.

1945-46. Application to Industrial Development Bank for capital to extend and equip a rapidly expanding and very profitable cream candy business, based upon the production of our jersey herd.

Result—After several months of negotiation application refused.

Reason—We were stated to be indulging in speculation in land!

As we have never bought and sold any land except the Alberta quarter section, the sale of which was (to our great regret) forced upon us by the action of the Industrial Development Bank, the ludicrousness of the bank's attitude is obvious. This action by the bank virtually closed down the candy business as a main line of endeavour, and shut off revenue to the Department of Inland Revenue of several hundred dollars per year, which would certainly have been greatly increased. This also necessitated a complete re-vamping of all our economic plans and arrangements and caused us an undoubted inestimable loss.

1947. Application to the Farm Loan Board to re-finance mortgage of $9,375 which we assumed on our present property in B.C. Application refused.

Reason—Property stated to be unable to support so much debt. Advised that mortgage of $4,000 would be considered by the board.

1950-51. Renewed application to the board for $4,000 on the strength of the above, when mortgage reduced to that figure.

Result—Refused because of existence of debt for working capital to the Bank of Nova Scotia.

1954. Mortgage of $9,375 (considered by the board to be too much for the property) entirely paid off out of earnings.

1955. Application for a farm improvement loan for approximately $1,500 for part payment of essential machinery made through the Bank of Nova Scotia.

Refused.

Reason—You tell me. I have never been able to find out.

This amount was financed through the Canadian Acceptance Corporation at a cost of $175 over bank interest charges. Very heavy additional expense was incurred in loss of time and costs of emergency negotiations. Half of this debt has already been paid.

1955 Application to Farm Loan Board for $12,000 to liquidate all outstanding liabilities in order to reduce amortization charges to a figure, which will permit my wife and myself to retire, turn the operation over to our two sons, and draw a reasonable income from it.

Result—Application refused.

Reason—Because the Farm Loan Board

(1) are unable to understand a financial statement,
(2) are certainly not interested in being of any assistance whatsoever,
(3) place archaic valuations on everything,
(4) did not conduct proper valuation of assets,
(5) are so completely hide-bound by regulations that various assets and sources of income are treated as being non-existent,
(6) are not interested in and do not consider earning power,
(7) place no valuation whatsoever upon ability, integrity and capacity —in other words, character—and ignore completely record of performance,
(8) are clearly completely ignorant of the complexities and requirements of modern farming.

In every single instance in which the government agencies referred to above have decided against providing the assistance for which application was made, they have been proved completely and overwhelmingly wrong by subsequent events. This however means nothing whatsoever to them, nor have any of these agencies—and particularly the Farm Loan Board—the slightest qualms of conscience over the enormous losses which have been caused to my family and myself by their flagrant failure. It is no exaggeration to say that the lives of my wife and myself have been largely ruined by our inability to obtain the assistance which we needed and which we should have been able to obtain without difficulty. The chartered banks and the Brackman-Ker Milling Company, who are certainly faced with no difficulty in finding safe 5 per cent investments for their available assets, have been of very great—in fact invaluable—assistance to us and have in large measure taken over the functions for the performance of which the Farm Loan Board was especially created. It has

been our great good fortune that these organizations have been actuated by and exhibited a sense of public responsibility, which is so obviously lacking in the Farm Loan Board.

Subsequent to the last refusal of $12,000 by the Farm Loan Board, we have established with the Imperial Bank a line of credit of $10,000 secured only by section 88—Security on our herd of cows (original cost $135), and my life insurance policy. At the same time, the Brackman-Ker Milling Company are carrying for us an open account of approximately $5,200 against which they have never sought any security whatsoever, part of the latter amount covers 1956 fertilizer requirements.

It is absolutely essential now that I retire at 62 years of age. I have had, thanks to the Farm Loan Board, only one holiday in 24 years, and both my wife and I are worn out. Our sons are 25 years old and more than competent to operate. They require a proprietary interest in the operation and I doubt if I can hold them without giving such an interest, even if I wanted to, which I don't.

As a result of our continuing investments in equipment, the gross income of our operation has been built up to an amount well in excess of $1,000 per month, with a net income showing a continually increasing trend. While the ratio of current assets to current liabilities in our financial statement is not and never has been much better than one to one, the reasons for the maintenance of this condition are obvious to anyone who takes the trouble to analyse our affairs closely. It is of course primarily due to the presence in our current liability classification of debts which are exclusively of a capital nature and should be on a long term basis. It is this condition which has at all times been a source of trouble and expense to us and an economic mill-stone around our necks. We are always under the necessity of too rapid repayment of liabilities, and this has occasionally involved us in very expensive short term financing outside the banks.

The only alternatives to the maintenance of the strained financial condition are long term financing which has been steadfastly and obstinately denied us, or stagnation, which in our opinion is tantamount to failure.

Now we need and must obtain the limited long term help heretofore denied us; and we can find no conceivable reason why it should not be forthcoming. We do not want to see the lives of our two sons ruined in the way ours have been ruined by bureaucratic incompetence and indifference.

I suggest to this committee that unless much greater elasticity and a vastly improved standard of economic and agricultural knowledge is injected into the administrative practice of the Farm Loan Board, any other changes in the act will prove of fictitious value.

As it now stands, the board literally constitutes—and I mean this earnestly—a menace to the people it is supposed to help. Those, like ourselves, who have supposed—as we were meant to suppose—that financial assistance in case of emergency or opportunity would be available through the board have found themselves subjected to bitter disappointment, frequently severe damage and have been the apparent victims of what can only be described and is generally thought of as contemptible government hoax.

Respectfully submitted by

THE VANCOUVER ISLAND JERSEY MILK ASSOCIATION

The CHAIRMAN: You have heard the brief. Are there questions which members of the committee wish to ask? I would ask you to raise your hands so that we might get some order into this.

Mr. CARRICK: I am wondering whether it is the function of this committee to go into compaints of this kind. It seems to me that this committee would find

it impossible to get the real facts without having someone from the Canadian Farm Loan Board to take up each complaint which the witness has made.

Mr. GOUR (*Russell*): No, I do not think we can take up this complaint.

Mr. MACDONNELL (*Greenwood*): I notice that this brief is submitted from the Vancouver Island Jersey Milk Association. Perhaps you would explain to us what this association is and say something with regard to its acceptance of what you have placed before us.

The CHAIRMAN: Yes, perhaps Mr. Wyndlow would explain that.

The WITNESS: The organization is the local association of Vancouver Island, small in numbers and confined, of course, to Jersey breeders. I am a member of that association, in addition to belonging to a number of other associations such as the Coast Vegetable Marketing Board—

Mr. MACDONNELL (*Greenwood*): Can we take it that they have seen this document and approved it?

The WITNESS: No, they have not seen it. May I explain that by saying that I left without the knowledge that it was necessary to represent an association. I understood from a broadcast on the C.B.C. that individual submissions would be accepted and I made no attempt to obtain the backing of any organization. I could have obtained, I know, the backing of this one and several others if I had thought it was necessary. The British Columbia Jersey Breeders Association of which I am a director appointed me to submit the brief on their behalf to the royal commission on milk in Vancouver some months ago, and on that occasion also they had no knowledge of the brief I was going to submit; none of them had ever seen it and they knew nothing about it until it was presented; then it was presented with their direct authority, in the same way as the present brief.

Mr. CAMERON (*Nanaimo*): I may say that I had a telegram yesterday morning from the president and secretary of this organization asking me if I could arrange for Mr. Wyndlow's appearance before the committee on their behalf.

Mr. ROBICHAUD: The brief you have placed before us is a record of your personal experience; it does not represent the association. What answer have you to that, Mr. Wyndlow?

The WITNESS: I would say that I was submitting this brief on behalf of all those who are engaged in farming in the lower half of British Columbia. I have had a good deal of contact through the Brackman-Ker Milling Company, who are very much involved in this question of credit to milk producers, with the experiences of other farmers in the area and they have made it clear to me that the policy of the Canadian Farm Loan Board with regard to financing people in a position similar to my own was having a harmful effect on farm business generally; also, that it was having a similar effect on the affairs of this company, because they have reached a stage where they cannot continue to carry people in the way they have done in the past. They feel they are carrying people who should be carried by the Canadian Farm Loan Board, and it was really as a result of my conversation with the credit manager of the milling company that I decided to come down here and present this brief.

By Mr. Cameron (Nanaimo):

Q. Can you tell the committee when you received your first intimation of the committee hearings on the Canadian Farm Loan Act?—A. I cannot give you the exact day, but I think it was about two days before it was necessary for me to leave to come down here. I had about 40 hours notice before it was necessary to leave.

Q. The only intimation you had was in a broadcast?—A. Yes.

By Mr. Macdonnell (Greenwood):

Q. Well, Mr. Chairman, we have heard this statement from a responsible citizen, and it makes a good many criticisms of the Canadian Farm Loan Board. I would hope, myself, that the officials of the board will wish to deal with them, and I would hope we might have their answer, because on the face of it this is a disappointing document. May I make this as a request; that we ask the officials of the board to look at this case and let us know their comments on it, because here is a prima facie criticism which certainly does go to the root of the matter; it is the kind of situation which is in all our minds when we are considering whether this organization has been run too much as a cautions money-making concern or whether it has been run as an organization intended primarily to help the farming industry?

The CHAIRMAN: Mr. Chester will be a witness here and I am quite sure he will be prepared to answer any questions and give the committee any information he can obtain, provided it is relevant and provided he can disclose it. Mr. Chester will be the next witness, but I thought that if there were any questions to be asked of Mr. Wyndlow we could dispose of them now.

By Mr. Thatcher:

Q. There are three or four questions which I would like to ask, Mr. Chairman. The first is this: do I take it from this brief that the witness feels the credit facilities which are available from the Canadian Farm Loan Board today are inadequate?—A. If the act was administered in an elastic manner I think the facilities of the act would be sufficient for a considerable proportion of the requirements, although we all know that the value of money is continually decreasing and that the requirements of capital for farming purposes are continually becoming larger. So that some expansion of the operations of the board would be necessary anyway. But as matters stand I do not think it makes any difference whether the board is authorized to advance 50 or 80 per cent of the appraised value of a farm because the appraisals are, as I understand it, made on such a low basis that they are completely inadequate. As an example of that, may I tell the committee my understanding is that land in the Chilliwack area of the Fraser Valley, which has been selling for many years at well over $1,000 an acre, is being valued for loan purposes at $75 an acre.

Q. Would you tell the committee what the specific changes are which you consider should be introduced to make the act effective?—A. In the first place, appraisals should be much more generous than they are at present. I think that they could reasonably be based on the assessed value of the land for tax purposes. I think the board should not be required to operate on a basis of very closely restricting regulations. I think it is ridiculous to set up a series of regulations made at the centre which are supposed to cover all farming conditions across Canada, because farming conditions differ so radically in different areas of the country that any set of regulations could not possibly be applicable everywhere.

As a specific case in support of this contention, I would point out that we have a considerable acreage of quite valuable forest land which is an integral part of our operation and which produces an income every year. I mentioned that specifically to the appraiser, and to the manager of the Canadian Farm Loan Board in New Westminster, and he informed me categorically that he was not allowed to consider this forest acreage, and that as far as the Canadian Farm Loan Board was concerned that source of income did not exist.

By Mr. Benidickson:

Q. Before we go any further with this matter it seems to me that if we pursue this matter further the committee should know whether or not we are going to be able to get the other side of the picture. Will Mr. Wyndlow give the board authority to produce to this committee any documents related to these former applications to the board which, of course, would usually be regarded as confidential and which would involve, I would think, a statement as to his assets and liabilities and with regard to other matters which would normally not be revealed?—A. Certainly, Mr. Chairman.

By Mr. Thatcher:

Q. Can we assume from this brief, Mr. Wyndlow, that when you went to the banks to obtain money you found it easier to obtain money from them than from the Canadian Farm Loan Board?—A. Very definitely. By and large, I had to obtain the money I required from the banks. I have financed my operations continuously through the banks. But that involves rapid repayment, of course, and I have, I suppose, $10,000 worth of liabilities now which should be on a long term basis. Instead, they must be repaid on a monthly basis. I am having to repay about $350 a month right now.

Q. Would you think, then, that the answer to the long-term farm credit problem might not lie in extending this particular act but, rather, might be for the federal government to guarantee the banks in some way with respect to loans they make to farmers on long-term credit? In other words, do you think we might be wise to pass an act somewhat similar to the legislation which concerns the building of houses for urban residents?—A. I presume you mean something after the style of the Farm Improvement Loans?

Q. Well, we loaned money to urban residents to build homes over a 30 year period, or, rather, the banks do. If we could make some provision for loans to farmers over a 30 year period it would not cost the taxpayers any money, and it would insure that the farmer could get long-term credit from the banks without a government agency having to be brought into it.—A. I spent a good many years in the service of a bank before I became a farmer, so I realize that the banks do not like to tie up their money for 30 years, whether the loans were guaranteed by the government or not.

Q. But they do it in the case of homes?—A. Somewhat reluctantly, I think. In principle, I would say very definitely the answer would be "yes" because we have seen from the action of the farm improvement loans—although I had an application for one turned down—that they are of value and I still think that the system works very well; a great deal of money is advanced without very much "red tape" being attached to it and I think it has all, practically, been repaid. The bulk is "right on the job" and conversant with local conditions in a particular area with the result that it is much better qualified to deal with a borrower than the representative of the Canadian Farm Loan Board, as the board is set up at present. I say that because we have to go to New Westminster for any contact with the board. Farm conditions and market conditions are completely different on Vancouver Island from those prevailing on the mainland, and it is difficult, probably, for the board to adjust itself to these things. Basically, I think, your suggestion is very good if the long-term element and the difficulty it produces could be overcome.

By Mr. Macdonnell (Greenwood):

Q. At the top of page 2 of your brief there is a figure which puzzles me. It speaks of an application to the Canadian Farm Loan Board for a $1,500 mortgage on a quarter section in Alberta. Then you state that the board

required first mortgage and, additionally, chattel mortgage on all other assets, and that the total security asked was $15,000.—A. The farm was worth $6,500 and was subsequently sold for that amount. We also had between 50 and 60 head of cattle in addition to machinery. The board required mortgage security on the whole lot—everything we possessed—and there would have been nothing left to be used as security for borrowing money for seasonal requirements or working capital.

By Mr. Cameron (Nanaimo):

Q. This was required in order to take advantage of the opportunity to buy an additional parcel of land?—A. No, it was to enable us to make a cash settlement on buildings that were not on our agreement for sale, and we were offered, I think it was, $400 reduction in the principal amount if we could make this cash settlement. So we lost that $400 reduction completely.

By Mr. Viau:

Q. What amount of land did this quarter section constitute?—A. One hundred and twenty acres of cleared land—the usual type of soil in centre Alberta—deep black loam, very productive, and the balance—40 acres—in bush.

By Mr. Low:

Q. Where, in British Columbia, does one have to make an application to the board?—A. New Westminster.

Q. Is that the only Canadian Farm Loan Board office in the area?—A. I believe so, yes. I believe it is the only office for the whole of British Columbia.

Q. Is there any attempt being made in your province by the board to have regional advisory committees?—A. No, not as far as I know.

Q. Did you find very much delay in getting a decision from the board after you had made application?—A. No, no delay at all. I got an immediate refusal in each case. I got the impression that the board simply did not bother to consider the application at all.

Q. But they sent an appraiser up to the farm?—A. Yes. They sent an appraiser immediately, but I do not consider that he made a proper appraisal at all. He spent more time measuring the size of the buildings than doing anything else. He seemed very little interested in the land and he certainly did not see 25 per cent of our equipment even though the type of farming in which we are engaged would be impossible without expensive equipment.

Q. Do you think that the man who came to your place was trained for his job?—A. We asked quite a number of leading questions and I gathered he had been at it for a great many years. We also gathered that he was longing for a moment when he could retire, because he was bored to death with the whole thing.

By Mr. Viau:

Q. You stated you met with an immediate refusual. Was that after the interview in the office, or after the appraisal was made?—A. The appraisal was made and the forms sent in. I think that within 48 hours I had the refusal by mail.

By Mr. Argue:

Q. You confine most of your evidence to your personal experience with the Canadian Farm Loan Board Officials. From your own knowledge, do you

know of other people in British Columbia who have had experiences similar to your own—is your case typical, or is it an isolated case?—A. I have tried to judge that matter from my conversations with the Brackman-Ker Milling Company. I have had long consultations with them, and they have given me a great deal of information drawn from their experience of the board, and they have stated to me very definitely that my experience is absolutely typical of what is going on all over the Fraser valley. They have, themselves, tried to assist various farmers to obtain loans which they considered were absolutely justified; they have helped them to make their statements, and so on, but have never been able to get anywhere. That is the story they told me, and that is the main reason I came here to Ottawa.

By Mr. Macdonnell (Greenwood):

Q. Is it fair to infer that they have treated a number of people as they have treated you, or is yours an exceptional case?—A. The credit manager and the company's comptroller from Toronto, the main office, was out in British Columbia about a month ago, and they informed me then that their loans were becoming so vast that they would shortly be faced with the problem of revising their whole program of carrying the operators. They were very much concerned with the situation. I understand their receivable accounts amount to millions of dollars.

Q. And their business has to do entirely with milling?—A. They provide seed and feed and fertilizer—all the requirements, practically, of a farm.

Q. As they are not a charitable institution I take it they are doing this in order to get raw material for their operations?—A. They are carrying farmers because, in many cases, the farmers have been dealing with them for years and years, and naturally they want to keep them in business.

By Mr. Low:

Q. This is just another example, I take it Mr. Chairman, of a condition we find more or less throughout all the farming areas of Canada—the merchants and the businessmen are the bankers for the farmers and they are the only unsecured creditors.

The CHAIRMAN: Is that a statement or a question Mr. Low?

Mr. LOW: It is just an observation.

The WITNESS: As far as I am concerned they are totally unsecured. They have never asked me for any security at all.

By Mr. Fraser (Peterborough):

Q. On page 3 of the brief you say you made application for $12,000 to liquidate outstanding liabilities and that you wanted to turn the operation over to your two sons. I want to ask you this question: have your two sons been brought up in the dairy business and in the business of breeding cattle?—A. Yes, we have been in this business for 24 years and they are 25 years old. They have worked continuously with me all that time.

Q. I take it they are good men?—A. I think they are absolutely first class. They are regarded as being good men.

Q. That is all I wanted to know.—A. If I may add this, I would like to subscribe to the statement made by Dr. Hope in regard to this question of handing the operation over to the sons. There seems to be no alternative way of transferring the operation except by means of the ability to obtain long-term financing. It is a very difficult thing in any event to set up a satisfactory profit-sharing arrangement between two or three different parties, even though they are father and sons. The easiest way would be to set up a limited liability

company, but unfortunately if you set yourselves up on that basis the Canadian Farm Loan Board would refuse to have anything to do with you at all, and there is simply no alternative source of long-term money available. Dr. Hope made that quite clear, I think.

The CHAIRMAN: Are there any further questions, gentlemen?

Mr. MACDONNELL (*Greenwood*): Without assuming that the board has no answer to this statement, I would like to say I feel grateful to Mr. Wyndlow for the trouble he has taken in coming here and putting his statement before us.

The WITNESS: Thank you.

The CHAIRMAN: Thank you Mr. Wyndlow. Are you going to remain here? I ask that because I presume this material will, probably, be answered by the board. Possibly we might get to the bottom of it, between the board and yourself.

The WITNESS: I cannot of course expect the board to reply without first giving some consideration to the matter, so I feel I should be unfair to the board if I did not remain until they have had an opportunity of answering.

Mr. BLACKMORE: Mr. Chairman, I would like to commend Mr. Wyndlow highly on his presentation and on his courage in coming here in order to give us the facts just as he saw them.

Some Hon. MEMBERS: Hear hear.

The WITNESS: I appreciate very much the opportunity of coming here today.

The CHAIRMAN: Thank you Mr. Wyndlow.

The next witness is the chairman of the Canadian Farm Loan Board, Mr. Chester. On his last appearance before the committee he really did not complete his case, but in view of the statements made by Mr. Brodrick, Dr. Hope and Mr. Wyndlow, and in the briefs which are on the record I thought Mr. Chester should be available here for questioning, if it is so desired. And possibly to make any statement he wishes in answer to the statements made by the other witnesses. Mr. Chester, do you wish to start off by making any preliminary statement or would you rather fit it into the form of question and answer?

Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board, called.

The WITNESS: Mr. Chairman, I have no prepared statement to make but I think, perhaps, that Mr. Wyndlow's case might be disposed of and we could then deal with the case made by the Federation of Agriculture, which is probably the one in which you are most interested.

Our business is a confidential business and I think it would be a mistake if we ever divulged information that is given to us confidentially. I understand that Mr. Wyndlow says he is willing to have such information divulged. In that case then I would suggest that the best procedure would be along lines I am going to suggest. I am willing to discuss the matter with anybody, but I still think it should be dealt with in private if possible. I suggest that possibly a subcommittee of this committee could discuss the case privately then, after they have all the facts—and they are certainly not given here in the statement we have heard—if they wish to publicize Mr. Wyndlow's private affairs I would say the responsibility for that lies on the subcommittee and on the committee. Would that not be the best way in which to handle the matter?

I might, incidentally, point out now that we are not the only people who have refused Mr. Wyndlow loans. He has had eight refusals according to his brief, of which only three were from us. There must be a reason. We think we were justified in declining these loan applications. He suggests his sons

are ready to take over; we are waiting from him a reply on that point. He made that statement to us and we asked him for information, but he has not answered our letter as yet. We are interested in establishing his sons if it is possible for us to do so.

I think, so far as the Brackman-Ker Milling Company is concerned, that this firm is a producing outfit—a marketing company selling feed, fertilizer and other things to farmers on credit and if their account becomes delinquent they were delighted to turn it over to somebody else. It is a business proposition with the Brackman-Ker Milling Company, the same as it is at Ogilvies or any other feed company and, incidentally, I think they are owned by one of the larger milling companies. I do not think that is the only consideration; if they want us to make a loan to get their debt retired I do not think we should overemphasize the importance of that in granting a loan. That is all I have to say, Mr. Chairman and members of the committee; but I strongly suggest that this should be dealt with not publicly but privately. I think you would get along further if you appointed a subcommittee but, of course, I am in the hands of the committee and I will go along whichever way you direct.

Mr. WYNDLOW: It was stated, Mr. Chairman, that I did not reply to a letter written to me regarding the establishment of my sons. May I say that I have not received any letter that has not been replied to. I do not know of the existence of any such letter.

The WITNESS: That may be a matter for the committee to enquire into.

The CHAIRMAN: I will suggest, because it is not the practice of the committee to disclose private information even though in this case the party concerned has agreed that it may be done, it might be possible for the steering committee to go into this case. It is possible that the board knows something which, let us say, even Mr. Wyndlow does not know, that he might not want to be made public. That, as I say, is possible.

Mr. ARGUE: Is it your suggestion that Mr. Wyndlow should attend that meeting?

The CHAIRMAN: That was not my suggestion, no—

Mr. BENIDICKSON: I take it the steering committee would review what is on the files with regard to Mr. Wyndlow and then recommend to the full committee on what it feels should be done with regard to hearing further evidence from the board?

Mr. ARGUE: It seems to me that we should have the evidence of both parties available to this committee, and not only the evidence of one side, on the understanding that the evidence would be confidential at that point.

An Hon. MEMBER: Where are the records and when would they be available?

The WITNESS: This afternoon—tomorrow morning—any time which is satisfactory to the committee.

Mr. WYNDLOW: If any so-called private records are to be dealt with, I would like to be present when they are produced.

Mr. FRASER (*Peterborough*): That seems fair enough.

The CHAIRMAN: I am not sure this is a trial. Mr. Wyndlow has made certain statements in his brief. I think the steering committee should hear the board officials now, but I think these things should be held in private, because there may be matters referred to there which the steering committee may wish to recommend be kept confidential.

Mr. WYNDLOW: I fail to see that any damage could be done to anyone except myself and my family by anything that might be revealed, and certainly I still feel I should be present when any private material is brought up.

The WITNESS: I thought you were perfectly willing to make this information public.

Mr. WYNDLOW: As long as I am present.

Mr. BENIDICKSON: The steering committee would meet as representative of all parties, so they would be in a position to recommend to this committee what should be done in order that this committee should not set a precedent which we might regret, namely putting private matters on public record without looking at the circumstances carefully.

Mr. BLACKMORE: How could the committee, with any degree of accuracy, appraise the information given by the board unless Mr. Wyndlow were present to offer any clarification that might be needed, as he has indicated he would do?

Mr. GOUR (*Russell*): All they have to do is to reach that conclusion. It is an agenda committee.

Mr. MACDONNELL (*Greenwood*): Could we have the board officials appear before the steering committee and, separately, Mr. Wyndlow? Would that not meet the situation from his point of view?

Mr. WYNDLOW: No, Mr. Chairman, I would want to be present when material affecting myself is produced and discussed. I have made a public presentation. The board have not been prevented by me from doing so. I am not suggesting that the board should not make a presentation. All I want is the opportunity to be present when this is discussed, so that if any points arise which require clarification I can speak on them; and I believe that is only fair.

Mr. MACDONNELL (*Greenwood*): I made my suggestion because I thought it might be agreeable to both parties, but if Mr. Wyndlow feels he should be present, then I must agree that I feel it is only fair.

Mr. BLACKMORE: I think it is only fair too.

Mr. CHARLTON: Then I move that the steering committee meet, with Mr. Wyndlow present, at the convenience of the parties concerned and of the committee, as early as possible, so that Mr. Wyndlow need not remain in Ottawa too long.

Mr. VIAU: I would like to express my personal view on this matter. I think this committee has established a very bad precedent, inasmuch as this is a personal case and in no sense a brief from an interested organization containing suggestions for bringing about improvement to the Canadian Farm Loan Act.

The CHAIRMAN: My own view is that we are here to consider amendments to the Canadian Farm Loan Act. Mr. Wyndlow, almost under false pretenses in my opinion, has produced a personal brief which has been of no assistance in so far as the amendments are concerned.

Some Hon. MEMBER: No, No.

The CHAIRMAN: I am entitled to my opinion. You have expressed your views and I have listened patiently. I am pointing out that this brief is entirely a personal brief and there is nothing in it which would substantiate the assertions made in it except the evidence of the witness himself that it represents a general condition in the industry.

Mr. BLACKMORE: Did not Mr. Cameron (*Nanaimo*) go a long way toward establishing Mr. Wyndlow's acceptability to the organization out in British Columbia?

The CHAIRMAN: I think this committee has gone a long way in ever hearing such a brief. I think it is going a much longer way in authorizing the steering committee to hear the other side of the brief. This is something that I think is not relevant to the general legislation; it is an individual case, and it has now come down to being, almost, the trial of an individual. I think this is a

very unwise procedure and I think it is very unwise to get both sides present arguing back and forth. I do not think that is our function.

Mr. JOHNSON (*Kindersley*): This committee has paved the way for exactly this situation to happen by its action at our opening session. There was reluctance on the part of some members to hear briefs from any organizations and officials but at the insistence of certain members it was agreed that we should hear representations from various organizations. Rather than follow the advice of some members of this committee that we should send out invitations to bona fide farm organizations we committed ourselves to the policy of putting an announcement in the papers informing all and sundry that this committee would share representations from farm organizations. Mr. Gardiner has had something to say about the reliability of press and radio reports in the past. Mr. Wyndlow heard, over the radio, reports that this question was under examination and that witnesses would be heard; he took that at its face value and since he had a personal case which he thought would be of interest to the committee—and a case which has been described as being of interest by members of the committee—he decided to bring it to our attention. He later discovered, however, that the radio report was incorrect and in order not to waste his long journey he applied for and received the authorization of the Jersey Milk Association to present this brief.

I think we have set the path we must follow by our action in making that press release relate to all and sundry with regard to representations before this committee and I think we must be responsible, now, for following that through to its logical conclusion.

Mr. CAMERON (*Nanaimo*): Mr. Chairman, I would point out that it was not Mr. Wyndlow's suggestion that there should be a hearing before this committee; it was Mr. Chester's. It was Mr. Chester who made the suggestion that this matter should be gone into either by the committee itself or by a subcommittee and, of course, he pointed out that that would depend on the willingness of the other party to agree. But I want to point out that it was not Mr. Wyndlow who made the suggestion. It was the board's officials who made the suggestion. Apparently they considered it would be necessary to have the matter investigated by either this committee or by the subcommittee. And I suggest that if that is the procedure which is going to be followed, then it is only fair that we should have present at that time Mr. Wyndlow himself, if you intend really to get to the bottom of the practices of which this brief sets forth a specific example. You will have to have Mr. Wyndlow there.

The importance of this brief as presented today has nothing whatever to do with Mr. Wyndlow's personal fortunes at all. It is a recital of procedures which have been followed in certain instances by the board, and I think it is in the public interest that we should find out whether that recital can be corroborated, and whether some amendment would be in order to alter the board's powers, and in order to obviate the repetition of this case. Unless we can do that, we are in no position to estimate whether the amendment presented to this committee is a worth while amendment or not.

Mr. VIAU: This brief does not deal only with the obligations of the Canadian Farm Loan Board. It deals with the obligations of the banks and others.

Mr. CAMERON (*Nanaimo*): It deals with Mr. Wyndlow's negotiations with the banks which, according to his statement here, were forced upon him by the Farm Loan Board.

Mr. VIAU: Not at all!

Mr. CHARLTON: Let me urge that the committee, having made the decision to hear this brief—I presume there was a decision of the steering committee?

The CHAIRMAN: No. It was referred to the committee when we first opened this morning. It was referred to the full committee. The matter was originally referred to the steering committee on the grounds that it was a representation of an indiviual person—an individual case—and it was turned down because it is not the usual procedure for government committees to hear individual cases. But a representation was made that the brief was from the Vancouver Island Jersey Milk Association, and on that basis the main committee—this matter not having come before the steering committee—decided to hear it, and we have heard it. You may have your opinion and I have mine. I think this is an individual case and I do not think it has been proven that it is representative.

Mr. LOW: May I suggest that the question on the motion be put?

Mr. CHARLTON: Just before putting the question I suggest that the committee, having heard Mr. Wyndlow, must proceed to clear up the difficulties which he brought to this committee because it cannot be left where it is now. I sincerely suggest that the steering committee meet and that Mr. Wyndlow be present? Is there a seconder?

Mr. THATCHER: I will second the motion.

The CHAIRMAN: You have heard the motion.

Mr. ARGUE: I am going to support the motion. I think that if the members of this committee felt that Mr. Wyndlow's case was in fact an individual case, and if there were not many other cases like it, they would probably be willing to let the matter drop at this point. But if I understand what the members have said, many members have said correctly—and the information that has been brought to me is that this is not an isolated case. There are many similar cases, far too many cases. Mr. Charlton says there are hundreds of them which are very similar to this case. I have a file here, quite a comprehensive file, of a case which is not too dissimilar, and I happen to know the man involved. This man has given me full authority to disclose the correspondance. I was a bit reluctant to do it, and I am still reluctant to do it, but this person is known to me as a man of very great integrity and an excellent farmer, and his exact case is not too much different from that presented by Mr. Wyndlow, and I think that his indictment is on a par with those the committee has heard in recent days, and that it should be dealt with and cleared up. And I for one think that Mr. Wyndlow's request that he be given the privilege of attending any meeting where his personal affairs are discussed is a very fair request. What is going to happen on that committee? We all know what is going to happen. The board will make its case out against Mr. Wyndlow and it will make its case just as strongly as it can, because it will bring forward everything it can to damage the evidence put before this committee by Mr. Wyndlow. I think it is only fair that the steering committee should hear both parties.

The CHAIRMAN: I presume that they will endeavour to make their case. On page 3 of his brief, Mr. Wyndlow says: "Because the Farm Loan Board are unable to understand a financial statement; are certainly not interested in being of any assistance whatsoever; place archaic valuations on everything; did not conduct proper valuation of assets; are so completely hide-bound by regulations that various assets and sources of income are treated as being non-existent; are not interested in and do not consider earning power; place no valuation whatsoever upon ability, integrity and capacity—in other words,

character—and ignore completely record of performance; and are clearly completely ignorant of the complexities and requirements of modern farming."

Those are very strong statements and I think he produces no evidence to back them up.

Mr. FRASER (*Peterborough*): On account of what you said a few minutes ago, Mr. Wyndlow came here under false pretenses.

The CHAIRMAN: I said almost under false pretenses in my opinion.

Mr. FRASER (*Peterborough*): Which insinuated the same thing.

Mr. CAMERON (*Nanaimo*): I did not hear the statement.

Mr. FRASER (*Peterborough*): On account of what you said, I feel it is only the duty of this committee to Mr. Wyndlow to have him present when they meet the board. I back up this motion that Mr. Wyndlow should be present.

Mr. MACDONNELL (*Greenwood*): I think there is one point: I think it is rather unfortunate that this brief was read before this committee this morning.

The CHAIRMAN: So do I!

Mr. MACDONNELL (*Greenwood*): But I think that Mr. Johnson has put his finger right on the point. I hope I am speaking in the general desire for the welfare of this committee and not as a party member. But it seems to me that the committee has got into a rather false position because of what was done on the first day, and because of the notice which unfortunately went out over the air and which misled Mr. Wyndlow. I make this argument purely from the point of view of the committee. It seems to me that if we had him up here before the steering committee this could likely be worked out without too much disagreement, and that the steering committee might be able to come back with a satisfactory report. If we do not have Mr. Wyndlow, it seems to me that we are undoubtedly going to have a hang-over and a disputation. Therefore, because of what Mr. Johnson said, and because of the position we seem to have got into, a rather false position, I suggest that the prudent course now from the point of view of the welfare of this committee is not to get into an unnecessary wrangle, but that we should have both sides.

Mr. FRASER (*St. John's East*): How are you going to release Mr. Chester from revealing confidential material?

The CHAIRMAN: I do not know. You see it is all very well for Mr. Wyndlow to say that he has no objection to having anything released. But much of the information they may have may be in the form of confidential reports which do not come from Mr. Wyndlow but from other people. I see no reason why they should release those whatsoever.

Mr. CHARLTON: Obviously he cannot implicate anybody else but Mr. Wyndlow himself.

The CHAIRMAN: People who get credit reports do not necessarily indicate from whom they receive them.

Mr. MACDONNELL (*Greenwood*): May I ask for a ruling? Is there any obligation on the board when they go before the steering committee to disclose confidential information? I would not think so.

The CHAIRMAN: I do not think there is. They would unquestionably have confidential reports from individuals. If they started to tell from whom they got those reports, they would never get any more confidential information. That is obvious. That is the same thing we all run into, and I think it is very unwise to get into it. I would be strongly opposed to the motion. However, the motion is:

> That the sub-committee on agenda and procedure meet with officials of the Canadian Farm Loan Board, with Mr. Wyndlow present, and review the case presented by Mr. Wyndlow.

All those in favour?

Mr. CARRICK: I think that the steering committee made a mistake in permitting this witness to give evidence.

The CHAIRMAN: The steering committee never permitted him to give evidence. It was the whole committee here.

Mr. CARRICK: I think the committee made a mistake in permitting this witness to give evidence today because it is not the function of this committee to go into individual complaints. This committee meeting is for the purpose of considering a bill to amend the Canadian Farm Loan Act and there has not been a word said by this witness in my opinion which is relative to the bill before us, in relation to the Canadian Farm Loan Act, except the answers in reply to questions which Mr. Thatcher asked. That was relevant. He asked what suggestion he would make. The real complaint is that this act has not been administered in the proper way. I do not think it is the function of this committee to go into the administration of this act, on a bill of this kind. The only way you could make his evidence relevant to administration would be if the evidence of a complaint he gives is debatable. But how can you prove that the evidence is debatable without following a host of other individual cases to see whether there are many or few? That would be an impossible position for us to get into. So I submit that this matter should stop right now, and that we re-trace our steps and deal with the matter as we should have done in the first instance. Mr. Wyndlow has been given a chance to make his representations, and I do not think we should do anything further about it.

The CHAIRMAN: It is quite obvious that this is not a brief from an association. If it were so, you would have the facts and figures, but this is not an association brief. It is an individual brief and we should never have got into it. Their telegram read:

> The Vancouver Island Jersey Milk Association authorizes their delegate director George Wyndlow to present a brief to the Farm Loan Board enquiry commission.

It is obvious that they did not even know what is going on. They confused us with an enquiry commission.

The CHAIRMAN: On the representations made it was a brief from an association; but it was not and it is not!

Mr. CAMERON (*Nanaimo*): My representation was that Mr. Wyndlow was authorized by a telegram which I showed you and which you read at that time. I think that this business of trying to backtrack when the position becomes uncomfortable is not good enough.

The CHAIRMAN: The question is whether this should be referred to the steering committee who then will hear representations.

Mr. ARGUE: Read the motion please.

The CHAIRMAN: It is moved by Mr. Charlton and seconded by Mr. Thatcher that the sub-committee on agenda and procedure meet with officials of the Canadian Farm Loan Board, with Mr. Wyndlow present, and review the case presented by Mr. Wyndlow. That is the motion. All those in favour of the motion? Ten. Contrary minded if any? Eleven. I declare the motion lost!

Mr. ARGUE: Will you take the vote again, please.

Mr. JOHNSON (*Kindersley*): You cast the deciding vote, did you not, Mr. Chairman?

The CHAIRMAN: Yes! Now, Mr. Chester is available for further questioning.

By Mr. Johnson (Kindersley):

Q. At the conclusion of Mr. Chester's evidence on the last day he was here I asked him to provide the committee with a list of the appraisers from the western provinces, the areas they covered and their qualifications. Is that information available now?—A. I think, Mr. Johnson, your question wanted us to give the qualifications and the names and addresses of our appraisers in the prairie provinces.

Q. That might be the most convenient thing to do, but I was interested in the areas in which they were resident, in order to get an idea of how much work they would have to do, and then to determine whether they could do it expeditiously or not. But it may not be easy to put that on the record—A. I understood that you wanted the qualifications. I thought you might agree with me that it would not be wise to identify these men individually.

Q. I think that it would be wise.—A. I do not think it would be in the public interest or in the interest of the administration of the board.

By Mr. Argue:

Q. Are they part of the secret service?—A. No.

Q. Who are they? Are they political appointees?—A. No, they are not.

Q. Let us hear their names. These are the cover-up men.

Mr. VIAU: They are not C.C.F. 'ers.

Mr. ARGUE: I am glad to have that on the record!

The WITNESS: We have twenty full-time appraisers across Canada employed by the board; ten of them have had from five to ten years' appraising experience; and the other ten have various qualifications including farming; grain buying; real estate and insurance; veterans land act work; Canadian Pacific Land Branch work; implement companies territorial management; credit union work; and their appraisal experience with this board.

By Mr. Argue:

Q. How many of them have been political candidates of any description? —A. None whatsoever.

Q. We are not entirely sure of that because we do not know who they are.

The CHAIRMAN: One minute; just a minute. That is a very unkind statement to make.

Mr. ARGUE: I might have been taking a leaf out of your book, Mr. Chairman; but I withdraw the statement.

Mr. JOHNSON (*Kindersley*): I am rather disappointed that Mr. Chester does not feel free to give us the information, because I have not the slightest idea who the appraisers in my own area of Saskatchewan are.

The CHAIRMAN: I am sure that Mr. Chester would be glad to tell you who they are in your area.

By Mr. Johnson (Kindersley):

Q. I thought Mr. Chester agreed to give us the names, addresses, and the qualifications. I understand that none of the appraisers have any scientific degrees.—A. Out of twenty appraisers eight have their B.S.A.'s.

Q. It would appear that you rely more on farm experience than on any other technical qualifications.—A. No, definitely not.

Q. Is that not true?—A. We consider both. We think both are necessary, and that is the experience that our appraisers have.

Q. You would put agricultural experience as being first, though?—A. You mean operating a farm?

Q. Yes.—A. It is very important if a man comes from a farm background.

Q. I am rather interested. On the basis of Dr. Hope's questioning of the mechanics in giving a loan, and the understanding of farm conditions relative to that subject, I think it would be of no interest to the committee to know what farm experience the senior officials would have in that regard. Take yourself for example; how much farm experience have you had, Mr. Chester?—A. Well I have been listening to the evidence of Dr. Hope to the committee and I got the impression that farming had gone back instead of ahead. My experience was undertaken when I had to get out and milk ten cows morning and night seven days a week for 365 days a year. I had to get behind a walking plough and a pair of horses and plough a maximum of three acres a day.

Mr. CHARLTON: And you could not do it?

The WITNESS: Yes, I did it successfully, but that was during the time when other people were going under the umbrella of F.C.A.A.

By Mr. Johnson (Kindersley):

Q. It is stated in the act that the appraisal value is based on 65 per cent of the actual value of the land. What does "actual value" mean?—A. We decide what the actual value is. I think we said that it was the productive value.

Q. Section 6 (1), line 19 of the bill says ". . . the principal amount of which shall not exceed 65 per cent of the actual value of such lands . . .".

The CHAIRMAN: What is the reference again?

Mr. JOHNSON (*Kindersley*): The actual value.

The CHAIRMAN: I am referring to the act.

Mr. JOHNSON (*Kindersley*): I am referring to page 2 of bill 84, lines 18 and 19.

The WITNESS: I think the answer is that the actual value as far as this board is concerned, and as far as any lending organization is concerned is the appraised value, the actual value of such lands and the buildings thereon as appraised by the Board; but in making its appraisal the Board shall consider the value of the buildings only to the extent to which they add to the value of the land as farm land, . . ." in other words it is the productive value.

Q. The Department of National Revenue also makes assessments for succession duty based on the actual value. What would you say that the actual value for the purpose of the Canadian Farm Loan Board would be? Would you say it was identical with the actual value used by the Department of National Revenue for succession duty purposes?—A. I have no idea.

Mr. BENIDICKSON: What they would do would apply to successions.

The WITNESS: If you turn to page 8 of the Canadian Farm Loan Act, you will see that sub-section (d) reads as follows:

> The appraised value shall be based on the value of the land for agricultural purposes and as far as possible on the productive value as shown by experience; and no other basis of valuation shall be considered;. . ."

By Mr. Johnson (Kindersley):

Q. Your actual value is considerably less than the actual value used by the Department of National Revenue in determining the succession duty.—A. I do not say that at all. I said that I did not know what their valuations are.

The CHAIRMAN: He said that he does not know anything about their valuations.

By Mr. Johnson (Kindersley):

Q. I figure that it is important that these valuations be used. Here we have two departments. The government in one case is trying to get as much money as it can, and in the other the department is trying to make the smallest loans that it can.

The CHAIRMAN: That is the conclusion you have reached.

Mr. JOHNSON (*Kindersley*): I was not arguing with you, Mr. Chairman.

The CHAIRMAN: You are not arguing with anybody. You are making a statement. These are not statements made by Mr. Chester.

By Mr. Johnson (Kindersley):

Q. I am going to make some more statements. I have a letter written by Mr. Thomas W. Cator of Shackleton, Saskatchewan, and I think the committee will be interested in some of the background of his experience in connection with appraisal value. This individual has been farming all his life and he had an opportunity to buy a parcel of land. The Canadian Farm Loan Board has the reputation of being rather tardy in purchases of this kind so he went to the bank and consulted it, and the banker placed a valuation of $35,000 on his farm.

I quote:

> His advice was to borrow the money locally to close the deal and then arrange for a long-term loan from the Canadian Farm Loan Board to repay the local lenders. He understood that the board made loans up to 60 per cent of the appraised value of the property with a maximum of $12,500, and felt I should have no trouble in obtaining the loan on the security I had to offer. I took his advice, completed the deal and last week went to Regina to see about a long-term loan.
>
> The net result was that my application was turned down flat; not only that but a highly placed official there did not even have the courtesy to look over my completed application form. What he did do was look at a map to see where I was located and informed me that it was a poor part of the province and that they did not make loans of this size down there.

Now, Mr. Chairman, I think we have got to grapple with this problem of actual value and appraised value if we are going to avoid the repetition of situations such as this, and the letter from which I have quoted coincides very closely, in its submission, with the evidence which Mr. Wyndlow gave us. I was wondering, Mr. Chester, if there are many instances in which applicants are refused loans without an appraisal having been made of their farming situation.—A. I think the committee will understand that after operating as we have operated for 25 years we have accumulated a considerable amount of knowledge of local conditions and local values. We see an application for a loan of a certain amount, and we know what the security is. From our own experience it may be that we say—and we think we are right in saying—that the amount of the loan asked for is in excess of what we might loan in that particular area. We might discourage an applicant from making his application if it were greatly in excess of what we think we could loan. On the other hand any applicant for a loan who insists upon an appraisal will receive an appraisal irrespective of our preliminary opinion.

Q. How do they go about that when their applications for loans are automatically turned down, as in this case?—A. The applicant has only to say. I want an appraisal. If he says that, he gets it.

Q. You have mentioned that you have considerable knowledge of the values of land in various areas. In the light of the evidence given by Dr. Hope are you prepared to instruct your field staff to give more consideration to the land assessment in Saskatchewan than was, evidently, done by your staff in Regina in this case when the application was turned down?—A. There are many factors to be taken into account when considering making a loan, one of which is the assessed value. One province in Canada—I think it will be fair to say this—has a better method of value assessment than most of the others, and that province happens to be Saskatchewan. We also have soil maps and an economic survey; we also have the long-term crop averages for 40 years or more. We know the rainfall and we know the hail record; there are many factors which enter into the making of a loan, not the least of which is the personal factor. Each has to be investigated; and if we accept, as is suggested now, the assessed value in Saskatchewan as a basis it should be realized by the committee that the municipal assessments in Saskatchewan do not include buildings. We make loans on buildings. How, then, can we accept that valuation as the basis for an appraised value, since we would not be getting the whole picture; and until we have the whole picture before us I do not think we would be acting as responsible people if we made the loan?

Q. That proves my point. The officials had no authority to turn down this application because they had never been out to see his buildings. Is that not true?—A. I think you will find that this individual was discouraged by our office because, from the information they had, they felt the loan requested was larger than could be considered, having regard to his security. Without the file before me I do not know for certain what the reason is, and I do not think I can discuss any case intelligently without knowing the facts about that case. This, again, is an individual case and I am just telling you this: that we do discourage people from applying for excessive loans having regard to what we anticipate the value of the security might be; but even in a situation of this sort we will not refuse an appraisal of the security offered, if this is insisted upon.

By Mr. Low:

Q. Mr. Chairman, I have a question which relates closely to the question which was asked by Mr. Johnson. Are the appraisers supplied by the board with a detailed, printed appraisal guide?—A. They have a book which we publish—an appraiser's book.

Q. Would you make a copy of that available to the committee?—A. I think we could if it is desired that we should do so.

Q. I think it would be useful to the committee, if we could have that here.—A. I doubt whether you would find it very useful. It contains instructions to the appraiser, telling him what he should do when he appraises farms.

An Hon. MEMBER: I would like a copy, too.

By Mr. Cameron (Nanaimo):

Q. Do I understand that one of the factors which you take into consideration is the personal character of the applicant? In the case of a man applying to Regina or New Westminster, how would you go about doing this?—A. There are many ways of getting personal information, as you know, not the least of which is a credit report which we get in borderline cases. Enquiries are also made privately from responsible people.

Q. Would not one of the sources which you would approach, particularly with regard to a man's credit rating, be the local bank manager?—A. Quite often.

Q. That is what I was wondering about while I was listening to Mr. Johnson read his letter from the man who got the advice of his bank manager before making his application.—A. Bank lending is considerably different from mortgage lending.

Q. You have just told us that you asked bank managers for their opinions. If those opinions are not worth anything, why do you ask for them?—A. I am speaking of a personal opinion, not an opinion on the value of the security offered.

Q. The opinion you seek would be one based on the character of the applicant?—A. We want to know what the bank's experience is in regard to the repaying of debt by this individual.

By Mr. Argue:

Q. With regard to the loans made in the Regina area, for example, can you give me a general indication of the maximum amount you have been prepared to lend in the last two or three years against a quarter section of Regina heavy clay land?—A. Again, it is almost impossible to answer that question.

Q. What is the maximum amount you have ever loaned against any quarter section in Regina?—A. I would have to look that up. It does not seem to me that the answer could be relevant, though, because one section could be built up tremendously and be a successful going concern, in comparison with the majority of others; and the fact that we make a large loan or a small loan does not altogether depend on the value of the property. As I said, there are personal factors which enter into this. Sometimes a loan is refused because we do not feel an applicant has either the ability or the intention of repaying.

Q. I think this question is important, and I think it is one which Mr. Chester from his own knowledge of the business of the Canadian Farm Loan Board should be able to answer. I know that general area—the Regina heavy clay land to which Dr. Hope has already referred in the course of our discussions, and it is on the basis of that particular area of land that the whole of the Saskatchewan assessment is founded. That land is considered, by the people who make the assessment, to be the most productive from an economic standpoint of any land in Saskatchewan. Is the board actually following the so-called conservative policy, and are the appraisals of the board too low? In order to help answer this question I want to get some indication of the maximum amount of money that may be lent by the board against such land. Do you lend as much as $5,000 on a quarter section of that land? What is the general appraised value on that amount of property which is, as Dr. Hope has said, almost completely uniform?—A. You asked me if we have lent as high as $5,000 against a quarter section of land, which works out at approximately $30 an acre for the buildings and land. I am talking about the value of the property. I would not care to answer the question without getting the information before me. When I make a statement here I want it to be correct. I could say something which I might think, and then find it was wrong. If you will wait for the information I will find out the amount of the largest loan we have made in the Regina heavy clay area.

Q. Of course, I presume that any statements which you make are completely accurate, as far as you are aware. I am not particularly concerned about the maximum figure, thouh I would like that information. What I want to know is your general rule-of-thumb-maximum, leaving aside the question of biuldings altogether. Do you lend $2,000, $3,000, $4000 or whatever it is against a typical quarter section of Regina heavy clay?—A. I think, probably, that if we give you the information with regard to the maximum loan we have made in Regina clay it would answer your question.

Q. No, it would not because, as you have pointed out, there might be on one piece of land a magnificent set of buildings worth between $20,000 and $30,000, and the land might be one mile out of the city of Regina; there might be many factors which could establish the loan on one given quarter section at a fairly high figure. What I want is a typical maximum—something that is the general practice.—A. That is an almost impossible thing to get without going into the details of every transaction.

Q. Tell me how many loans on Regina heavy clay land you have made that are over $5,000, over $4,000 and over $3,000 recorded during 1955?—A. We will get that information for you. Let me, however, first get this clear: are you referring just to quarter section units or to a quarter section that might be combined with another quarter section to make a half section unit?

Q. I am not interested in quarter sections as entities; if a man has two quarter sections and you lend him $6,000 then I take it there will be a loan of $3,000 on each quarter section.—A. So many things crop up. If a man applies to us for a loan of $2,000 on a quarter section in the Regina plains, he will likely get it. That does not say we would not make a larger loan.

Q. What I want to know is whether you are being too conservative or not. —A. If a man applies for a large amount and the board turns him down—is that it?

The CHAIRMAN: I think I can define what you are after, but I think you will have to differentiate, Mr. Ague, between one loan and another. A man may be content to apply for a $2,000 loan when he may have been able to get a $4,000 loan. That does not indicate that the board is conservative. I think you are interested in cases where people have applied for larger amounts than they have got.

By Mr. Argue:

Q. I am quite prepared to accept that. Can you tell me, Mr. Chester, what it the highest appraised value you place on a acre or on a quarter section of Regina heavy clay land, related only to productive purposes, apart altogether from buildings and location?—A. I will get that information at the same time.

By Mr. Macdonnell (Greenwood):

Q. Mr. Chester, how long have you been chairman of the board?—A. A little over two years, sir.

Q. My understanding is that during that period, and perhaps for some period before that, you have been able to set up a reserve and also to show an operating margin.—A. Yes.

Q. When you took on this job were you given any instructions as to just what your objective was? Let me make my meaning clear. In ordinary private business, the objective is to make it just as large as you can, by every means you can. Did you regard yourself as in that position of trying to increase this business in every way? Further, did you regard it as a public service which you should operate at cost?—A. Your first question was whether I regarded this as a business which should be increased greatly. I cannot honestly say I went in with any opinion as to whether it should or whether it should not, until after I had been there and had seen how it should operate. The other question you asked was—

Q. As to your reserves and profit margin.

The CHAIRMAN: You asked him whether he believed he was to operate at cost or otherwise.

The WITNESS: I think anybody who has been in business at all will agree with me when I say that no business is operated at cost. Either you make a profit or you do not; it is only by luck that you "break even" unless there

is a predetermined policy to give money back in case of a surplus. I do not think any business could be operated on the basis of operating at cost. I will say this, that the past practice of the board has been not so much to operate at a profit but to build up such reserves as, in the opinion of the officials, were necessary.

With regard to this question of profit, and there has been much discussion about it, I would like to point out to the committee that any profits that this board has made in the 25 years of its history have all gone back to the board for the use of the board and for the benefit of the farmers. There has never been any dividend paid to the government on capital amounting to about $2¼ million. If we did not have the reserves which we possess now, and if we did not have the capital which the government has supplied, funds which *in toto* amount to about $5½ million, the revenue of this board would be $275,000 less than it is; and we would have shown a very substantial loss. So when you talk about profit making it should be realized that the profits of the board in the past have been a surplus over operating costs and have gone back to the board for its use and the benefit of the farmers making use of its services.

By Mr. Macdonnell (Greenwood):

Q. I am not going to pursue, at the moment, this figure of $275,000— —A. I can explain that—it is $5½ million lent out at 5 per cent.

Q. What do your reserves stand at now?—A. A little over $3 million in all. We have two reserves; I could give you the exact figure if you wish.

Q. What I am trying to clear up is this: I think that probably every member of this committee feels that this organization was initiated to be of assistance to the farming industry and, speaking for myself, I cannot help feel that it has probably erred on the side of caution. I am not expressing that as a firm opinion because I want to hear more from you.

I turn now to another aspect of the same question. What is the gross business done? Can you give me the gross loans, covering, roughly, a period of four or five years so that I can get an idea of the course of the business. Has it been expanding rapidly?—A. Yes. In the last two years—and I am speaking now of the period up to the end of March, 1955—we did about $8¼ million worth of business. In the previous year we did about $8 million worth, but prior to that we were down to $5 million and $3 million. I should, really, give you the exact figures, but those are correct according to my recollection. I may say that the years 1954 and 1955—the last two years—are the largest consecutive two years in the history of the board.

Q. What do you do to make your services known? We have heard about people who are, perhaps, a little too enthusiastic in advertising, and I would like to know whether you are perhaps less enthusiastic than you might be. What have you done?—A. We are advertising in a substantial number of farm journals and I think our advertising this year will cost us somewhere in the neighbourhood of $3,500.

Q. That does not sound very much, does it?—A. It is sufficient, if you consider that we advertise for five months of the year in, I believe, 10 or 12 farm journals which have coverage across Canada. I think we cover the farmers very completely. The committee should remember that we have a lending season of only about seven months of a year, and that for five months out of seven we advertise.

Q. Other members of the committee know more about this subject than I do, and they can comment on it. I want to turn now to the question of service. There has been a good deal of questioning as to the length of time taken, and I realize that winter and snow introduce a special difficulty into

reporting on land. How many appraisers have you? Did you say 20?—A. Twenty full time appraisers and 36 part time.

Q. That is for the whole of Canada?—A. And two seasonal appraisers. That makes 58.

Q. Again that seems to be a small number. Can you answer this question: can you give me an idea of the length of time it takes to answer an application? We heard of one this morning which, apparently, was answered very promptly; but I do not suppose they are all answered as promptly as that. Can you give me some idea what happens? Suppose I am a farmer in Saskatchewan and I make an application. Do I make that application in Regina?—A. Yes.

Q. Is there only one office in Saskatchewan?—A. There is one in each province.

Q. But nowhere else in Saskatchewan?—A. No.

Q. A man from the north has got to come down to Regina. What happens when an application is made? Does a valuer go out?

An Hon. MEMBER: They turn it down.

The WITNESS: Our applications are designed in such a way that they can be attended to by correspondence. There is no need for any borrower, at the application stage, to visit any branch office. When we receive an application for a loan we examine it carefully, of course—

By Mr. Macdonnell (Greenwood):

Q. That would be examined at Regina?—A. Wherever the branch office happens to be within the province. If it is felt that there is a chance of a loan an appraisal order is immediately issued, provided we have sufficient information. The appraiser goes out, makes his appraisal and reports back to the branch office who take all the circumstances into consideration. They report it and they make the loan recommendation.

Q. How many appraisers are there?—A. There is only one appraiser to a farm, if that is what you mean.

Q. How many applications, roughly, would you get in Regina in the course of a year?—A. Roughly 1,300 or 1,400. Maybe more than that. I think we had better get the exact figure.

Q. I will wait for the figure, but in the meantime would you tell me how many appraisers you have?—A. We have 20. I can say now that there were 1,400 applications in Saskatchewan last year.

Q. And did you say how many appraisers you have?—A. Are you speaking of Saskatchewan or of Canada as a whole?

Q. Of Saskatchewan.—A. We have five permanent appraisers and 14 or 15 part time.

Q. That would make about 20 in all. How long would it take for your appraiser to make an appraisal?—A. A good appraiser should complete his appraisal in a day.

Q. Let us give him two or three days—A. No, we expect him to complete his work and send in his report in a day.

Q. What I had in mind was that it would not always be possible for him to get out.—A. There are many factors which might keep him away for several days.

Q. How long would you reckon would elapse between receipt of the recommendation and the answer granting or turning down the loan?—A. I think it has been stated that it took us six months. But the figures show that 50 per cent of all our loans across Canada are completed within 50 days.

Q. Is the final decision made in Regina or in Ottawa?—A. The final decision is made here in Ottawa.

Q. You say the average is 50 days?—A. No, I said that 50 per cent of all our loans in Canada were completed within 50 days last year. If you go over the 50 day period you will find individual reasons why extra time was taken—complete information had not been given, further information was needed, or correspondence was required which caused the delay.

Mr. BENIDICKSON: The average figure you have given would include applications made, let us say, in December where you could not go out until May. I take it some might go through in considerably less than five months?

The WITNESS: Oh yes. Our appraisal season is open already this year, and in Ontario—this is our 1956 business—we have made 29 loans so far, and the average time from the date of the receipt of applications until the loans were completed was 28 days.

By Mr. Macdonnell (Greenwood):

Q. Going back to this period of 50 days, I am not arguing about this question of snow on the ground, but if that factor could be left out and if it was a question of the amount of time really necessary, you have indicated that in Saskatchewan it would only be three or four days.—A. I do not think any lending organization could ever—

Q. I think you said that from the time an application was received in Regina you would send out an appraiser and he would take one day—I was giving you two days.—A. No, he would take a day to appraise. It might take him two or three days to get there, owing to weather conditions.

Q. I was giving you some time, but apparently you would not take it.—A. I think we were talking about two different things.

Q. Let us call it 10 days. Then, we jump from 10 apparently to 50. I want to be fair over this, but I am wondering whether there is a terriffic delay. We are told by reasonable men that there is. First of all, I want to know if there is this delay, and in that case does it mean that the board has not got sufficient staff? I am putting this clearly to you, that there is a gap between 10 days and 50 days.—A. I think everyone will understand that we have an administrative problem at all time. We have a short season of seven months, and our work does accumulate; and no matter how many men we have, we probably would not be able to complete it as quickly as some people would like.

Q. If I have stated the position accurately there are 40 days here, or 35, to be explained away and that could mean an awful lot.

Mr. ROBICHAUD: There is the search of title.

An Hon. MEMBER: It would take an hour.

The WITNESS: After the appraisal is made, the appraiser submits his report. There is some checking on the part of our branch office as to the accuracy of certain information in that report.

A man may say, for instance, with regard to his debts, that he owes a couple of hundred dollars for machinery and a few hundred dollars for something else—just offhand answers. It may be that the purpose of the loan is to pay off these particular debts, but we must ascertain precisely how much it is that the man really owes—we must have the exact amount; which means write to the bank and confirm the figure. This may take only a few days, but I do not think it is possible to deal with very many loans without running into some correspondence between the time a farm has been appraised and the time the loan has been approved. We watch this position very carefully. We get a record at head office, and if we see that loans are slowing down we write inquiring the reason for the delay. I can truthfully say that I do not think any organization built up in a similar manner to ourselves would process loans much faster than we are doing. We are

improving all the time. This is something which we have before us as an administrative problem, and I am not going to stand here and say we cannot make improvements. If we could not we should not be in business. I am looking for improvements all the time, and I have got improvements, and I can assure the committee that in the last couple of years we have met with some success. We have had disappointments, too, but this is really an administrative problem—

By Mr. Macdonnell (Greenwood):

Q. I am going to ask just one further question, and then come back to this subject, perhaps, later on. Do not answer it now. If somebody told you he would give you a million dollars if you could increase the business of farm loans maybe two, three, four, five or six times, what would you say? Please think that over and answer it later. Well, perhaps I can put the question to you in a more sensible way.—A. It would depend, of course, on who said that.

Q. I am not offering it myself.—A. I think I should probably investigate it myself—I think I know the answer, but I should not give it in front of this committee.

Q. It is perfectly clear to me that the accounts of this board have been operated in such a way as to show a substantial margin so that everyone would feel satisfied that no losses would be made. I am not confident that this is the way in which it should have been done. So I will ask you this: if you were told that you would receive a million dollars if you could achieve the maximum amount of business, even by taking some very real risks, what would you say? Do not answer that now, but think it over and give me the answer again.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 5

Bill 84

An Act to amend the Canadian Farm Loan Act

TUESDAY APRIL 24, 1956

WITNESS:

Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

73282—1

STANDING COMMITTEE ON BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Argue
Ashbourne
Benidickson
Blackmore
Bryson
Cameron (*Nanaimo*)
Carrick
Charlton
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fraser (*Peterborough*)
Fraser (*St. John's East*)
Fulton
Gour (*Russell*)
Hanna
Henderson
Hollingworth
Huffman
Johnson (*Kindersley*)
Low
Lusby
Macdonnell (*Greenwood*)
MacEachen
Macnaughton
Matheson
Michener
Mitchell (*London*)
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Quelch
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, April 24, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Ashbourne, Benidickson, Blackmore, Bryson, Cameron (*Nanaimo*), Carrick, Charlton, Deslieres, Enfield, Fairey, Fleming, Follwell, Fraser (*Peterborough*), Hanna, Henderson, Hollingworth, Hunter, Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener, Mitchell (*London*), Monteith, Pallett, Philpott, Power (*Quebec South*), Quelch, Richardson, St. Laurent (*Temiscouata*), Valois, Viau, Weaver and White (*Waterloo South*).

In attendance,

In re Bill 209: Mr. Beverley Matthews, Q.C., Registered Parliamentary Agent.

In re Bill 84: Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

(*Note: The Committee first dealt with a Private Bill, in respect of which verbatim evidence was not recorded.*)

The Committee continued its consideration of Bill 84, An Act to amend the Canadian Farm Loan Act.

Mr. Chester answered questions which had been asked him at previous sittings. He was further questioned on matters contained in the briefs which had earlier been presented, and on the operations of the Canadian Farm Loan Board, in the light of the said briefs. Other officials of the Board answered questions specifically referred to them.

At 1.00 o'clock p.m., the Committee adjourned until 3.30 o'clock p.m. this day.

AFTERNOON SITTING

At 3.30 o'clock p.m., the Committee resumed its consideration of Bill 84, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Ashbourne, Benidickson, Bryson, Cameron (*Nanaimo*), Carrick, Charlton, Crestohl, Fairey, Fleming, Follwell, Fraser (*Peterborough*), Hanna, Hollingworth, Hunter, Johnson (*Kindersley*), Lusby, Macdonnell (*Greenwood*), Macnaughton, Michener, Monteith, Pallett, Philpott, Power (*Quebec South*), Quelch, Richardson, St. Laurent (*Temiscouata*), Valois, Viau, Weaver and White (*Waterloo South*).

In attendance: The same as at the morning sitting except Mr. Matthews.

The questioning of Mr. Chester was continued; he was thanked and retired.

At 5.25 o'clock p.m., the Committee adjourned until 11.00 o'clock a.m. on Thursday, April 26, 1956.

ERIC H. JONES,
Clerk of the Committee.

73282—1½

EVIDENCE

TUESDAY, April 24, 1956.
11.00 a.m.

The CHAIRMAN: Gentlemen, we will now continue on with the bill to amend the Canadian Farm Loans Act. Mr. Chester is here as the witness. Will those who wish to ask Mr. Chester questions please indicate to me and they will be put in the proper order?

Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board, called.

The CHAIRMAN: Have you any preliminary remarks, Mr. Chester?

The WITNESS: I have some answers to questions previously asked.

The CHAIRMAN: Mr. Chester has some answers to questions asked at a previous meeting. We will have those first.

The WITNESS: You will recall that a question was asked by Mr. Gour at the last meeting. I do not believe he is here.

The CHAIRMAN: He can read it in the evidence.

The WITNESS: His question was as to the amount of losses that were written off by this board from its inception by provinces. The answer is: British Columbia, $92,014; Alberta, $232,237.76; Saskatchewan, $301.64; Manitoba, $12,501.99; Ontario, $3,908.60; Quebec, $251,516.95; New Brunswick, $78,580.96; Nova Scotia, $42,274.12; Prince Edward Island, $3,582.41; combined total $716,918.43.

By Mr. Fairey:

Q. For what period of time is that?—A. Since the inception of the board.

By Mr. Quelch:

Q. Could you give us the figures again for Alberta and Saskatchewan? —A. Alberta, $232,237.76; Saskatchewan, $301.64.

By the Chairman:

Q. $301 or $301,000?—A. $301. Now, Mr. Tucker asked a question—he is not here.

The CHAIRMAN: That is all right.

The WITNESS: He wished to know, by provinces, the number and the amount of the average loans approved, the appraised value average, and the number of loans approved over $9,500. This is for the period April 1, 1954, to March 31, 1955; that is, the fiscal year: British Columbia, loans approved 100; amount $443,850; average loan $4,439; the average appraised value per unit $10,682; the number of loans over $9,500, 11. Alberta, loans approved 307; amount $998,850; average loan $3,254; appraised value average $8,143; loans over $9,500, 1. Saskatchewan, loans approved 726; amount $2,904,000; average loan $4,000; appraised value average $9,106, loans over $9,500, 29. Manitoba, loans approved 200; amount $808,800; average loan $4,044; appraised value average $10,731; loans over $9,500, 11. Ontario, loans approved 428; amount $1,839,600; average loan, $4,298; appraised value aver-

age $9,374; loans over $9,500, 15. Quebec, loans approved 177; amount $617,550; average loan $3,489; appraised value average $6,976; loans over $9,500, 5. New Brunswick, loans approved 62; amount $186,650, average loan $3,010; appraised value average $6,797; loans over $9,500, 1. Nova Scotia, loans approved 29; amount $88,750; average loan $3,060; appraised value average $6,400; loans over $9,500, nil. Prince Edward Island, loans approved 116; amount $337,450; average loan $2,909; appraised value average $6,106; loans over $9,500, nil. All provinces, total loans approved 2,145; total amount $8,225,500; average loan $3,825; appraised value average $8,805; number of loans over $9,500, 73—these 73 loans are 3·36 per cent of the total loans approved.

By Mr. Cameron (Nanaimo):

Q. Over what period is that?—A. For the fiscal year 1954-55. It is from April 1, 1954 to March 31, 1955.

Now, at the last meeting there was a question asked by Mr. Argue. The question was—How many loans were made on Regina heavy clay over $5,000, over $4,000, and over $3,000, during 1955?

By Mr. Argue:

Q. Per quarter section.—A. Yes, although that is not the wording of the question.

Q. Yes, it is.—A. Prior to that we were discussing quarter sections, I think, and it is inferred, that the question had to do with quarter sections.

The answer, Mr. Chairman, is that we have made no loans on Regina heavy clay for quarter section units. During 1955, a total of 11 loans were made to applicants in the Regina heavy clay area. All of these loans were in excess of $5,000. The details are as follows: 5 of these loans applied for were for maximum amounts of $12,000; all of these 5 applications were approved in the amount applied for, $10,000 by way of first mortgage and $2,000 by way of second mortgage, or a total loan of $12,000. Three of the loans applied for were for the maximum amount of $10,000 on first mortgage, all of these applications were approved in the amount applied for, namely $10,000. The three remaining loan applications were: the amount applied for $8,400, the amount of loan granted $8,400; amount applied for $7,500, amount of loan granted $7,500; amount applied for $6,000, amount of loan granted $6,000.

Q. Have you the amount of land involved in each case; the quantity of land?—A. I think I might have that here, Mr. Argue. Yes, I have. This does not conform in sequence to the answer I gave. I will give these in rotation here as they appear on this sheet. This one is a $10,000 loan; 543 acres. Is that the information you wish?

Q. Yes.—A. A $12,000 loan; 800 acres. An $8,400 loan, 585 acres. A $12,000 loan; 640 acres. A $12,000 loan; 640 acres. A $10,000 loan; 784 acres. A $12,000 loan; 640 acres. A $6,000 loan; 480 acres. A $7,500 loan; 480 acres. A $10,000 loan; 638 acres. A $12,000 loan; 633 acres. Does that answer the question the way you wished it?

Q. I think the answer could be derived from this information. I have not had time to look at it. Is this correct, that the largest loan per quarter section, from the figures that you have given me, is $3,000?—A. No. We made no loans on a quarter section unit.

Q. The average?—A. We cannot break it down.

The CHAIRMAN: I think that the conclusion which you might draw would be your own, rather than necessarily the correct conclusion.

By Mr. Argue:

Q. The question was very simple. It is, the average amount per quarter section. I see some $12,000 loans here, and the smallest amount of land on which a $12,000 loan is made is 633 acres, which is approximately four quarter sections. It would appear from these figures that the largest loan made per quarter section would be $3,000 on Regina heavy clay land, and that land has been selling in the last 5 years on the average at about $10,000 a quarter.—A. How much?

Q. About $10,000 a quarter; and that is a cautious estimate. I think that estimate is too low.

The CHAIRMAN: A conclusion which might be inferred from that is not necessarily right because they would get the loans they applied for.

By Mr. Argue:

Q. But the loan which they apply for is often a result of discussions which had taken place before the official application was made. I take it these are official applications and that there may have been many inquiries made before the applications were submitted.

The CHAIRMAN: Yes, there may have been.

Mr. ARGUE: I am sure there had been; it is almost certain.

The CHAIRMAN: It does not necessarily follow that they would have applied for more.

By Mr. Argue:

Q. Then, I wonder if I might ask this question, which I believe I have asked a number of times. Let us take these figures. What is the highest value that any of these section farms was appraised at? Perhaps I should put it another way: is there one of these loans that is the maximum, related to the percentage of the appraised value?—A. There are 8 of these loans that are maximum according to our maximum loan limits. We could not possibly exceed that amount of loan to begin with.

Q. Would you name off those 8?—A. They were the 5 $12,000 loans and the 3 $10,000 loans. No matter how much they ask for we could not loan any more money.

Q. Under the limits of the act?—A. Yes.

Q. You misunderstood my question. I am asking about this appraised value. I take it your appraised value is not related to the amount in the application for a loan. Your appraised value is something related to the land?—A. Yes.

Q. I am asking you what is the highest appraised value that was given in any of these cases which you related to this number?—A. There is one farm here which we appraised at $35,000.

Q. How much land was there?—A. 784 acres.

Q. Have you one or two other examples there?—A. The next highest is an appraised value of $27,256 with 633 acres.

Th CHAIRMAN: Are you through, Mr. Argue?

Mr. ARGUE: Yes.

By Mr. Johnson (Kindersley):

Q. Mr. Chester, when Dr. Hope was giving his evidence, he intimated that a certain percentage of your loans were made for the purpose of consolidating the farm improvement loans which have been made to farmers and which have been in arrears. I think this is a disturbing tendency and does not relate to the operation of your department but rather to the Farm Improvement Loans

Act. Could you give us information as to what proportion of your loans are for the purpose of consolidating the farm improvement loans which are in arrears?—A. No. Mr. Chairman, we do not have detailed information about retiring those. We have an over-all picture of the amount of debts we retire by our loans. Would that be of any assistance to you?

Q. Yes. It would help. Thank you.—A. Purposes of loans, amongst others for the year 1954-55: 25·61 per cent of the amount of loans of the board were for the purpose of paying other debts; other debts are other than taxes or land debt or land purchase. In that figure, of course, are included moneys for the payment of F.I.L. loans.

Q. Thank you. It is apparent that about ¼ of all loans is for the retirement of debt in that particular year?—A. Yes. Incidentally, that has shown a tendancy to increase in the last 2 or 3 years.

Q. This figure for the retirement of debt has increased?—A. Yes.

Q. One of the points which Mr. Macdonnell was bringing up at the last meeting was the time lag from the application of the loan until the loan is eventually made, and at that time, I believe, you stated all the loans were channelled through the Ottawa office. Is that correct?—A. Only in so far as approval is concerned.

Q. The final approval?—A. Yes.

Q. Could these loans not be processed in the regional offices, and would that not speed up the whole means of making loans? What I am thinking of is the situation in Saskatchewan where we have a classification of lands which can be utilized, and it would appear to me that by allowing them to make the final appraisal or authorization in the Regina office, that the prime lag would be reduced somewhat. Is there any reason why that could not be done as an administrative technique?—A. It has always been the policy of the board to require final approval of all loans by the commissioner at head office. As far as the delay is concerned, all our mail is airborne now. I would guess that there is not more than a couple or three days actual delay in the mail. There is no delay at head office whatsoever.

Q. The point I have in mind there is that in the head office you are quite removed from the local office, and it would appear to me that the supervisor of the Regina office would have a better appraisal of the unique conditions which might prevail there and would be in a better position to make an assessment than you would be at the head office just because of your geographical location.—A. We have our act to interpret. That must be interpreted at head office. Quite often it is necessary for us, because of the act, to question the eligibility of a borrower. I do not think that responsibility should be placed upon the branch office. We think that the policy has to be similar in all areas in Canada. The only purpose which I can see in a change would be to save time, and the time that would be saved, as I said before, in regard to total time consumed, is very, very minor indeed. We, of course, wish to speed up applications as much as we possibly can and I think there are other places where we can save much more time in the actual processing of these loans than in the one you asked about.

By Mr. Fairey:

Q. Might I ask if it occurs frequently or infrequently that final approval is withheld at the head office?—A. Very infrequently!

By Mr. Argue:

Q. Do you have a recommendation on the application when you receive it from your people, let us say, in Saskatchewan or wherever it may be?—A. Oh

yes. The loan is practically finalised at the branch office. All it needs is the signature and a glance over the terms of the loan in regard to the act, just to be sure that we are operating within the act.

Q. What percentage would you say is turned down?—A. You mean at the head office?

Q. Yes; is it a large part?—A. I have not got the figures but my recollection would be that it would not be one per cent.

Q. You say it would not be one per cent?—A. I would not think so.

Q. What would be a typical cause?—A. Ineligibility.

Q. Ineligibility for what reasons?—A. Because he is not a farmer; because his principal occupation is not farming, mainly. There are other reasons. However that is the main one.

By Mr. Johnson (Kindersley):

Q. There is one point which seems to be disturbing some members of the committee. It is the whole problem of assessment. As pointed out in connection, in Mr. Macdonnell's question, there was a considerable time lag because of the non-availability of assessors. Since there are only twenty full time assessors in Canada, that brings up the whole problem of whether you have an adequate staff of assessors to do the job as expeditiously as you might; therefore I thought it would be in the interests of this committee if that information were brought forth because of the short appraisal season that we have, and that this may be the cause for delay.

The CHAIRMAN: Mr. Johnson, would it not be better if you are going into that matter to ask about a particular area, because if you are going to take it at large across Canada, I do not think we can get down to the meat of the problem. But if you were to ask about, let us say, your own area—why not go into that to see if there is some delay?

Mr. JOHNSON (*Kindersley*): I would be very pleased if Mr. Chester would give us the names as outlined at our initial meeting of the full and part-time appraisers and assessors for the board, because I think it would be information which all the members should know, so that they might know where their particular appraiser is located, and they would be in a position, since they are familiar with the territory, to judge the amount of work he would have to do, and I think they should know something about the qualifications of the particular assessor. Therefore, I would appreciate it if you would provide us with the names and addresses of the full and part-time assessors whom you have operating under the act, and put them on the record.

Mr. HOLLINGWORTH: I thought we had them here.

Mr. JOHNSON (*Kindersley*): No, I mean just to table them.

The WITNESS: I have not got them with me.

Mr. JOHNSON (*Kindersley*): You will be able to table them, will you not?

The WITNESS: I would prefer not to, but I am in the hands of the committee.

The CHAIRMAN: I do not think it has ever been the usual practice for a crown corporation to give out the names of its employees or their qualifications and so on.

Mr. JOHNSON (*Kindersley*): Mr. Chairman, my question was for the names of specific employees whose work has been quite severely criticized in this committee. I do not see how it would make any difference whether the information was supplied to us here or in the house. It would have to come from the same source eventually.

Mr. BENIDICKSON: Mr. Chairman, I think the same rule is applied to questions when they are asked in the house as when they are asked in committee as to the names and salaries of employees; for example, in the case of the Canadian National Railways or something of that kind.

The CHAIRMAN: Might I suggest that if anybody here knows of a particular area and wishes to know who the appraisers are, that he indicate the fact. I do not see any reason to supply holus-bolus information about crown corporations and their employees, unless people are interested in some of them. I cannot quite follow your interest, let us say, in appraisers in Prince Edward Island, Mr. Johnson; but I can follow your interest in appraisers in your own province or area.

Mr. JOHNSON (*Kindersley*): I asked at the last meeting if there was any reason for reluctance in providing this information. It is quite simple information to me. Our responsibility is to probe into the operations of this public body, and it was with that object in mind that I asked my questions, to try to make constructive criticism on the basis of the information that would be provided.

Mr. FRASER (*Peterborough*): You mentioned that information regarding crown companies is not to be given.

The CHAIRMAN: I did not say that; I said it was not the usual practice.

Mr. FRASER (*Peterborough*): But in the House of Commons I have put questions on the order paper in regard to crown companies and I have received answers regarding employees in those companies, and they have not hesitated at all to give me these particulars.

Mr. MACDONNELL (*Greenwood*): I understood that the names had been asked for. I was not aware that the salaries had been asked for, and I would not ask for the salaries. I am unable to see why there should be any question about giving us the names; and if there is objection, I should like to understand what it is, because at the moment I can see no reason why the names should not be given.

The WITNESS: I think you will recall that the question was originally asked in regard to the qualifications of these appraisers. That was the point I objected to; that we should identify these appraisers under certain qualifications. However, if it is required for the committee I am sure we would not object to giving you the names, but I do not think that the addresses would mean very much, except that we can tell you within the area; would that be satisfactory?

Mr. JOHNSON (*Kindersley*): Yes.

The WITNESS: You do not want the street addresses?

Mr. JOHNSON (*Kindersley*): No, no.

The WITNESS: I do not see any objection to that type of information, but I certainly would not want to have the names tied in with certain qualifications. That is the point I tried to establish, perhaps not too clearly, when the question was asked in the first place. I have not that information with me, but if the committee wishes I shall get it.

Mr. JOHNSON (*Kindersley*): That will be fine. Thank you. That is all.

The CHAIRMAN: Mr. Macdonnell.

By Mr. Macdonnell (Greenwood):

Q. I would like to ask some questions, following the questions I asked the other day, and based on page 7 of the report of the Federation of Agriculture. My first question is: what are the legal requirements for reserves? The

Auditor General, I believe, and Mr. Hope both thought that they had been exceeded, so my question is: what are the legal requirements?—A. The legal requirements? There is first of all the statutory reserve, and the legal requirements for that reserve are that the board shall put into that reserve 25 per cent of its income after expenses until it reaches a certain point which has been reached, and from thereon in it should be 10 per cent of the net revenue of the board. Then there is a provision in our act—

The CHAIRMAN: That is under section 9 of the act.

The WITNESS: There is provision in the act in respect of the setting of the interest rates by the board and I shall now read it to you: I shall read to you from page 8 of the act, section 7, sub-section (*e*) as follows:

> "the interest rate on loans shall be a rate that, in the opinion of the Board, is sufficient to provide for the interest payable by the Board to the Minister and the expenses of the Board, including reasonable provision for reserves against losses;"

By Mr. Macdonnell (Greenwood):

Q. What is your answer to the statement that you are setting aside provision for losses above the legal requirements?—A. If those are the legal requirements, we have not set anything aside above them. In other words, we consider that the reserve for losses which we have set up are reasonable reserves for losses. Is that what you are getting at?

Q. Yes. That is the answer.—A. That is what I mean.

Q. You definitely take a position, contrary to that of the Auditor General that it is prudent and necessary for you still to go on establishing reserves?—A. Mr. Chairman, the bill which you have before you corrects that situation.

Q. The other thing is this: what we want to know is this: could you tell us the number of loans refused in certain areas? You have given us several figures as to the number of loans made. I would like to have a corresponding figure as to the number of applications refused. If those figures are not available perhaps you could give them to us later, but I think it is very important.—A. Is it by area, or by years?

Q. Could you give us the overall figure and then give us two or three illustrations? I do not want to make it longer than necessary; but could you give it to us? You gave us one figure of eleven loans made in a certain time in the Regina area. I was surprised at the smallness of the number, but could you tell us if any were refused, and if so how many, and at that time, and in what area?—A. I shall get that for you.

Q. Could you give us the overall refusals?—A. Across Canada for the year?

Q. How would your records show it?—Would you be able to give us the records by provinces of provincial loans made and loans refused? Could that be done without a lot of extra work? How do you suggest that it could be done?—A. I think we could provide that for you without too much trouble.

The CHAIRMAN: Is that information particularly valuable without knowing the reason for the refusal?

Mr. MACDONNELL (*Greenwood*): I am glad you suggested that. I think we should have that too.

The CHAIRMAN: That may involve a lot of confidential information again. For example, they may just consider that a man is a bad risk personally, or has poor character or something. I do not think that the information you are asking would be of much value unless you know the reason for the refusal.

By Mr. Macdonnell (Greenwood):

Q. I agree that we must not ask for confidential information which might damage anybody. But I think a good deal of information could be given.—A. Probably I have some information here which is along the line you are seeking. I might say that if we had to give you the reasons why all loan applications were declined, it would be a terrific job. There are so many and varied reasons; but I have here an analysis which I had made in Ontario for the 1955 season. 13·8 per cent were declined because of ineligibility under our act.

Q. You say 13·8 per cent of all, or only of those that were declined?—A. This is 13·8 per cent of all that were declined, not of all applications; only of those declined.

Q. Are you going to give us the number that were generally declined?—A. I will give that to you later; but this will be for Ontario in 1955. 46·5 per cent were declined because of insufficient security for the amount of the loan; 1·4 per cent were declined because they were unable to give title; and 38·3 per cent were withdrawn by the applicant.

Q. That last might come very close to being refused.—A. No, it was a voluntary withdrawal on their part for some reason or other; they did not want to proceed with the loan.

By Mr. Argue:

Q. Did they get their $10 back when they withdrew?—A. If the appraisal has not been made they get back the $10; but if the appraisal is made, then we retain the appraisal fee.

Mr. MACDONNELL (*Greenwood*): I do not want to take up time unnecessarily, but I think those figures are very essential.

The CHAIRMAN: Have you the figures for the number of loans turned down in Ontario for the year, and the number refused?

The WITNESS: 376.

The CHAIRMAN: And how many loans were made, declined, or withdrawn?

Mr. FAIREY: You gave us 428 in the first place.

The WITNESS: Yes.

The CHAIRMAN: You jotted that down.

Mr. FAIREY: I have 428 given for Ontario.

The CHAIRMAN: And how many were declined?

The WITNESS: 376.

By Mr. Cameron (Nanaimo):

Q. I notice that Mr. Chester was listing the percentages of loans that had been declined by the board, refused by the board, and in those percentages he listed, I think, some 38·3 per cent that were voluntarily withdrawn. Should they really not be included?—A. Our records are made on the basis of declined, and withdrawn, as combined figures. That is the way that we treat them. Once we receive an application we must dispose of it in some way; either it is approved, declined or withdrawn. We do not have a breakdown of "declined" and "withdrawn" into categories. We combine them with the other reasons why the loan did not eventually receive approval.

Q. It occurs to me that in respect to the percentage of loans declined, there would be more than 80 per cent which were actually declined for insufficient security, and if we eliminate the 38·3 per cent which were voluntarily withdrawn, would not that person normally appear in the reasons for decline?—A. I do not know how you can interpret that, because the actual figure of the number we decline for this reason is 46·5 per cent.

Q. On the basis on which you estimate your percentage, that includes 38·3 per cent which you say were declined, but were in fact voluntarily withdrawn. —A. As far as we were concerned it was the same thing. They did not become loans.

Q. That does not give an answer to Mr. Macdonnell's question.

The CHAIRMAN: I think that Mr. Cameron has a point there; that is, if you deducted from those loans which are not proceeded with, those which had been voluntarily withdrawn, it would leave you with those which you would actually decline for some reason, and then your percentage would be changed.

The WITNESS: As of a total, at any time, it would. That could be figured out. If you have the percentages and the totals, you may do a little arithmetic.

Mr. CARRICK: Does the figure of 38·3 include the number declined?

The WITNESS: Yes.

The CHAIRMAN: It obviously includes the percentage of the total which were declined.

By Mr. Michener:

Q. I understood Mr. Chester to say that the proposed amendment to section 9 would alter the requirements for reserves. Is this new section 9 the recommendation of your board?

The CHAIRMAN: You mean section 7.

The WITNESS: New section 9 is part of the bill which is presented to you by the government.

By Mr. Michener:

Q. I know that, but is this the idea of the board as to what shall be done about reserves? They propose an amendment to section 9.—A. This is the conclusion which has been arrived at by the government to present to parliament.

Q. I know that, but does the board go along with the government?—A. The government, before it made this policy, consulted us. Further than that I do not think we can say anything.

Q. What is your personal view, as Chairman, about this proposed amendment? Will it change the practice with respect to reserves?—A. Undoubtedly it will change the practice.

Q. In what way?—A. Our reserve fund is now fixed at $3 million. Our capital is set at $3 million therefore our reserve limit is fixed at $3 million, or not in excess of the capital.

Q. In the future, what will it be under this proposed amendment?—A. It will remain stationary until such time as our capital is increased.

Q. That is the very idea of what will be done if the amendment is passed; you will keep the reserves at this present amount until your capital increases? —A. Or until it is reduced. We cannot exceed our capital; it can be reduced by losses, of course.

Q. I am interested in knowing how you would interpret the section because it says that the board shall establish a reserve out of which may be paid any losses sustained by the board in the conduct of any of its operations under this act.

The CHAIRMAN: In sub-section 2 it goes on to suggest what the reserves should be.

Mr. MICHENER: Where is that?

The CHAIRMAN: Over the page.

By Mr. Michener:

Q. But the requirements of that section would require a 100 per cent reserve because any loan or any part of a loan might be a loss, and it seems to me that if the intention is to reduce the legal requirements there, you would not have as much reserves and that this amendment is not going to do it.—A. What this amendment does is this: we presently have two reserve funds which in total exceed $3 million.

Q. That is about 10 per cent of the amount you have on loan. According to your last statement, the reserves under section 9 are $878,000, and other reserves are $2,349,000, which comes to just over $3 million; and the amount you have on loan to farmers is $38 million. So you have not made it a percentage of the amount of loan. Can you tell me how you expect that the amendment will alter that situation?—A. Well, first of all the amendment reduces the amount we now have in the total reserve to $3 million and that is now fixed. We cannot exceed $3 million as long as our capital is $3 million. But out of that one reserve all losses sustained by the board in any manner whatsoever shall be paid.

Q. And the surplus over $3 million will be paid?—A. To the Receiver General of Canada.

Q. You say it will be paid to the Receiver General of Canada?—A. Yes, the present surplus over $3 million.

Q. Yes.—A. Any surplus from our yearly operations will, as well, be paid to the Receiver General, providing our reserve fund is at its maximum of $3,000,000.

By Mr. Mitchell:

Q. Practically speaking, if you start out with $3 million, and at the end of the year you have $100,000 loss, that will come out of the $3 million, and then you go ahead and build up the $3 million again before you pay any money to the Receiver General?—A. That is exactly right.

By Mr. Bryson:

Q. Mr. Chester, did I understand you correctly a moment ago to say that some loans are declined because of the fact that the applicant was unable to satisfy the board that he was a bona fide farmer at the time that he made the application?—A. That is correct.

Q. That is substantially correct?—A. Yes.

Q. Do you mean that, in the case of a young man who has considerable farming experience but when he makes an application does not at that moment happen to be a farmer that his loan would be declined?—A. No. If he is a farmer, or about to become a farmer; if farming is generally described as being his occupation, he is eligible.

Q. How does that statement square in with your first statement that some loans have been turned down?—A. We receive many applications in the Ottawa area from people who work for the government who are part-time farmers and they do not qualify. By our principles that is not farming and is not going to be farming at the time we would disburse a loan.

Q. Say a man wanted to become a farmer and had a farming background, would you give consideration to such an application?—A. Absolutely, yes. As long as the purpose of the loan is to establish him as a farmer and that is going to be his occupation.

Q. Regarding the appraisers, do you have a fairly uniform system or method of appraisal all over the country?—A. Pretty well, yes. Of course, the values vary considerably.

Q. I mean the method, the actual mechanics.—A. Yes.

Q. In that case, would you consider it advisable to use the Saskatchewan assessment? I understand that while there is frost on the ground and snow on the ground appraisals are not made by the appraiser?—A. That is correct.

Q. And there is a delay there of approximately six months in every year. Your methods of appraisal, I presume, are about the same as those used by the assessment commissioner in the province of Saskatchewan. Would you not consider that it would be advisable to use that assessment as a guide towards the appraisal?—A. We have answered that question previously. I think that the shortest answer and the most complete one I can give is that the municipal assessment in Saskatchewan does not include buildings on any farm and our loans do include buildings. I do not see how we could loan on land only.

Q. You can appraise buildings in the wintertime?—A. If you can get to the farm; but there are many other things, as I explained to this committee, which enter into the making of a loan. Obtaining the personal report on the man is, of course, essential. The type of farming he carries on; is he a good farmer, and what is the cultivation of his land? We do not always know whether it is a stony area. There are many things. There are certain situations where we would not want to take a farm as security. There are so many other things which enter into the making of a loan. But as far as municipal assessments are concerned, we could not in my opinion advance any loan on that one factor alone. I think it would be impossible and irresponsible for us to do it.

We made a loan in British Columbia the other day. I just happened to notice the municipal assessment was $597; we appraised the farm at $2,588.88. That shows the ridiculousness of trying to do loaning on municipal assessments across Canada. There are some areas, particularly in Saskatchewan, where they are a very good guide and we use them as such; but I think it would be irresponsible on our part if we used them exclusively.

Q. I had in mind the soil types which, in the province of Saskatchewan, are a very comprehensive thing.—A. Soil maps?

Q. Yes.—A. They are used extensively by us.

Q. Would you not consider that a fair guide during the winter months, rather than hold up a loan for six or seven months?—A. Only a guide.

Q. Do you not use the same method of arriving at soil types as they do in the provinces? You take samples, and so on?—A. Yes. Our appraisers take samples, but there are so many other factors which come into mortgage loaning on farms that there is not any one factor which you have mentioned which we could take as one on which we could finalize any loan application.

Q. In so far as the land itself is concerned, what other factors would there be on which you could not appraise during the winter?—A. The cultivation, and various things affecting soil, land, production and drainage.

Q. We are talking about the farmers' ability to farm. Could you not find out that information at any time?—A. In certain areas we possibly can find that out such as where they are growing wheat which has to go through an elevator and we can check and back-check; in other areas, no.

By Mr. Quelch:

Q. Mr. Chester, I understood you to say at a former meeting that no areas were blacklisted. Could you say how many loans, if any, have been made in the special area of Alberta? I might mention here for information of the committee, that the special area comprises an area of around 7 million acres in the southeastern part of the province.—A. I would say very few, if any. I doubt if we have made any in recent years. There were some made in the first years of our operation.

Q. I am asking whether you could not reconsider your policy in that respect. I can quite appreciate why there were no, or very few, loans made in the early years because the majority of the farmers in that area went

broke. Sixty per cent of them, I think, pulled out. There has been an entire reorganization in the last 20 years and you have an entirely different picture today. A lot of that area is as prosperous as any, due to reorganization. Some of the larger farmers hold two or three sections in their own name and perhaps have a lease on 2,000 acres, and, farming on that basis, they have become quite prosperous. In many cases they find they can carry more stock and wish a loan in order to buy livestock; or, a farmer is selling out and his son takes over the farm and needs capital in order to try to stock the farm. That area today is a very different area to what it was 15 years ago. I think that you will be able to reconsider your policy in that area?—A. We have no policy in that area which says we will not loan money.

Q. I wrote you last year regarding a farmer I know and it was with respect to an extremely good farm.—A. True, we would not make a loan as applied to that particular farmer. It was not because it was the area; there were other reasons. I appreciate the fact that this special area in Alberta has gone through a very extensive reorganization as you have informed the committee. Many people—I think you said 60 per cent—have moved out of the area, and, as a result, larger units are available and are being used by these people. Also there is much grazing land which is rented by the provincial government at a very low rental based on the increase in production of cattle. Also, if my recollection is correct, I believe that no new person can come into that area and purchase land, so the only people we can deal with are those already established. Now, those that are established in such a manner that they can convince us that they will be able to repay a loan from this board, will certainly receive very favourable consideration if they apply to us. Incidentally, I might say that we have had very few applications for loans from that area.

Q. No new farmer can come in there to get a lease unless he owns land, but can come in and buy land from a farmer holding land in that area. It was the attitude of the V.L.A., at one time, that they would not make loans, but they have changed their principle in the last few years and are making loans, to veterans who wish to settle in that area.—A. As far as I know there is no policy of the board which restricts us making loans in that area.

By Mr. Weaver:

Q. Mr. Chester, in the first question that you answered about the list by provinces of losses on loans over a period of time, the province of Saskatchewan stood out very much over the others; it was a very small loss.—A. One of the main circumstances there was that we did not start loaning in Saskatchewan until 1935. If we had been loaning in 1930, the picture would have been entirely different.

By Mr. Argue:

Q. You gave Mr. Macdonnell a list of the percentage of applications which had been turned down, or withdrawn, or rejected. You probably gave him the total number but I did not get that. A. It was 376.

The CHAIRMAN: For Ontario, 376.

The WITNESS: In that one year, which included some 38 per cent which had been withdrawn voluntarily.

By Mr. Argue:

Q. Of the 46 per cent which you list as having been turned down because of insufficient security, was an inspection or an appraisal made?—A. I do not have the record of that, but I would say by far the majority of these inspections were made.

Q. Generally, when you turn down an application because of insufficient security it means that an appraisal has been made?—A. Generally speaking, not always. A man might apply for a $10,000 loan on a $5,000 farm. We know that his farm is worth approximately $5,000, within a certain range. We get many applications where the amount applied for is far in excess of any value that you could put on the farm for loaning purposes.

Q. You know that for what reason?—A. We have records built up over a period of 25 years. We have detailed records of the area, and we have discussions of our experience.

Q. You gave us some figures a number of days ago. These are the figures which I have written down, that of the 4,892 applications 2,145 were approved. That was quite a few days ago and I am not sure about them. A. I do not recall those figures, Mr. Argue.

Q. Well, can you then right now for a given period, give me the number of the applications and the number of applications approved?—A. I have the figures for this past fiscal year which ended March 31, 1956: total applications, 5,459; number approved for loans, 2,083, number declined, 2,268; number still in process, 1,110.

Q. How many were declined?—A. 2,268.

Q. Why do you take that figure and not the figures I have referred to? You listed 1,237 loans as being made the previous year in your first submission to the committee. I take it that that was based on applications for some 4,800 or 4,900. How many $10 fees do you get in any given period? In other words, when an application is turned down, do you get the $10 fee?—A. In 1,157 cases the $10 fee was not returned.

Q. How many applications in that period were withdrawn?—A. The withdrawn, I included in the declined; they are combined.

Q. Are the ones withdrawn in the 1,157?—A. Yes, some of them undoubtedly are.

Q. What happens when a person withdraws his application? Are you telling us that you have 1,000 people—let us call it that—who make application and attach their $10 to the form and then they say, at one point or another, that for one reason or another they do not want the loan and wish to cancel the application, are they given the $10 back?—A. Yes.

Q. But those people do not have their money returned who are listed as having withdrawn their application because the board, or some representative of the board, sends them a letter saying, in so many words, you cannot get a loan and there is no use having an appraisal, you lose you $10 and therefore we suggest we return it to you. Those are the people whom you referred to as having withdrawn and a lot of them have been turned down before an appraisal was made?—A. They have not been turned down before an appraisal was made. There might be some of them discouraged from proceeding with their application. It is still up to them whether or not they withdraw.

Q. When you have discouraged them from applying and they have withdrawn, then you mention them in your category as having withdrawn?—A. No. We list them as being rejected. They are included in the rejected.

Q. Then who withdraws?—A. The applicant withdraws.

Q. He withdraws voluntarily?—A. Yes.

Q. He withdraws without any intimation having been given to him that if he proceeded he is not likely to get a loan?—A. I said that there are cases where we discourage people. For instance, when an appraiser gets to the farm and looks over the application and it is for a $10,000 loan, he just glances at the farm, and his past experience indicates, amongst other things, that it is very unlikely that that man would get a loan of that size; then he would tell him it is unlikely and say, "Do you wish me to proceed with your applica-

tion or with an appraisal on it?" If he makes the appraisal we retain the $10. On many occasions, a man might say—I do not know what he says to himself. I just caught myself in time there. At any rate, he decides to withdraw and it is quite voluntary on his part.

Q. He can retain his $10; I will agree with you on that. But after you have told him in so many words that he is just going to lose his $10 if he goes ahead, you will show that as having been a withdrawal?—A. No. It would be shown as rejected.

Q. But it is a withdrawal.—A. They are included in the rejections; they are combined. The total is listed by us as being rejects, but in that total are those that have been withdrawn.

Q. And they are withdrawn because the hint has been made?—A. In many cases, but all of them are withdrawn by the applicant.

Q. But in many cases they are withdrawn because the applicants are informed that they might not get a loan if they went ahead with the application?—A. I would say that there are probably a few cases of that nature, how many I do not know.

Q. There are cases where a man sends you the $10 when he is applying for a loan and you do not make an appraisal but send him a letter telling him that he has not been able to comply with certain conditions and you enclose the $10 suggesting to him that he had better not go on with it. In other words, you are the people who get him in that predicament?—A. No; it is a declined application in this case and we accept that responsibility, returning his appraisal fee.

Q. And you have listed him then as a definite reject and not as a withdrawal?—A. Yes.

Q. You listed 4,890 some odd over $5,000 the last year as having applied for a loan. Have you any information at all as to the number of people in addition to that number who might have written in to you making a definite inquiry about a loan giving you certain detailed information about where they might live and that you might have said to them "we will take your application, but on the basis of the information which we have now it seems quite evident that you cannot get a loan"?—A. We have no record of those people. We have a great number of people who make casual inquiries by correspondence, by visiting at the office, by telephone and in other ways. No record is kept except possibly a memorandum for the use of the branch office as to the interview and what was said and done in the interview.

Q. Can you give me the number of inquiries you have in writing in a year for loans?—A. We do not have those figures and it would be very very difficult to obtain them.

Q. I am suggesting that there are thousands of persons who would like to get loans and would like to get applications but are refused or turned down or discouraged before an application has been made, so that when we say that there are 40 per cent of the applications approved, that that is rather a high figure if it were related to the number of application or to the number of inquiries made by people who would like to have a loan many of whom are discouraged even from filling in the original application.—A. Your guess is as good as mine on that.

Q. You have heard the evidence from Dr. Hope that at least in certain areas you should not refuse an appraisal because there is snow on the ground. What is the period during which you do not make appraisals because of snow on the ground or because of winter conditions?—A. It depends, of course, on the weather.

Q. Have you a regulation saying that appraisals cannot be made during the wintertime or during a certain period?—A. We have a regulation which says

appraisals must not be made when the ground is frozen or covered with snow sufficient that a complete report could not be made on the cultivation and on the farmland itself.

Q. Is that restriction on the time when appraisals can be made, therefore a restriction that is brought about only because of a regulation by the board? In other words, it is your own precaution as you see it?—A. It is policy.

Q. It is not in the act?—A. No. It is a regulation made under the act by order in council.

Q. With great respect, I would suggest that that particular regulation should be amended. I can well understand the board's reluctance to generally making all sorts of appraisals during the wintertime, but I cannot see any reason why the board should tie its own hands and its own administrative machinery if there are certain cases where a loan can be reasonably made even with snow on the ground.

Mr. BENIDICKSON: Is this a question or another statement?

Mr. ARGUE: I am going to ask the witness his opinion on this. I think it is important and I do not think that suggestion is much of a contribution.

By Mr. Argue:

Q. Does Mr. Chester not agree that there are some instances when an appraisal could quite well be made in the wintertime with adequate protection to the board? Could you not make a lot of them on this Regina land where an application is made for a small amount of money on a given parcel of land. The land is uniform; there are no stones; you do not have to worry about that; you just know there are none. The land there is level.—A. All I can say is this: the considered opinion of the board has been for quite a number of years, and of all the officials of the board, that it is not good policy, nor good business, nor using ordinary good judgment, to authorize appraisals under the conditions which you have suggested that they should be done.

Q. And for what reason?—A. I think that I have given you the reason many times, Mr. Argue.

Q. Well, I suggested the board is in error in that regard. We have heard a lot of complaints about the length of time it takes to get a loan processed. I believe you made the statement this morning that you are going to attempt to speed up the process?—A. We are always attempting to do that.

Q. Usually then without too much success because we have had evidence that it takes a long long time.

Mr. RICHARDSON: Not necessarily at all.

Mr. ARGUE: It takes months.

Mr. RICHARDSON: It is good business judgment.

Mr. ARGUE: I am surprised to hear some members infer that Dr. Hope did not know what he was talking about because he many times said that the length of time taken was too long, and I think Mr. Chester has almost said that.

Mr. JOHNSON (*Kindersley*): They take a lot longer than the small loan companies do.

By Mr. Argue:

Q. Mr. Chester, you have given us evidence on this and have said that you are always endeavouring to speed up the business. Would you tell me in what way you think you will be able to speed up the process this coming year?—A. We have already done it in respect of Ontario and Saskatchewan, by increasing the number of employees who handle the work.

Q. I am very pleased to hear that; that is good information. Is there anything else that you have done to speed up the process of making applications?—A. Instructions have gone out to our branch managers that there shall be no unnecessary delays and that they will be responsible to the head office for undue delay.

By Mr. Hollingworth:

Q. Does the board have its own solicitors?—A. Only in Ontario and Quebec; all others are handled by agents.

The CHAIRMAN: Would you like to get some business, Mr. Hollingworth?

By Mr. Monteith:

Q. Mr. Chairman, could I ask a question or two on this reserve business. On page 8 of the report there is a deduction from surplus or adjustment of prior years' income tax provisions of $16,143. I wonder if Mr. Chester could tell me just how that arose and why that adjustment is there?—A. What report is that?

Q. At page 8 of the report. I suppose it is just an accounting procedure and adjustment of the prior years' taxes caused by insufficient having been set up?—A. I think that I had better have our chief accountant answer that question. I am informed that it is as a result of a battle which we had with the income tax department which we lost.

Q. Did it have anything to do with losses written off?—A. No. It was just in respect to income tax. In other words, we did not think that we should have to pay so much and they thought that we should have to pay it and we had to pay it.

Q. Then, turning to page 7, I notice your net earnings before provision for income tax were $162,951; then you do provide for income tax of $73,341; then coming to net earnings, carried to statement of surplus of $89,610. That is, there are no losses included in the expenditure there whatsoever?—A. No losses on loans you mean?

Q. Yes.—A. That is right.

Q. I notice on page 8 again that you have added back that $89,000 net earnings after taxes in 1955, then you have deducted it to amounts which are carried to reserves. Did you write off any losses in 1955?—A. Yes, but very small.

Q. But they would be charged?—A. Charged to reserve for losses.

Q. Well, the point I am trying to get at is, in arriving at your income tax provision are losses allowed; are the actual losses written off?—A. There is a new provision in the Income Tax Act that does allow them. Prior to last year they were not allowed.

Q. Losses were not allowed for tax purposes?—A. I think that our chief accountant had better answer that.

Mr. R. MCINTOSH (*Chief Accountant, Canadian Farm Loan Board*): Mr. Chairman, as far as I could make out from the income tax department it is not worth while. The losses were not sufficient to take into account because the next year you have to add them back in along with your gains. We were just as far ahead not to take in those losses.

Mr. MONTEITH: We were given the figures this morning that in Alberta there were losses of $232,000.

Mr. MCINTOSH: Yes. The income tax provision, as far as corporations are concerned, just came in effect in 1952. Crown corporations were not subject to income tax before 1952.

Mr. MONTEITH: Since then you are actually being allowed losses?

Mr. McINTOSH: There is a special provision in the act, under section G of the Income Tax Act, where you can set up certain reserves.

Mr. MONTEITH: Do you contemplate any increased reserves in the future being deductible for income tax purposes?

Mr. McINTOSH: It will be this year.

Mr. MONTEITH: If this reserve is deductible, it must be an admissible reserve in the view of the Department of National Revenue before it can be deductible so that the Department of National Revenue will take the figures supplied by you, following out of this Bill 84, in the future as the amount deductible for tax purposes?

Mr. McINTOSH: I think under the first year of operation under the new section of the Income Tax Act, that you are allowed 3 per cent of your assets to set up as reserve for income tax purposes only.

Mr. MONTEITH: Is your board in the same position as a crown corporation?

Mr. McINTOSH: Yes. They are allowed to set up 3 per cent the first year and then after that it is adjustable.

By Mr. Charlton:

Q. Mr. Chester, I recall quite vividly in the early part of the questioning when I asked the question if you used the assessed value in any way of farms in your appraisal, that you definitely stated no. Now, I understand that you do use it in Saskatchewan as you said this morning.—A. I should qualify that first statement. It is only a guide. We only use it as a guide. Values have no relation to it except that it gives us a picture along with many other pictures which we receive.

Q. That being so, the suggestion which I made to you that the local appraisers would be much more valuable to you than an outside appraiser going in to the district would be a good suggestion. You say that in Saskatchewan you will not make an appraisal in the wintertime and still you have that soil map. Obviously, buildings are not covered up with snow in the wintertime and you could inspect the buildings. That seemed to be the reason why you would not make appraisals in the wintertime, because Saskatchewan buildings were not included in that appraisal. Is that not true? —A. That is only one of several reasons. We do not think it is sound loaning practice.

Q. We will let that go at that then. Do you not believe that the local appraiser is more valuable to you than the outside appraiser going in?—A. No, for the simple reason that our full-time permanent employees have a certain area which they know from experience. They have appraised a great number of farms. Some of our men have been with us over 20 years and average over 100 farms a year, which is 2,000 farms in that area. I do not think there is any local person who can tell that appraiser very much that he does not already know about any particular farm or about the area in which he is appraising.

Q. How large an area would an appraiser have?—A. Are you referring to Ontario now?

Q. Yes.—A. It is very difficult to answer the question as to how large an area it is.

Q. How many appraisers have you working in Ontario?—A. Five full-time men.

Q. And those five appraisers are supposed to cover the whole province?—A. They do not cover the whole province; I should say they do cover the whole province but they do not do all the work in the province. There are part-time appraisers who are local men who do appraisals in their local districts.

Q. How many part-time appraisers do you have working in Ontario?—A. In Ontario I would say seven or eight. I would have to get the exact figure for you. I would say offhand about eight; there might be a few more or a few less.

Q. And you suggest that five full-time appraisers can make the appraisals necessary in the province of Ontario with the assistance of eight part-time appraisers and that they would know the local conditions of that area?—A. Yes, they do.

Q. You have used three terms here, Mr. Chester, in the 38·3 per cent which you told us were loans which were withdrawn by the applicant. You used the term that they would be rejected by the board but still would be counted as being withdrawn. If you classify those as rejected applications, then why can you not give us the numbers of those that were classified as rejected?—A. I do not suppose it would be impossible for us to do it. It just is not the way we keep our records.

Q. You said that these 38·3 per cent were withdrawn by the applicants, in answering Mr. Argue's questioning when he was pointing out that probably they were withdrawn because you had discouraged them, and I submit that probably for every one discouraged by the board there is probably one discouraged by himself. But, nevertheless, you did say those were classified as rejects by the board.

The CHAIRMAN: What he said was this, that all applications that were not proceeded with were classified as rejected but that in that classification he again broke them down as those rejected for certain reasons and other reasons and those voluntarily withdrawn. In other words, the whole category is categorized as rejected and then within that category of rejected or declined there is a further category of applications withdrawn.

Mr. CHARLTON: I do not agree with you. 38·3 per cent is the figure he gave us as withdrawn by the applicants.

The CHAIRMAN: Within the category of rejects.

Mr. CHARLTON: Of all the refusals.

The CHAIRMAN: All those not concluded with were characterized as rejects and 38·3 per cent of those were voluntarily withdrawn. He said they were characterized under rejects, so all those voluntarily withdrawn are characterized in that category of rejects and refusals and inside that they are broken down further.

The WITNESS: 46·5 per cent were declined for insufficient security, 1·4 per cent were unable to produce the title and 38·3 per cent were withdrawn by the applicants.

The CHAIRMAN: Yes.

By Mr. Charlton:

Q. In answer to a question asked by Mr. Argue, when he was trying to point out that part of these you had shown as withdrawn by the applicant were in fact rejected by the board in a letter or in some other way, you termed them as rejects by the board.

The CHAIRMAN: Under the larger category of rejects.

By Mr. Charlton:

Q. That was not as I understood it. As I understood Mr. Chester, he said, when answering Mr. Argue, that they were all withdrawn by the applicant and Mr. Argue pointed out that they were withdrawn by the applicant because of something which the board had told them and that they were called rejects

by the board.—A. Of the total 100 per cent of rejects by the board, 38·3 per cent are included in that total and are those withdrawn by the applicant. Is that clear?

By Mr. Monteith:

Q. 38·3 per cent of the 376?—A. Yes.

Mr. CHARLTON: Which you call rejects?

The CHAIRMAN: Voluntarily withdrawn.

The WITNESS: 376 are rejected. Of those 376 38·3 per cent are withdrawn.

By Mr. Charlton:

Q. You used another word, declined. You are now saying, Mr. Chester, that in order to save the applicant the $10 fee that you do not discourage anybody and that those whom you might discourage would not be included in your 38·3 per cent?—A. We do discourage some applications.

Q. What I am trying to get at is this. All those which you consider as withdrawn by the applicant are not withdrawn entirely of their own volition. Something which the board has done or said to them more or less occasioned the withdrawal by the applicant?—A. All applications are withdrawn of their own free will and nothing else. They do not have to withdraw them.

Q. Nobody suggested that they had to withdraw them.—A. What are you suggesting?

The CHAIRMAN: I think what he is suggesting is this: out of those listed there as voluntarily withdrawn, there are some in that 38·3 per cent withdrawn by reason of discouragement by the board.

The WITNESS: I think, in answer to Mr. Argue, that I said yes to that statement.

Mr. CHARLTON: In my notes I have it that you called them rejected.

The CHAIRMAN: In the larger category.

Mr. CHARLTON: Within the 38·3 per cent. I have my notes here which I took when Mr. Argue was asking his questions.

The CHAIRMAN: I understood when he was referring to voluntarily withdrawn by encouragement of the board that he was only referring to it as part of that 38·3 per cent in the larger category of 100 per cent as rejected by the board.

The WITNESS: There are 376 rejects for various reasons. Of the 376, 21 were encouraged by us to withdraw.

By Mr. Charlton:

Q. Then the 21 would be included in the 38·3 per cent?—A. Yes.

Q. The 21 would be included. That is just the very point.—A. I have been saying yes to that question right along.

By Mr. Fairey:

Q. I think that that 38·3 per cent works out at 143 total in the classification of withdrawn and that of those 143 Mr. Chester told us 31 were encouraged to withdraw, leaving 122 who withdrew voluntarily without encouragement. —A. It is certainly voluntarily on their part.

The CHAIRMAN: Those figures are only for Ontario in one specific year.

Mr. CHARLTON: 1955.

The CHAIRMAN: Yes. They are not national figures.

Mr. CHARLTON: I did not suggest they were.

By Mr. Charlton:

Q. Now, Mr. Chester, ordinarily a person who wants to apply for a loan will write in to the board for the application form?—A. Yes.

Q. Is there any place else that he can obtain application forms?—A. I hardly think so. We supply information about our policies to banks and various other people who might be interested on behalf of a customer who requires a long-term loan. I do not think there are many application forms secured other than through our branch offices.

Q. You do not supply forms to banks or to any agricultural representative in Ontario to hand out?—A. Some of them write in and as a result of that we supply them. If they want those application forms they will get them. There is no objection to having them in the hands of banks or agricultural representatives or people such as that.

Q. In many cases in those letters applying for the application forms do you not get a considerable amount of information relative to the loan in that original letter?—A. I would say that in the majority of cases we do not get any information, but rather a request for information from the applicant, and then, as a result of that, we give them the information they ask for and an application form. That is the usual procedure. In other words, people have heard that we make loans. They need a loan and are interested in getting one and they inquire from us for information concerning our board's loaning operations which we send back to them.

Q. But, in turn, do they not give you the acreage of the farm?—A. Not very often; sometimes, yes.

Q. In some cases where I have been asked to assist in trying to obtain a loan I have received copies of correspondence in which I noticed there were many cases where quite a full description of the farming operations was given. As a matter of fact, they were not even sure that there was an application form which they had to fill out. They thought they could write in and give the information in a letter.—A. Sometimes we get letters of that type, but I can assure you that it is not so in the majority of the cases.

Q. You said this morning, while being asked about the fact that these loans could not be processed at the branch office, that there were many other places where the processing could be speeded up rather than this one of not sending the applications in to Ottawa. I would like to hear your comment on the other ways in which the loans could be speeded up.

The CHAIRMAN: He has already done that. That question was asked in almost the same words which you used and has been answered.

The WITNESS: I told the committee that we have already employed more people in the board in Ontario and Saskatchewan branch offices for that purpose for this year.

By Mr. Charlton:

Q. Is that the only thing that is necessary to increase the speed at which loans can be processed?

The CHAIRMAN: He also stated that he had sent instructions to the various branch offices advising them to speed up the loans in all possible ways.

By Mr. Charlton:

Q. It was my understanding, Mr. Chester, at the first day's sitting, that the slowing up of applications was not in the board but in many cases was a question of land title searches, and a hold-up on the part of the lawyers who had to process the papers. Is that not correct?—A. That is part of it, or it is part of what people say are the delays, but that is unavoidable in so far as the board is concerned. Once the loan gets in the hands of the solicitor he is acting as an agent of the borrower.

By Mr. Fairey:

Q. Does the board insist upon the registrar's abstract of title, because that is where a considerable delay might occur?—A. In what province?

Q. In any province?

Mr. W. A. REEVE *(Secretary, Canadian Farm Loan Board)*: In Ontario we have a solicitor's abstract of title. It is different in each province.

Mr. FAIREY: That might cause a delay?

Mr. REEVE: It might, yes.

Mr. HOLLINGWORTH: You have the Torrens title system?

Mr. REEVE: Yes. There are searches necessary.

By Mr. Richardson:

Q. Would it expedite the processing of these loans, in which I am sure we are all interested, if there was appointed to the board at the various offices a full-time solicitor?—A. I doubt it very much.

Mr. REEVE: No.

Mr. RICHARDSON: You do not think so?

Mr. REEVE: No. In all our offices except in Ontario and in Quebec we use outside solicitors of long experience who are accustomed to handling our work.

By Mr. Richardson:

Q. In other words, you do have in those particular provinces, more or less a full-time lawyer upon whose services to call?—A. Yes. He is not a salaried employee, he is an outside independent solicitor.

By Mr. Hollingworth:

Q. How much longer does it take to process these things in Ontario than in Saskatchewan or Alberta?—A. In Ontario practically all our loans are under the registry office system and it is not a fast system. Under the Torrens system in the other provinces it is a good deal faster in so far as the legal work is concerned.

Q. Would it not be better in Ontario to have a solicitor appointed to the board?—A. We have in Ontario. We have a solicitor in our branch office in Ontario who operates through agents.

By Mr. Charlton:

Q. Do I understand that you do have in effect a full-time lawyer in Ontario doing your work for you although not a full-time employee of the board?—A. He is a full-time employee of the board.

Q. And he processes or sees that all loans are processed?—A. Yes.

Q. Would it be a fact that you might have a lawyer in each county who does your work for you?—A. As an agent of his.

Q. And there is no way that you could speed up the processing of these papers, that being the case?—A. Well, as you suggested, we are considering it. It is certainly before us all the time and we feel that this is the quickest way we can do it. We do not know everything, however, and there may be other methods.

Q. I am not suggesting that there is another method, but if you are paying these men a reasonable salary probably they could be persuaded to speed up a little.—A. What men are you referring to?

Q. The agents of the lawyer in charge.—A. We think we are paying them reasonable salaries.

Q. You are paying the agents a fee?

The CHAIRMAN: All lawyers are busy today and they take things in turn, and they will not prefer it over and above their own clients.

The WITNESS: Every fee is paid by our borrowers, not by the board. The borrower pays the legal fees.

By Mr. Charlton:

Q. Does he pay it direct or does he pay it through the board?—A. It is paid in various ways, either direct or out of the loan. In any event, it is paid by the borrower.

Q. I suggest that the agent, knowing that this business is his anyway, might put it at the bottom of the file for a period and let it lay there for a few days. I think that might be discouraged.—A. It is. We keep track of the processing of the loans by the lawyers, and they are written to if there are any delays.

Q. Have you in any case changed the services of your agents in the various counties or districts if there have been unnecessary delays?—A. Not recently.

Q. Have you ever?—A. I have only been on the board a few years. I am informed that we have.

The CHAIRMAN: There is a meeting at 3.30 this afternoon and we will assemble then and see if we might finish with Mr. Chester.

AFTERNOON SESSION

TUESDAY, April 24, 1956
3.30 p.m.

The CHAIRMAN: Gentlemen, we will now proceed. Mr. Carrick, did you have some questions?

Mr. CARRICK: No, thank you. The question which I had in mind was asked previously and answered.

By Mr. Cameron (Nanaimo):

Q. I have one or two questions about the operations in British Columbia. I presume that quite a lot of your loans there, or a certain amount of them, must be made on quite small acreages devoted to fruit growing?—A. Yes, we have a small amount of loans there.

Q. Have you provision, such as the provincial taxation department has, for an acreage of 5 acres as the minimum size you will classify as agricultural land?—A. No.

Q. Or, perhaps, it is entirely based on whether the owner derives most of his living from agriculture?—A. Yes. We have no instruction as to acreage. Getting below 5 acres is getting to be a pretty small farm, of course, and that is naturally considered.

Q. The reason it came to my mind was because of the figure which you gave this morning about the municipal assessment on a piece of property of $500.—A. Yes.

Q. I do not know what municipality it was. It must have been a very lenient municipality. I was wondering if that assessment was purely the land assessment?—A. Yes.

Q. It did not include improvements?—A. No, just land.

Q. Even then it seems very very low for land that you would classify as a farm.—A. On a municipal assessment if you have a low assessment you will have a high mill rate, and if a low mill rate you have a high assessment. It is only for the convenience of the taxing bodies.

Q. How many appraisers have you in British Columbia, Mr. Chester?—A. We have one appraiser full time in British Columbia. Our branch manager there is a qualified appraiser and when necessary he appraises. We have used the Veterans' Land Act appraisers in British Columbia in remote areas.

Q. From your point of view they would be mostly part-time appraisers?—A. Yes.

Q. Would you use any other people as part-time appraisers apart from the Veterans' Land Act people?—A. Not at the present time.

Q. You have none at the present time?—A. I will check that statement. I should qualify that by saying that we have in the Peace River block a seasonal appraiser who works both in British Columbia and in Alberta in the Peace River country. We also have a part-time appraiser in the old Grand Trunk line between Prince George and Prince Rupert.

Q. Have you an appraiser in the Okanagan Valley?—A. Not as such.

Q. You would use a V.L.A. man?—A. No. We would use a man from New Westminster.

Q. Is there any discrepancy in the length of time in appraising in British Columbia as between the other provinces?—A. No. The records will show in British Columbia that there is very good service. That is mainly because the season is longer there. We do not have a rush at the beginning of April or May because the season on the coast and in the Fraser Valley, for instance, is almost the year around and we have no accumulation of applications there. You can get to it in Vancouver Island most of the year and there is no accumulation there. There is, of course, a slow-down in the Okanagan and in the Cariboo, but it has never been serious. We have always been able to process them very promptly in British Columbia.

Mr. CAMERON (*Nanaimo*): Thank you.

By Mr. Fraser (Peterborough):

Q. How much of the $716,000 that was written off was in second mortgages?—A. I do not think we have those figures, but our second mortgages are guaranteed by the government and if they are written off they also have been repaid out of the profits of the board.

Q. But you would still have a record of them?—A. Yes, we have a record of them, but we do not have it with us.

Q. That is what I wanted to find out—how much was paid to you by the government?—A. Anything the government paid to us has been repaid by us to the government.

Q. It has been paid back again?—A. Yes.

Q. That is what I wanted to find out.—A. I could get that for you. I do not have it available. Do you wish it?—A. Yes, for one purpose.

By Mr. Quelch:

Q. On page 11 of the report of the Canadian Farm Loan Board for 1955, I see: "Canadian Farm Loan Board particulars of accounts secured by agreements for sale as at March 31, 1955". What are those agreements for sale; were they in existence at the time the agreement was made as between an owner of the land and the farmer, or does it mean instead of that that a mortgage concluded the agreement for sale?—A. In most of these cases it covers securities which have come back into our hands and resold.

Q. Did you every make a loan on an agreement for sale that exists?—A. No. All were loans made in the first instance by way of a mortgage, and we must have a first mortgage.

By Mr. Hollingworth:

Q. I was wondering about the role of lawyers in Ontario. It seems to me that some of the time taken up in processing the loans could be shortened if you had some lawyers working for the department, and I understand that you have two or three at the head office and that most of the work is given to their agents.—A. No. We have a full-time lawyer in our Toronto office and he only uses agents for necessary disbursements.

Q. How offices have you in Ontario?—A. Just one, in Toronto.

Q. On this matter of the centralization of decisions, do you not think, despite the fact that you said practically all the loans were approved in Ottawa, that it would be advisable for you to allow the loans to be made in the branch offices rather than sending them to Ottawa. It seems to me that it would take more than three or four days. For instance, you would probably have to have a board meeting.—A. No. It comes to me and I either approve or decline it. That is done in all cases when the loan is received at head office from our branch offices. There is no delay.

Q. Is there not a great deal of delay when your Toronto lawyer turns it over to agents in Ontario?—A. I do not think that would be a big factor.

Q. The reason I bring this up is that I know what lawyers are like and also I know that some work like this would go to the bottom of the pile. I know that the difficulties under the Registry Act take some time, but it seems to me, personally, that you could institute some system whereby a few solicitors working directly with the department, other than as agents of the solicitor with the department, could get the work done more expeditiously?—A. We welcome the suggestion. We have a report at head office every two weeks on the processing of loans after they have left our solicitor's hands. We have the picture before us every two weeks, and if a lawyer is slowing down for any reason at all he is checked by the head office, or the branch office, or both. We keep pushing these. I do not know as much about lawyers as you do. But there are occasions when we do see a lawyer slowing down and we get on top of that layer and have the loan pushed through as quickly as possible. There may be many reasons for these delays.

By Mr. Crestohl:

Q. I do not think that Mr. Hollingworth's kind reference to lawyers should go unnoted. I think that Mr. Chester would be willing to tell the committee, notwithstanding that, that there is nothing more which could be done to expedite the granting of mortgages than is being done now.—A. That takes in a pretty broad territory. I would say we are doing everything we can to expedite mortgage loans.

Q. Would that include the referring of this to lawyers?—A. Yes. We watch the whole process from start to finish very carefully.

Mr. HOLLINGWORTH: I do not want it construed that I would say anything detrimental to lawyers; but there is only so much we can do in the country.

By Mr. Michener:

Q. I wonder if Mr. Chester has computed the expense of operation of the board in terms of per cent of amount of loan? I have looked at it for the year ending March 31, 1955, and it appears that the expense of doing business was about $609,000 and the amount of loan was about $40 million, which would make the cost of doing the business what?—A. 1·39 per cent.

Q. Has that been the experience over the past number of years?—A. It has varied, of course.

Q. Within what limits?—A. I have here the complete records for 26 years. Do you want them?

Q. Just the upper and the lower limits.—A. The upper limit is the first year and it really is not an indicative year. There was a high cost of 4·4 per cent of investment, but we had no investment to amount to anything. If you go into the third year of our operation I think you would arrive at a figure which would be fairly stable, and that was 1·55 per cent in 1932. We have gone down as low as ·96 per cent in 1943. Since 1943 there has been a continual upward movement, until 1951 when it was 1·51 per cent. Since 1951 it has dropped to the present, and when I say the present I am referring to the fiscal year 1955, 1·39 per cent.

Mr. MICHENER: Thank you.

By Mr. Fraser (Peterborough):

Q. In 1943 when you had ·96, that was the lowest. Were the loans higher that year?—A. No. It was in a period when loans were being paid off and we were not processing very many new loans. Farmers in that particular year did not require the amount of loans that we had been accustomed to.

Q. What was the highest loan year during that period?—A. In the volume of loans?

Q. Yes.—A. The question is what was the highest loan?

Q. Your highest loan year during the period you gave of 26 years.—A. Do you want the combined first and second mortgages, or just the first mortgages?

Q. Just first mortgages.—A. In 1936-37 we disbursed $9,269,188.

Q. What was the cost during those years?—A. In 1936-37 our cost was 1·53 per cent.

By Mr. Michener:

Q. In the lowest years, could you give us the volume of money paid out?—A. The lowest year was 1934-35 when we disbursed $537,974.

Q. What was the percentage of cost that year?—A. 1·32 per cent.

Q. It appears that the act does not permit the board just to loan money on the security of farms, and the purpose of the loan is a very important field. —A. Did you say we were not allowed?

Q. The act does not simply give the board authority to lend money on the security of farms as another private lender might. The purpose of the loan has to be taken into account and the board is tied down to specific terms in section 7 of the act. My question is about subsection (iv) of section 7(b) which permits the board to loan money to discharge liabilities already accumulated. I want to ask whether the board considers the purposes for which those liabilities have been incurred in deciding whether it will loan money to discharge those liabilities?—A. We consider the purposes, but I do not think it influences us very much. Once a debt is incurred, it is a debt of that farmer and he has to pay it and wants to pay it by a long-term mortgage. It is perfectly within the rights of the board under the act to advance a loan for the purpose of repaying that debt.

Q. Even though the debt was incurred for something quite unrelated to his farming?—A. Yes. He might have bought an automobile or he might have gone to California for the winter.

Q. And it is legitimate to lend him money for that?—A. Yes, as payment of a debt.

Q. But when it comes to borrowing money to pay for future purposes, then the board not only wants to know what the purposes are but it exercises some control to see that the money is applied to those purposes?—A. Yes.

Q. I do not know whether this has been dealt with before, Mr. Chairman, as I have not been here every day, but I would like to know how far the board goes in seeing to the application of the money it loans to pay personal debts, the debts which were not charged on the land.

The CHAIRMAN: I think they pay them.

By Mr. Michener:

Q. This is an expenditure of money which you have agreed to loan for future purposes of one kind or another, and how far do you go in seeing that the money you are loaning is applied for the purposes for which it was borrowed?—A. Our loan approval itemizes where this money is going to go. It is up to our lawyers, in disbursing the money, to see that it goes for that purpose.

Q. How does he do that?—A. If it is to pay a debt, for instance, the debt is paid to the creditor and the mortgagor.

Q. The check is made to the creditor and not to the farmer?—A. I would say to both. It would be a combined check to the mortgagor and to the Royal Bank of Canada or any other creditor.

Q. Supposing the farmer wants to buy livestock, do you give him the check, or does he have to pay for it and then send the bill to the board and have the money disbursed?—A. No. It is done in various ways. An easy way for a farmer to take advantage of these special funds is for him to go to the bank and say, "Here, I have this loan approval for so much money", and we are perfectly willing to confirm it with the bank, and if he cares to borrow the money from the bank he can and we will pay the money to the bank. It depends on the loan; but in many cases we disburse the money direct to the farmer without any question. We have to have confidence in him that he is going to use it for that purpose and we are not fooled too often by that. If the farmer wants livestock he gets it and we provide the money for that purpose and 95 times out of 100 he uses it for that purpose.

Q. Then I take it that if you supervise the expenditure of the money which you are loaning, it depends largely on the individual case, on the confidence which you have in the farmer, and the purposes for which he is going to use it? —A. That is right. I would agree with that to a great extent, and also there is another large field where money is disbursed for the construction of buildings and we do that upon receipt from the borrower of the progress estimates. But we do withhold a portion of the amount until the job is completed and has been inspected by us. If it is a barn he is building, we probably would hold back $300 or something in that neighbourhood, depending, of course, on the amount and other factors. We would advance the money as he required it up to the point of that last hold back and then we would send out our appraiser who would inspect the building being constructed and see that everything is in order, then we would disburse the balance of the money. Of course, we want to keep away from mechanic's liens as well.

Q. In your own opinion, do you think that this supervision of the disbursement of the money acts as a deterrent to farmers in seeking loans under this act?—A. I doubt very much if it deters them at all from seeking a loan. I can say that it would not for the simple reason that they would not know about it at the time they applied. I do not think it is a deterrent in that respect. We think it is good business to operate in that manner.

Q. You are required to do that under the act?—A. Pretty well, yes.

Mr. RICHARDSON: May I ask Mr. Chester what media the board uses for advertising that it has funds available for prospective borrowers?

The CHAIRMAN: He did answer that once before. I am sure he can give the answer to you again very quickly.

The WITNESS: We use the national farm journals. There are about 12 of them which we use for 5 months out of the 7 months' season.

By Mr. Bryson:

Q. Mr. Chairman, might I ask Mr. Chester one more question. When Dr. Hope was before the committee he was very critical of the period of 25 years for the repayment of the larger loans. When it was decided to increase the maximum loan from $12,000 to $15,000, did you give any consideration to a longer period of time for repayment?—A. Of course, the term of payment is in this bill. It is government policy. Now, what use can I say.

By Mr. Argue:

Q. Say what you think. Do you think it should be longer?—A. I have said what I think.

Mr. CARRICK: I do not think that this witness should be required to agree or disagree with government policy.

Mr. ARGUE: You mean that he should be required to agree.

Mr. CARRICK: It puts civil servants in an impossible position before the committee.

By Mr. Michener:

Q. Is it your opinion, Mr. Chester, that the expansion of the volume of loans would enable you to reduce the percentage cost of doing business below what it is now at 1·39 per cent?—A. Not immediately. If there was an immediate increase in the volume of business there would be an immediate increase in our administration costs for the simple reason that our board is operating today to full capacity with the amount of business which has been available. If that business increases very greatly, we would have to expand the number of our employees. Undoubtedly the costs would be higher. I do not think there is very much range between our costs in relation to our investment as between a large volume year and a small volume year. It is indicated by the percentage figures which I gave you, that there is not a great variance. It went from, say, 1 per cent to 1·39 per cent. It is very doubtful to me, as a matter of fact, I would say that increased business would mean an increase in our administration costs.

By Mr. Macdonnell (Greenwood):

Q. Do you really leave it there without any further comment? Do you really say that if your mortgage interest increased, say 50 per cent, that your additional costs of doing business would catch up with it? Surely not.—A. I say that that would happen immediately. It is so hard to foresee what is going to happen. We might have a large year in 1956 and might drop down to a very small year next year. Of course, the added investment will be added income, and the lower volume would result in reduced expense; therefore, your cost of operation in relation to volume would be less for 1957 under those conditions than in 1956; but I do say too that there is not much range between 2 per cent and 1·39 per cent, or 1 per cent, which are the actual experiences we have undergone in 25 years.

Q. I will not pursue that, but I do not find it very convincing because after all a good deal of the overhead would be more or less fixed and would not grow automatically with the increased volume and your additional expense would be at the lower level. I do not wish to pursue that. However, I do wish to pursue one thing. There is a strong feeling, on the part of some of the members of this committee who are closer to this business than am I, of disappointment that the business of the board has not been greater. Dr. Hope expressed it by using the phrase that you have stuck to the cream of the business. I do feel that there is one thing which has not yet been cleared up.

You gave us figures this morning as to the acceptances and rejections with respect to Ontario—they are practically the same incidentally. You gave us figures of the applications which had been voluntarily withdrawn, and then you qualified that to some extent by saying that people had been advised, in some cases, to withdraw. I think you must take it that most of us feel that of the 38 per cent, which you described as voluntary withdrawal and then qualified to some extent—I think you must not be surprised if we feel those were virtually rejections.

Then, a new word appeared this morning. We had been talking about applications and there were references to inquiries. I understood you to say that there would be a certain number of applications to the board which would not have come as a formal application but nevertheless come in the form of an informal letter. I am anxious to know whether this figure of rejections in reality should be added to by an addition of these so-called inquiries which have not been put in the form of a formal application?

I still feel, myself, very uncertain as to the real extent to which this institution is carrying out the purpose for which I think it was formed. I asked you when you were here last time: supposing you were told by those to whom you report that their aim was to greatly increase the amount of these loans and that they felt a great deal more should be done; supposing you were told that $38 million is not enough and that there ought to be a great deal more, can you say to us just what you would do to increase it? I understood you to say this morning that you were taking some steps—this is getting beyond the line of a question. However, I do wish that you would answer these two points. First of all, let us know with the fullest detail that you can whether there is an addition to these rejects? Whether there is a substantial number of inquiries which would indicate that there would be a further use of the Canadian Farm Loan Board if the conditions were changed? It still seems to me, after all these years of operation, that its operation is small and I was greatly struck by the remark of Dr. Hope, for whom I have a great respect, that he thought you were taking the cream of the business. I am not suggesting that you should take a lot of bad loans, but the implication that you were taking the cream of the business made me wonder whether you were sufficiently regarding this as a service institution.—A. That is a pretty long question. I do not know where to start. However, I tried to jot down the items. First of all, I think you made some reference to the fact that somebody had said that this board took the cream of the business. I think that my only answer to that can be this, that this board loans in every province of Canada and in every part of every province where there is any stable agricultural development, something which has never been undertaken by any private loaning institution before. It would seem to me, under those circumstances, that we are not taking the cream of the business. Is that a satisfactory answer?

Q. No. That does not seem to me to answer the point. You could go into each district and still only take the cream of the business. That only says that you have been far-flung in your operations.—A. I do not know what the cream of the business is. I do know it is our opinion that we take many risks. Beyond that all I can say is that we do loan across Canada and within each province in many areas—in almost every area—and as a result of that I am sure we are not taking the cream of the risks.

Mr. CARRICK: Mr. Chairman, when Dr. Hope commented about that he said what he meant about the cream of the business was that the board did not lend enough money. He rejected the idea that the board was accepting

only blue chip mortgages in rejecting risky mortgages. So, I would think that Mr. Macdonnell's inquiry merely comes down to a question of whether or not the board is lending as much as it can.

By Mr. Macdonnell (Greenwood):

Q. Would it be possible for you to say in how many cases you have sustained a loss out of this total?—A. We have lent over $100 million and lost over $716,000. I think that that would enter into the statement about us taking the cream of the business and also the inference that we were not losing enough money.

Q. Were not loaning it?—A. No, were not losing it.

By Mr. Argue:

Q. Who inferred that?—A. It seems to me that we had been criticized in respect to the amount we had lost and that it was always regarded as being a very small amount of money. In other words, we should have lost more money.

Q. Not with the type of business you did. Have you ever loaned more than $20 an acre on a piece of land in the three prairie provinces?—A. We certainly have.

Q. You have?—A. Certainly.

Q. Could you give me the highest amount you have ever loaned for agricultural purposes based on the productivity of the land?—A. Again, we would have to look it up.

Q. I notice in the figures which you gave me on the Regina land that each loan was about $20 an acre on the average.—A. What I was really trying to do was answer some questions which Mr. Macdonnell had asked me. If I can get that disposed of, probably you could ask me the other questions.

By Mr. Crestohl:

Q. On the question asked by Mr. Macdonnell, he referred to the fact that this was service that you were rendering. Do you not also regard it as handing trust funds, the money of the people of Canada?—A. I do not think we could be in this business and not have regard for that.

Q. Precisely. Then, would you tell the committee if you were lending your own money, assuming you were the president of a private lending institution, would you be more liberal in lending the money than you are in lending the money of the people of Canada?—A. I doubt it very much; but I think we should bear this in mind too that until 1952 we had never been allowed to loan over 50 per cent on an appraised value or over $5,000. We have only been operating since 1952 on the higher 60 per cent margin and the $10,000. We are now in the process, if this bill goes through as it is, of increasing that again to 65 per cent and to $15,000. In other words, we have increased our percentage loan limits by 30 per cent in three or four years. A loan does not show up as being a good or a bad loan for probably four or five, or more, years. What will happen as a result of the higher loan limit provided by this bill is very difficult to forecast but I do not think that there is a doubt in the world that as a result of that that the risk we are taking and the amount of loans will increase. I do not think that there is any question about it. It has been proven, since 1952, that our loaning has increased as a result of increasing those loan limits. This further increase in loan limits is undoubtedly going to increase our volume of business.

Q. As custodians of the trust fund, so to speak, of the money of the people of Canada, you do exercise the greatest caution in making these loans, do you not?—A. As it is obvious to you, this is a matter of judgment.

Q. If your losses were greater you could be considered as poor administrators of the trust fund?—A. Yes.

The CHAIRMAN: We seem to be getting off on two tangents. I think we should go on with the answers to Mr. Macdonnell's question. That is, if the witness is unconfused enough to carry on.

The WITNESS: You asked about the amount that we were loaning, and that it was not sufficient. Is that one of the suggestions you made?

By Mr. Macdonnell (Greenwood):

Q. I would have liked to see it higher. Incidentally, with respect to Mr. Crestohl's illustration of this being purely on all fours with a business operation loaning trust funds, while you have to operate in a sensible way, I do not accept that view. After all, a business goes out to make money. If by some magic we could just break even it would be ideal from my point of view.

The CHAIRMAN: I do not think that anyone yet has been able to prove what was the intention when the act was passed.

By Mr. Macdonnell (Greenwood):

Q. I admit that I had difficulty in finding it out. I would ask Mr. Chester what he believes is his duty, because I think it is a very important factor. I think it is to expand this with all reasonable moderation.—A. I think that is what we are doing.

By Mr. Fraser (Peterborough):

Q. Expand the agricultural activities of Canada.—A. Again that is what we are doing.

By Mr. Quelch:

Q. Might I ask a supplementary question regarding these inquiries. What is the reaction to the suggestion by the Canadian Federation of Agriculture that the application be signed at the time that the inspector visits the farm? We know that a lot of these application forms are long and that the questions are ambiguous and, as a result, that many mistakes are made in answering them which causes delay. Would it be possible to have two application forms, one in the nature of an inquiry or a very brief application form before an inspector comes to the farm to take the application and then have the long form signed at the time the inspector calls at the farm so that he can have the farmer fill it out. It would save a lot of correspondence and avoid a lot of mistakes. It would also encourage the farmer to fill out these forms instead of saying the hang with it and throwing it in the wastepaper basket. I have had a great deal of complaints about these forms by people saying that they wanted to know the whole pedigree of the family for years back.—A. Our forms are not that bad. We ask for what we think is necessary information.

Q. I think the inspector should point out that some of these questions do not mean what the farmer thinks they mean.—A. I think it would be impossible to operate in that manner. You must realize that it costs us money to send an appraiser to the farm and that it costs the borrower money because he pays part of that cost in his fee. If you visualize an appraiser going to a farm and getting the fee and having the application signed, who is going to decide whether an appraisal should be made or not? If he is in doubt, he will make the appraisal. I think he would be accused in many cases, under those circumstances, of taking the $10 fee under false pretences because I think the way you would recommend it should be done that the appraiser would be inclined to go ahead with the appraisal which is his business, irrespective

of what the application showed even if he might feel that there was not a possibility of a loan being allowed. Under those conditions, I think we have a further responsibility to our borrowers and applicants not to take that $10 fee from them irrespective of whether or not they are likely to get a loan. I rather think we would be in a very poor position with our applicants and would be subject to very severe criticism for having taken application fees under such conditions where the people concerned might interpret it as being done under false pretences.

Q. You would not want to put the responsibility on the inspector for suggesting that you not go ahead?—A. No.

By Mr. Carrick:

Q. On that point, at page 9 of the brief of the Canadian Federation of Agriculture, it speaks of there being difficulty and certain complaints by the borrower of the complex application form. Would you say that that is an accurate statement?—A. I think it is usual for a farmer who wants a loan to consult somebody in that village or town, wherever he might be. It might be a bank manager or a lawyer; probably a lawyer more than anybody else, and the lawyer would have no difficulty whatsoever in assisting an applicant to fill out one of our application forms.

By Mr. Quelch:

Q. He would have to pay the lawyer. Would it not be possible to have an application form which does not require the services of a lawyer in order to fill it out?—A. As a matter of fact as we were walking up here—this is just an aside—it was remarked to me that if these people would finish with us we would get into the hands of the printers a new application form which is ready to go. That is no reflection upon the committee at all. However, we have a new application form ready to go to the printers and it will go within a very few days. It is an easier application form to fill out and is a better application form than we have used. Incidentally, the application form which we are using has been used for a number of years and will be changed almost immediately.

By. Mr. Benidickson:

Q. Mr. Chairman, I think that Mr. Macdonnell said that he thought that the idea would be for this board, in its results, to break even in so far as profit or loss is concerned. Am I right in thinking that in your last year of reporting that your surplus was in the nature of $160,000?—A. That is before income tax.

Q. I think in previous sessions you indicated that this surplus was arrived at without taking into account the factor of substantial funds that have been provided the board upon which you are not obliged to pay any interest. I refer to your capital. How much is it?—A. $2¼ million.

Q. $2¼ million upon which you pay no dividends or interest to the government?—A. That is right.

Q. And we have had some criticism about the reserve fund which amounted to something beyond the $3 million?—A. That is right.

Q. And those funds are available for re-lending at 5 per cent?—A. That is correct. In total they represent approximately $275,000 income to the board each year.

Q. Those two funds?—A. That is right.

Q. In other words, if you were obliged to pay interest on those two funds you would actually not be in a balanced position; you would be in a deficit position?—A. That is probably close to it.

Q. When Dr. Hope was before us he claimed to have no expert knowledge of it, but he intimated that he thought that if you substantially increased the volume of your lending, that it was likely that your ratio of cost would go down proportionately to the increased lending. Have you any comment to make on that?—A. I think that is really what we were talking about a few minute ago. The opinion of the board is that any substantial increase in business will in turn make an increase in the cost of the administration.

Q. We had an indication today that your staff was not adequate even at the present number. But you feel that your staff is fully employed and that if you had a greater amount of business you would have to increase the personnel?—A. There is no doubt in my mind about that.

Q. With a substantial increase in the amount of lending how would it result in so far as costs are concerned?—A. Well, the actual increase would be in the processing of the loans and the administration of the loans. It costs us well over $30 to make an appraisal on the average.

Q. And your fee is $10?—A. We get $10 as a fee; and when I say $30, it costs $30 for an appraisal; and if you add one thousand appraisals to our present volume of business you have increased our costs. They will go up by approximately $30,000.

Q. I think in your first day's testimony you indicated that your staff, or the number of personnel employed at present is considerably less than the number employed 15 years ago and that your volume in business in 1955 was considerably greater than it was 15 years ago.—A. That is true in the overall picture. However, the total has decreased in staff at head office, as a result of book keeping methods, machinery and machine operations and so on. The processing of loans as far as the branch offices are concerned is at its peak now. I am pretty sure I am correct in making that statement. It is the considered opinion of the officials of the board that we have as many employees processing loans today as we have had at any time in the past.

Q. I think you indicated in your evidence that your cost in relation to the volume of lending was about 1·39 per cent.—A. That is correct.

Q. And of that 1·39 per cent what proportion is attributable to personnel and wages?—A. Well, 75 per cent of our administration costs are employee's wages.

By Mr. Macdonnell (Greenwood):

Q. May I ask a question. Am I correct in my understanding that your board has an income of $275,000 by reason of not having to pay interest to the government on the advances that it gets. But on the other hand that it pays $70,000 by way of income tax or thereabouts. Am I correct?—A. $275,000 is not solely on the capital stock of the government; it includes our reserve fund.

Q. Am I correct in understanding you do get from the federal government—$275,000 and that part of this income is really a gift from the federal government to you?—A. No, I did not say that.

Q. Well, what did you say?—A. I said this: our capital stock is presently approximately about $2¼ million. Our total reserve fund is approximately $3¼ million. The two added together make $5½ millions, and that $5½ million is invested in mortgages given by the board on which we derive 5 per cent interest. Therefore we have $275,000 of income revenue from that $5½ million that we have invested.

Q. Part of this represents reserves built up by your earnings?—A. That is right.

Q. And you have got an advance from the consolidated revenue fund?—A. Not an advance; it was a purchase of stock, a sale of our stock.

Q. In any event whatever the technique was, the dominion government is getting no return on an advance made to you and on the other hand you are paying income tax. That seems to me an "Alice in Wonderland" method of financing.—A. Let us put it this way!

Q. That is like paying yourself income tax out of your own money and I must say that so far as the income is from money advanced from the consolidated revenue fund, on which you are paying income tax, I think that is not realistic.

By Mr. Argue:

Q. You are suggesting that there should not be any interest-free capital from the government?

By Mr. Macdonnell (Greenwood):

Q. No. All I suggest is that it does not add up to sensible financing, that they should get an advance from the government and then pay income tax on it. It seems to me to be utterly unreal.—A. Are you suggesting that we should not have any capital?

By Mr. Michener:

Q. Is any return paid to the government on the amount of the subscribed capital?—A. There has not been.

Q. Nothing in the way of interest or dividends on it?—A. No.

Mr. CRESTOHL: I think they are paying dividends on the money with which the government provided them and those dividends are payable in the form of income tax.

By Mr. Richardson:

Q. I wonder if Mr. Chester would tell us what proportion of the remuneration which is paid to the appraisers is paid by way of fixed salary, and what proportion is paid by way of fees?—A. All our permanent appraisers are full time employees and are paid by way of fixed salary. All our part time appraisers are paid by way of fees per diem.

Q. What would be the proportion of the staff of appraisers who are full time, and what would be the proportion which is part time?—A. If I recollect correctly we have 20 full time appraisers, 2 seasonal appraisers, and 36 part time appraisers so we have 58 appraisers altogether, of whom 36 are part time employees.

Q. My second question is one that Mr. Chester may wish to leave to an omnibus answer after he gets all the other questions out of his system. In his memorandum of March 27th, he invited criticism and suggestions from members of this committee. Is it fair to ask him, through you, Mr. Chairman, if he in turn has any specific proposals to pass on, and would it not make for better administration of his work?

The CHAIRMAN: I think you are practically asking Mr. Chester to comment on government policy.

Mr. RICHARDSON: No, it is a little different from that.

Mr. ARGUE: It might be disastrous to that policy!

The CHAIRMAN: The act and the amendments are a manifestation of government policy, and if Mr. Chester has any recommendations to make which would vary the act or vary the policy, you are placing a civil servant in a rather impossible position of you ask him that question.

Mr. RICHARDSON: I would never do that. And Mr. Chester could readily say that it was not convenient for him to answer, and if he should say that, it would satisfy me. I merely asked him that question because he asked us.

Surely a member of the committee has the right to ask a man who knows a lot more about this than I do—of course not so much more than Mr. Argue does—but more than I do!

By Mr. Michener:

Q. I think we should take exception to the chairman's observation because this is really a committee of the legislature which makes the act under which Mr. Chester operates; and if he wants to make some suggestion to the legislature about improving that act, surely this is the proper place to make it. Therefore I would invite an answer to Mr. Richardson's question. —A. In answer to that request, let me say that our board deals with parliament and reports to parliament through our minister; therefore any recommendation I would make in regard to poilcy or the bill, or the act,—certainly you would get it through my minister, and not by me.

By Mr. Quelch:

Q. Would we be justified in thinking that some of those amendments were based upon recommendations made by your board?—A. You can estimate whatever you wish.

The CHAIRMAN: Mr. Argue has some questions.

By Mr. Argue:

Q. You have already told us a number of times that the cost of administration is about 1·39 per cent. So your cost of money today is in the neighbourhood of 3½ per cent.—A. You are asking me that?

Q. Yes.—A. Our present rate of interest is 3⅜ per cent.

Q. Is that the rate which you are now paying to the government?—A. That is right.

Q. Is that the every day rate?—A. No, that is not the every day rate, that is the present rate we pay on borrowings that we make as of today.

Q. When was the last time that the rate was increased, this rate that you pay to the government?—A. 24 days ago.

Q. You say 24 days ago; and at that time what was your interest rate?—A. 3⅛ per cent.

Q. On page 7 you list the interest charges on the initial capital of $175,000. Would you just explain what the interest charges are? We have been talking for a while about interest free capital. There is some on which you pay interest. What was that initial capital?—A. That was the $5 million to which you are referring, the initial capital advance when the board was originally set up, and it has never been recalled in any way—it is really an actual loan and it is being disposed of in this bill which is before you. The amendment will dispose of that $5 million. The rate we pay on it is 3½ per cent but it will be disposed of now. Your bill provides for a financial reorganization.

Q. And there will be no interest charged on that amount?—A. Yes, there will be interest, but it will be in the form of promissory notes to the government instead of capital advances. We will still owe $5 million but it will be in the form of promissory notes.

Q. Will this reorganization result in any increase in the rate you are paying on any of your money?—A. No, it has no influence on the rate. The rate is set by order in council.

Q. Could you tell me the average rate you are now paying, or which you will be paying on the amount of capital that you are using? You have told me that the rates were changed. What is the cost of your money today for all the money you have?—A. I do not think I have that here; but by referring to our statement you will find that we have $5 million at 3½ per cent and we

have $20 million on which we pay 3 per cent; and we have $7,800,000 on which we pay 3¾ per cent; and we have $1,900,000 on which we pay 3¼ per cent. Just average these out and it comes to somewhere between 3 per cent and 3½ per cent.

Q. What is the lowest rate that the board has ever charged on first mortgages?—A. 4½ per cent.

Q. And that 4½ per cent was increased to 5 per cent?—A. In 1952.

Q. There is a feeling in places, and Dr. Hope expressed the opinion, that 5 per cent is too high and that it should be reduced. Certainly I have not heard anyone say that 5 per cent was too low. We are all aware that there has been a general increase in the cost of money and in the cost of your money, and that it had gone up 24 days ago. But the thing which bothers me is this; you made a statement that probably this bill on balance will add to the administrative costs of the board. You said that.—A. No, I do not think I said that.

Q. Yes, you said it. I am not endeavouring to put words into your mouth. But I think you said that an increase in the amount of money that would be lending on any one mortgage would probably increase the risk involved in making mortgages generally.—A. I do not think I said that.

Q. You do not think there is anything in this bill which would increase your costs? I thought you said that an increase in the amount of money you would be making as a result of this bill would increase the risk of the loans generally?—A. No. That has to do with something entirely different from this bill.

Q. That was my impression of what you said and I am quite pleased to get a clarification to the effect that nothing was being done in this bill which would increase any amount of money or increase any percentage that may be made by way of loan, and that neither one will increase the risk of loans that are made.—A. You did not say that; you asked if it would increase our expenses.

Q. If it increased the risks, you said the losses would be greater; and when you suffer a bad loan, that is a cost to the board, is it not? When you write off a bad loan, is it not a cost to the board?—A. I do not call it a cost of the board.

Mr. CRESTOHL: It is a capital loss.

By Mr. Argue:

Q. All right, we will agree that if there is a deficit caused by the risk of the loan to some extent, or that it may increase the amount of the loan, that it won't affect the position of the board, but I cannot see it myself. It seems to me that if you are going to have a lot more losses it will increase the cost of doing business. If it does not, then I am glad to hear it; but there is an increase in the interest rate being charged and therefore there is an increase in the cost, and there is an increase in the cost of salaries, and just as in every industry it must affect this board. Do you feel that it is likely that you can borrow at a 5 per cent interest rate in the foreseeable future, within the next one or two years without any very substantial losses, in other words, will you be able to hold to your 5 per cent interest?—A. All I can say is that we have our 5 per cent interest rate for the next six months from March 31st, because that is the period in which our rate of borrowings from the government extends. We are given a rate for six months, but what will happen six months from now is just as much your guess, which is probably better than mine, but I do not know.

Q. With the new rates which began 24 days ago, and with several changes in salaries, it may be with the increased number of personnel and so on, do you think that the board can work within this 5 per cent margin in the next year?—A. You are talking of this year when you say "the next year"?

Q. In the current fiscal year, yes.—A. I would anticipate that there is no great likelihood of a decrease in the interest rates which we have to pay. We took a look at our present interest rates and our present costs this year, and we think that they are going to be considerably higher than they were in 1955. You must realize that our wages have gone up and a lot of other expenses have been added, and we are going to have more difficulty in maintaining the 5 per cent rate from now on than we had in the past year. I might also say that for the first time in history, the United States Federal Land Banks are paying a higher interest rate for their borrowed funds than we are through our government here.

Q. For fear that a wrong impression may have been created, let me say that I think that the operation you have been able to carry on at a cost of 1·39 per cent is a commendable operation, and I certainly cannot criticize the rate of expenditure at 1·39 per cent for the board, and I certainly appreciate your position when you say with all these things that you have mentioned you are likely to increase and not in fact to decrease, and that it will be difficult to maintain your operations, and to work within 5 per cent. I cannot speak for other members of the committee but it would seem to me that there is a general agreement in this committee, without mentioning everybody, that 5 per cent is as high as the rate should be in any discussion as to future rates, and I would like to see it reduced; but I do hope that the board will be able to maintain the present rate and may not have to increase the present rate.—A. I thing I can make this comment on my own, although it is subject to a lot of unforeseeable things; but I do think there is a very little likelihood of our interest rate for 1956 being altered, either upwards or downwards. That is my personal opinion; and as I say, there are many other factors which might change it, so I cannot guarantee it in any way. But that is what it looks like at present. However, three weeks from now it might be entirely different.

By Mr. Quelch:

Q. You figure that an increase from 3¼ per cent to 3¾ per cent in the cost of funds would not in itself be sufficient to force you to raise your interest rate? —A. We had an interest rate of 3¾ per cent a little over a year ago, and it was since reduced. In order to maintain our rate of 5 per cent under the 3¾ per cent rate, we had to charge our borrowers one-fifth of one per cent as a processing fee. But since our rate dropped below 3¾ per cent it was not necessary to retain that processing fee. So we dropped it, and it is not in effect now. But if the rate goes up to 3¾ per cent, it is quite likely that we will have to do something to increase our revenue because of the increase in the cost of money.

By Mr. Philpott:

Q. I want to ask a couple of questions on another line. When Dr. Hope was here he said that the private lending institutions which had formerly occupied a great deal of the field which you now occupy—I think he said that they were almost all withdrawn from that field? Is that in accordance with your observations?—A. I would say that the private mortgage companies have withdrawn from the field to a considerable extent. They have not completely withdrawn, and this varies as to areas. I think I am correct in saying that they have withdrawn in Saskatchewan, but they have not completely withdrawn in Alberta, Manitoba, British Columbia, or Ontario. Are you referring strictly to private mortgage companies?

Q. Private lending institutions.—A. Their investment in 1938 in farms in Canada was $188 million. In 1952 it had been reduced to $35 million.

Q. So that then you would not say that there was any great rush of these companies which formerly occupied the field to get the cream of this lending business about which we have heard?—A. I do not know about the cream. I really do not know what they are doing. I know they are lending money in certain restricted areas within provinces as they always have done, and I know that their investments have been reduced by that much.

Q. Am I right, that in a good many parts of Canada it is true that your board is the only board available to give farm loans of this character?—A. I think you would say that Saskatchewan might be the only province. There is a possibility that Prince Edward Island might be another.

By Mr. Benidickson:

Q. And northern Ontario?—A. That is not a province.

By Mr. Philpott:

Q. I am talking about general areas of the country and not specifically provinces. What I am trying to get at is that there are many parts of Canada where your board is in fact the only available institution on this type of farm loan?—A. There is no doubt in the world about that.

Q. And would you say, by and large, that the institution compares favourably or unfavourably with its competitors in the lending field? Are your procedures any more complicated than their procedures for the person who gets the loan?—A. I would say that there would be very little difference.

Q. And as to the time involved in getting the loans, would you say that your procedures compare favourably with the procedures of your competitors in that field?—A. With respect to those with any comparable volume of business I would say yes.

By Mr. Argue:

Q. But there is no other with a comparable volume of business?—A. We are not the only government-sponsored lending agency.

By Mr. Benidickson:

Q. This is the point I was going to pursue, Mr. Chairman. Has Mr. Chester any information for this committee as to the total volume of farm mortgages existing at the present time? We have had evidence that your current mortgages amount to about $38 million. What percentage is that of the funds available to farmers on the whole for mortgages across Canada?—A. I do not think that there is any authoritative information which tells you the total farm mortgage debt in Canada. I have an estimate made here, but I do not know whether or not we should talk about estimates. Estimates may be accurate or they may not be. The source is the chief economist of the Department of Agriculture. He estimated that the total farm mortgage debt in 1950 was $383 million. That is 6 years ago, and I am sure that the farm mortgage debt has been on the increase from that time. I have seen estimates made by responsible people that it has been increasing at the rate of about 10 per cent per year. On that basis the present farm mortgage debt might be $500 million to $550 million.

By Mr. Charlton:

Q. That was in 1950?—A. That last figure would be as of now; it is strictly an estimate. The figure of $333 million was as of 1950.

Q. I am suggesting that between 1950 and 1952 there was a lot of that paid off.

By Mr. Michener:

Q. Have you any figures as to the number of farmers who are mortgaged? Is there any way of arriving at these figures? You have loans outstanding to 20,000 borrowers, which covers the whole of Canada, does it not? —A. Yes.

Q. I do not know how much of that would be on the prairies but there are about 300,000 farmers on the prairies alone and I think that there might be some figures to show how many farmers were encumbered in the last census?—A. The census does not ask that question and they do not report on it.

By Mr. Argue:

Q. Mr. Chester said that the mortgage companies were not lending money in Saskatchewan.—A. As far as I know.

Q. Well, I do know that as recently as 3 or 4 years ago the Huron and Erie was making a number of loans. Their policy was that the mortgage loans on the farmland be restricted to certain areas within the province of Saskatchewan. Do you know whether the Huron and Erie since that time has stopped that practice?—A. I do not know. I am certainly glad to hear that there is somebody besides ourselves lending money in Saskatchewan.

Q. I do not know that they are, but I do know that a few years ago they were. I think the area was restricted to not too many, but they were making some. There was another lending institution which has made a great many loans to farmers with land as security and I take it that it probably also made mortgage loans; and that is the credit unions. There are some very large credit unions which have very substantial assets. I know many many farmers have borrowed money from credit unions and have brought their title to the farm to the credit union as security. Whether or not an actual mortgage was processed in individual cases, I do not know. Mr. Bryson, who has had more experience with credit unions that way, says that there have been.

The CHAIRMAN: Is that fairly short-term credit or is it long-term credit?

The WITNESS: It would be short term in the sense of relating it to the practice of the Canadian Farm Loan Board. I would not think that there would be anything over 5 years.

The WITNESS: As I understand credit unions, the loans which they make are mainly short term. I think that you might lodge the title of your farm as security against a personal loan, but I do not think that you will find it is mortgage lending.

Mr. BRYSON: Yes, they do, and in quite large amounts.

The WITNESS: That is news to me.

Mr. QUELCH: It would be a higher rate of interest.

Mr. ARGUE: Probably 6 per cent.

By Mr. Carrick:

Q. Is there one province in the west which does not allow for a mortgagor to enforce a personal convenant in the mortgage?—A. Yes, Saskatchewan.

The CHAIRMAN: In Alberta I believe you have to elect.

By Mr. Carrick:

Q. I was going to ask him if he know about that and what effect that would have on the willingness to lend?—A. I do not think a personal convenant would interfere too much with loaning. Our experience is that we never try to rely on a personal convenant.

By Mr. Argue:

Q. That is good.—A. I do not think that the personal convenant would influence us.

By Mr. Carrick:

Q. Have you had any experience with the rate of interest charged by credit unions?—A. Well, I have because right at the moment I am dealing with an application for a loan, one of the purposes of which is to repay a debt incurred to a credit union, and the rate of interest charged there is 8 per cent.

Q. Eight per cent?—A. That is right.

By Mr. Crestohl:

Q. Does this question which our friend put to you mean that the loan which is made to the farm, and not to the person with the farm, is guaranteed, or is it made to the owner of the farm with the farm hypothecated with the loan as a guarantee? I am talking about a loan in the province of Quebec?—A. I do not know too much about that. We have people in our employ who do. We take a personal convenant on the mortgage and the mortgage is a registerable instrument against the land. That, I think, is the explanation.

Q. Yes.

By Mr. Richardson:

Q. Mr. Chairman, in view of the $275,000 referred to earlier, does Mr. Chester feel that perhaps the words in the second paragraph where he speaks of the Canadian Farm Loan Board as being self-supporting, are a little bit inaccurate?—A. No, I do not think so. We are self-sustaining, not self-supporting; it is the same thing I suppose. We are the same as any other corporation which has $2¼ million capital stock invested in it and the decision is that we shall not pay a dividend. I think there has been one instance of that, and that was in the case of the big iron magnate who died recently. I think that his policy was that he should not pay out dividends. That has been the practice of the board.

By Mr. Follwell:

Q. Did you follow Sir James Dunn or did he follow you?—A. I do not want to follow him too quickly.

By Mr. Pallett:

Q. This amount of $275,000 floating around intrigues me. Is not the fact of the matter that you have capital from the government in the amount of $2,040,000 on which nothing is paid, but the reserve fund is your own money which you have built up from your own earnings and therefore you do not owe interest to anybody on that?

The CHAIRMAN: It is undistributed property.

By Mr. Pallett:

Q. Yes. All you are receiving free is the rate of interest, 3·38 per cent, on $2 million which is roughly $70,000, and that is the amount you paid in income tax last year?—A. Yes. Or you might put it this way, that we are getting revenue on $2¼ million at 5 per cent, which is $125,000.

Q. But you borrow the money at 3⅜ if you were paying interest on it?—A. That is right.

By Mr. Benidickson:

Q. Mr. Chairman, I referred to the reserve fund simply because it has been criticized as being unduly large. I simply pointed out that if it did not exist, the board would have a profit position quite less than it has, because it is loaning to new borrowers from the reserve fund.

Mr. MICHENER: Mr. Chairman, I think we ought to thank Mr. Chester for his patience.

The CHAIRMAN: This is the last time Mr. Chester will be here unless the committee specifically requests his attendance again, because we shall move on to the bill shortly and if there are any questions I would be glad if members would ask them now; otherwise I shall assume that Mr. Chester has given all the information you require.

Mr. FAIREY: Mr. Chairman, I would like to suggest that if it is in order we pass a vote of thanks to Mr. Chester.

By Mr. Benidickson:

Q. Before he leaves I would like Mr. Chester to explain to us, if he has not done so already, the present opportunities of a borrower to prepay on a mortgage.—A. We will accept prepayment on our mortgages without bonuses or charges after two years. I do not think we deviate from that practice, but I must say I do not think we get many prepayments within the first two years. The mortgagor can repay us in full without any cost to himself after two years. On many occasions a mortgagor, as a result of favourable conditions, has surplus money and if he wants to reduce his debt to the board we accept those prepayments. The usual procedure is that we credit them to the principal of the mortgage thus reducing the amount of the mortgage outstanding and also the number of years for which he has to pay instalments. There are other situations which occur from time to time in which the board has the authority to apply moneys and re-amortize accounts, and I am referring now to difficulties in which a borrower might get himself after he has been a borrower for a little while. We do readjust our accounts; as a matter of fact there was a time when we readjusted a great number of our second mortgage loans and spread them over the whole term of the first mortgage in order to help the borrower repay his indebtedness to us as easily as possible.

I think there was a suggestion made that by right a borrower who prepaid should be able to say that that prepayment is to go towards a certain thing, namely his next instalment or something of that kind. We have the authority. It is just a matter of policy whether we do it or not, and we look at it from the board's point of view as well as from the borrower's point of view when we consider these matters. Does that answer your question?

Q. Partly. It has been suggested that we should encourage payments beyond those called for in the covenants in times of prosperity. Assume that a man had paid more than he was required to do under the terms of the contract and then, during a bad year, he was unable to pay what was called for. Would his prepayment be taken into consideration by your board?—A. Certainly it would. We would do one of two things. We would "carry" the man in arrears without pressing him at all for that payment until his next instalment fell due, or we would consider very carefully any request that we should re-amortize the balance, and probably agree with his wishes. Sometimes we go to this extent: that where we have had a loan for a period of years and it has been reduced but, for various reasons, the borrower, who is a good risk, gets into arrears with his taxes as well as with his instalments, we have paid his taxes for him and added the sum to our loan account and

amortized that as well as arrears and instalments. That, of course, has only been done in particular cases. We would have to examine each case and decide what would be the proper action to take.

Q. The effect of prepayment, that is, payment beyond what is called for in the contract, is that a man relieves himself of an interest liability of five per cent on the amount that he has paid earlier than called for in the contract? —A. That is correct. He has also reduced the number of instalments which he has to pay.

By Mr. Argue:

Q. Do you see anything different in the practice you have outlined now and the suggestion that Dr. Hope has made? Is there much difference between the two?—A. As I see it—and this is from an administrative point of view—I prefer the present method and I think the farmer or borrower would also prefer the present method. The borrower now has many options which we could agree to and that I think is far better than restricting him to one method. Included in those options is the one which Dr. Hope has in mind so I would think—and again I am speaking from an administrative point of view—that it would be to the borrower's advantage to operate as we are doing now in preference to restricting the application of prepayments to one method.

Q. What proportion of your loans are refinanced at some time or another to extend the period beyond the period in the original mortgage?—A. That of course depends upon the economic conditions at the time. In the thirties and the forties a lot of that was being done. But in recent years, the last ten or fifteen years—they have been exceedingly prosperous years that the farmers of Canada have enjoyed, there has been no necessity for that.

The CHAIRMAN: Gentlemen, I am assuming that there are no further questions. I am sure we would all wish to thank Mr. Chester for his help, and for his having given us information in this matter. It will be valuable in explaining the clauses of the bill, as it is presented to the committee.

I had hoped that we might get on with the bill today, but the hour is now late. I should like to have an expression of opinion from the committee as to whether we should go on with the bill now.

Some hon. MEMBERS: Yes.

Some hon. MEMBERS: No.

Mr. ARGUE: We have had a long day, with two sittings.

Mr. HOLLINGWORTH: Tomorrow is a short day. Probably we will be meeting at 10.00 o'clock until 11.00, and from 3.30 to 5.30.

The CHAIRMAN: I think the next meeting will be on Thursday.

The WITNESS: May I express my thanks to the committee. I have received a great amount of information, and I am sure what I have heard will be very helpful in transacting the affairs of the board. I believe this is the first occasion upon which the board has been before a committee of the House of Commons—other than, of course, at the inception of the Act. I do appreciate the expression of the different points of view; and I am sure that as a result of what has been said, and as a result of the amendments before the committee, the farmers of Canada will really benefit therefrom.

Mr. ARGUE: I move that we adjourn.

The CHAIRMAN: There is a motion for adjournment. We will reconvene on Thursday at 11.00 o'clock and at 3.30.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 6

Bill 84

An Act to amend the Canadian Farm Loan Act

THURSDAY, APRIL 26, 1956

WITNESS:

Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

73640—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Argue
Ashbourne
Benidickson
Blackmore
Bryson
Cameron (*Nanaimo*)
Carrick
Charlton
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fraser (*Peterborough*)
Fraser (*St. John's East*)
Fulton
Gour (*Russell*)
Hanna
Henderson
Hollingworth
Huffman
Johnson (*Kindersley*)
Low
Lusby
Macdonnell (*Greenwood*)
MacEachen
Macnaughton
Matheson
Michener
Mitchell (*London*)
Monteith
Nickle
Pallett.
Philpott
Power (*Quebec South*)
Quelch
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

REPORT TO THE HOUSE

FRIDAY, April 27, 1956.

The Standing Committee on Banking and Commerce begs leave to present the following as its

FOURTH REPORT

Your Committee has considered Bill 84, An Act to amend the Canadian Farm Loan Act, and has agreed to report the said bill with one amendment, namely:

Clause 6, sub-clause (2)

Page 2, line 35, delete the word "twenty-five" and substitute therefor "thirty".

A copy of the Minutes of Proceedings and Evidence of the Committee relating to the said bill is appended hereto.

Respectfully submitted.

PHILIPPE VALOIS,
Vice-Chairman.

(Note: The Third Report of the Committee dealt with a Private Bill in respect of which verbatim evidence was not recorded.)

73640—1½

MINUTES OF PROCEEDINGS

THURSDAY, April 26, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Vice-chairman, Mr. Philippe Valois, presided.

Members present: Messrs. Argue, Ashbourne, Benedickson, Blackmore, Bryson, Cameron (*Nanaimo*), Carrick, Charlton, Deslieres, Fairey, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Henderson, Hollingworth, Huffman, Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener, Philpott, Power (*Quebec South*), Quelch, Richardson, Valois, Viau, Weaver and White (*Waterloo South*).

In attendance: Messrs. F. L. Chester, Commissioner; E. O. Bertrand, Member; W. A. Reeve, Secretary; and R. McIntosh, Chief Accountant; all of the Canadian Farm Loan Board.

Mr. Valois thanked the Committee for the honour which they had paid him in electing him their Vice-chairman.

The Committee proceeded to clause by clause consideration of Bill 84, An Act to amend the Canadian Farm Loan Act.

In response to questions, Mr. Chester explained some of the clauses of the Act.

Clauses 1 to 5 were severally adopted.

On clause 6, subclause (1):

Mr. Johnson (*Kindersley*) moved, seconded by Mr. Bryson,

That clause 6, subclause (1), be amended by deleting the word "sixty-five" in line 19 on page 2 and substituting therefor the word "eighty".

Whereupon Mr. Macdonnell (*Greenwood*) moved, seconded by Mr. Fraser (*Peterborough*),

That the amendment be amended by deleting the word "eight" and substituting therefor the word "seventy-five".

The proposed sub-amendment was negatived on the following recorded division:

Yeas: Messrs. Argue, Blackmore, Bryson, Cameron (*Nanaimo*), Charlton, Fraser (*Peterborough*), Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener, and Quelch—10.

Nays: Messrs. Ashbourne, Benidickson, Carrick, Fairey, Follwell, Fraser (*St. John's East*), Hanna, Henderson, Hollingworth, Philpott, Richardson, Viau, Weaver and White (*Waterloo South*)—14.

The proposed amendment was negatived on the following recorded division:

Yeas: Messrs. Argue, Blackmore, Bryson, Cameron (*Nanaimo*), Charlton, Fraser (*Peterborough*), Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener and Quelch—10.

Nays: Messrs. Ashbourne, Benidickson, Carrick, Deslieres, Fairey, Follwell, Fraser (*St. John's East*), Hanna, Henderson, Hollingworth, Huffman, Philpott, Power (*Quebec South*), Richardson, Viau, Weaver and White (*Waterloo South*)—17.

Mr. Macdonnell (*Greenwood*) then moved, seconded by Mr. Charlton,

That clause 6, subclause (1), be amended by deleting the word "fifteen" in line 30 on page 2 and substituting therefor "twenty".

The proposed amendment was negatived: *Yeas,* 11; *Nays,* 16.

Subclause (1) of clause 6 was adopted.

On clause 6, subclause (2):

Mr. Macdonnell (*Greenwood*) moved, seconded by Mr. Charlton,

That subclause (2) of clause 6 be amended by deleting the word "twenty-five" in line 35 of page 2 and substituting therefor the word "thirty".

Whereupon Mr. Bryson moved, seconded by Mr. Cameron (*Nanaimo*),

That the amendment be amended by deleting the word "thirty" and substituting the word "forty" therefor.

The proposed sub-amendment was negatived on the following recorded division:

Yeas: Messrs. Argue, Blackmore, Bryson, Cameron (*Nanaimo*), Johnson (*Kindersley*) and Quelch—6.

Nays: Messrs. Ashbourne, Benidickson, Charlton, Deslieres, Fairey, Fleming, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Henderson, Hollingworth, Huffman, Macdonnell (*Greenwood*), Michener, Philpott, Power (*Quebec South*), Richardson, Viau, Weaver and White (*Waterloo South*)—21.

The proposed amendment was adopted unanimously on the following recorded vote.

Yeas: Messrs. Argue, Ashbourne, Benidickson, Blackmore, Bryson, Cameron (*Nanaimo*), Charlton, Deslieres, Fairey, Fleming Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Hanna, Henderson, Hollingworth, Huffman, Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener, Philpott, Quelch, Richardson, Viau, Weaver and White (*Waterloo South*)—26.

Nays:—0.

Subclause (2) of clause 6 was adopted as amended.

Clause 6, as amended, was adopted.

Subclause (1) of clause 7 was adopted.

It was agreed that subclause (2) of clause 7 stand until later this day.

Clauses 8 to 11 inclusive were severally adopted.

At 12.45 o'clock p.m., the Committee adjourned until 3.30 o'clock p.m. this day.

AFTERNOON SITTING

At 3.30 o'clock p.m., the Committee resumed its clause by clause consideration of Bill 84, the Vice-chairman, Mr. Philippe Valois, presiding.

Members present: Messrs. Argue, Ashbourne, Benidickson, Deslieres, Fairey, Fleming Follwell, Fraser (*Peterborough*), Henderson, Johnson (*Kindersley*), Macdonnell (*Greenwood*), Michener, Philpott, Power (*Quebec South*), Quelch, Richardson, Valois, Viau, Weaver and White (*Waterloo South*).

In attendance: The same as at the morning sitting.

The Committee reverted to subclause (2) of clause 7, and adopted it.

Clause 7 was adopted.

The preamble was adopted.

On the title:

Mr. Argue moved, seconded by Mr. Johnson (*Kindersley*),

That the Committee recommend to the House that the government give consideration to the advisability of paying to the Board, from time to time, out of the Consolidated Revenue Fund, sums equal to the administrative costs of the Board.

The motion was negatived on the following recorded division:

Yeas: Messrs. Argue, Johnson (*Kindersley*) and Quelch—3.

Nays: Messrs. Ashbourne, Benidickson, Deslieres, Fairey, Follwell, Fraser (*Peterborough*), Henderson, Macdonnell (*Greenwood*), Michener, Philpott, Power (*Quebec South*), Richardson, Viau, Weaver and White (*Waterloo South*)—15.

The title was adopted.

The bill was adopted as amended.

Ordered,—That the Chairman report Bill 84 to the House as amended.

Mr. Chester gave the Committee answers to certain questions which had previously been asked of him; one answer, concerning inspectors of the Canadian Farm Loan Board, was ordered to be printed as an appendix to this day's proceedings of the Committee.

At 3.55 o'clock p.m., the Committee adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

THURSDAY, April 26, 1956,
11.00 A.M.

The VICE-CHAIRMAN: Well, gentlemen, I think we have a quorum. Let us proceed. We will begin with clause one.

On clause 1—Repeal.

Mr. MACDONNELL (*Greenwood*): May we make one or two general observations at this stage? If so I would like to move, when it comes to the proper point, that the 25 year period be extended to 30 years.

The VICE-CHAIRMAN: I do not think the hon. member is in order. We are going to cover this bill clause by clause. If the hon. member has any amendments which he proposes to make to any particular clause, there will be time for that.

An Hon. MEMBER: I did not hear.

Mr. MACDONNELL (*Greenwood*): Apparently I was out of order. I was seeking to make one or two general observations, and the only one I succeeded in making was that I was proposing to move, at the proper point, the extension of the 25 year period to 30 years. But the chairman told me we must take it clause by clause.

Mr. BENIDICKSON: When we come to that, I would second the motion.

Mr. MACDONNELL (*Greenwood*): But there is no clause here dealing with that—

Several Hon. MEMBERS: Yes. Page 2, clause 6, line 35.

Mr. HOLLINGWORTH: Let us take it clause by clause, Mr. Chairman.

Clause agreed to.

The VICE-CHAIRMAN: Shall clause 2 repeal, carry?

Clause agreed to.

On clause three—Board is agent of Her Majesty.

Mr. MACDONNELL (*Greenwood*): On clause 3, may we have a word of explanation of the reason for which subsection (5) of section 3 of the act as it stood was repealed?

Mr. F. L. Chester, Commissioner, Canadian Farm Loan Board, called.

The WITNESS: This is the standard section which is now used in all acts affecting crown corporations.

Clause agreed to.

The VICE-CHAIRMAN: Shall clause 4—Relettering, carry?

Clause agreed to.

On clause 5.

The VICE-CHAIRMAN: Shall subclause (1) carry?

By Mr. Macdonnell (Greenwood):

Q. I want to ask a question with regard to clause 5. This, apparently, is a rearranging of the capitalization to some extent?—A. That is right.

Q. With regard to clause 5, could we have an explanation as to just how this change will alter the balance sheet? At the present the balance sheet shows liabilities, capital, bonds issued and so on; then, when you come to capital, it shows the advances under the Canadian Farm Loan Act and then it shows capital stock under the act, $2,240,301. My understanding is that it is this section which will be altered by the new arrangement as to capital.—A. The present capital is $2,240,301 and it will now be $3 million; it will be a set figure which will not vary. It will be a set capital and the shares will be $100 shares, from now on, in place of $1 shares as previously.

Q. And the balance sheet will be adjusted accordingly.—A. As soon as the bill passes through parliament, if it does so in its present form, the result will be that the Minister of Finance will purchase from the board capital stock to the amount of $3 million. We will retire the $2,240,301 worth of stock. In other words, the board will have an additional sum invested in it by the government for capital purposes of $759,699.

By Mr. Fraser (Peterborough):

Q. When that capital is increased, you come to the proposed section 6 (2) which states: "The total principal amount outstanding of loans made by the Minister to the Board shall not at any time exceed twenty times the par value of the outstanding capital stock of the Board." Does that mean it may not exceed $60 million?—A. That is correct. Our borrowings from the Minister of Finance under this new bill will be limited to $60 million. That means, in effect, that when we approach that volume of outstanding principal we shall have to go to parliament for an amendment to our act in order to enable us to increase either our capital or our borrowing ratio. Presumably it will be for an increase in our capital, and our ratio would apply to the increased amount of capital, so that the increased amount of allowable borrowing would be 20 times whatever the capital was set at at that time.

Q. Supposing you reached that $60 million point—and there is every possibility this might be the case on account of the increased cost of farm equipment, and everything else—is $60 million enough? Supposing you reach the $60 million dollar point, you would be confronted with a delay of perhaps 2 or 3 months before you could make any more loans?—A. I think that in practice the board would anticipate the need for additional borrowing powers considerably ahead of time in order to take good care of that eventuality.

By Mr. Quelch:

Q. In what way?—A. By requesting through our minister that parliament amend our act to provide us with an additional amount of capital.

Q. In the meantime you would be held up until you could get an amendment through?—A. I believe we would anticipate that by at least a year.

By Mr. Fraser (Peterborough):

Q. You have bonds outstanding. Could you borrow on them?—A. No, this bill eliminates the use of bonds entirely.

Q. Why is it doing that?—A. They have never been used; we have never borrowed on bonds, except from the Minister of Finance. The purpose of bonds was originally that we might borrow from the public. The board has never in fact borrowed from the public but always from the Minister of Finance. In 1952 the act was amended to bring in a simpler form

of borrowing from the Minister of Finance by way of promissory notes, which is what we have been doing since then. We do not use bonds at all now, and we do not anticipate that we shall ever use bonds, or sell them to the public.

Q. Have you the power to borrow from the public at all now?—A. At the present time we have power to borrow from the public through bonds which are guaranteed by the government.

Q. Will you retain that power if this bill is passed?—A. No, that will be eliminated entirely.

Q. As soon as this is passed?—A. All our borrowing from now on, according to this bill, will be by way of simple promissory notes from the Minister of Finance.

Q. That comes out of consolidated revenue?—A. That is correct.

Q. Why was it that your right to borrow from the public was abandoned?—A. It has never been used and there is no intention of using it in the forseeable future. This really represents a simplification of our financial structure and this was one of the matters which it was decided should be simplified. Borrowing now is done by way of 15-year promissory notes in the amount of $100,000 lots from the Minister of Finance.

By Mr. Quelch:

Q. At the present time the farm debt is increasing, and I understand the present amount of indebtedness under this act is $40 million. What do you anticipate the increase will be if things continue as they are? —A. It is difficult to be accurate on this, but we do not anticipate any need to go to parliament, on the basis of recent experience, within three years. But we think it would not go over three years.

Q. Then you might need an increase in the amount of capital?—A. We would assume it would be done in that way, by an increase in capital.

By Mr. Fraser (Peterborough):

Q. In your balance sheets here I see "first mortgage loans—addition." This is extremely small, but how do you carry it on?—A. That is being taken care of later on in the bill. Perhaps we could deal with it when we come to the particular clause.

By Mr. Richardson:

Q. I see that according to the balance sheet there are about $20 million worth of outstanding bonds. What would happen to them?—A. They are discharged and in their place promissory notes are given.

Q. Is there a reference to that in the bill?—A. Yes, it is in the bill. I think you will find it on page 3 of the bill.

Subclause (1) of clause 5 agreed to.

The VICE-CHAIRMAN: Shall subclauses 2 and 3 carry?

Agreed.

On clause 6 subclause (1)—R.S. c.309, s. 6.

Mr. JOHNSON (*Kindersley*): With subclause (1) we arrive at a subject which has taken up a large part of the discussion of this committee with regard to the proposals which have been made in connection with farm loans. It seems to be generally agreed that the work of the board has been handicapped because of the relatively low appraisals that have been made and the fact that they are limited to 65 per cent of the actual value of the land.

The fact that this is the case has limited the loans to certain areas where the cost of land is high, and that point was certainly recognized by the Canadian Federation of Agriculture in their brief on the whole subject of farm credit.

In that regard, Mr. Chairman, I move: That the word "sixty five" in line 19 on page 2 of the bill be deleted and the word "eighty" be substituted therefor. This amendment would bring us into very close accord with what the Canadian Federation of Agriculture has sought in its recommendation. I think that as a committee we expressed our indebtedness to the Canadian Federation of Agriculture for the study they had made of this matter, and I believe it is only right we should give some consideration to the opinions which they expressed by adopting this amendment.

Mr. QUELCH: If it had been the practice to appraise farms at anywhere near their real value, I would think the 65 per cent might have been sufficient, but we know that in the past the appraisals have been low. There is no reason to believe that the appraisals will change very much in the future; and in those circumstances I think the recommendation of the Canadian Federation of Agriculture, that the appraisals should be on the basis of 80 per cent instead of 65 per cent, is a very reasonable one and I will support the amendment.

The VICE-CHAIRMAN: Like all chairmen I am, of course, to a certain extent, in the hands of the committee, but I would like to ask a question at this point, and it is this: do you not think that this change from 65 per cent to 80 per cent, as being the limit to which loans may be made in relation to the appraisal value, may mean that, if we are not actually spending money, we are assuming bigger money risks; and, if that is so, do you think that it is within the power of this committee to make such an amendment? I would like to hear your comments about this aspect.

Mr. JOHNSON (*Kindersley*): I have given that point some consideration, Mr. Chairman, and I believe that the percentage of the appraised value on which a loan is made does not determine the expenditure of the Canadian Farm Loan Board. It might mean that a loan, if it were made on the basis of 80 per cent of the appraised value, would be larger but it would not necessarily follow that the sum total of the loans would be larger. It would simply mean that the loans will be more effective in so far as we are appeasing the demand, and on this account I do not think it is an infringement of the rule which governs us in this regard.

Mr. MACDONNELL (*Greenwood*): On our part, Mr. Chairman, we are sympathetic to the idea of the increase, but we feel the amount of the valuation should be considered on its own merits, and that we should not go to extreme figures merely because we fear the valuations are going to be too low. It seems to me that valuations are one thing and percentages are another. I would have thought that a recommendation of something less than 80 per cent say, 75 per cent, would be sufficient at this time, and I would like to move an amendment, that the 65 per cent be changed to 75 per cent.

Mr. ARGUE: I do not think, Mr. Chairman, that that is a valid amendment since you have already before you an amendment making the figure 80 per cent.

Mr. MACDONNELL (*Greenwood*): This would be an amendment to the amendment.

Mr. QUELCH: Mr. Chairman, Mr. Macdonnell suggested that you should separate the two on a percentage basis. Actually, you cannot separate those two, because if you have in mind the fact that the general practice is to make a very low appraisal of only about 80 per cent of the real value of the land, and then make a loan up to 65 per cent of the value, then it is 65 per cent of 80, or, in the case of the amendment to make it 75 per cent, it would still only be 60 per cent of the actual value of the place.

Mr. CHARLTON: I never suggested that.

Mr. QUELCH: He suggested reducing it from 80 to 75 per cent which reduces the amount of the loan.

Mr. CHARLTON: Actually the federation did not ask for a straight 80 per cent. I think probably they would be quite satisfied if the percentage was raised from 65 to 75, generally speaking. They have asked for an increase on the lower loans to 80 per cent; on the higher loans they were satisfied that the percentage be left at 60, as presented on page 8 of their brief. So, we are trying to get in between the two in the general increase from 65 to 75 per cent, which I think would be acceptable if the appraisals were a little more in line with the actual value of the farms.

Mr. JOHNSON *(Kindersley)*: That motion by Mr. Macdonnell is quite acceptable to me and I also appreciate the view which Mr. Charlton has just made clear that the federation did suggest a gradation, but asked that the loan be $20,000 rather than $15,000. I would support that. The 80 per cent, would, I think, compensate for the very conservative policy of appraisals which they have been following.

Mr. CARRICK: The minister apparently looked into this matter and decided that it would be wise to recommend that the board be authorized to lend to 65 per cent of the appraised value instead of 60 per cent at the present time.

I do not recall any evidence in this committee which would justify making it 80 per cent of the appraised value. On the contrary, we know the standard practice of companies lending on residential and other industrial properties is to lend up to 60 per cent only. This amendment puts it 5 per cent above the standard practice.

Mr. CHARLTON: I think it should be obvious to anybody, because the government has brought forward this increase from 60 per cent to 65 per cent, that they see the need. In view of all the evidence given to us here, it is very evident that the farmers are not being given enough of a loan in relation to the increased value of farms today. What we are saying is that the government has suggested an increase to 65 per cent, and we do not feel that it is enough in view of the evidence given here. We think that 75 per cent would be quite reasonable. I do not think that farm loans can be compared to industrial loans in any way. It would be unfair to suggest that they could be. This is supposed to be a service organization to farmers and I think that we are quite reasonable in asking for 75 per cent.

Mr. CARRICK: As suggested, our aim is to increase the total amount loaned. I do not think it sound to do that by decreasing the security of the loans. That is what Mr. Charlton is asking.

Mr. CHARLTON: No. The farm values have increased more than 10 per cent.

Mr. CARRICK: But surely if you lend to 75 per cent of the appraised value instead of only to 65 per cent of the appraised value you will decrease the security on which the loan is based.

Mr. WEAVER: The act here says here "actual value" not appraised value.

Mr. CAMERON *(Nanaimo)*: We were never able to get a definition of actual value.

Mr. ARGUE: I do not think the statement by Mr. Carrick, that the amount of money that is now being made available on loans generally has not been criticized, is correct.

Mr. CARRICK: I did not say that.

Mr. ARGUE: You were suggesting that the appraised value and the current rate have not been criticized. I do not think that is correct. Every witness before this committee and every member of parliament who spoke in the

house on the government side made this statement; he criticized the appraised value, or the percentage of appraised value, and said that farmers were unable on a given piece of land to get a sufficiently large mortgage. They were saying that either there should be an increase in the appraised value, or in the percentage of appraised value, or in deciding what the loan should be that the board should be more generous in its attitude, and that steps should be taken to increase the amount of money that a farmer could obtain. I think that the suggestion that has been made is eminently fair. I do not think that there is a great correlation, if any, between the amount of money that is loaned, whether it be 65 or 80 per cent, and the amounts of losses which may be experienced on given loans. There are so many other factors that there is no reason to believe that just because you give a loan at 80 per cent of an appraised value you may have more losses at 65 per cent. A larger loan can be made without any substantial increase in the risk which the Canadian Farm Loan Board may be taking. The appraised values have been so conservative that I think the motion which has been suggested should receive support from members of this committee, and I think it has, up to this moment, received general approval.

Mr. HENDERSON: It is impressed upon me, and I am sure upon Mr. Chester, that this committee has brought to his attention that the appraisals of these farms, subject to the farm loan mortgage, are generally speaking going up. I think we accomplished some good results. I am very pleased to see this increase from 60 to 65 per cent, but I do not think that the committee should be led astray by putting it on the same basis as the appraised city property or new property by loaning companies. We all know that if we got it up too high there might be some more effort on the part of an appraiser to take into consideration the depreciation on some of the farm buildings. It is altogether a different situation to the situation with regard to a new house where we do take depreciation in some cases to 75 per cent and 90 per cent. In farm buildings if they took depreciation into account as in city or industrial buildings, the appraisal would be much lower.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, I would like to point out two things. It is quite true that not so many years ago loans were usually made only on a 50 per cent ratio; then they were raised to 60 per cent. I would remind you that under the housing act it has been raised very considerably above that. You will say: "Oh, well, there is a government guarantee there", but with respect to that it might be said that this is a government measure and it is, so to speak, like the government guaranteeing itself here. Therefore, I would think there is an argument for going beyond the 65 per cent. I was pleased to hear one or two voices across the room expressing approval of 75 per cent. It is pretty hard to prove what is the right figure. My own thought is, especially having regard to the statement made by Mr. Charlton as to the attitude of the Canadian Federation of Agriculture, that 75 per cent might be a useful compromise.

Mr. CAMERON (*Nanaimo*): Mr. Chairman, I was under the impression that everyone in this committee had reached the conclusion that the operations of the Canadian Farm Loan Board have been too restricted. I do not think that there is much doubt about that. We were all of that opinion, and felt that certain steps should be taken to provide more assistance to the agricultural economy. We have indisputable evidence that the operations of the Canadian Farm Loan Board have been restricted, since Mr. Chester told us that 45·6 per cent of those applications classified as rejects had been rejected because of too low an appraised value. As was pointed out from time to time that is a misleading figure; actually something like 76 per cent of those actually rejected by the board are rejected because the applicant did not have sufficient security.

We also had quite plain and unmistakable evidence, in answer to questions asked by Mr. Argue, of the fantastic descrepancies between actual values and appraised value for the purposes of a loan under the Canadian Farm Loan Board. The same thing is true in my own province where, in the Okanagan valley, no account is taken of the fruit trees in the appraised value by the Canadian Farm Loan Board for fruit-growing land.

The WITNESS: That is not correct.

Mr. CAMERON (*Nanaimo*): The information which I get from there is to that effect.

The WITNESS: It is not correct.

Mr. CAMERON (*Nanaimo*): I would suggest that you make more inquiries as to what your people are actually doing there.

The WITNESS: I know what they are doing.

Mr. CAMERON (*Nanaimo*): The fact remains that we have had this evidence that appraisals are fantastically out of line with actual values. What the reason is for these fantastic discrepancies, I do not know. What is plain is that these appraised values and the loans to be granted on them are curtailing the operations of the board. There is no effective way in which this committee or the House of Commons can direct the Canadian Farm Loan Board to make appraisals on a more generous basis. What we can do is suggest by this amendment that they increase the percentage of appraised value upon which loans are to be granted. The minister looked at it equally so because it is raised by 5 per cent; but I do not think that we need necessarily assume that the minister's views are to be accepted holus-bolus. De do not always accept Mr. Carrick's views on his infallibility. But I do believe that perhaps the 75 per cent, rather than 80 per cent as proposed by Mr. Johnson, might be more in line with what the Canadian Federation of Agriculture was asking for. I am prepared to support either of them. I do suggest that we have had plenty of evidence here as to the necessity of widening the scope of these loans.

Mr. BRYSON: It is a little difficult for me to understand why Mr. Macdonnell should be so squeamish about the 80 per cent. Neither can I go along with Mr. Henderson in thinking that the increase from 60 to 65 per cent is going to make for a larger loan. I think that they have actually cut the amount of money that can be loaned, because on a first mortgage you could formerly borrow up to 60 per cent, and while they have raised that now to 65 per cent they have discontinued completely the second mortgage which amounted to $2,000. If you take 5 per cent, which has been the increase on $12,000, the maximum on the first mortgage, that only amount to $600 and actually they are $1,400 short under this new act of what they could borrow under the former act. The amount of money has actually been cut instead of increased even though the limit is increased to 65 per cent.

The VICE-CHAIRMAN: The question is on the sub-amendment to the amendment, moved by Mr. Macdonnell, seconded by Mr. Fraser, that the amendment should be amended by deleting the word "eighty" and substituting the word "seventy-five".

All those in favour please signify.

Yeas, 10; nays, 13.

The VICE-CHAIRMAN: I declare the sub-amendment lost.

Are you ready for the question on the amendment?

Mr. JOHNSON (*Kindersley*): Could we have a recorded vote by names on that, Mr. Chairman?

The VICE-CHAIRMAN: If the committee wishes it.

Mr. BLACKMORE: Yes, let us have the names.

The VICE-CHAIRMAN: Will you say yes or no to the recorded vote.

Yeas, 10; nays, 14.

The VICE-CHAIRMAN: I declare the sub-amendment lost. Shall I put the question on the amendment: that the word "sixty-five" in line 19 on page 2 of the bill be deleted and the word "eighty" be substituted therefor.

Those in favour?

Mr. ARGUE: That was the recorded vote.

The VICE-CHAIRMAN: The recorded vote was on the sub-amendment.

Some Hon. MEMBERS: No, no.

The VICE-CHAIRMAN: The vote which was taken was on the sub-amendment of Mr. Macdonnell.

Some Hon. MEMBERS: No, no.

Mr. CAMERON (*Nanaimo*): You had put the amendment, Mr. Chairman, when Mr. Johnson asked for a recorded vote.

I suggest that we ask the reporter to tell us.

Mr. HANNA: I submit that that is out of order. I do not think that the reporter should be asked.

Mr. MACDONNELL (*Greenwood*): We voted on my sub-amendment.

Mr. CAMERON (*Nanaimo*): Then the vote was put on the amendment and the recorded vote was asked.

Mr. FAIREY: It is the same thing.

Mr. ARGUE: We have finished both, but if you wish another vote we will take it.

The VICE-CHAIRMAN: The first time, I called the vote on the sub-amendment of Mr. Macdonnell, then afterwards there was a request to have the vote recorded and that is what we have had the vote on. Now I will put the question on the amendment: that the word "sixty-five" in line 19 on page 2 of the bill be deleted and the word "eighty" be substituted therefor.

Mr. JOHNSON (*Kindersley*): We are now at the stage where I asked for a recorded vote.

The VICE-CHAIRMAN: Will those in favour please raise their hands?

Mr. ARGUE: Call the yeas and nays.

The VICE-CHAIRMAN: I will read the amendment again: "that the word 'sixty-five' in line 19 on page 2 of the bill be deleted and the word 'eighty' be substituted therefor".

Yeas 10, nays 15.

The VICE-CHAIRMAN: I declare the amendment lost.

Mr. JOHNSON (*Kindersley*): This was the stage where I asked for a recorded vote. I do not know why we have voted twice on the same measure.

The VICE-CHAIRMAN: We will not go into that again. I think that everything was clear.

Mr. JOHNSON (*Kindersley*): Then would you please make it a recorded vote by names, Mr. Chairman.

The VICE-CHAIRMAN: Again I will have to ask if it is the wish of the committee.

Mr. ARGUE: I think that raises a point of order—and I am not speaking now as a member of the party with which I am affiliated, but I am just speaking from personal experience. It has been my experience in committees and in the house that any member of any committee of the house has the right to

ask for a recorded vote by names in the same way as the members in the house have a right to a recorded vote by names. It is my experience that when any members have asked for a recorded vote by names the vote has been so taken.

Mr. QUELCH: I think that the member for Assiniboia is perfectly right in that. On all the occasions in which I have served on committees, when any member requests a recorded vote, that recorded vote is taken. Now we are in the position of a committee voting against a recorded vote being taken. I do not think the committee has the right to refuse any member who requests that a recorded vote be taken.

Mr. CARRICK: I suggest that, in view of the fact that there was some misapprehension in the minds of members of the committee with regard to exactly what the vote was about, it would be a good thing to allow a recorded vote as Mr. Argue suggests.

The VICE-CHAIRMAN: As far as I am concerned I would say that at the time the recorded vote was asked for I had not read the question. The question on the amendment had not been put, so the vote which was taken afterwards could not have been a vote on the amendment. I would like to hear your comments about that; from what I know a recorded vote may be requested by any member of the committee, but such a request may be turned down by the committee if a vote has already been taken on the question by a show of hands and the motion has been defeated. When that happens there is no recorded vote. That is my understanding, but if anybody else would care to comment before I give my ruling I would be glad to listen.

Mr. CAMERON (*Nanaimo*): Certainly, Mr. Chairman, during all the long sittings of the banking and commerce committee two years ago on the Banking Act there was no question about it. If any member wished to have a recorded vote it was granted. The same was true last year when I sat on the estimates committee. It only took one member to ask for a recorded vote and there was never any question whatever of the committee having the power to refuse such a request.

The VICE-CHAIRMAN: That does not answer the point I raised. It may be true that your experience has been that whenever a recorded vote was requested such a vote was taken, there being no objection, but that does not establish that, according to the rules, if there is opposition to the granting of a recorded vote the committee has no right to refuse it. I think it has.

Mr. RICHARDSON: I think that there is general agreement now that we should have a recorded vote.

Mr. CAMERON (*Nanaimo*): This whole procedure has now been called into question by the chairman, and I suggest it would be very strange indeed if the proceedings which govern this committee were to be so largely different from the proceedings which govern the House of Commons. Suppose we were to follow the chairman's line of argument—suppose five members of the House of Commons rose and called for a vote and the rest of the House of Commons said: "No, we do not want it." There would be no recorded vote, and that would be the sort of situation the chairman is suggesting in this committee.

The VICE-CHAIRMAN: The situation is that a vote has been taken not to allow a recorded vote. Do I understand that the committee now agrees to have a recorded vote?

Hon. MEMBERS: Yes.

The VICE-CHAIRMAN: That is all right, then.

The question is on the amendment, and so that nobody should be in doubt I will read it again:

> Moved by Mr. Johnson and seconded by Mr. Bryce that the word "sixty-five" in line 19 on page 2 of the bill be deleted and the word "eighty" substituted for it.

On the division the amendment was defeated by 17 votes to 10.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, on section (ii) in clause 6 (1), I move that the word "fifteen" in line 30 on page 2 be struck out and the word "twenty" be substituted.

The VICE-CHAIRMAN: We are not ready for that. I must beg the indulgence of the committee; I have to call now clause 6 (1) subsection (i).

On clause 6 (1) subsection (i):

Mr. WEAVER: On a previous occasion I have mentioned what a fine brief the Canadian Federation of Agriculture had submitted to us, and I also commented that I was particularly impressed by their recommendation that the length of time of the loan should be increased—

The VICE-CHAIRMAN: We have not reached that yet.

Mr. WEAVER: Did you not call subsection (ii)?

The VICE-CHAIRMAN: If I did it was my mistake. We have first to deal with subsection (i) in clause 6 (1).

Subsection (i) agreed to.

Mr. WEAVER: I wish to move, seconded by Mr. Huffman that subclause (2) of clause 6 be amended by deleting the word—

Some hon. MEMBERS: We have not come to that yet.

The VICE-CHAIRMAN: Let me call the subsection, please. Subsection (ii) in clause 6 (1).

Mr. MACDONNELL (*Greenwood*): I would like to move Mr. Chairman, that the word "fifteen" be struck out and the word "twenty" be substituted.

Mr. CHARLTON: I will second that.

Mr. MACDONNELL (*Greenwood*): I would just say a word with regard to that figure. It seems to me that values have been going up so rapidly that an arbitrary limit of this kind is quite unrealistic. After all, this is not a compulsory measure; it does not mean they have got to lend $20,000. It simply extends the discretion of the board. We have a good deal of evidence before us which indicates that the board has been sufficiently cautious, and that it has not been too expansive in its ideas; and I see no reason why, in the face of greatly increased values, the limit of $15,000 need be retained. That is my reason for moving this amendment.

The VICE-CHAIRMAN: Are you ready for the motion?

Moved by Mr. Macdonnell, seconded by Mr. Quelch, that the word "fiftteen" in subsection (ii) of clause 6(1)(a) be struck out and the word "twenty" substituted.

The proposed amendment was defeated by 11 votes to 16.

The VICE-CHAIRMAN: Shall clause 6, subclause (1) carry?

Mr. MACDONNELL (*Greenwood*): As I indicated earlier in the meeting—

The VICE-CHAIRMAN: Let us try to keep the record as clear as possible. Right now we are dealing with clause 6, subsclause (1).

Sublcause (1) agreed to.

Mr. HENDERSON: I want to ask, Mr. Chairman, why they took the word "collateral" out?

An Hon. MEMBER: I cannot hear.

The VICE-CHAIRMAN: I quite agree with you. If you do not care too much about giving a break to the chairman, there is one fellow you have to give a break to, and he is the reporter. I would like him to hear what is said.

By Mr. Henderson:

Q. I was asking if Mr. Chester could tell us why they took the word "collateral" out of section 6(a), subsection (ii) of the Act. I notice that in the old section it had "additional and collateral security".—A. The reason is that the word "collateral" was not considered necessary in the opinion of the Department of Justice.

Clause 6(1) agreed to.

By the Vice-Chairman:

On clause 6, subclause (2)—Repayment of loans.

Mr. MACDONNELL (*Greenwood*): You may remember, Mr. Chairman, that at the outset of the meeting I sought to obtain a prescriptive right in this clause by announcing that I was going to move an amendment.

The VICE-CHAIRMAN: If Mr. Macdonnell will allow me to say so, if he figures he has acquired a prescriptive right because he called on me at the beginning of the meeting, I can say there was somebody else ahead of him.

Mr. MACDONNELL: (*Greenwood*): I submit with great deference, Mr. Chairman—

On a point of order, Mr. Chairman. My point of order is that surely we do not have to recognize any communication which takes place before the meeting begins. My communication was, I submit with deference, the first communication which was made during the meeting.

Hon. MEMBERS: Order.

Mr. MACDONNELL (*Greenwood*): I would now like to move that subclause (2) be amended by deleting the word "twenty-five" and substituting—

Mr. PHILPOTT: On a point of order, Mr. Chairman.

The VICE-CHAIRMAN: Yes, I will hear you on a point of order, and then I shall have something to say.

Mr. PHILPOTT: Nothing which Mr. Macdonnell has said has been sufficient to put him in order now, and I have the floor. Is that correct?

The VICE-CHAIRMAN: I will have to resort to an old saying. As we say in French, "Quand vous avez fait votre lit il faut coucher dessus", or, in English, "When you have made your bed you have to lie on it."

Mr. Macdonnell was kind enough to tell me he had acquired a prescriptive right because he had called on me first. I am sorry to tell him he was not the first to call on me for that purpose.

Mr. MACDONNELL (*Greenwood*): I was the first in the meeting.

The VICE-CHAIRMAN: Was the meeting called to order when you called on me? I do not think so.

Mr. ARGUE: Oh yes, the proceedings were on.

Mr. FRASER (*Peterborough*): On a point of order, Mr. Chairman. When you called the committee to order on Bill 84—when the first item was called —Mr. Macdonnell immediately got up and said he would like to move that the 25 year period be extended to 30 years.

Mr. WEAVER: I have already spoken on this, but I would like to say I welcome Mr. Macdonnell's assistance as a champion of the farmer. At the same time, I will now make the motion I attempted to make previously.

Mr. MACDONNELL (*Greenwood*): On a point of order is not—

The VICE CHAIRMAN: Let us proceed in order as much as possible.

Mr. MACDONNELL (*Greenwood*): Am I not correct in saying that my motion is before you now? My point of order is that my motion must be dealt with. That is not an amendment to my motion—it is an attempt, which I greatly deprecate, to substitute something for my motion.

Mr. POWER (*Quebec South*): I would ask the chairman to rule on these various points of order so we could get along.

Mr. WEAVER: Can I have a hearing, Mr. Chairman?

The VICE CHAIRMAN: I have a motion here moved by Mr. Macdonnell and seconded by Mr. Quelch that clause (2) of clause 6 be amended by deleting the word "twenty five" and substituting therefor the word "thirty".

Are you ready for the question?

Mr. VIAU: This committee never received a motion from Mr. Macdonnell. He got up and said: "on a point of order—".

Mr. FLEMING: That is only half the story.

The VICE CHAIRMAN: The chairman has already received a motion. I think we can overlook that objection. Let us proceed with it.

Mr. BRYSON: Well, Mr. Chairman, I would like to move that the word "thirty" in the amendment moved by Mr. Macdonnell be deleted and that the word "forty" be substituted therefor.

If I might make a few remarks in connection with this amendment to the amendment, Mr. Chairman, I would say that the clause with which we are now dealing is one of the most contentious of the three or four clauses which compose this act, and this was brought very forcibly to the attention of this committee by Dr. Hope when he appeared several days ago before us.

The Canadian Farm Loan Board is attempting to make available not only short-term credit but long-term credit also, and that is an important feature as far as the purchase of farm land is concerned. I feel that long-term borrowing is not the only borrowing the farmer is going to have to do, in all probability, in the future. He will have to resort to short-term borrowing, and the interest is likely to be something more substantial than will be asked by the Canadian Farm Loan Board.

Mr. FOLLWELL: Although I am very close to the hon. member I cannot hear a word he is saying.

Mr. BRYSON: It is because I feel that the cost of capitalization today is such that a great deal of money is needed and because it is likely that a great deal more will have to be borrowed under this act, that I consider the term of repayment should be long enough to allow a man to make repayments under the best possible conditions, so that the loan should not be too burdensome. For those reasons I think the period should be extended to 40 years.

The VICE CHAIRMAN: Is the committee ready for the question?

Mr. ARGUE: Mr. Chairman, I want to say a few words in support of the sub-amendment. I wish Mr. Macdonnell had moved the abolition of the 25 years and the substitution of 40 years, because I think 40 years offers more advantage than the 30 year term. Dr. Hope, in the statistics he gave us as to the length of time the various farms in Ontario have been mortgaged showed successfully that the majority of farms in Ontario, according to the sample survey are in fact mortgaged for periods in excess of 40 years, and I

have no reason to think the experience differs to any great degree in the other provinces, which leads me to support as strongly as I can the extension of the period to 40 years. Such a step is necessary because, according to the general experience, it takes at least that long to pay off a mortgage. Probably of still greater importance is the fact that such an extension would reduce the carrying rate of the mortgage. According to the figures given us, I understand that at the present time a current five per cent mortgage costs an annual rate of 7·25 per cent. The move now suggested by Mr. Bryson would reduce this carrying charge from 7·25 per cent to 5·83 per cent. I think that is a very substantial reduction, and in the light of our experience with farmers, it is absolutely necessary. It is virtually impossible for a farmer to pay at a rate of 7·25 per cent, and he will not find it too easy to meet even this reduced rate of 5·83 per cent.

As far as the government is concerned, I think this will probably strengthen the mortgage loans they are making because repayment would be easier; farmers would find less difficulty making their remittances. I must say I am pleased that the indications are that there will be a move to increase the period from 25 to 30 years. That is certainly a step in the right direction and it emphasises, once again, the need for all committees to make a thorough study of the field covered by any bills referred to them. There are improvements being made to the bill this afternoon; improvements are being made at this time because we have had witnesses such as Dr. Hope. We heard an excellent statement from the Canadian Federation of Agriculture. The submission was so good that it not only convinced—I take it—all members of this committee but, more important still, it convinced the government and the cabinet, apparently, because we see that the increase to 30 years is being approved by the government. Even so, I suggest there is a great deal of merit in the suggestion that amortization should be over a 40 year period and I am therefore in favour of such an amendment.

The VICE-CHAIRMAN: Is the committee ready for the question?

Mr. JOHNSON (*Kindersley*): A recorded vote, please, Mr. Chairman.

The VICE-CHAIRMAN: The question is on the amendment to the amendment.

Moved by Mr. Bryson, seconded by Mr. Cameron that the word "thirty" in the amendment be deleted and the word "forty" substituted.

Mr. ARGUE: Could we not have the names called, and save the double-vote?

On a division the amendment was defeated by 21 votes to 6.

The VICE-CHAIRMAN: Is the committee ready for the amendment?

Mr. BENIDICKSON: On the amendment moved by Mr. Macdonnell, I think the record will show that whether in order or out of order I indicated earlier in today's proceedings that I was impressed—

Mr. MACDONNELL (*Greenwood*): I understood you to say you would second my motion.

Mr. BENIDICKSON: Yes. I was just going to make that clear. We are impressed by the evidence of the Canadian Federation of Agriculture with regard to this, and I would be very happy to support Mr. Macdonnell's amendment to this clause. It has been suggested that the term might be 40 years. I only point out that we have not, with regard to other loans in Canada, adopted yet, as a general rule, a 40 year term, and I think in this situation it would be better to increase the period from 25 years to 30 years rather than to create a longer term for one class of people and alter standard practice across Canada.

Mr. JOHNSON (*Kindersley*): I recall that Dr. Hope, when he was dealing with this particular amendment, intimated that it was a "creeping" step in the right direction. I think the amendment which Mr. Macdonnell has moved with government support is, indeed, a creeping step in the right direction and in the absence of something better I am certainly prepared to support it, hoping that at some date in the future we shall not be restricted by what other agencies are doing, but that the Canadian Farm Board will be considered on its own merits, and that if a 40 year period is considered necessary it will be granted without this regard for what other government agencies are doing.

Mr. MICHENER: There must be an optimum time and in my judgment 30 years is the right time. Mr. Johnson has called this a "creeping step", but if you creep beyond a certain point you may be advancing in the wrong direction. Some member of the committee might get up and suggest 100 years would be an appropriate period. That might be all right in some cases, and there may be some 100 year old farmers, but I do not think that is the average life during which a farmer can expect to work. It seems to me that anyone who wishes to acquire capital assets by the work of his hands and brain should expect to pay for those assets in 30 years, which is the period of high normal activity in the lives of most men; to extend the period beyond that would, in my view, be storing up trouble for the future. I am voting for the 30 year period because I think it is the right period, and because I believe that to extend it further would be creeping in the wrong direction.

Mr. ARGUE: I think the suggestion of 40 years is much preferable to the suggestion of 30 years.

Mr. HOLLINGWORTH: Have we not already dealt with that suggestion? I submit the hon. member is out of order.

Mr. ARGUE: Very well, I will confine my remarks to the question of the 30 year term. This, as we have heard, Mr. Chairman, has been referred to as a "creeping step in the right direction" but in my opinion it does not go nearly far enough. It is not good enough to say, as Mr. Michener has said, that the average person should be prepared to pay off any mortgage in 30 years, and for him to infer that a longer period is unnecessary in other industries the farmer should be prepared to accept the same situation. I am positive that every farmer would like to pay off his mortgage, but the long history of the agriculture industry shows that it is virtually impossible for a farmer to pay a five per cent interest rate on his capital and repay the principal over even a 30 year period.

If something could be done with regard to the agriculture economy to make it comparable with other industries as far as net income for the operator is concerned the position would be different. I believe any farmer would be more than happy to pay off his mortgage in 30 years, but because it seems to be inherent in our economy that the farmers always, year in and year out, gets a smaller return for his capital than anyone else, even a 30 year period is too short.

Mr. QUELCH: We supported the 40 year period because we believe that the longer the period of repayment the better. There is nothing to prevent a farmer from paying off his mortgage in a shorter time if he is able to do so, but we all know that farmers, generally speaking, are perhaps a little too optimistic. They will take on obligations which they will be able to meet provided they continue to get good crops and reasonable prices, but they have no control over these things, and should there be a succession of bad harvests, or a severe fall in prices, repayment becomes extremely difficult. As I say, we generally

find that farmers are too optimistic about their ability to repay obligations, and therefore the longer the period the better, in my opinion. If somebody had suggested 50 years I would certainly support 50 years.

What Mr. Michener has not brought out before this committee is that in many cases a mortgage is not discharged when an owner dies or a property changes hands. The amount of the remaining mortgage is simply transferred, and that is happening every day. Mr. Michener spoke of 30 years as being a reasonable time, but the committee will be quite aware that a lot of people take out mortgages when they are 40 or 50 years of age. For my part, I think the 40 year period would have been good. As for the 30 year period, it is certainly better than 25 years, so we shall support it.

By Michener:

Q. I would like to ask Mr. Chester whether there has been any difficulty about renewing mortgages after substantial payments have been made on account? If a farmer has taken a loan and brought it down to one half or one third of its original amount, and then requires more money, has he any difficulty in obtaining a second mortgage?—A. No, I would say it would be regarded as a new application, and the loan would very likely be granted.

With regard to our experience of the time during which mortgages are in effect, the average is 14 years; and the Ontario survey shows an average of 12 years. The survey conducted by the provincial government in Ontario—the survey which has been referred to—showed that mortgages on some 700 farms over a 50 year period were in existence, on an average, for 12 years. Our experience is that they were held for 14 years.

Q. I suppose, then, that if an elderly farmer takes a loan and reduces it, and his son takes over the land, say, after 10 years, the son is free to take a new loan himself on the same property?—A. Yes, certainly.

Q. If he took a 30 year loan, that would, in fact, be a 40 year term of repayment with respect to that particular land?—A. That is true.

Q. It seems to me, to hear some members of this committee talk, that they think that debt is a good thing in itself. I do not believe that, and I think we ought to set before peoples' minds a period which is reasonable, and not encourage them to go on paying money on debts all of their lives. It is clear from what has been said that if a man cannot manage to pay his debt in 30 years he will be able to extend his mortgage.

The VICE-CHAIRMAN: I will read the motion: Moved by Mr. Macdonnell and seconded by Mr. Charlton that subclause (2) of clause 6 be amended by deleting the word "twenty five" in line 35 of page 2 of the bill and substituting therefor the word "thirty".

The amendment is carried by a unanimous vote.

Subclause 6 (2) as amended agreed to.

Mr. FLEMING: Mr. Chairman, do you not think that Mr. Macdonnell ought to be congratulated on his extraordinary success in introducing an opposition amendment which has won unanimous support from the committee. This, surely, is an achievement.

The VICE-CHAIRMAN: Shall clause 7 subclause (1)—Reserve, carry?

Mr. MICHENER: I would like to point out to the sponsors of the bill, without making any amendment, that the proposed section 9 (1) seems to be inconsistent with the proposed section 9 (2). As I read clause 7 (1) it provides that the board shall establish a reserve out of which may be paid

any losses sustained in the conduct of any and all of its operations under this act. The board might feel obliged by that section to maintain a complete reserve, because any part of these loans might conceivably result in a loss, and that is not the intention of the next subclause we come to.

I throw that out for consideration without attempting to rewrite it in committee.

Clause 7, subclause (1) agreed to.

The vice-chairman:

On clause 7, subclause (2).

By. Mr. Michener.

Q. May I ask a question, Mr. Chairman, for the sake of clarification? My understanding is that when the new subsection on capital has been made there will be an extra amount added to the present reserve of $2,300,000 enabling the board to establish a reserve equal to the amount of capital. Is that correct?—A. No. That is not right. It has nothing to do with the subscription of capital. This has to do with reserves. We already have $3 million in reserve. This establishes one reserve fund in place of two as at present.

Q. You mention $3 million. I see, from the balance sheet, that the amount reserved for losses is some $2,300,000.—A. There is also a statutory reserve of $878,230.

Q. Mr. Chairman, could someone explain to me where the second clause 2 of clause 7, on page 3 of the bill, will find itself in the act after this bill has been passed? I understand that clause 7 (1) of the bill provides for new subsections (1) and (2) of section 9. Then, again, clause 7 (2) of the bill also says something about existing reserves. Would that not be the new subsection 3 of section 9 of the act?—A. This was drawn up by the Department of Justice—

Q. They are infallible, I understand.—A. I think probably they are in this case. My understanding is that this will not appear in the consolidated statutes. This is something which will enable these changes to take place as at a certain date, and from that point on it will be necessary.

Q. How will anyone know that that is the law if it does not appear in the consolidated statutes?—A. You will just have to refer back.

Q. I see. It is something that happens once only.

By Mr. Fleming:

Q. With respect, I do not think that is a good enough reason for leaving it out. Apart from changing the provisions of section 9 of the act, clause 8 of the bill proposes to repeal sections 10, 11 and others of the act. People referring to the act after amendment can very easily be misled by not having the whole act included. Consolidations are prepared from time to time and I think it is inevitable that someone is going to overlook the fact that there is, in the 1956 statute, a provision which is not carried into the consolidation. It is true that the provisions of subclause 2 of clause 7 of the bill are not enduring in their effect, and that they apply only to a particular time, and that when the terms of those provisions have been satisfied they would, presumably, cease to be applicable. But no one reading the statute could understand that it has that effect, limited in point of time; and I do not think we have been given a good reason for leaving strewn around in the statutes provisions which do not appear in the main act. This bill before us, in all other respects, amends the act. My suggestion is that no harm would be done and that, on the contrary, an improvement would be made, if we treat subclause 2 of clause 7 of the bill as though it were to be section 10 of the act.

You are removing clause 10 and you have numbers to spare. Why do we not simply introduce an amendment here that this subclause should be section 10 of the act?—A. If you do that you will have to carry on all through the act and renumber all the clauses.

Q. Oh no.—A. You have a clause 10.

Q. No, this is section 10 of the act. You have got a clause 10 of the bill, but that has nothing to do with the point I am raising.

The effect of clause 8 of the bill is to repeal sections 10 and 11 of the act. You have got two numbers to spare and it is fortunate that one of them, number 10, follows immediately after section 9 of the act. Why not assign section 10 to the paragraph that now constitutes the subclause, to that space? —A. This, of course, is something out of my line. It concerns the drafting of the bill, that is carried out, I think the committee will agree, by people who know what they are doing. If we follow your suggestion in this case, Mr. Fleming, we would have to go back and make several changes in other cases. I think it would have to be done, for instance, on page 2.

Mr. MICHENER: In order that this matter may be disposed of more quickly I would like to suggest that the second "two" on page 3 of the bill be changed to "three" so that this section which, according to the explanation, would not go into the bill, will appear as subsection (3) of section 9 of the act.

The VICE-CHAIRMAN: Would you agree to put a motion in writing, then, maybe, we could allow this matter stand until this afternoon.

Mr. MICHENER: It seems to me that if something along the lines I have suggested is not done there will be confusion later on as to just what authority there is for these steps being taken.

Mr. BENIDICKSON: Mr. Chairman, I think your idea that we should defer consideration of this matter is a good one. These are questions which receive very close attention from the Department of Justice and in my view, with respect to all concerned, we should not commit ourselves to any action without making sure we are on proper ground.

The VICE-CHAIRMAN: Shall clause 7, subclause (2) stand?

Agreed.

Clauses 8 to 11 inclusive agreed to.

The VICE-CHAIRMAN: Gentlemen, I suggest that at this point we adjourn until 3·30 this afternoon. Agreed.

AFTERNOON SESSION

THURSDAY, April 26, 1956
3.30 p.m.

The VICE-CHAIRMAN: I think gentlemen, we have a quorum, so let us revert to clause 7 subclause (2) which was left standing this morning.

Mr. MICHENER: Mr. Chairman, I have given further consideration to the problem which arises not only in this particular instance but with regard to other clauses of the bill. There are, indeed, two or three sections whose operation would be spent as soon as the act comes into force, and rather than try to tidy up this position I would prefer to leave the matter as it has been put by the Department of Justice.

The VICE-CHAIRMAN: Subclause (2) of Clause 7 agreed to?

Agreed.

Shall the preamble carry?

Agreed.

On the title of the bill:

Mr. ARGUE: Mr. Chairman, I have a motion which I would like the committee to consider at this time. It has to do with the expenditure of money, so it cannot be a direct amendment to the bill; it will, therefore, have to be a simple motion that this committee should consider making a recommendation to the government. I have, accordingly, drawn up a motion in these terms:

> That in the opinion of the Committee the government should consider the advisability of paying to the board, from time to time, out of the Consolidated Revenue Fund sums equal to the administrative costs of the board.

I think it is perfectly clear that this is not necessarily going to involve the expenditure of money. The committee may ask the government to consider any proposition which is relevant in connection with the legislation, and the government itself will then decide whether it should follow through and put that recommendation into the form of an enactment.

The suggestion which I propose follows the recommendation which was made to the committee by Dr. Hope, namely that the treasury itself should bear the cost of the board's administration. Dr. Hope advocated that suggestion as being one means of lowering the rate of interest which the borrower would have to pay. He went on to explain that if the government agreed to do this it would probably result in the lowering of the rate of interest to 3½ per cent.

In advancing his argument for an interest rate of 3½ per cent he said that farmers' earnings on capital, from a long-term experience, averaged 3½ per cent and his figures also showed that a producer would earn even on such a low payment for capital approximately less than $1,200, even taking into account income earned by unpaid family labour.

I think that one of the basic points in Dr. Hope's brief was his contention that agriculture could not bear a high rate of interest—that a farmer could not pay five per cent and maintain, at the same time, a reasonable standard of living for himself and his family. Therefore, in keeping with the recommendation made by the Canadian Federation of Agriculture, namely recommendation 4 (d).

Mr. VIAU: On what page?

Mr. ARGUE: It is contained in the recommendations at the end of the brief—

> Reduce the interest rate charged on first mortgage loans from 5 per cent to the cost of the money plus the legal reserve, leaving administrative costs to be borne by the government.

I am asking the committee to give consideration to making the recommendation which I have outlined.

The VICE-CHAIRMAN: Will you let me have a copy of the motion?

Mr. VIAU: Would that cover the legal costs, too, of the transaction?

Mr. ARGUE: I am not too sure whether legal costs will be considered part of the costs of administration. I take it they would under that recommendation, 4 (d).

The VICE-CHAIRMAN: I am ready to hear any comment which members may wish to make.

Mr. RICHARDSON: As a new member of the committee, perhaps I might be allowed to suggest that our purpose here is to consider Bill 84. Could we be informed, Mr. Chairman, whether we are able to go outside our consideration of this bill and bring in a resolution of the kind suggested? I am not speaking either for the motion or against it. It is a question of order.

Mr. QUELCH: It has always been the practice that when we report back to the house we can make any recommendations which we think proper concerning the bill. It has been done from time to time. We did it the other day on the agriculture committee.

Mr. VIAU: That is a different thing altogether. That was a recommendation that the credit unions be made agencies for loans. It involved no expenditure of money.

Mr. ARGUE: But it would follow automatically that they would get the 10 per cent guarantee.

The VICE-CHAIRMAN: I would like to put a question to you, Mr. Argue. I would be ready to agree that the rule by which amendments cannot be added to a bill, outside the scope of the bill, may not apply in the case of a recommendation such as you have in mind. But do you feel, Mr. Argue that what you have sent to me is a recommendation?

Mr. ARGUE: That is what I endeavoured to draw up, Mr. Chairman in those terms.

The VICE-CHAIRMAN: But did you actually reach that goal? What you say is: "That in the opinion of the committee the government should consider . . ." and so on.

Mr. ARGUE: I think it is drawn up in the regular terms used when, for example, motions are moved in the house. We have done so on many occasions this session. There are two qualifications in the resolution with regard to the expenditure of money: the first is provided by the phrase "in the opinion of the committee". The committee is merely expressing an opinion; it is not instructing anyone—it is not an instruction to the government even by way of an opinion. It merely calls on the government to consider the feasibility of doing certain things from time to time. All the government has to do in order to comply with its terms is to consider the matter. The motion cannot suggest anything else because it is a well known rule that we cannot move for the expenditure of money.

I may add, for the benefit of members of the committee, that I have discussed this question with the authorities—I do not want to mention any names—and one of them suggested I might take the opportunity of moving this motion when the committee reached the bottom of the first page, but I discussed the matter again with another fairly well known authority, and he thought that perhaps the best place for doing so would be when the committee came to the title of the bill. But certainly I have had the benefit of the best advice I was able to get—the advice of people not connected with any political party—and I was informed that this motion would be in order drawn up in these terms.

The VICE-CHAIRMAN: I would like Mr. Argue to remember that I am not arguing with him on what might be called the merits of the motion itself. It is just a matter of the way in which this is put down on the paper before me. I can see, for instance, that if another form of wording were used—for example, if this began by saying: "That the committee recommends that the government give consideration . . ." etc. . . .

Mr. ARGUE: Would you care to correct it, then?

The VICE-CHAIRMAN: Well, that is my suggestion.

Mr. ARGUE: How would it read then? It would be all right with me if it started off by saying "the committee recommend . . . . .". I am perfectly agreeable to amending it in any way which would put it in order without changing the general meaning. It is merely a recommendation.

The VICE-CHAIRMAN: I know, but whther you say it is a recommendation or not will not carry much weight, I regret to say, if it does not appear as a recommendation. We have to go by the record and the house will have to go by the record.

Mr. ARGUE: How would you suggest that it be changed?

The VICE-CHAIRMAN: I think it should read this way:

> That the committee recommends that the government give consideration to the advisability of paying to the board from time to time out of the consolidated revenue fund sums equal to the administrative costs of the board.

Mr. ARGUE: Agreed.

The VICE-CHAIRMAN: Is there any member who has anything to say about that?

Mr. BENIDICKSON: Mr. Chairman, we have examined this bill quite exhaustively. We are at the end of our consideration of the bill, clause by clause, and this is a new suggestion.

It appears to me that this is an item which could more properly be brought before the House of Commons by a resolution which, as all members know, is open to any member to move at a time, when all members of the House of Commons would have an opportunity of considering the merits of the proposal. I do not propose to look at the merits of the motion at this point but involved in the merits is, of course, the question of a subsidized rate of lending to one class of people. I am going to leave it at that.

I would think we are a relatively small portion of the House of Commons assembled here. The matter of asking the government to give consideration to this point is something which could be done by my hon. friend from Assiniboia (Mr. Argue) or any other member of the house by a motion in the House of Commons itself, and on that score, at this rather belated point in our consideration of this bill, I do not think I shall vote for the motion.

Mr. JOHNSON (*Kindersley*): In connection with what the parliamentary assistant has said I can appreciate the point he has brought up—that we should not, perhaps, suggest too many amendments which are major in scope, but at the same time he will appreciate the fact that members of this committee, having heard the evidence presented to us, are in a better position than members of the house, who have not heard this evidence, to pass judgment on this question.

I know that I, for one, have gained a great deal of experience and knowledge during the sittings of this committee and I think for that reason it would be advisable that we should pass judgment on this matter. If the motion were turned down by this committee it would still not prevent any one from pursuing the matter at a later date in the House of Commons.

Mr. ARGUE: Will you take the names, Mr. Chairman?

The VICE-CHAIRMAN: Before we go on to a vote I would like to express an opinion. I am not ready to rule this out of order simply because it does not come before us as an amendment, but to make my point clear I should like to tell the committee a story. It is about an army officer on his rounds of inspection who asked one of the soldiers: "Did you shave this morning?" The soldier said: "Yes sir", to which the officer replied: "O.K., but next time stand a bit closer to the razor."

I am not ready to rule this out of order simply because it is a recommendation. I am in the hands of the committee and I will have to call a vote on it.

Mr. MACDONNELL (*Greenwood*): My understanding is that this is an ordinary practice. As to the vote, I am going to vote against it on the grounds given by Mr. Benidickson.

The VICE-CHAIRMAN: Very well, the question is:

> Moved by Mr. Argue, seconded by Mr. Johnson that the committee recommend that the government give consideration to the advisability of paying to the board from time to time out of the consolidated revenue fund sums equal to the administrative costs of the board.

This will be a recorded vote.

On a division the motion was defeated by 15 votes to 3.

Title agreed to.

Bill as amended agreed to.

Bill as amended to be reported.

Mr. JOHNSON (*Kindersley*): There is just one point I have in mind. I recall that at one of the committee meetings it was agreed that Mr. Chester would give us the names and general areas served by permanent and part-time inspectors, and I wonder if that information is available for the record?

Mr. FRASER (*Peterborough*): Could Mr. Chester also give us the number of second mortgages that failed?

The WITNESS: The answer to Mr. Johnson is in the form of a printed list and I will hand it in to be printed in the record of proceedings. (*See Appendix*). The other question, by Mr. Fraser, was how much had been written off to reserve under second mortgages; the answer is: nil.

Mr. ARGUE: I move we adjourn.

The VICE-CHAIRMAN: We shall adjourn to the call of the chair, is that agreed?

Agreed.

APPENDIX

Canadian Farm Loan Board Inspectors

Full-time	*District*
H. D. Carr, Regina	Rover
J. W. Clausen, Yorkton	5
W. J. Matthews, Moose Jaw	1 & 2
M. G. Rupert, North Battleford	3
A. C. Voellmecke, Muenster	4
Part-time	
A. Fenske, Springside	5
J. A. Glass, Prince Albert	4
R. L. Hill, Red Jacket	1
W. R. Hodgins, Tisdale	5
C. J. Markusson, Bredenbury	4
A. D. McCollum, Assiniboia	2
J. A. Stueck, Abernethy	5
C. A. Thompson, Humboldt	4
R. V. Thorpe, Lac Vert	5
M. W. Todd, Rosthern	4
J. Vonau, Lipton	5
A. B. Cochlan, Moose Jaw	2

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 7

BILL 165

An Act to amend the Industrial Development Bank Act

TUESDAY, MAY 1, 1956
THURSDAY, MAY 3, 1956

WITNESSES:

Mr. J. E. Coyne, President, and Mr. D. G. Marble, C.B.E., General Manager, both of Industrial Development Bank; Mr. Jacques Melanson, Counsellor, Professional Association of Industrialists; Mr. Dalton J. Caswell, Executive Chairman, Mr. Pierre Bureau, Director, and Mr. Alastair Macdonald, Q.C., Counsel, all of Hotel Association of Canada Incorporated.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

73821—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Argue
Ashbourne
Benidickson
Blackmore
Cameron *(Nanaimo)*
Carrick
Charlton
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fraser *(Peterborough)*
Fraser *(St. John's East)*
Fulton
Gour *(Russell)*
Hanna
Henderson
Hollingworth
Huffman
Low
Lusby
Macdonnell *(Greenwod)*
MacEachen
Macnaughton
Matheson
Michener
Mitchell *(London)*
Monteith
Nickle
Pallett
Philpott
Power *(Quebec South)*
Quelch
Regier
Richardson
Robichaud
Rouleau
St. Laurent *(Temiscouata)*
Stewart *(Winnipeg North)*
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White *(Waterloo South)*

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
MONDAY, April 30, 1956.

Ordered,—That the name of Mr. Regier be substituted for that of Mr. Johnson *(Kindersley)*; and

That the name of Mr. Stewart *(Winnipeg North)*, be substituted for that of Mr. Bryson, on the said Committee.

Attest

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

THURSDAY, May 3, 1956.

The Standing Committee on Banking and Commerce begs leave to present the following as its

FIFTH REPORT

Your Committee has considered the following bill and has agreed to report it without amendment:

Bill 165, An Act to amend the Industrial Development Bank Act.

A copy of the Minutes of Proceedings and Evidence of the Committee relating to the said bill is appended hereto.

Respectfully submitted.

JOHN W. G. HUNTER,
Chairman.

73821—1½

MINUTES OF PROCEEDINGS

TUESDAY, May 1, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Ashbourne, Benidickson, Blackmore, Cameron (*Nanaimo*), Carrick, Enfield, Fairey, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Fulton, Gour (*Russell*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Low, Macdonnell (*Greenwood*), Macnaughton, Michener, Mitchell (*London*), Pallett, Philpott, Power (*Quebec South*), Quelch, Regier, Robichaud, Thatcher, Valois, Viau, Weaver and White (*Waterloo South*).

In attendance

for the Industrial Development Bank: Messrs. J. E. Coyne, President; D. G. Marble, C.B.E., General Manager; and B. J. Drabble, Assistant Chief, Research Department.

for the Professional Association of Industrialists: Messrs. Wilfrid Girouard, Governor; Paul Beaulieu, Administrator; G. H. Dagneau, of the Secretary's office; Jacques Melanson, Counsellor; and R. Beaudin, Financial Advisor.

for the Hotel Association of Canada Incorporated: Messrs. Dalton J. Caswell, Executive Chairman; Pierre Bureau, Director; and Alastair Macdonald, Counsel.

The Committee commenced its consideration of Bill 165, An Act to amend the Industrial Development Bank Act.

On motion of Mr. Valois,

Ordered,—That the Committee print 750 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of Bill 165.

The Chairman presented the Second Report of the Sub-committee on Agenda and Procedure, as follows:

> Your Sub-committee met at 10.00 o'clock a.m. this day. In attendance were Mr. J. E. Coyne, President; Mr. D. G. Marble, C.B.E., General Manager; and Mr. B. J. Drabble, Assistant Chief, Research Department; all of the Industrial Development Bank. Your Sub-committee agreed to recommend:
>
> > That, commencing at its sitting at 11.00 o'clock a.m. this day, the Committee first hear the officials of the Industrial Development Bank; second, officials of the Professional Association of Industrialists on their brief; and, third, officials of the Hotel Association of Canada Incorporated on their brief.
>
> Respectfully submitted.

The Second Report of the Sub-committee was adopted unanimously.

Mr. Coyne was called; he briefly explained the purpose of the bill and was questioned.

Mr. Marble answered questions specifically referred to him.

At 1.00 o'clock p.m., the Committee adjourned until 3.30 o'clock p.m. this day.

AFTERNOON SITTING

At 3.30 o'clock p.m., the Committee resumed its consideration of Bill 165, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Benidickson, Cameron, (*Nanaimo*), Carrick, Deslieres, Enfield, Fairey, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Fulton, Gour (*Russell*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Macdonnell (*Greenwood*), MacEachen, Macnaughton, Pallett, Philpott, Power (*Quebec South*), Quelch, Regier, Robichaud, Rouleau, Stewart (*Winnipeg North*), Valois and Weaver.

In attendance: The same as at the morning sitting.

The questioning of Mr. Coyne was continued; he was retired. Mr. Marble answered questions specifically referred to him.

Mr. Melanson was called; he presented a brief of the Professional Association of Industrialists, copies of which had been distributed to the Committee. Mr. Melanson was retired.

Mr. Macdonald was called; he spoke on a brief of the Hotel Association of Canada Incorporated, copies of which had been distributed to the Committee.

Ordered,—That the said brief be printed as an appendix to this issue of the proceedings of the Committee.

Mr. Macdonald was questioned and was retired.

Mr. Caswell was called; he spoke on the brief of the Hotel Association of Canada Incorporated.

At 4.57 o'clock p.m., the Chairman withdrew to attend the House and Mr. Valois, the Vice-chairman, took the chair.

Mr. Caswell was questioned.

At 5.15 o'clock p.m., the Chairman, having returned, resumed the chair.

Mr. Caswell was further questioned; he was then retired.

Mr. Bureau was called; he was questioned, and was retired.

At 5.30 o'clock p.m., the Committee adjourned until 11.00 o'clock a.m. on Thursday, May 3, 1956.

THURSDAY, May 3, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Blackmore, Cameron (*Nanaimo*), Carrick, Crestohl, Deslieres, Fairey, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Fulton, Hollingworth, Hunter, Macdonnell (*Greenwood*), MacEachen, Macnaughton, Philpott, Power (*Quebec South*), Quelch, Richardson, Valois, Viau, Vincent and Weaver.

In attendance: Messrs. J. E. Coyne, President; D. G. Marble, C.B.E., General Manager; and B. J. Drabble, Aassistant Chief, Research Department; all of the Industrial Development Bank.

The Committee proceeded to clause by clause consideration of Bill 165, An Act to amend the Industrial Development Bank Act, Mr. Coyne answering questions on various clauses.

The clauses, the preamble and the title were severally adopted; the bill was carried.

Ordered,—That the Chairman report Bill 165 to the House without amendment.

At 11.35 a.m., the Committee adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

TUESDAY, May 1, 1956.
11.00 A.M.

The CHAIRMAN: Gentlemen, there is a quorum. The subcommittee on agenda and procedure met this morning and begs leave to submit the following as its first report.

(*See Minutes of Proceedings.*)

Report read and adopted.

The CHAIRMAN: We will hear first of all, Mr. Coyne, who is president of the Industrial Development Bank.

Mr. J. E. Coyne, President, Industrial Development Bank, called:

By the Chairman:

Q. Would you explain to the committee the purpose of your amendments, and answer any questions they may care to ask?—A. I would be glad to answer any questions, but perhaps I could make a very brief preliminary statement. I would not wish to traverse again all the ground which the Minister of Finance covered in explaining the bill to the house on the first reading. Perhaps I might just remind the committee of the purpose for which the bank was originally established in 1944. It was to fill what appeared to be a gap in the existing financial machinery of this country. If the gap did not exist, or if it were filled adequately by private enterprise, presumably there would be no need for a publicly owned institution of this sort. However, it was found that small business, particularly, had considerable difficulty in getting fixed capital from outside sources. The chartered banks were not in the practice of making loans for fixed capital purposes. Their main business is making current loans, demand loans, for working capital purposes. The larger companies and larger industries might go to the general market and raise capital funds by the sale of securities or perhaps could place a mortgage on their property direct with some large investor, such as an insurance company. Smaller business cannot do that. For one thing, the costs of ffoating public interest securities are out of all proportion to the size of the loan, if the loan is for only $15,000, or even $100,000. In addition to that, a small business without an established record of earnings—particularly, of course, a new business—would not have the kind of record to give to investors to encourage them to invest. Therefore, the Industrial Development Bank was set up in 1944 to deal with those kinds of industries which were specified in the act of parliament establishing it. As time went on, we had to draw distinctions. We had to satisfy ourselves, in accordance with the terms of the act, that the applicant company was indeed engaged in just the kind of business which was specified in the act. Section 1 (*d*) said at that time:

> (*d*) 'industrial enterprise' means a business in which the manufacture, processing or refrigeration of goods, wares and merchandise or the building, alteration or repair of ships or vessels or the generating or distributing of electricity is carried on.

It is obvious that there are industries—what ordinary people would call industrial operations—which do not come within that definition. Yet, as time went on, it seemed more and more illogical that a rather arbitrary dividing line should be drawn.

For example, one case I remember is that we can make a loan to a sawmill to provide it with a certain amount of the capital it needs for building and machinery, including a sawmill which carries on logging operations as well, but we cannot make a loan to a logging company which does nothing else. Logging is not so the lawyers tell us, an industrial enterprise as defined in the act. There were quite a number of cases where the dividing line seemed rather arbitrary. Of course, there will always have to be a dividing line of some sort, but the proposal in the amending bill now is to widen out the definition as far as seems reasonably possible, so as to comprehend everything, I think, that you could reasonably call an industrial enterprise—as distinct from other lines of business such as the retail trade, hotel keeping, farming, fishing and so on.

That is by far the major and most important amendment in the bill which is before us. It is proposed now that:

> (*d*) "industrial enterprise" means an enterprise in which is carried on the business of
>
> (i) manufacturing, processing, assembling, installing, overhauling, reconditioning, altering, repairing, cleaning, packaging, transporting or warehousing of goods,
>
> (ii) logging, operating a mine or quarry, drilling, construction, engineering, technical surveys or scientific research,
>
> (iii) generating or distributing electricity or operating a commercial air service, or the transportation of persons, or
>
> (iv) supplying premises, machinery or equipment for any business mentioned in subparagraph (i), (ii) or (iii) under a lease, contract or other arrangement whereby title to the premises, machinery or equipment is retained by the supplier;

Some technical amendments are being suggested, some to correct typographical errors, and some which are consequential on minor changes made in the Bank Act of 1954, such as the dropping of the words "collateral security" and replacing them by the word "security". There are also some amendments based on minor technical points which we have come across in the administration of the act.

In addition, there are two other amendments which may be regarded as of substance, although they are nothing of the nature of the major one.

At present, the directors have to pass upon all loans themselves. That is not too much of a burden at present, where we average 5 or 6 a week; but one can see it becoming a bigger burden, and sometimes of course we have 12 to 15 in one week. Therefore, it is proposed to give the directors power—which normally one would think they would have but which they have not—to delegate the making of decisions with respect to loans to senior officers of the bank. That would probably only be done within limits; certain loans up to certain amounts would be delegated.

A further amendment which we think would help the administration of the act is to raise the limitation on the amount of money which we can put out in loans of over $200,000. That limitation originally reflected the desire of parliament, of course, that it should be quite clear that the bank should make loans to small business. And indeed that is what we want to do, but again, it is very hard to pick any particular arbitrary dividing line and say that anything beyond that line is big and anything under it is small. With

particular reference to the loans of $200,000 and over, the bill suggests that the limitation, which had been $50 million, should be raised to $75 million. Our total lending power at the moment is $130 million, so there is plenty of room left for the loans under the $200,000 amount. Actually, we have about $25 million of each category outstanding at the present time, or something a little less than that. The existing limitation could cramp us if something should happen within the next few years where a number of larger loans, over the $200,000 limit, all happened to come together. I do not think there is any danger at all that we will run out of lending power for the smaller loans. It takes a great many of them to add up to a certain number of millions of dollars.

Mr. VALOIS moved:

> That the committee print 750 copies in English and 200 copies in French of its minutes of proceedings and evidence in respect of Bill 165.

The motion was carried.

The CHAIRMAN: I should make a preliminary statement. I realize it is very difficult to make a dividing line between banks in general and the Industrial Development Bank. However, I would like it understood that the Bank of Canada annual report is being referred to the committee at a later date and I am not proposing to have the committee go into general matters of banking unconnected with the Industrial Development Bank. I would like the questions and discussion to be reasonably restricted to the bill before you. If they get too broad, I am going to rule that they would be out of order, as you can bring that up at a later date when we are considering the annual report of the Bank of Canada.

By Mr. MacDonnell (Greenwood):

Q. Mr. Coyne, would yo say a word or two more about the atmosphere in which the Industrial Development Bank was set up? Am I right in thinking it was at a time when the post-war situation was uncertain and when every means of stimulating business was being considered?—A. I think that is true.

Q. At that time, what was the attitude of the chartered banks towards the setting up of this institution?—A. I cannot of my own knowledge state that.

Q. Of other people's knowledge?—A. I do not really recall the circumstances at that time. I was not connected with the bank then.

Q. Can you tell us why, in spite of the fact that there was the desire to stimulate business, there was a strict limitation put on the kind of business which the Industrial Development Bank could assist? You have pointed out that one of the things you are doing now is broadening it almost without limit, as I understand it.—A. Not without limit, but broadening it to take in, as I understand it, industrial enterprises, rather than restricting it, for instance, to manufacturing enterprises which might have been the interpretation under the original wording.

Q. What was the reason for the rather strict limitation at that time?—A. Of course, there were reasons why things like farming were not put in. It was presumed farming was being dealt with in different legislation. I think it was the view at that time that we were starting a new thing in Canada, that the banking administration was being asked to take on a new type of activity, and it was thought it should be fairly clearly and definitely stated what they were to start on.

Q. What do you mean exactly by "a new type of activity"?—A. The setting up of an institution specifically engaged to provide fixed capital to industry. One of the things we found right away in establishing this new

bank and operating it was the necessity for specialized personnel. We have a small staff, about 100 altogether, but we have for example five lawyers—we have our own law staff; 12 industrial engineers, and five insurance specialists as that is a very important feature of banking business, particularly to protect the lender of money, to see that the money is properly secured. We also have various accountants and of course we have clerical staff as well. So far as I know, no lending institution in Canada has set up that kind of a specialized administration for lending capital to industry, either at that time or any time since then. That was one of the problems we came up against right away and which we solved in what I think has been the proper way. I mention it to show that this was something new and untried. I am sure there were doubts in some quarters at the time as to whether it was a wise thing to do. Generally speaking, there were a lot of people who would have thought that we had better go slowly with these things.

Q. In point of fact, what you have found has been the main use of the bank? You have said, I think, or at any rate we have been told, that a good deal of the activity was to accommodate companies which were fairly large or whose requirements were substantial, in the hundred thousands dollar region, but nevertheless were not big enough to be able to afford the expense of a bond issue. Which type have you specialized in or with which have you done the most business?—A. Our loans go all the way down to $3,000 and $5,000. We do not confine it to the middle-sized business. We have plenty under $50,000, for example, lots of loans. I do not know that there has been any great specialization. As Mr. Marble points out to me, one third of the loans on our books right now are under the $25,000 mark, and that would run to about 240 or 250 loans under $25,000, on our books today.

Q. Under the act, any borrower from you must come to you stating that he has not been able to get the loan alsewhere on reasonable terms?—A. Yes.

Q. Do you have any difficulty in interpreting that phrase "on reasonable terms"? In other words, have they had difficulties with the banks? Have you had cases where the banks were ready to lend but the whole difficulty was the rate of interest; or was it the main difficulty that they did not want that type of lending?—A. Mainly the latter. I do not think we have ever made a loan which the chartered banks would have made at the same or a higher rate of interest which was agreeable to the borrower. We have not undercut the banks in making our loans.

Q. What is that?—A. We have not undercut the rate of interest.

Q. So it was the type of business which permitted it?—A. Yes, and the nature of the loan with fixed terms payable over a number of years does not make the business very attractive, because on a small loan at a moderate rate of interest—6 per cent as we now charge—the ordinary lender cannot make a profit in this kind of business. I dare say that we would not make a profit either, except by specializing and merging a lot of loans of that type in the same administration.

Q. I presume that at the time it was set up—and certainly two years ago when the Bank Act was revised—the question as to whether the chartered banks' power should be altered or increased in order to deal with the cases you now mention must have been considered?—A. I suppose it is always in people's minds that the chartered banks are not permitted to make a straight real estate mortgage loan. Some of our loans are of that character other than residential borrowing; that is another field. The chartered banks cannot take a straight mortgage on real estate when they make a loan. They can, however, when the borrower is a corporation and it wants to set up a form of machinery such as a bond issue with the prospect of consolidating the property. Then the chartered banks can, if they wish, buy the bonds of that corporation.

Q. And in that way they virtually make a term loan?—A. Yes.

Q. Have the banks done very much of that?—A. In the small field I do not think so; and until they intervened there was a long period when the chartered banks felt that they could not make that kind of loan at all.

Q. There was a great deal of talk last autumn, was there not, about the banks having made term loans and being restricted in doing so?—A. Yes, last year, or beginning late in 1954, as on two previous post-war occasions, the chartered banks undertook a number of rather large—mainly large—term loans, and I went so far as to outline it in the Bank of Canada report, which, when it is brought before the committee, I would like to discuss in more detail. I think everybody felt that it would be a good idea to stop term lending, including the chartered banks. Most of them were not the kind of loans that the Industrial Development Bank could make.

Q. What would be the difference?—A. They were largely the kind that could have been floated on the public market; they were very largely bigger companies.

Q. Do the banks make term loans in the middle size area?—A. They make some, I am sure, but I do not think it is the general practice and I doubt if the volume is very large.

Q. Would it be fair to say that the banks were asked to go slow on that partly because of the general feeling that credit was expanding, and was in danger of expanding, too far?—A. I think that is correct, particularly because they were very large loans which should have been floated on the public market. I think if a large company wants to obtain a loan for its capital requirements to be paid over a five or ten year period, or even longer, it should usually be expected to float it, to issue securities on the general market, and sell them to investors including, at that time, any banks which want to buy those securities. Before the restrictions on term lending, a single bank would undertake to make a direct loan for a very large amount to a company at some time in the future. We felt that this borrowing would be adding a great deal to demand since it would expand bank money rather than take up money from the general public. I am afraid, however, that I am getting over the border of the other subject.

Q. It seems to me that we cannot avoid it.—A. The main point is that there was very little conflict between what the banks were doing, or quarrel between what the banks were doing with these term loans, and what the industrial development bank was doing in this field. There is very little overlapping. The agreement reached with the banks last November only applies to larger term loans. The smaller credits are not covered. The banks have not committed themselves in any way to refrain from smaller term loans. They do not make very many of them, anyway, in my opinion.

Q. The main point of change in the bill is that you are asking for additional lending power for loans of $200,000 and over?—A. Yes.

Q. Does that not seem to conflict with the general policy of the Bank of Canada, toward, shall we say, the restriction at any rate, or the tendency towards the restriction, of credit? I have found it easier to understand the small loan really as a small loan. The figures you mentioned are $10,000, $25,000 and $50,000 for loans, or anything up to $50,000; and the chief change in this bill is apparently to extend your power to make larger loans of $200,000 and over?—A. Yes.

Q. That seems to me a substantial amount and that I take it is for the purpose of enabling industrial enterprise to expand?—A. Oh yes.

Q. Now, on the face of it, is there any conflict with the general policy of the banks as set out in the Bank of Canada report?

The CHAIRMAN: You mean the immediate policy respecting credit?

By Mr. Macdonnell (Greenwood):

Q. I say on the face of it.—A. I think it is a question both of timing as well as of degree. The limitation was fixed in the act some years ago at $50 million. I have not got it here, but the amount outstanding is only about $25 million, so there is still room to expand. But in the future that limit may be approached, and it would be removed at that time, to permit it to be raised to $75 million, and even this increase of $25 million spread over the past years would be pretty small compared to the $400 million which the chartered banks took on in one year, last year.

I do not think it would have any great significance as an inflationary factor, but of course we are not trying to prevent business from expanding. All we want is to see that the expansion is financed out of the savings of the community, rather than to see the expansion brought about through bank money on a large scale.

Q. That would be the correction you are now making?—A. I hope so. The Industrial Development Bank has two sources of funds. In the first place its capital was subscribed and bought by the Bank of Canada ten years ago. Then it sells debentures, just as a lending bank might do. So far the debentures have only amounted to $7 million and they have all been bought by the Bank of Canada. But it is provided in the act that they could be sold to other investors. We have only added to our holdings at the rate of $1 million, $2 million, or $3 million a year. There are many other factors in operation in the monetary sphere, and we could off-set such expansion without it having any monetary effect. For example, if it should turn out that the field of operations of the Industrial Development Bank extended more rapidly, let us say, up to $4 million per year, I think that the debentures of the Industrial Development Bank could be sold on the general market to other investors.

Q. It is getting near to that area, but do you consider that the money supply at the present time is adequate to the needs of a growing economy?—A. I think it is, but I cannot put an exact measurement on it. The money supply has grown, and it may have grown too fast. At any rate, I would say that there would be undesirable effects if it continued to grow in 1956 as it grew in 1955. Over the last 7 months there has been no increase in the money supply.

The CHAIRMAN: Mr. Fraser.

By Mr. Fraser (St. John's East):

Q. I have two or three questions to ask. The first has to do with fish processing. I take it that that is not included under the Industrial Development Bank Act? I see no separate item in the classification on page 8. Would it come under item 1, "Foods and beverages"?—A. Perhaps Mr. Marble would answer your question.

Mr. D. G. MARBLE (*General Manager*): I am very sorry but I did not hear your question, Mr. Fraser.

Mr. FRASER (*St. John's East*): One of the reasons I asked it was on account of fish processing; is that covered under the definition of "Industrial Enterprises" which is referred to on page 8 of your annual report under the heading "Classification of loans, investments and guarantees by industrial enterprises"? I do not see any item for fish processing.

Mr. MARBLE: There is no separate entry. It does come under item 1, "foods and beverages".

By Mr. Fraser (St. John's East):

Q. You say foods and beverages, yes. Now my second question refers to page 10 of the report which deals with the table having to do with the authorization, by provinces. I find that up to the end of September, 1955 only $145,000 was authorized for the province of Newfoundland, and that the gross authorization during 1955 was nil. Why was there that small amount in comparison to the other provinces?—A. The figures shown are the net figures of authorizations less cancellations.

Q. Yes.—A. We have made gross outhorizations of more than that. The applications were subsequently withdrawn because the parties either changed their minds, or because they got their money elsewhere on terms which they regarded as reasonable.

Q. Could you give me any indication of the gross authorizations?—A. I do not think I can. I can tell you that we have had at least two loans, and probably more than that, but I cannot speak specifically about it. But in a number of cases the recommendations with respect to authorization have in fact been taken over by the chartered banks, to the extent of a certain number each year; and also loans have in some of the provinces been provided by provincial government loaning agencies. The figure is lower than I would like to see it, though we are always very responsive to applications from the Atlantic provinces. We cannot make loans to people unless they have a worth while project which needs such a loan.

Q. You have no branch office in Newfoundland?—A. No.

Q. Then where would applications from Newfoundland be made?—A. Up until June 2nd at Montreal; and after that date at Halifax.

Q. I see.

The CHAIRMAN: Now, Mr. Cameron.

By Mr. Cameron (Nanaimo):

Q. I would like to revert for a moment to a question asked by Mr. Macdonnell with respect to the effect of the Industrial Development Bank's operations on the total money supply. May I ask if loans from the Industrial Development Bank have more effect on the total money supply than loans from the chartered banks?—A. It depends on how they are financed. Of course, as you know, the Industrial Development Bank is not a deposit bank. It is owned by the central bank, but in a sense that is accidental. It would operate in very much the same way if it were privately owned. It would still have to raise the funds which it was going to lend, and raise them by persuading somebody who was saving money, to offer his savings to them. I would say there was a distinction between the operations of the Industrial Development Bank and the operations of the chartered banks. For example, the Industrial Development Bank is owned by the Bank of Canada which has, in fact, bought the debentures of the Industrial Development Bank.

When I gave you a recent figure I should have said $12 million instead of $7 million for the debentures already issued or now issued, and which could be offered on the public market.

Q. Is it the purpose now or in the future to offer debentures of the bank?—A. On the public market? It depends on the volume of funds which you may have to raise.

Q. If that were done the effect would be to channel the existing funds into industry, would it not?—A. Yes.

Q. I notice that this particular attempt is to broaden the powers of the bank. Does that indicate that there has been a change in the estimate of

investment conditions today and the need for, perhaps, channelling funds into the investment field that are not being supplied by investment policies, by those in the business of investing capital? Do you estimate there has been an alteration in the situation?—A. No. It is purely accidental that this comes before you in April or May of 1956. This has been a matter in the minds of the bank itself for some time. Our directors pointed out to us that there were certain anomalies in the kind of things for which we could lend or not lend. The matter was discussed with the government and the government decided, as a matter of policy, to make this amendment, or to propose this amendment.

I do not think that the operations of the bank or the expansion of them should be regarded as a criticism of the financial machinery, or of other people in it, other lenders in the country. We have been in operation now for ten years and we have barely earned interest on our money without paying income tax. We are specialists; we are permanent; we are in the business continuously. If somebody else is going deliberately to set up a similar institution, they will have to put a lot of money into it and be content to wait a long long time for any profits. I do not think that you could expect them to do that; but this has been our experience so far.

If we should expand still further—and I wish we would—if we should have twice the number of loans, then we would only have a 20 to 30 per cent increase in our cost, and we could see better borrowing results. Specifically, whenever such a stage was reached, somebody else might come along and say: "we can do this too. We shall compete with you." And I would say: "more power to them!"

Q. I have in mind that there was a sort of implied criticism—whether intentional or not—I do not know, about the policy of those in charge of the pools of investment capital in Canada; in other words, the real implication behind it was the perturbation expressed about foreign investment.—A. I do not think it can be tied down that way.

Q. You mentioned that one-third of your loans were made to someone in the $25,000 figure, and you mentioned the proportion of the total amount of loans which fell into that category.—A. Yes. This is based upon current authorizations and the amount outstanding at Sept 30, 1955. The authorizations which run under $25,000 are 240, and they amount to $3,900,000.

Q. That is out of a total of what?—A. The number of loans from $25,000 up to $200,000 is about 400, and they amount to $29 million in total.

Finally of the loans over $200,000 there are 62 authorized, amounting to $33,600,000 authorized. That makes a total of 694 loans, to be exact, with $67 million authorized, and with the amount outstanding at that particular time of $45 million.

Q. Thank you.

The CHAIRMAN: Now, Mr. Quelch.

By Mr. Quelch:

Q. I do not want to repeat anything that has already been asked, but have any loans been made for municipal projects, for example, for power developments?—A. I do not think so, no. They would not be authorized under the act to lend to a municipality as such. But we are able to lend to businesses. You might have a municipal power company which is a separate company owned by a municipality, and that company would be eligible. We have one or two electric power loans. They are small installations and they are not municipally owned.

Q. But there is nothing to prevent a municipal project of that kind from obtaining money from the Industrial Development Bank?—A. If the set-up is a separate corporation, yes.

Q. With respect to the question asked about the effect of loans from the Industrial Development Bank, so far all your funds have been obtained from the Bank of Canada?—A. Yes.

Q. Therefore when you make a new loan, you do actually expand the cash resources of the chartered banks?—A. If that were their only operation, we would be adding at that time, yes.

Q. To that extent it would be more because of a loan from the chartered banks.—A. Not necessarily. If we had to borrow more money from the Bank of Canada, the Bank of Canada would lend us that money, but they would be selling government bonds on the general market while buying Industrial Development Bank bonds.

Q. I mean with all other things being equal, and with no other action being taken.—A. We would be taking that off-setting action because we would know what we were doing with our lives, but we would not necessarily know what they were doing elsewhere.

By Mr. Macdonnell (Greenwood):

Q. Does that mean that automatically, by that operation, you are reducing the scale of the operations of the chartered banks and replacing it to that extent with the operations of the government bank?—A. No. I think what would happen, if it were ever done in exactly that fashion, would be the matching off by the Bank of Canada with the sale of, let us say, $1 million of government bonds, which would be paid for by the people, and the Bank of Canada would turn the money over to the Industrial Development Bank which in turn would turn it over to the business enterprises which wanted it but which could not get it direct from the very people who had bought the government bonds.

By Mr. Quelch:

Q. The Bank of Canada would expand the cash reserves of the chartered banks to enable them to expand their loans?—A. That would be done, yes, but purely as a monetary operation on our resources, I mean those of the Industrial Development Bank.

Q. When the Industrial Development Bank makes a loan, have you ever considered it desirable that the cash reserves of the chartered banks be expanded, and that the action of the Industrial Development Bank might be countered?—A. No, it would not be practical to do it that way. It is very much easier to control the timing and the amount through our ordinary central bank operations.

Q. I have seen it suggested that it might be possible to supply some of the capital from the Industrial Development Bank to take the place of capital obtained from other countries. Would you say that that could be the case, if there was greater balance in our transactions—I mean our international transactions, and that it has been done in isolated cases?—A. If a Canadian wanted to buy out a business owned by a non-resident, and all the other factors were favourable, then the Industrial Development Bank could make him a loan, just as he could sell his securities on the open market in order to finance his operation.

Q. It would be quite desirable for that to be done wherever possible, could it not? And for that reason the larger the amount which may be loaned, then the more people who can operate with Canadian capital.—A. That is conceivable.

The CHAIRMAN: Now, Mr. Pallett.

By Mr. Pallett:

Q. You mentioned that there was no overlapping between the operations of the chartered banks and those of the Industrial Development Bank?—A. There is very little overlapping.

Q. Are there other fields of commercial enterprise which are presently restricted from operating by the chartered banks' by reason of the chartered banks' policy, but which could be embraced in this operation, and which are enumerated in your amendment?—A. You do not mean another lending agency?

Q. No. I am thinking of other types of business. For example, the tourist industry, which is a form of business.—A. That is not covered by the bill.

Q. I quite appreciate that, but let me ask you about the case of loans which cannot be made by the chartered banks because of their restricted policy, yet there is no particular field in which they can get capital?—A. In the case of the larger term loan, that would be the case; it would be presumed that they could go to non-banking sources. They might not be successful, and that will always be the case, of course. The point about this term lending is that it has not been a normal field of the banking operation.

Q. You mentioned insurance a short time ago. What would that cover?—A. We see to it that the business concern places adequate insurance against every conceivable risk according to its situation—insurance against loss of profit and so on.

Q. Public liability?—A. In appropriate cases, yes.

Q. And now, on the subject of farm loans, do you think, possibly, that this was not mentioned in the amendment because of the other farm loan legislation?—A. Going back to 1944 I think that this act, when introduced, was addressed to one particular field specifically, whereas from time to time legislation has been introduced relative to other fields—farming, fishing, and so on. This bank was not set up to cover the whole field. It was set up, as I understand it, basically for industry.

Q. Supposing the field were enlarged to embrace certain types of farm loans not presently covered by farm loan legislation because of the fact that the amount of money which may be lent under that legislation is restricted. That legislation, as I understand it, does not contemplate loans of over $20,000.

Further, if legislation were extended to include certain aspects of the tourist industry do you feel you could adequately deal with it?—A. Not right now. I think it will take some little time to deal with the added problems which will arise under this proposed bill. The approach we should make to lending for farm operations is, I am sure, different from that we make in regard to industrial operations, and this would probably be better handled by people who specialize in that field.

Q. I gather you hire specialists?—A. Yes, but there are whole institutions which specialize in farm lending—people who in my view could do a better job than we could.

By Mr. Argue:

Q. Have the rates charged for loans been changed recently at any time?—A. They have been, during the life of the bank. We started with a normal rate of 5 per cent; a few years later it rose to 5½ per cent, and some years later to 6 per cent. Almost all our loans now are made at 6 per cent.

Q. When was the rate increased to 6 per cent?—A. Several years ago.

Q. There seems at any rate to be something of a general increase in interest rates taking place. In this situation will the cost of money to the Industrial Development Bank be increased?—A. Yes, it has been.

Q. Do you think there is any danger that the increase has been sufficient to wipe out the profits you have experienced in the past so that you will be showing a loss?—A. I do not think it will go that far. I will have to make calculations and do a bit of guessing. It might be that our profits in 1956 would be lower than in 1955 because of the cost of money. I am not sure, It would depend on the volume of business we do, and other factors.

Q. Is there any legal limit on the amount of interest that may be charged? —A. No.

Q. May I ask whether or not you see any possibility of an increase in the interest rates charged for this kind of loan because of an increase in the cost of money?—A. That is very difficult to say, and involves looking into the future. The Industrial Development Bank wants to operate on a self-supporting basis. If it were not doing so people would say it was subsidizing certain businesses at the expense of neighbours who were not getting that kind of assistance. Our interest rate is, therefore, affected very much by our total cost of doing business, which includes administrative expenditure, the maintenance of offices across the country, and so on, as well as the cost which has to be paid on the borrowed money in the bank.

We started off with a capital of $25 million in which no interest is paid and on which no dividend can be paid, according to the statute, until a reserve fund has been built up equal to the capital. That will take a good many years yet; so the bank is functioning now with only about $12 million out of $45 million being borrowed money. The movement of the interest rate on that is only one element of the total cost of operations.

Q. I take it that despite the increase that has taken place in the interest rate in the last year or so, you do not see any prospect of a loss being sustained by the Industrial Development Bank for this year?—A. I do not see it. I am optimistic about how our customers will get along this year. Some of them will "go bust" but we have had a very favourable loss record so far. We have been operating during a period of almost continuously increasing expansion of business; some day we are going to sustain much bigger losses than we have done so far.

Q. When you were discussing another matter a moment ago you said you wished you were making twice as many loans as you have made. Do I take it, then, that it is going to be the poilcy of the Industrial Development Bank aggressively to seek new business so that you may, in fact, bring about a substantial increase in the number of loans? Are you going to increase the facilities which you have at present for making loans and conducting business?—A. I do not know how much acitivity would be called "aggressive". I start off with the idea that we were set up to fulfil a demand, and if that demand does not exist it seems to me is nothing for us to do. How far are we to take merchandising techniques and the stimulation of the demand? That is an awkward question. We have done some advertising; we have circularized manufacturers, trade associations, lawyers, chartered accountants and others who might be expected either themselves or through their clients to need our facilities.

Last year we spent about $10,000 in straight advertising in financial and trade papers and we are doing the same this year.

We started off, in the first year of our operations, with offices in Toronto, Montreal and Vancouver. We added an office in Winnipeg a year or two later, and this year we are adding Halifax for the Atlantic provinces group, and

Calgary to take over the Alberta business. Thus we are showing a certain amount of initiative, but I do not know whether anyone would call it an aggressive way of doing business. Would you, Mr. Macdonnell?

Mr. MACDONNELL (*Greenwood*): I think it is quite aggressive enough for a public institution.

By Mr. Argue:

Q. Can you tell me why the act has not been extended to include what I might call service industries, such as hotels and cafes?—A. No, I cannot answer that; I think that is a matter of government policy.

Q. Let me put it this way: do you feel that those industries—apart from this act—already have adequate access to capital? Can they obtain capital more easily from sources other than the Industrial Development Bank?

The CHAIRMAN: That is a very general question. Do you not think you should be more specific?

By Mr. Argue:

Q. My point is this: the witness has told us that this act is intended to fill a need which was not otherwise being satisfied. Does this mean that the capital needs of the service-industries of the kind I have mentioned, have already been met through other facilities available to them; or have they been overlooked?—A. I suppose there was a time when there were no government loans made to farmers or fishermen or—in the case that affects us—to industry. I would personally think that the hotel, tourist home or restaurant business is quite different from the industrial operation—in the ordinary use of that term—in which we are engaged, and I think you might find that our particular experience was not very good in relation to that kind of business; our experience and the skills we have would be much better displayed in the industrial sphere.

Q. It is not necessarily, then, a matter of whether or not these other service industries have access to other capital? You are just not commenting on that particular aspect of the question?—A. That is right.

Q. Looking through the annual report, on page 10—I am not sure whether I know the precise difference between the various items under the different headings—I see the first column is headed Authorizations to September 30th, 1955. That, I take it, is the history of the business?—A. Cumulative.

Q. And looking at the other column, I see that for the province of Manitoba the total authorization was in the neighbourhood of $4 million. For Saskatchewan it was $4 million and Alberta $7 million. The authorization for Ontario was $29 million, and for Quebec, $38 million.

Proceeding to the other columns it would appear to me that there have been, proportionately, fewer loans made on the prairies than in central Canada. —A. In proportion to the population, I think that is true.

Q. No, in proportion to the actual business done under the act itself. For example, gross authorization during the fiscal year 1955 in Ontario alone, if my memory is correct, were about four times as great as the authorizations for the three prairie provinces combined.—A. Yes.

Q. That seems to be a much smaller proportion than appears throughout during the whole period.—A. Oh I see—

Q. What I have in mind is this: for what reason is the Industrial Development Bank not making loans on the prairies to the same extent, proportionately, as they are making loans in other parts of Canada?—A. It is not through lack of any desire to do so, I can assure you.

Q. From my little knowledge of the prairies, it seems to me that our rate of industrial growth—I am not, of course, speaking of absolute growth,

but of the rate of growth—must be pretty good in relation to other parts of Canada. In the last 10 years I think it has actually been a lot better. Yet it appears to me that with regard to the prairie provinces the Industrial Development Bank is doing much less business now than it was doing in the past.—A. The situation changes from time to time, and 1956 may see it turn the other way. But the main answer to your question is that we can only lend if people ask us to lend. We have not been turning down good loans in the prairie provinces or anywhere else.

Q. Can you give me a breakdown showing the number of applications that have been made and the number authorized by provinces, so that we may have a picture not only of the number of loans that have been made, but also of the number of applications, particularly with regard to the prairie provinces.—A. I would have to get that information for you; I have not got it handy.

Q. Can you tell me briefly what happens when a potential customer applies for a loan? What is done in the way of investigation, consideration and so on? Do you have to visit the site?—A. Sometimes—fairly often—that will be done by an industrial engineer or by a credit officer; there might be two people. The first thing is for the applicant to supply us with all the information he can about his proposition; that will save him much wasted effort if it turns out that it is not an eligible enterprise, or if it turns out that his idea of capitalization is for the Industrial Development Bank to put out all the money while he himself wants to put out none.

The first thing is to ask him to give all the particulars he can about the kind of operation he wants to carry on, if it is a new enterprise.

Q. When was the office opened in Winnipeg?—A. I think it was in 1946 or thereabouts.

Q. It would seem to me that the experience of Manitoba recently with regard to obtaining loans is much better than that of Saskatchewan, although the total business has been, roughly, on a par. It would appear that Manitoba has been getting more loans recently—proportionately—and Saskatchewan less. I am wondering to what extent, if any, the fact that Manitoba has an office at Winnipeg has any bearing on this? An applicant would not have to travel so far to interview officers of the bank and similarly anyone going out to make an inspection of a site would have an easier journey. Do you not think consideration should be given to opening an office in Saskatchewan, thus extending your development further?—A. A consideration of that kind should always be kept in mind. We have, of course, to weigh the probable new business against the cost of maintaining a new office. I might point out that our agent in Winnipeg will go to Saskatchewan, and that he does so frequently whenever there is a proposition of interest to be investigated on the spot.

Q. It appears to me to follow from these figures that though the rate of industrialization in Saskatchewan has been increasing substantially, the number of loans from the Industrial Development Bank has been, proportionately, going in the other direction. That bothers me.—A. Saskatchewan industries must have got the money somewhere else, then.

Q. That is true. We wish, nevertheless, that we could also have the facilities of this bank made available to a greater extent, and that we could make use of the increased services that would result from having an office on the spot.—A. I do not think that would be justified at the present time. Putting in a new office, with the additional panoply of staff, is a very expensive business; but we shall progress in that direction, I hope.

Q. If I may express an opinion I hope the establishment of a Saskatchewan office will follow the Edmonton one at an early date. That is all.

By Mr. Fulton:

Q. I would like to return to a question which was asked by Mr. Macdonnell and answered by Mr. Coyne. Mr. Macdonnell was asking you about the extent to which there was any overlapping or duplication of your activities by the chartered banks. As I recall, you said that though they were, for a time, engaged in a similar sort of business—making industrial loans—the chartered banks were, generally speaking, making the large loans and had agreed to limit themselves to such loans, with the result that they were not in fact competing with you in the field of the smaller loans.—A. There is some overlapping, but not a great deal.

Q. The question I want to ask you is this: to what reason do you attribute the fact that the chartered banks do not seem to be making term loans in the medium and small fields?—A. First, because it is not ordinary commercial banking policy to do so, and secondly because, the loans being smaller, a great deal of expense would be involved in making the loans and supervising them afterwards. I doubt if it would be possible to make these loans profitably unless the banks set up special departments, separately staffed and able to handle this business on a considerable scale.

Q. Would it be correct to say that to some extent they are inhibited by the terms of the Bank Act despite the fact—and here I wish to say nothing at all which could be construed as being derogatory in meaning—that they can "get around" that act by the process, which you described recently, of having a trustee appointed? Do you not think that by and large these are not the sort of transactions encouraged by the Bank Act?—A. That is right.

Q. Would that, to your mind, be a factor to be taken into account equally with the amount of profit to be made on that type of loan?—A. Yes, presumably; but I would not assume that that is necessarily a wrong feature of our Bank Act.

Q. No. Perhaps further examination of that question should be left to another phase, but I want to be clear that I am not pressing it too far if I say that I understand from your answer that that would be one of the chief factors which would account for the fact that the chartered banks do not lend in this field.—A. I would not say it is one of the chief factors. I think it might be called one of the factors which grew out of the same line of thought, namely that the business of the chartered banks was to provide ordinary banking accommodation to finance inventories and receivables. The sort of thing that was conceived in this bill is not part of the ordinary business of the commercial banks.

Q. Could you say a word as to the attitude of the chartered banks towards this? I do not wish to repeat what was said before, but my understanding is that there was felt to be a need which it was considered desirable to cover, and here, at this time, we are amending your act and enlarging your scope again. What was the attitude of the chartered banks towards your position? Are you in a position to say? Is there any indication that, given any encouragement, perhaps by an amendment to their act, they would be glad to enter your field?—A. I do not think they have made any proposal about amending their act. We work very closely with them, of course, for every one of our customers, normally speaking, is also a customer of a chartered bank. Sometimes a chartered bank will "stretch" the amount of money it will allow on a current loan although it knows that some of that money is going into fixed capital expenditure, in which case we probably come into the picture.

Q. Would it be fair to say that on the whole, as a result of the type of thinking they have been doing for years under the Bank Act, that they are not so interested in this field?—A. I think that is correct.

Q. And it would perhaps be fair to say that the reason for this thinking is because of the terms under which they are now operating?—A. Not just that. That is one factor I should emphasize very strongly that in our opinion at any rate you cannot operate this kind of lending business merely by occasionally taking on a loan or a few loans here and there across the country, handling it by your ordinary credit officers and so on. It is a specialized form of approach which involves all sorts of questions, whether you think the business man in question, even if he has a small business, has set up his factory on the right principles. We do not presume to judge that exactly, but if our industrial engineers say that this is rather peculiar, they talk it over with the man and he may or may not change the assembly line set up or whatever he is doing. That is a specialized full-time continued sort of job and I would be rather surprised if the chartered banks wanted to go into that type of business.

Q. The American banks do. I have seen advertisements in American magazines of banks which do a certain type of business. I think there is one of those banks in Chicago. There was a series of advertisements in which they emphasized the highly trained technical personel they had available to assist the customers in that sort of problem and that sort of loan.—A. There are quite a few differences between American banks and ours. On this item loan question, one American banker told me that although they had been making them and did make them on demand, they had stopped entirely now, because of the general monetary and credit situation down there. It is not entirely a good thing to have people in for a while and out entirely for a while: you need some kind of continuous provision facilities in this field.

The CHAIRMAN: I think we are getting far astray from the question proposed in the bill and getting into general banking.

By Mr. Fulton:

Q. Coming back to the question, when you were discussing this with Mr. Cameron here, you said something to the effect that the fact that you were operating in this field should not be taken of a criticism of other lending concerns. You went on to suggest, as I understood it, that the type or scale of business you are now doing is not really attractive from the point of view of commercial institutions, from the profit point of view. Would it be going too far to draw the conclusion from that that you are saying, even if the Bank Act were changed so that there were no technical difficulties in the way of the commercial banks doing the business, you do not think they would be apt to go into it because they would not find it attractive?—A. That is my opinion, but I am perfectly open to correction, if some chartered banker wants to come along and say he would do it. That would be his opinion.

By Mr. Macdonnell (Greenwood):

Q. Would it not depend on how active business was at the time?—A. It probably would. It has been done in other countries too—as you know, Mr. Fulton. In a way, you might say the provision of a central, government-owned industrial bank is something you would expect in an undeveloped country and that in a well developed country the finance would be provided by private enterprise in one way or another. Generally speaking, I would agree with that as an opinion. However, in the United Kingdom they have set up an Industrial Development Bank on rather similar lines to ours but with the stock owned partly by the commercial banks and partly by the central bank.

By Mr. Quelch:

Q. Is not one of the reasons why the chartered banks are very definitely limited in making long term loans along a similar basis to the Industrial Development Bank the fact that they are operating only on an 8 per cent cash reserve and therefore have to maintain loans in a fairly liquid position as far as possible?—A. I do not think that affects it.

Q. Why not?—A. The chartered banks have savings deposits in considerable volume and make a number of long term investments which are made possible by the fact that they have got saving deposits which are not hastily withdrawn, which are bearing interest, and that interest has to be earned. Therefore, the chartered banks buy corporation securities, provincial and municipal government securities, and so on and indeed now they make these insured residential loans.

Q. They can be sold on the market?—A. Yes.

By Mr. Fulton:

Q. As I understand it, the banks are in the residential loan business, which is an insured loan. They are in that type of business to an extent which perhaps they gave us the impression they did not expect to be. Would you care to modify your judgment as to what would happen if the door were open to them to go into this type of business?—A. I cannot make any other judgment of it. The interesting thing about the residential insured loans made by chartered banks is that they can make them at any one of the 3,500 or 4,000 branches scattered across the country. It is a fairly simple type of loan. Everything is laid down by the Central Mortgage and Housing Corporation and they inspect the property and provide the 98 per cent insurance. What the bank provides, as much as anything, is (a) a judgment of the moral risk of the particular individual buying a house, to the extent that enters into it; and (b) the facilities from the financial aspect, convenient facilities for making the loan and servicing it thereafter. It can be done by every branch bank manager and it is something he can handle easily and satisfactorily.

Q. Presumably they cannot go into this field on the same scale. The loans would be larger and therefore presumably the administration would have to be centralized, but surely there are more facilities available through chartered banks than through your organization?—A. This is just a personal opinion. I think a business would be well advised, if at all possible, to get its fixed capital from some source other than the commercial bank which provides it with its working capital. I think it is an advantage to business to have its fixed capital requirements judged from a different point of view and placed in other hands, where the question of extending a loan or foreclosing it would not be affected by other factors which would govern the amount of a current demand loan.

This may seem a bit like offering advice to people, but from the point of view of the business itself, the average business, if it can get its fixed capital on reasonable terms and conditions from a separate source, it would be well advised to do so. I know quite a lot of businessmen feel the same way.

By Mr. Cameron (Nanaimo):

Q. May I revert to your comment a little while ago, that you wished the Industrial Development Bank had twice as many loans as it has? Could I ask you if that was an expression of your view solely as an official of the I.D.B. or does it reflect more general opinion that there should be an intensification of investment by Canadian investors in private enterprise?—A. I am speaking only in relation to the business of the Industrial Development Bank. We

would have a more continuous and more spread out business and a better profit record if we did twice the volume of business which we are doing now, and we would not increase our expenses proportionately. Right now our overhead is high in relation to the volume of business. We must have a certain number of people of these various categories, and have a certain number of officers, to do any business at all.

Q. I presume you would consider it beneficial to the whole economy if that were the case?—A. Oh, yes, I am sure it would be.

By Mr. Fraser (Peterborough):

Q. First of all, I would like to ask Mr. Coyne a question in regard to this bill, which is being extended somewhat. In the bill it says: "logging, the operating of a mine or quarry". I can understand that in such a case there would be security. But then it goes on to say "drilling". What security would you have in lending a man money on drilling? He would only have his equipment. —A. That is the only thing on which we would lend the money.

Q. The equipment? In most cases he would want the money to buy that equipment.—A. Presumably he would have some money of his own. Otherwise we could not deal with him.

Q. He must have money at the bank before you deal with him? A. That is right. We augment his own resources.

Q. With regard to construction. Would this include road construction or only building construction?—A. It would include road construction, yes.

Q. In that case, if a construction company or an individual contractor wanted to put up, say, motels across the country, would you loan money on that?—A. Not on the motels.

Q. Only on the equipment?—A. We lend money to go into business or if he is in a new business of construction engineer or contractor, and we must have security, and presumably our security is his equipment. That is what he needs—a term loan to finance his equipment.

Q. If a driller or a construction company came in and asked for money at 6 per cent interest, what on top of that would you charge beside the 6 per cent?—A. That would usually be the only charge, in the sense of something we would receive. There would be costs involved in making the loan.

Q. What would the costs be?—A. I think the only costs I know of are legal costs, in so far as we engage outside lawyers to draw up the loan agreement and register the mortgage and so on.

Q. Your engineering inspection—you do not charge for that?—A. No. We never have done so. It is a good point, as to whether there should not be some kind of charge.

Q. I am not suggesting you should. I wondered if you did. I noticed on the farm loans they charge extra for appraisal?—A. You can make a very good case—I am not joking—that there ought to be a preliminary charge for investigation, as distinct from the interest rate.

Q. I am not suggesting it, as I said before, but I wondered if you made any extra charge?—A. I do not think we have, so far.

Q. In your losses and your reserve for losses, what have been your total losses during the last ten years, since you are organized?—A. The total amount we have written off is $355,000 and we have set aside out of profits a special reserve against losses, some $700,000.

Q. You have two separate reserves?—A. In addition to the reserve against losses we have the general reserve.

Q. What is the idea of setting up two reserves?—A. The idea was to make public our estimate of the probable maximum amount of losses on the business

now on our books, so that we could tell it at any given moment. Instead of making that entirely an internal system, we put it into our balance sheet at that figure. We did not change it in the past year: we left it at $700,000.

Q. I noticed that. With this general reserve of over $7 million, the Industrial Development Bank is making a profit?—A. We are building up a reserve, yes, we are making a profit.

Q. Am I right?—A. Yes. The profit expressed as a percentage of the capital employed, has not been what I would regard as satisfactory yet. Most of our customers would have to do a whole lot better than that, in order to be able to pay off our loans.

Q. You mentioned you had a staff of some 100 but that you had only 5 loans a week?—A. I was taking it that we had an average of 250, a total of 250 new loans last year. It is in the report. I will look at it now. I am wrong. I left something out. Last year we approved 145 loans from new borrowers and 69 new loans from existing borrowers, so that is 214, which is an average of 4 or 5 a week.

Q. A staff of 100 seems quite a staff to handle 5 loans a week?—A. That is only part of their business. These are term loans. They are on our books for a period of years. Some of them are paid off sooner than others. We are constantly receiving reports from the businesses concerned and supervising those loans. Otherwise, we would be getting into trouble.

Q. You mean that your inspectors go around to these different industries and check on them to see how they are doing?—A. Yes, they do that from time to time.

Q. Do you advise them how to run their business?—A. Only if we think they are getting into trouble. If they seem to be doing all right, we do not offer any advice.

By Mr. Hollingworth:

Q. I was interested in Mr. Quelch's observations in your reply about municipalities. May it be drawn as a conclusion that, for example, the metropolitan city of Toronto, if it wanted to install trunk sewers and things like that, the Industrial Development Bank could lend money to a corporation, a legal entity set up by the metropolitan corporation?—A. I do not think we could lend for that purpose. We mentioned earlier the purpose of Hydro Electric system, but I do not think building sewers or the installation of sewers in streets or ordinary municipal services would be eligible.

Q. But it would be for Hydro electric systems?—A. Yes. I would expect that anyone with the credit standing of the Metropolitan Commission would not qualify on other grounds for that, because they can get money elsewhere on reasonable terms and conditions.

Q. I know that, but I am thinking of the tremendous growth, there might be saturation of the funds from other sources and I wondered if the Industrial Development Bank might conceivably be used for that purpose?—A. I do not think our job is to augment the total supply of funds. Normally speaking, there ought to be a supply of savings, including imported capital, equal to the cost of everything that can be done in that character in a given year.

Q. I presume that when most industrial firms get their money for expansion from two or three sources,—first of all, plowing back profits, secondly, floating debentures and bonds, and possibly borrowing money from banks which, as you point out, is on a short term basis and is used for inventory and receivable—then the function of the Industrial Development Bank is primarily to finance capital expansion and capital assets.—A. Yes, that is right.

Q. Then, with the tremendous expansion going on in Canada is it conceivable that the Industrial Development Bank is not being used sufficiently for that purpose?—A. So much depends on the circumstances of the individual business. The large undertakings which are going on in Canada can and should be able to get their money elsewhere. The most important thing of all, for us to make a loan, is that there is a man with an idea in his head and determination to carry it out and the ability to carry it out, and some money either from himself or from his friends or some other source to get started, or to offer as a margin or as security to other people. Then he goes looking for other people to give him more funds so that he can operate on a proper scale, and if he cannot find those people elsewhere—and very often he cannot—then our doors are open to him.

Q. A considerable number of your loans would be made to established firms?—A. Yes.

Q. For capital expansion?—A. Yes.

Q. Have you any breakdown as to how many Canadian branches of American firms would be borrowing from the bank?—A. I would not have any statistics on that. There have been cases but it would not be a large proportion or anything like that.

Mr. HOLLINGWORTH: Thank you very much.

By Mr. Philpott:

Q. There is one question of detail. In your report, on page 8, in giving loans, you mention printing, publishing and allied industries. Is radio included in that?—A. No.

Q. Are you allowed to make loans to a radio station?—A. No.

Q. Or to a T.V. station?—A. No.

Q. Why not?—A. Because they are not industrial enterprises as I understand them.

Q. Why not, since it is so closely identified with other branches of publishing?—A. We do not make any loans to newspapers either.

Q. Do you make no loans to weekly newspapers?—A. Not as such. We can make loans to a printing establishment. Normally, it has quite a volume of business of a job printing variety and so on. It is not a question of the publishing of a paper by the printing establishment.

Q. You do not regard job printing as a more profitable business than publishing a weekly newspaper in Canada? I want to get clear on this point. Under the law as it is now, weekly newspaper are not eligible but jobbing plants are?—A. That is as I understand it.

Q. And radio stations are not eligible?—A. That is so.

Q. And T.V. stations are not eligible.—A. Not as T.V. stations. I suppose there might be some manufacturing operation connected with the business which would be eligible but the mere carrying on a commercial communications business of some sort, as I see it, is not eligible.

Mr. PHILPOTT: Thank you.

By Mr. Fraser (Peterborough):

Q. You said you would not lend to a weekly newspaper. Practically every newspaper throughout the country is also in the printing business. If they came as a printing business you would lend money but if they came as a weekly newspaper you would not given a loan?—A. That is right. Of course you cannot divide them into halves physically, but to some extent you can financially and unless there is a very substantial volume of business in the printing end and the loan is related to that and is in proportion to that business, I think we could not make the loan.

Q. The loan would be to the printing end?—A. Yes.

By Mr. Fulton:

Q. This is a question of detail. At the present time I notice you lend money to commercial air services?—A. Yes.

Q. One of the explanatory notes of your bill mentions that you do not any longer make specific mention of air services because they are included in the enlarged definition?—A. Yes.

Q. As I read the definition, it does not include passenger air services.—A. I think it does. You will recall that when the first amendment was made four years ago, instead of saying a commercial air service is an industrial enterprise it was set out as a separate category which was eligible for loans. Commercial air services is defined in the appropriate federal statute and I think it is quite clear it includes carrying passengers as well as cargo.

Q. At the present time, yes. But it seems to me your definition covers only the carrying of goods?—A. That is under sub-paragraph (i), which says all sorts of things having to do with goods. Then sub-paragraph (iii) includes various activities, one of which is the generating or distributing of electricity, and the next is operating of commercial air services. Then there is also the transportation of persons by some other means not already covered in the earlier words.

Q. Then you are still able to lend money to airlines which carry passengers?—A. Yes.

By Mr. Regier:

Q. In your opinion, does "cleaning" include the cleaning of a farmer's grain? I know that all across the grain prairies they are beginning to develop new plants devoted exclusively to the cleaning of the farmer's grain. Does this amendment include that or does it deal only with the cleaning of clothing? —A. I think the cleaning of grain is definitely included in the new language used.

Q. And what is the equity that is, as a general rule, required by the borrower, or is there a great variation from one type of industry to another?—A. There is quite a variation, because so much depends upon the circumstances of the business, what other money is in it, and in what form; or often the net worth of the business would be equal to the amount we loan. That is, we would double the amount of the fixed capital invested in the business by making this loan. There might be a loan, and in some cases there might not be.

Q. Roughly speaking, it would be about one half?—A. That is what I was saying, in a straight loan, yes; but I would not want to be too rigid about that.

Q. On the other hand the statistics for each of the past ten years would show that the use of the Industrial Development Bank is growing? Would you say it is growing or lessening? I notice that the last authorizations in 1955 were $16 million, I mean the gross authorizations, out of which I assume something would be taken off for cancellation.—A. Yes.

Q. When the total for the ten year period of loans made was $104 million, there does not seem to be expansion of any note in that figure.—A. Oh yes.

Q. That is an increase of $10 million a year, and over half of that are cancellations, and never made; so the figure for that year will be even less.—A. The net for the first ten years was $107 million less $17 million, making about $89 million actually of authorized loans, with cancellations of around $2 million a year. Last year it was $16·8 million less $1·7 million, or about $15 million; that is 50 per cent bigger than the ten year average.

Q. Would you say that there was a growth in the number of applications as the years go by, or is it only a growth in the overall policy?—A. I think there is a growth in the number of applications and I think this amendment will definitely mean a further growth in the number of applications.

Q. I note on page 10 where it shows the current applications at the bottom of the page, that over $200,000 are taken up, or almost exactly 50 per cent of the money.—A. Yes.

Q. You have it in mind that the volume of money devoted to loans of over $200,000 can be increased. I mean the proportion. You are asking for an amendment to the act which would indicate that some of these loans may not be too much, and that you have been increasing the proportion of small loans as compared to larger ones.—A. I do not think we could make some mathematical figure such as a proportion the object of our lending. We are open for loans of any size, although the larger ones tend to get pushed off on the grounds that they could be financed in the public market. But we are prepared to make small loans, as many of them as come along, which satisfy the requirements.

Q. The main people who are in the market for loans in excess of $200,000 are usually well aware of the facilities which are available, including the existence of the services of the Industrial Development Bank. You mentioned before that you had once circularized members of the legal profession and had done some general advertising. How recent has been your last mass effort to reach the people who might be interested in $15,000 to $65,000 loans, and the like?—A. Perhaps Mr. Marble could give you more details.

Mr. MARBLE: Perhaps it would help you, Mr. Regier, if I told you that about one-third of the applications which reach us come via the chartered banks with whom the customer may be doing business. That applicant may have had a problem and discussed it with his banker, who directed him to us. We have been in communication with the chartered banks on several occasions so that we would try to be sure that their changing managers would continue to be familiar with the fact that our facilities are available.

By Mr. Regier:

Q. You mentioned before that if you need additional capitalization you might refund with money from the Bank of Canada or you might possibly issue debentures, and that brings me to a matter which seems to me rather important. Are the operations of the Industrial Development Bank solely limited to its assignment under the act, and are they completely independent of government monetary policy?—A. Well, the Industrial Development Bank has its own statute which sets out what it may do. Its board of directors is identical with the board of directors of the Bank of Canada, and its stock is owned by the Bank of Canada. We certainly would not see the Industrial Bank doing something which conflicted with our monetary policy. I do not think it will, or can, in its ordinary operations. I do not think that the scale of its operations is such as to give concern on that score.

Mr. FULTON: It certainly cannot, as long as you are on the board.

By Mr. Regier:

Q. Supposing the Bank of Canada or the Finance Department on its own, in the public interest, at a certain time thought there ought to be an expansion of industrial development?—A. I cannot imagine such a decision ever being made by anybody.

Q. One of the major criticisms made during the thirties which was levelled at the chartered banks was that their policy was determined upon their needs and interests without regard, or without necessarily having regard, for the welfare of the nation. Now, you are saying in effect that the Industrial Development Bank is being guided by the financial policy of the government.—A. Well, it is being guided as an Industrial Development Bank by the policy laid down in the act which is to encourage the expansion of industry and to help and assist it. I do not see how it could operate under any other basis.

The CHAIRMAN: You must remember that when the depression started there was no central bank, therefore there was no such control over financial policy.

By Mr. Regier:

Q. Could you give us any indication as to how often you have had to take foreclosure or other drastic measures to enforce collection? What proportion of the 694 loans issued would that apply to?—A. 694 are outstanding now, but there have been 1,200 or more actually made, and most of them have been paid up. There are 1,535 loans which have been actually made and approved to 1,535 different businesses up to the last of March 1956, and there have been 520 repeat loans made to the same businesses which originally had a loan, and about 235 have been cancelled. Therefore 1,280 different businesses have actually taken up loans. About half of them are still outstanding, and we are going on to make more all the time. I think there are 30 cases where we have foreclosed loans for one reason or another, and have exercised our power under the mortgage to take possession of the business, or have exercised the power of sale or something like that. But there have probably been another 20 or so cases where the business went into bankrupcy at the instance of some other creditor, and where we then acted upon our security.

Q. Would you say that assuming that the amendment is carried, the Industrial Development Bank as an instrument in any way is changing foreign investment capital in Canada from the risk category into the debt category by encouraging Canadians to assume a greater proportion of the risk capital? —A. I do not think there is such a specific objective. The main business of the Industrial Development Bank is to provide assistance to the extension of industry in Canada. We are not supposed to differentiate as to who happens to own that business at a particular moment; but it might well be the case that the more we can encourage new business expansion, as well as existing small businesses in Canada, the greater will be the overall Canadian ownership of management of Canadian industry. But our total operations are on a small scale. Our team may grow up in the future, but it is still pretty small.

Q. Would you agree that the Industrial Development Bank could be used, if the act were amended, so that it could be a powerful instrument whereby Canadians would own less of the debt capital in Canada and own a greater share of their industrial life?—A. I cannot see just how I can answer that question. The business of the bank is to assist Canadians to own businesses, that is true. But as to whether it specifically encourages Canadians to buy out foreigners, I do not know. I do not think that comes within the scope of our objectives. It may be the case. On occasion it certainly is.

Q. But the machinery is in existence under which it could be done?—A. You have to find your Canadian first who wants to buy a business. In order to do so he needs to borrow money, either under circumstances whereby he can get that money elsewhere, or he has to come to the Industrial Development Bank. As things stand, we are there and we accommodate him as the act now stands.

The CHAIRMAN: Mr. Carrick.

By Mr. Carrick:

Q. Would you mind outlining to us the processing of an application for a loan when it is received from the one who applies, the one who initiates it, and follow it through until the completion of the application?—A. I gave an answer to that question a little earlier, but perhaps Mr. Marble would answer you now.

Mr. MARBLE: As Mr. Coyne intimated, when an applicant first writes, telephones, or calls at the office, he is asked to enlarge on his program to the extent that he can do so, and to supply the financial information if it is an existing business, over perhaps the last five years or more. The whole program is discussed with him by the credit officer who can then decide whether or not the amount of capital that he or the others may have invested in the business is a reasonable amount, having regard to the loan they are seeking, and whether or not it is an eligible borrower who knows that in that event funds are not available elsewhere.

If the proposition looks to be a serious one that can be entertained, then the engineer will visit the plant, again assuming that it is an existing business, and will not only place a valuation on the plant and machinery but will also give us his assessment of the quality of management, the efficiency of the operation, the marketability of the product, and whether or not the people who are the owners are conscientious—that is if they are likely to be able to operate and to generate sufficient in the way of profit with which to pay back the loan.

Then he makes his report which then again goes back to the credit officer who, with his financial information and the information given to him by the engineer, will, if the loan is going to proceed, make a recommendation which, as Mr. Coyne has said, will flow through to the board of directors. If the board of directors approves the application, then the legal work must start on the searching of titles, a look at the corporate powers, if it is a corporation, and the necessary resolutions, and on the actual execution of the security and its redistribution. While this is going on the insurance people will be looking at the insurance problem and will be taking necessary assignments of policies.

When that work is done, and if the application is one related to a program of funds, those funds will be dispersed as they are required, the borrower paying interest only on the amount which he owes from time to time.

Mr. CARRICK: There was a small application with which I was familiar for about $20,000 from a company starting up in business. I understand that the credit officer said that the shortest time in which the application could be considered, the loan supplied, and the funds forthcoming, would be about four months. It seemed to me that that was quite a considerable period of time and I was wondering why an application of that kind should take as much as four months to complete.—A. I must confess that it does seem to me like a very lengthy time, and unless there was some complication as to the title, or the various things which occur,—I think sometimes neither the Bank nor the applicant are at all responsible—but for some reason or other the legal work does not proceed as we hoped that it might.

Q. You said that you expect that the legal forms will take a month or so. The applicant in question mentioned that it took as long as two months to proceed with that part of the work.—A. It should not take that long. It should be possible to telescope these things together, and to have all these things going on simultaneously.

Q. I am not asking my question by way of a complaint.—A. I understand that, but I do think that four months was far too long a time.

Mr. MARBLE: It was longer than the average case.

Mr. QUELCH: Can you tell us what was the shortest period in which an application has been processed and the loan made? How low could you get that down? Is there a certain number of days which are bound to pass?

Mr. MARBLE: Where there are a good many legal requirements which have to be observed, that is one thing, but we have done the whole thing within a week.

Mr. HOLLINGWORTH: What would the average time be?

Mr. MARBLE: Probably from two to three months.

The WITNESS: If we are speaking of formal applications, if all the formalities are satisfied, and the title is satisfactory, and all that, and if he knows that in advance that he will get his loan—but it sometimes depends on whether he can buy the kind of machinery that he wants for installation at the time he wants it; that might not come through at the exact time.

Mr. QUELCH: Do you ever provide him with that information so that he can get a short term loan from the chartered banks to carry him over that period?

Mr. MARBLE: We know that in a good many cases where we have authorized the credit for a customer, he has been able to go to a bank and get his requirements met for a temporary period.

By Mr. Enfield:

Q. You are making a very broad definition in the section which covers "Industrial enterprise", to cover "transportation of persons". Would you entertain an application from a transportation system which is owned by a municipal authority under that heading "the transportation of persons"?—A. If it were carried on as a business within the meaning of the act, of course we would entertain such an application.

Q. Would there be any particular difficulty for the T.T.C. of Toronto, if it wanted, let us say, to construct a new subway? Would there be any particular difficulty for them in utilizing the terms of this act?—A. No, but we would charge them a higher interest rate than other people would. They can normally get their financing done elsewhere.

The CHAIRMAN: It is now one o'clock, and I suggest we adjourn until 3.30 p.m. Agreed.

AFTERNOON SESSION

3.30 p.m.

The CHAIRMAN: Gentlemen, there is a quorum.

Mr. J. E. Coyne, President, Industrial Development Bank, recalled:

By Mr. Quelch:

Q. On page 10 of the pamphlet "The Industrial Development Bank: What It is and How It Operates", the third paragraph reads:

> A loan may be prepaid at any time before it matures if a bonus of six months' interest is paid on the amount so prepaid.

Is that enforced, regardless of the length of time during which the loan may have existed? It seems rather a harsh provision?—A. That is at the moment the standard clause. The practice varies amongst lending agencies. Most of them, I think, do not allow prepayment at all. What it means is that you negotiate it at the time.

Q. I thought it was desired to encourage prepayment.—A. No, because you do not make money unless you have loans out.

Q. I could understand if the loan had been made only a short time and there was some expense incurred in making the loan, but for a loan which is in operation for quite a considerable time I would have thought you could have waived that clause.—A. There is a rather typical clause in bond financing where, as you say, the bonus starts at six months' interest, or it might be 12 months' interest. Then, if you are going to call a bond for payment shortly after issue, that operates. It gets progressively smaller as the bond gets older. We have that under consideration, as to whether we could change to some kind of a declining system like that.

By Mr. Macdonnell (Greenwood):

Q. Could you tell us in a general way what would be the rough average of the term of the loan?—A. Probably Mr. Marble could give that information.

Mr. D. G. MARBLE (*General Manager*): I think six to seven years would be the average.

Mr. MACDONNELL (*Greenwood*): Would there be many loans within a year, and many over ten years?

Mr. MARBLE: I would say none over a year and very few which would run for longer than ten.

Mr. MACDONNELL (*Greenwood*): When you get the statement that other loans are not available at a reasonable figure, is that treated in a more or less routine manner or is it inquired into carefully?

Mr. MARBLE: We also have the permission of the borrower to talk to his own banker. It is one of the things about which we always talk.

Mr. MACDONNELL (*Greenwood*): You always do that?

Mr. MARBLE: Yes.

The WITNESS: Not just as to whether the bank will make a loan but as to the circumstances of the proposed borrower, whether he could perhaps borrow somewhere else.

By Mr. Macdonnell (Greenwood):

Q. That has the effect, directly or indirectly, of being a verification of the statement made to you?—A. Yes. The borrower himself states in writing that he has not been able to obtain these funds elsewhere.

Q. On reasonable terms?—A. Yes. It might well be that he has heard of the existence of the Industrial Development Bank and has not looked very far. We try to show him, in any case I can think of, that there might be other avenues available. However, in a good many cases, in fact there are no avenues available for people except the Industrial Development Bank. At any rate, not at an interest rate anywhere near the rate we charge.

Q. There is one other question, Mr. Coyne. How far would you feel you would like to disagree with me if I suggested that, now that the Bank of Canada has persuaded the chartered banks to stay largely out of the term loan field, there might be a danger, now that the only place open to a good many small borrowers is the Industrial Development Bank, that it could mean a kind of monopoly of that business for the Industrial Development Bank?—A. The chartered banks are still open to the smaller business for this purpose. As I said this morning, they do not do a great volume, as far as I know, of small term loans; but they have not withdrawn from that field, at least, not by any formal act or agreement. The agreement to which you refer relates to larger amounts.

Q. Could you specify in a general way as to what is the larger and what is the smaller amount?—A. I think for that purpose something of an order of a quarter million dollars is probably the dividing line.

Q. Does that mean that to some considerable extent the I.D.B. is going to have a monopoly under the quarter million dollar mark?—A. No, it means the chartered banks still sometimes makes loans of that character, under a quarter million dollars. Over a quarter million dollars I do not think they do, in a general way. There may be exceptions, but over the quarter million dollar mark—not always, but generally speaking—the borrower should have some chance of going elsewhere than to a chartered bank. He could even come to us, it is true.

Q. That would mean that you might easily be doing a very substantial amount of business—and what I would regard as a substantial amount there is over the quarter million dollar rate.—A. We might be, but we have not seen many signs of it so far, not since last November.

Q. Then why is this increase limited to loans over $200,000?—A. The total amount of our lending power has not changed. It is simply that that within that total, we were specifically limited to the amount we could put into loans over $200,000. The change in degree proposed in this bill is to make that figure $75 million instead of $50 million.

Q. Would you agree that if you got into a very substantial amount of business in loans of a quarter million dollars and over it would have an effect on the total money supply?—A. It depends what you mean. It is all a question of degree.

Q. It goes back to the questions this morning that superficially there might be a contradiction between the recent raise in the interest rate, the indications given by yourself and others as to certain anxiety as to the amount of credit, and, apparently, on the other hand, the opening of the door here somewhat wider.—A. I think any increase in our volume of loans over $200,000 would be of modest size. It certainly would be limited by the amount specified in the act. It would take several years to accumulate, and could readily be handled or offset by central bank action. Therefore, it would not have an effect in expanding the money supply. If we thought it was going to do so and that some specific action should be taken, we would then explore further this idea of selling the debentures of the Industrial Development Bank to other investors.

By Mr. Power (Quebec South):

Q. You said this morning you did not lend any to municipalities? Could you lend to them?—A. No.

Q. What about loans for industrial expansion?—A. I am going by the words in the act which mean it has to be a business enterprise. If there were a separate corporation, incorporated by provincial statute, which happened to be owned by a municipality, then presumably we could lend to it.

Q. I notice on page 4 you set out the 142 applications and 70 refusals. Is there any general reason for refusal; is there a special category or is there a single cause?—A. I do not know that there would be any single cause. It is conceivable that some would be refused because, on consideration, we felt the industry itself was ineligible; but more likely, if we reached that stage, it would be that we felt the security was not adequate or that some other provision of the act was not met with, or that the outlook was not good enough, that the business did no look as if it would be a success.

Q. Have you had applications from the retail trade for loans?—A. They are not eligible.

Q. I know they are not.—A. We may have had enquiries but we could not treat them really as applications.

Q. Have you any opinions as to whether it would be a good thing to extend this to the retail trade?—A. I do not think I am qualified to deal with that.

By Mr. Cameron (Nanaimo):

Q. I notice that your current authorizations over $200,000, as you pointed out this morning, amount to almost exactly half your total authorizations. Do you anticipate that this new amendment, increasing your power to make such loans to $75 million, means that that is the field in which most of your expansion will take place, if there is an expansion?—A. I would not anticipate that most of our expansion would take place there, but I can see the possibility that there would be an expansion there. Speaking just from the point of view of someone who is administering the act and managing from the point of view of management, I do not think that restriction should be too restrictive, if I may put it that way. We certainly would not use up all our money on big loans, even if there were no restriction whatever. We would not allow the amount we had out on these larger loans to grow even up to the limit suggested, if we thought it would cramp our style in dealing with small loans. However, I am confident that for the next few years we will have plenty of money in hand to make the smaller loans.

By Mr. Argue:

Q. What is the limit of the aggregate of the small loans you make?—A. The aggregate for all small loans together is $130 million at present. That is the limit. Within that limit it is proposed that there might be a sub-limit of $75 million for large loans. That means it leaves $55 million for the others. It would leave more for the smaller ones if we did not use up the $75 million on the larger ones.

Q. Theoretically you could lend all the money on small loans?—A. Yes.

By Mr. Fulton:

Q. Could you say another word as to the equity required, in the case of a borrower, as to your practice or policy in that regard?—A. The average is about 50 per cent but there is no hard and fast rule laid down. When you look at the condition of the business, the nature of the assets in which the owner's money is invested, and the prospects for success in the business, and its ordinary capacity to bear a debt service, then it turns very often about 50 per cent; but it might be 40 per cent or 25 per cent in some cases.

Q. Do you require them to keep that 50 per cent equity? In other words, do you check on whether he comes subsequently and puts a second mortgage after yours?—A. That would not necessarily reduce his equity. It would depend on what he did then with those funds. We would not expect him to borrow from somewhere else and take that money out of the business. We would expect him to keep his own money in the business, and unless he runs into bad times his equity would grow.

Q. Perhaps I might put the question another way. When you say 50 per cent, would that have to be his own money or could it be borrowed money?—A. It could be either money which is junior to us or, on some occasions, it might be senior to us. By and large, we would like to get the senior position.

Q. Do you have a policy, or a danger point beyond which you won't go? I realize that it would vary according to circumstances from case to case, but where you have 50 per cent in it, and he has 25 per cent in it on a second

mortgage, would you let him go up to 35 per cent? How much of his own money to do you require? I am thinking of the case of a fellow who has a really good idea but who obviously cannot himself raise, say, 50 per cent of the required capital?—A. I can think of one—and I am not joking about this—one type of business where the owner himself may not have any equity. For example, it may be a farmers' co-operative wishing to build a cold storage warehouse to look after its milk or apples, and it comes to us for one-third of the amount of the required money on a first mortgage security, and they already have got a subsidy from the federal government of about one-third of the cost, and another subsidy of about one-third of the cost from the provincial government. That would be an extreme example, perhaps, but that is how the business is financed. I could not say there was a hard and fast line, but I would not take a very good view of a business where they are getting somebody else to put all the money up and where there was no equity at all on the part of the owner of that business, even if it is likely to be a successful one.

Q. I realize that you cannot lay down a rule, but you do rest on your statement that you would permit part of the other 50 per cent to be laid out in borrowed money preferably junior to your own?—A. Yes.

Q. That is fair.

The CHAIRMAN: Do you interpret this new section to include the ability to loan to an oil and gas pipe line?

The WITNESS: Yes, but I would qualify it as the "transportation of goods".

By Mr. Pallett:

Q. Would you consider an application from Trans-Canada Pipelines for a loan, and how would you deal with it?—A. It would be far too big for us!

By Mr. Fraser (Peterborough):

Q. How much money could you lend on a pipe line? Could you go as high as $\$\frac{1}{4}$ million?—A. The first thing we have to ask anybody is: "why cannot you finance this elsewhere?" Many large enterprises can finance their requirements elsewhere. Sometimes it is so big that they cannot, and in that case it would be too big for us.

By Mr. Argue:

Q. Your rate in any case would be 6 per cent; it would not be anything less?—A. It has not been; we have had a standard rate of interest for five years.

Q. And you have charged the same rate to all your customers?—A. Yes, since the establishment of the 6 per cent rate.

Q. Some years ago.—A. We have not done anything less than that rate.

By Mr. Quelch:

Q. The cost of funds to you today would be not less than 3 per cent, would it not?—A. It would be more than that!

Q. From the Bank of Canada?—A. Yes.

By Mr. Argue:

Q. Would the same apply to Trans-Canada Pipelines?—A. It varies from time to time, but we buy the debentures of the Industrial Development Bank on a yield basis which is somewhat above the equivalent federal government standard, so it would be a three or four year debenture now, and we are paying about $3\frac{1}{4}$ per cent.

Mr. MARBLE: About that.

By Mr. Regier:

Q. Could you give us a rough estimate of the percentage of loans now outstanding being used for manufacturing and defence production?—A. No, I would not have them separated out.

Q. Are there a fair number of them?

The CHAIRMAN: I think you are being too broad in your terminology. There is hardly anything that cannot be used for defence production. You would have to be more specific. Food, clothing and everything is used for defence.

Mr. MARBLE: Even if your question were more specific I am afraid we would find it almost impossible to answer. But in general terms I could say that the great majority of the borrowers are not depending upon defence orders.

Mr. REGIER: Are there any which are entirely dependent upon defence orders?

Mr. MARBLE: I think not.

The WITNESS: I am quite sure not.

By Mr. Fulton:

Q. I have one other question and it has to do with policy. Do you in any way give preference to borrowers who are seeking to start a new line of production, or to extend an existing one, as against borrowers who are merely seeking to acquire an existing one?—A. Normally, no, because we will do both kinds of loans; and where there is a need we do not restrict it and say we can only give it to him and not to the others. But under present circumstances, however, I think that if it were proposed that we should be substituted as a creditor instead of somebody else, we would not be very keen on it. On the other hand we would not rule these things out entirely. Take, for example, the case of a business who has been going on for some years and the owner is getting on in years and wants to get out. If he does not get out the business may suffer. Perhaps a younger man comes along who is going to take it over and be actively identified with the management. In that case I think we would make that kind of loan if it would serve to preserve the efficiency of the business.

By Mr. Macdonnell (Greenwood):

Q. Can you tell me in respect to paragraph 1 what authority you have to make a loan to a pipe line?—A. I rather assumed, or interpreted it, that the transportation of gas would be included under the transportation of goods, such as water, steam, oil, gas and so on.

The CHAIRMAN: Is that clear?

Mr. MACDONNELL (*Greenwood*): That is clear.

By Mr. Pallett:

Q. What would you consider to be the maximum loan which your bank would be prepared to give to any one prospective borrower?—A. The maximum we have ever given was $4 million. That actually was some years ago and it had a defence production angle to it in part; that was at the time of or just after, the Korean business.

Q. Do you advance loans on a sort of temporary basis, or are you definitely in the long term loan business?—A. I am not sure. Perhaps Mr. Marble would correct me, but I am not sure whether we have ever made a purely working capital loan, and nothing more?

Mr. MARBLE: Not when there is nothing more involved in it.

The WITNESS: There have been occasions when somebody who is already a borrower from us on a long term wants assistance, and his chartered bank

has refused to accommodate him further for his ordinary loan. Normally we would not want to substitute our judgment for that of the chartered bank on such a question, because they know their business. Occasions have risen where it looked as if it would be a short-sighted action on the part of some individual concern and we would say that we would take on the whole thing, and that later, when their affairs were better established, they could specify one or other of the chartered banks and do their further financing with them.

By Mr. Pallett:

Q. I see there is a reference in the amendment which will allow you to lend money to an individual who might be building a factory. You said previously that you would like the borrower to have a 50 per cent equity in that business. Would the same consideration apply to a factory building or would you apply to it the national housing scale?—A. If it is a straight mortgage loan, the usual rule for insurance companies is that there must be a 40 per cent equity in it. If it was regarded purely as a mortgage loan on property of undoubted value, we might very well look at it the same way; but we might not be approached in that case, because they would probably get their money from the insurance company. However, it would depend not on the real value of the property but on the earning power of the business as a going concern. Then other considerations arise.

Mr. MACDONNELL (*Greenwood*): You told us there was one loan over $4 million. Would you mind indicating how many there would be over $2 million and how many over $1 million, roughly?

Mr. MARBLE: More than three over $2 million. I really could not tell you how many there are over $1 million, Mr. Macdonnell.

The WITNESS: There would not be very many—not that we will turn them down, if everything else is all right; but generally speaking we think they should be able, and experience shows that they are able, to get the money somewhere else.

By Mr. Cameron (Nanaimo):

Q. What would you say, Mr. Coyne, is the minimum requirement of funds that would enable a company to float a bond issue?—A. I do not know. That is something on which there is not nearly enough information. I think possibly people have been a little defeatist about that, both the borrowers and the investment dealers. I think that we could start exploring with the investment dealers that very problem from two points of view: first, there is the question of fact, what costs really are involved and have to be involved, and that sort of thing; secondly, whether conceivably we can be associated with them in underwriting and reduce the risk element that way. We would expect a fee for our services, you understand. We have not made much progress in that, so far; but the more I think over this very problem, as you are doing, the more it seems to me that that should be worth exploring.

By Mr. Power (Quebec South):

Q. Of the 50 withdrawn, would any of them have been withdrawn as a result of investigations made by your people, and the finding of other funds?—A. Not as much our finding them as our talking to them about that, and perhaps urging them to look elsewhere and giving them time to do so.

Q. Yes, because you stated earlier that you saw the bank manager, or the banking people of the party concerned?—A. Yes.

Q. And they might go to them as a result of this?—A. Yes, that is right. Occasionally we have done a temporary underwriting while arrangements of that sort were being worked out. I can think of one case at the moment. It

was urgent to get the money right away and get the project started. Perhaps there were technical reasons why it would take time to arrange for a formal bond issue, and that was done six months later. We did a temporary stand-by of credit, or guarantee or underwriting, or something of that sort.

By Mr. Argue:

Q. Would you have the information now, Mr. Coyne, and I would like to get the information if I can, as to the number of credits outstanding, by provinces?—A. Yes. I have the number which have been approved, by provinces and the number outstanding by provinces as at December 31, 1955.

By the Chairman:

Q. Is this the cumulative?—A. I have both the cumulative and the current. I perhaps could just have that put in the form of a table and hand it to the reporter. It is not given by number in the Annual Report, it is all reported by values.

By Mr. Cameron (Nanaimo):

Q. By value, that is right.—A. If you just want the rundown of page 10 by provinces, starting with Newfoundland and running down to the Yukon, the number of cumulative approved at December 31, 1955 is:

Newfoundland	4
Prince Edward Island	6
Nova Scotia	27
New Brunswick	51
Quebec	494
Ontario	466
Manitoba	105
Saskatchewan	35
Alberta	85
British Columbia	223
Yukon and Northwest Territories	3

Those total 1,499, and I hope that agrees with the total we have given elsewhere.

Mr. MARBLE: We have given some figures as of other dates.

The WITNESS: These were outstanding as of December 31, 1955:

Newfoundland	1
Prince Edward Island	4
Nova Scotia	10
New Brunswick	24
Quebec	216
Ontario	204
Manitoba	40
Saskatchewan	16
Alberta	37
British Columbia	88
Yukon and Northwest Territories	2

Making a total of 642. There have been a few more authorized since that date, but that is the way the statistics are set up here.

By Mr. Argue:

Q. And would the number of applications be in much the same ratio? —A. We do not have that information in statistical form. You mean the applications that were refused, or withdrawn or something of that nature?

Q. Yes—A. We would not have the statistics of that by provinces. They would be buried in the individual files, and we would have to go through every file to see whether it was withdrawn.

Q. There is no reluctance, I take it, to make loans in one province relative to any other province? The sole criterion is the risk involved, and the type of application and so on?—A. It is a national institution and there certainly is no reluctance to operate in any province at all. There is always the danger of discriminating in favour of the Atlantic provinces and the prairie provinces in the light of their industrial progress, but we try to be fair to all.

Q. We have never noticed it.

By Mr. Cameron (Nanaimo):

Q. Mr. Coyne, those loans that are classified as withdrawn, are the loans that have been approved by the bank?—A. Yes.

Q. The process has all been completed and the prospective borrower has withdrawn?—A. The principal procedure has been followed up to the point of signing the final papers.

By Mr. Fraser (Peterborough):

Q. You mentioned this morning that you were covered by all kinds of insurance on loans to these different industries and so on; do you cover them for life insurance, or have them covered for life insurance where you have got one key man in an industry?—A. Yes.

Q. In favour of the Industrial Development Bank?—A. Yes.

Q. Do you loan on construction of airfields?—A. Let me see now.

Q. What I am getting at is, an airfield for a city that is being financed by the citizens and not by the city itself?—A. No, I do not think so, because the only way we could finance an airfield would be where it was owned by people who were in the commercial air transport business. There are a few such cases of companies having their own airfields, generally in remote areas. That would be part of their total capital requirements. There may be such cases.

Q. You would not finance them if the major portion, or part of the financing was done by the local citizens?—A. I do not think we would be permitted to.

By Mr. Pallett:

Q. Would that not come under "supplying premises"?—A. That is a new thought. It certainly has not come under that so far, but I would line to think about that one.

By Mr. Power (Quebec South):

Q. Have you received many applications from the air services people for loans?—A. We have done quite a job there, I think. How many would you say we have had, Mr. Marble, a dozen?

Mr. MARBLE: More than that.

The WITNESS: We have had at least a dozen, and a number of repeat orders where a company would borrow from us in order to expand its fleet of aircraft. That is the usual reason. They are allowed to take very rapid depreciation, and in the case where earnings have been very good, they might

pay off the lrst loan, or reduce it by half. Then, business being so good, they want to get more aircraft, and they would come back for a second loan. We find quite a few cases like that.

By Mr. Power (Quebec South):

Q. I presume that that has been rather recent, since this DEW line operation has started?—A. The companies have been very prosperous since the DEW line started, but we were making a few loans before that.

Q. Can you tell me how many commercial air service companies have borrowed money from the bank?—A. It runs about a dozen.

Q. About a dozen?—A. Yes.

The CHAIRMAN: Are there any further questions, gentlemen?

Mr. FRASER (*Peterborough*): Mr. Coyne, I presume, will be here right along?

The WITNESS: Yes.

Mr. FRASER (*Peterborough*): I thought that after these briefs have been presented and while we are on the bill that we should have Mr. Coyne here.

The CHAIRMAN: We are now going to hear the brief from the Professional Association of Industrialists. The brief will be presented by Mr. Melanson, counsel for the Professional Association of Industrialists.

Mr. Jacques Melanson, counsel for the Professional Association of Industrialists, called:

The WITNESS: Mr. Chairman and gentlemen, I have just a few remarks.

The Professional Association of Industrialists is an association of about 600 industrialists most of whom are located in the province of Quebec where you will find a few big enterprises but where the majority are medium-sized enterprises and a few small enterprises. Many of the members have already sought loans from the Industrial Development Bank and this brief has been prepared as a result of the experience of our members.

This brief, as you will notice, is divided into two parts; the first one is just a gathering of information from our members and it stresses a few specific points of procedure on loans where we think that some improvement can be made for the good of all the industrialists of Canada; the second part is just what we might call an orientation of the loaning policy of the bank which can be helpful in the future for the development of small industries into larger sized industries.

You will notice, Mr. Chairman, that the brief does not suggest any specific amendment to the act, nor to the bill, but it does express an opinion on certain points which we consider improvements and which, as you will notice, are in part covered by the actual bill submitted for your attention, and also perhaps covered this morning by a lot of the questions asked by the members of the committee.

So, Mr. Chairman, L'Association Professionnelle des Industriels, or the A.P.I. as it is often referred to, wishes to express to the government of Canada its appreciation for the establishment of the Industrial Development Bank, which has rendered great services to this country as a whole and, particularly, to the province of Quebec.

The bank, with already ten years of operation, has indeed largely contributed to the progress of small industries. The A. P. I., a group of employers mainly from the industrial ranks, is of the opinion that the bank's services, advantageous as they are, could nevertheless be increased and improved through a re-planning of its loan policy for the benefit of Canadian businessmen.

We do not say it, but we do agree with clause 2 of the bill that there shall continue to be a bank, called the Industrial Development Bank. We approve of the Industrial Development Bank continuing its operations in Canada.—A. Therefore, the A.P.I. respectfully submits to you the following suggestions of a practical nature. These are the suggestions which have comé from our members throughout the province.

1. *The delay between a request for a loan and the time it is finally granted should be shorter.*

The A.P.I. finds the procedures for the granting of a loan are much too long, even if the borrowers are sometimes partially responsible for it because of time-consuming search regarding property deeds, etc.

One of the main causes for such delays is obviously the distance between the borrower's office and the bank. We therefore recommend that the bank appoint district inspectors in a greater number of urban areas, on a full- or part-time basis, according to the importance of the area concerned. This would prevent unnecessary travelling and wasting of time and money, which is of much importance to the majority of the borrowers, because they belong to the class of small business and must therefore avoid excessive expenses.

We do think here, Mr. Chairman, that the suggestion made in the bill in clause 5, where it says "subject to section 14, where in the opinion of the Board or of an officer authorized for that purpose by the Board", should help this specific point. We do know also that the appointment a few days ago of representatives in branches, one in Calgary and one in Halifax, for instance, would surely help that. The point we wish to make here is that we think, if not on a broad basis, that a chartered accountant, for instance, in an industrial community may do a lot to help prepare the files and documents in the proper way in which to present them to the Industrial Development Bank, and in a lot of cases may even help the bank to clarify a few requests which are not entitled to be submitted to the bank. A part-time officer in a small industrial community could surely help to facilitate the loaning policy.

2. *The A.P.I. is of the opinion that the interest rate charged by the Industrial Development Bank could be lowered.*

When compared to the interest rate generally paid for by companies on their borrowings in the form of debentures or first mortgage bonds, the present rate of 6 per cent charged by the bank is about ½ of 1 per cent higher than the average rate paid for by companies of a similar financial standing such as the bank usually deals with.

The bank, it is suggested, should examine the possibility of a rate range varying according to the risks involved.

At all events, the A.P.I. considers this point as a matter of principle and as such it should be made one of the future goals of the bank.

3. *Loans should be granted on a longer term basis.*

According to what seems to be its present policy, the bank wants the loan to be repaid within the delay granted for the normal depreciation of the investments it made possible. Of course, the bank grants further delays when justified. Whatever are the extensions on the terms of payment, the borrowing concern is nevertheless submitted to a certain financial insecurity. But to obviate this loophole requires a re-planning of the whole policy of the bank which will be dealt with later in this brief.

The bank should moreover consider financing personal property, chiefly when they consist of additional machinery acquired with a view to expanding a small business. The bank would have title to the said machinery as long as it is not entirely paid for. In short, the bank should finance individual long-term loans for the acquisition of machinery by the borrower.

This point, Mr. Chairman, I think is more specific to the province of Quebec because of our civil code. No loaning institution is entitled to loan money on the basis of what we call a chartered mortgage. So, to get those loans on machinery it looks like the loaning institution would have to buy the machinery itself and then sell it to the industry which needs money. So we say this is a specific problem which appears in the bill and, if we understand it well, clause 1 paragraph (iv) may be the answer to our problem. The bank says now that it will ratify loans to persons

> Supplying premises, machinery or equipment for any business mentioned in subparagraph (i), (ii) or (iii) under a lease, contract or other arrangement whereby title to the premises, machinery or equipment is retained by the supplier.

Perhaps, when we are authorized to do so, we would like to ask a question with regard to that. However, I suggest that we might have a solution here for that type of loan.

4. *Loans should be granted for higher amounts.*

In the case of new establishments, the bank should grant higher loans than at present. The bank would thus be helping Canada to reduce the amount of foreign capital she is now seeking to develop new industries.

Also, the bank should see fit, in the case of certain projects, to admit the principle that part of the loan ought to be considered as working capital.

But once more, this suggestion requires re-examination of the bank's policy on loans. We shall return to that in the second part of the brief.

5. *The bank is asking too much security for a loan.*

The security asked for by the bank often exceeds that required by any chartered bank or other financial institution. The I.D.B. should assume greater risks, considering the advantage that accrues to employment and the increase in national revenue.

6. *Borrowers incur too high expenses when dealing with the Bank.*

This seems to be due to the fact that not enough professional men such as lawyers and notaries are in the employ of the bank in any given district.

At all events, these expenses seem particularly high when the loan is of small amount. In cases of this kind, the bank should assume all the professional fees over and above 1 per cent of the loaned amount when it is for less than $100,000. That point has been stressed many times by our members. Legal fees in relation to a loan of $20,000, for instance, amount to a lot of money and we suggest that the Industrial Development Bank should be authorized to pay a lot of these expenses from its own account. This would help many small enterprises. I turn now to a section which deals with the policy of the bank.

The A.P.I. is of the opinion that, at a proper moment, the bank should modify its policy regarding loans, as follows:

Although the I.D.B. Act defines the type of business undertakings to which loans may be granted, it, however, does not determine in any way the methods, procedures or direction of the investment policy, except in its preamble, where it states that the bank must take for granted that the economic conditions at the time of the loan are favourable. This attitude is important since it infers that the bank must not be too severe in the application of its loan policy, and that it may take certain risks which other lending institutions could not afford in the same circumstances.

Another predicate of the I.D.B. is that it is not supposed to compete with private lenders, but rather to supplement the existing financial institutions work in the matter of loans and thus to intervene when the latter are unable to do so.

In fact, the board of directors of the I.D.B. have already had to interpret the general directives thus outlined. Up to now, the general policy, in the public eye seems to have been the following:

1. The loans granted by the bank are, generally speaking, only for a proportion of an investment programme in view of future expansion. Although the banks intervention can be used to repay investment expenses due to an expansion programme started during the 12 or 18 months previous to the request for a loan (which, when granted, thus replaces indirectly the working capital already engaged by the firm in its expansion), the intention of the loan remains the same even in such a case, that is, loans are granted for future expansion and, one may add, for part only of the capital expenses due to this expected expansion.

2. Essentially, it seems the loans granted by the bank are only mortgage loans. The security asked by the bank is fundamentally the same as the one which is called for on mortgage and is further completed by a first mortgage charge on the company's entire property. Such a policy on the part of the bank makes it imperative, when it wishes to consider its interest rate, its reimbursement terms and the amount to be loaned, to use, as a yardstick, the requirements of a first mortgagor rather than those of an ordinary investment broker. This is a very important point which cannot be overstressed. For when a businessman calls on an insurance company or a mortgage lender, he cannot hope to get for an amount in excess of 50 to 60 per cent of the valuation of its property. He will consider himself as fortunate if the interest on his loan is fixed under 6 per cent or 6½ per cent at the present time and the more so if his mortgage deed does not bind him to reimburse the full amount within a five year period or at least does not provide for the reopening of the financial clauses at the end of this period.

3. As a consequence of the two abovementioned attitudes the bank does not consider as part of its responsibility to facilitate a financial reorganisation through the discounting of the non-negotiable assets of a concern. As a matter of fact, when construing the term "industrial expansion" in its restrictive sense, in cases where the physical launching of investment expenses by a concern is the touchstone, the bank does not care to consider the case of a company handicapped in its expansion not through the lack of machinery or space, but through an improper balance of its capital structure. For all practical purposes, the bank has been brought to think that when a firm is asking for a loan, there will be two kinds of borrowings: first, there will be a mortgage secured by the company's real property in favour of the I.D.B. and, second, an ordinary bank loan secured by all the liquid assets, whether from accounts receivable or from inventories. This has resulted in many cases in a considerable delay in the expansion programme of a concern the capital structure of which was on such a simplified basis. As a matter of fact, such a capital structure works against any administrative flexibility and does not allow a business easily to increase its inventories and its accounts receivable at the very moment when, in order to satisfy the market's demand, a rapid expansion based on the maximum use of machinery and equipment would require the creation of an incompressible minimum of inventories and accounts receivable. For this incompressible minimum of inventories and accounts receivable necessarily implies a long-term rather than a short-term indebtedness like the one usually granted by the chartered banks.

The loan policy of the I.D.B., as hereabove described, doubtless suits best the needs of small enterprises, at least in a great number of cases. It is of course difficult to foresee how the I.D.B. could possibly and wisely have acted otherwise with regards to some small machine shops and others developed only on a very small scale. The A.P.I. is nevertheless of the opinion that a more flexible system of loans should be set up which would be very useful to a great number of medium sized enterprises. The I.D.B. could play a most important part in the transformation which the majority of concerns normally developed must undergo if their financial structure is to carry them towards further sound developments. The help the I.D.B. can lend to these firms might be in the form of assistance in creating the necessary financial structure which would become, after a period of limited control exercised by the bank, the basis for self-development through public financing secured from private investment dealers.

In short, the A.P.I. suggests that the bank should grant to these medium-sized enterprises loans according to a formula very similar to those big businesses would largely favour for their own use, but which the former have been denied access to because they have not been able to comply with the requirements as to the cost of these loans and as to the ratio that must exist as between the rate of profit and the rate of interest, etc...

C. *The I.D.B. should become, as a matter of fact, an industrial discounting bank for medium-sized enterprises securities.*

Industrial financing in the larger enterprises has undergone a serious change since the last war. Instead of a bond issue secured by a first mortgage and a first floating charge on the whole assets of the company, as was formerly the case, the trend—and it is a much wiser one—is to determine the firm's requirements through a proper financial structure set up with the first issue of securities and, in so doing, the first mortgage lien is avoided and the loan is secured through general debentures not specifically secured, but in which it is stipulated that, as a condition for further issues of its securities, the firm will not be allowed to contract any new loan without first satisfying specific requirements clearly expressed in the trust deed. Generally speaking, these requirements fix the ratios that are to be maintained between the firm's total indebtedness and its equity, between the net tangible assets available as security for the loan and the net working capital, and between the interest to be paid on the debentures and the profits available for the payment of said interest. In certain conditions, a firm might even be authorized to pledge future properties to be acquired or erected.

Such a type of financing has its first advantage in giving to a firm all the needed funds for a reorganization of its financial structure as regards its permanent working capital as well as its fixed assets or capital expenses in machinery and equipment. A second advantage is to place certain financial objectives the directors of the firm must seek to attain. When the financial structure of the company is determined in advance, it means, for all practical purposes, that the firm's policy also is being set up for the board of directors to follow. Consequently, if, for instance, the firm satisfies all the required ratios to be kept in balance regarding the indebtedness, the debt service, the assets whether fixed or liquid, but fails to maintain these standards on only one point, then the directors will try to bring it up to the required level. When, for example, this one failure regards the necessary amount of equity, the directors will seek new capital, whether through common or preferred shares, in order to restore the proper balance.

Hence, the A.P.I. is of the opinion that the I.D.B., in planning its loan formulas for undertakings on a well-developed scale it is understood that we exclude those very small shops which cannot meet such demands towards the financial reorganisation of the business, in fixing the structure, in indicating

the objectives, will not only be a great help for the expansion of the business, but would also carry out a financial educational work which would be likely to facilitate in large measure the establishment in Canada of important enterprises. Experience has shown many times that the average industrialist usually possesses all the technical requirements for production, organisation, expansion and sales, but lacks, because of having had no opportunity, the financial experience necessary to pass from a strictly individual business to one which has to take into account the public which subscribes the funds. In our opinion, the I.D.B. is the organisation best adapted to this purpose, since, on the one hand, it represents the public at large and since, by adopting the necessary financial procedures, it could play the same part as the investment broker, but with much more control, because on the other hand, it has available the technical and financial skills required to follow closely the financial management of the business to which it has granted a loan.

Before I conclude, I would point out that in the bill now submitted to you, clause 5, subsections (*d*) and (*e*) say:

> (*d*) enter into underwriting agreements in respect of the whole or any part of any issue of stocks, bonds or debentures of the corporation, and
>
> (*e*) purchase or otherwise acquire with a view to resale thereof the the whole or any part of any issue of stock, bonds or debentures of the corporation from the corporation *or from a shareholder of the corporation* or from any person with whom the Bank has entered into an underwriting agreement in respect of the said issue and may subsequently sell or otherwise dispose of the said stock, bonds or debentures.

We think this new power may mean the bank will follow up a policy which will answer this need for financial help to the business. We think that in a lot of cases in the medium sized enterprises one of the biggest problems at the present time is not the management in so far as production, organization or sale is concerned but the financing knowledge. If we want the small business in Canada to grow to big business, the main thing is to inaugurate a program of education to the medium sized enterprise, covering the working and understanding of what finance can mean for the development of the business.

The CHAIRMAN: Are there any questions? If not, we will proceed to the next brief.

Mr. Alastair MacDonald, Q.C., appearing for The Hotel Association of Canada, Inc., called:

The WITNESS: This is an application or a suggestion that the bill before you be amended to include hotels, that is, that hotels may come within its purview and may borrow money from the Industrial Development Bank. I am appearing for the Hotel Association of Canada, an association which consists of approximately 3,700 members or hotels. The association and the hotels, of course, extend from coast to coast. Among our members we number the Canadian Pacific Hotels, The Canadian National Hotels and the Sheraton chain—but I hasten to say that as far as I know there is no indication on their part that they want to borrow money from the Industrial Development Bank.

About 97 per cent of our hotels are hotels with less than 100 rooms. These are the hotels with which we are concerned and not the others, although the larger hotels have given their blessing to this application.

There is of course no provision in the Act or in the bill before you to provide for the lending of money to hotels. I would like to say that the need exists for such a provision. There is great need for improvements, for expansion and for renovation and that sort of thing. I hasten to say at this stage, as was said to the minister, that this application is not at all concerned with expansion or improvement in so far as it relates to beverage rooms. We leave that completely out of the picture. I might say also that it is because of the good work done by the Dominion Travel Bureau that these renovations and expansions are necessary. We all see advertisements speaking of the glory of Canada—which of course exists. People come to this country as a result and become poetic, but if they sleep on a hard mattress or get a bad breakfast they become displeased and go back to their own countries talking about Canada in a manner which we do not like. Our difficulty has been, as I am sure every one here will understand, that it is difficult for hotels to get long term financing. It is true that the hotels could get from the banks short term financing but I am told—and there are witnesses here who are on the operating end of things and who can develop it—that usually the rate of interest is high. For example, a hotel wishes to extend and build new additions and so on and the banks do not want to go into that kind of business. Perhaps the hotels get the money elsewhere but then they have to pay a bonus for it or perhaps the money is discounted in some way. I suggest that is not because the hotels are a bad risk, but that was the condition always prevailing with industry before the advent of the Industrial Development Bank. I take it that even today well established industries go to banks for that type of loan, and they are sent to the I.D.B. to get it because the banks do not want to handle them.

As to the importance of the hotel finance in the proposed new development, there is something in our brief in regard to that, which stresses that the tourist industry is of considerable importance as a source of dollar exchange, being second only to our export of newsprint. I find that statement there in our brief. I know nothing of it personally but I suppose it is true or it would not be there. Other countries have recognized that hotels are entitled to assistance of the kind mentioned. Again, the brief says that in the United States the Small Business Administration makes loans to hotels, while in France and Britain the governments there provide financial assistance. Unfortunately in Canada that is not available to hotels.

I was hoping, from the remarks made by the Minister of Finance when he was discussing the resolution to introduce this measure into the house, that the door had almost been opened.

I should like to quote two short paragraphs from what the Minister of Finance said at that point, as reported in the House of Commons debates for March 8, 1956, page 1921:

> It was recognized, however, that there was a gap in the lending field in that it was often difficult and sometimes impossible for small or medium-sized businesses to obtain term loans to commence or to expand their operations. The loans required tended to be too long in term to make it appropriate for the chartered banks to provide them and too small in amount to make it feasible for the borrower to go to the market with a public security issue. The government's concern was to fill this gap for an important segment of the business community and to ensure that the growth of credit-worthy manufacturing firms and certain other specified types of enterprise of small and medium size would not be impeded by the lack of facilities for adequate financing.

And just one other paragraph at page 1922 which I think touches it fairly closely. The minister was then discussing the fact that the scope of the act was being broadened and widened, and he said:

> Prominent in the changes we are proposing is a new definition of eligible borrowers. This is designed to cover a large number of operations which under the existing definition were borderline cases or clearly ineligible. No type of business which hitherto has been eligible is omitted from the new definition but, unfortunately, no definition we have been able to devise will eliminate borderline cases. The proposal will, however, considerably enlarge the field of eligible businesses. Some examples are that businesses which were not engaged in manufacturing or processing but which required buildings or investments in machinery or equipment . . .

And at that stage if he had added that it was buildings, or equipment in which public services were supplied, then we would have been in; but instead of that—to conclude:

> installing, overhauling, reconditioning, altering, repairing, cleaning (including seed cleaning), packaging, transporting or warehousing of goods, were not eligible borrowers but will be under the proposed definition. This is also true of the businesses of logging, operating a mine or quarry—but not prospecting, wild-catting or developing—drilling, construction, engineering, technical surveys, or scientific research or the transportation of persons. On the premise that the bank should be able to finance the same fixed assets that it would be financing if they were directly owned by an industrial enterprise, it is proposed that those who supply such fixed assets to an industrial enterprise under a lease, contract or other arrangement, whereby title to the assets is retained by the supplier, should be entitled to apply for financial assistance in the same manner as an industrial enterprise.

But in any event the act has been broadened and my respectful suggestion is that in addition to this great class of people or corporations or services within the community—that there seems to be no logical reason why we should be completely debarred from getting a source of funds which we so badly need. I remember having seen a sign in a country store which said "Do not ask for credit and be refused". It is not nice to ask for credit and to be refused, but it is still worse not to have a chance to ask for it.

Of course, in asking to be let in under the act we are asking on the same basis as anyone else. I have had some personal experience with the efficiency of the Industrial Development Bank and with the investigations which it makes as to the credit and the type of security which it takes from the borrower, and I can assure you that the security which this bank takes is both in the nature of a floating charge, a fixed charge, and everything else. If the applicant who applies for credit was not worth credit being given to him, I am quite sure that such credit would not be extended. But as the act stands now, even the Chateau Laurier could not borrow $10,000 on its $1 million-odd building.

Mr. Chairman, and gentlemen, I respectfully suggest that you give consideration to broadening the scope of the act in order to include hotels. Thank you.

The CHAIRMAN: Are there any questions? Before you go on do you want to have the brief which was presented here attached as an appendix to the evidence? Is that agreeable? All those in favour? Contrary, if any? Carried.

(*See appendix 1*).

By Mr. Follwell:

Q. May I ask one question? Are you in the hotel business?—A. No, I am a mere lawyer.

The CHAIRMAN: He is acting as counsel.

The WITNESS: I am acting as counsel. There will be other witnesses in the operating field of hotels who are prepared to answer any questions, if you require it.

By Mr. Follwell:

Q. I was wondering how long a term Mr. Macdonald would advocate? Should it be a long term? We have been discussing housing rates and farm loans on the basis of 30 years. I wonder what he regards as "long term"?—A. I could not say as to that. I cannot develop it as well as Mr. Caswell who will speak to it. As I understand it the banks are having great difficulty in getting terms extended over one year. I have heard some talk here about the Industrial Development Bank and that about 3, 5, 7 or 7½ years as a change would be an improvement.

Q. I would not think that 7½ years would be a very long term in which to make money for the purposes of erecting another one hundred rooms and to expect to write it off. You could not write it off in that time.—A. It would be the usual pattern that hotels are encountering in the matter of financing, subject to what Mr. Caswell might have to say.

Q. Are you asking for a term of three or four years?—A. We are only asking to be classified under the Industrial Development Bank so that we may operate on the same terms as anyone else.

Q. Your suggestion is that you should just be classified so that you can go to the Industrial Development Bank and negotiate with them and borrow on whatever terms you want?—A. Yes, for the longest term which they will give us.

Q. I do not know how they would be handled, but I understand that most hotels have pretty heavy mortgages on them at the present time.—A. I am unable to say, because I do not know.

Q. I wonder how you are going to handle the problem of satisfying the bank, when they already have pretty substantial mortgages.—A. Each case would have to be dealt with on its own merit. I have no knowledge of mortgages on hotels; I do not know.

The CHAIRMAN: Perhaps Mr. Caswell would answer as to that.

Mr. Dalton J. Caswell, Executive Chairman, Hotel Association of Canada Incorporated, called:

The WITNESS: I would like to say just a word on this for the benefit of our friends. First of all let me answer the first question in respect to mortgages on hotels. It is true that we have a lot of hotels, new projects, which have heavy mortgages on them. They have already arranged their financing; they are not asking to refinance through the Industrial Development Bank. What we are primarily interested in—and perhaps I should say that the majority of the hotels which you have heard of that have large mortgages on them are perhaps hotels which are primarily interested in the sale of beverages. We have made it very plain that we are not requesting any money from the Industrial Development Bank for the sale or promotion of beverages in hotels. We are only interested in promoting room accommodation, food accommodation, and adding additional accommodation.

You gentlemen come from all parts of Canada and you are either business men or professional men. You stay in hotels and you know the condition of the hotels in your own communities. You know the hotels which need new rooms, or more rooms, or new furnishings and better dining rooms. In the majority of cases you perhaps know the hotel man and you know the reason he does not provide it. You know that it is not because he does not want to—and I am talking about the good hotel man. After all, if we are to be included under the Industrial Development Bank Act we are not asking for any special favours. We ask to be included as any other industry, on our merits.

If we can go to the Industrial Development Bank and show them that we have a good operating statement, have a good knowledge of hotel operation, and that we are making money, then we assume that the Industrial Development Bank would consider our application like that of any other industry.

I would like to give you an idea of just exactly what is happening, because I think it would amaze some of you. I do not like to be personal, but I do feel it is better than to tell you something I have only heard. So I shall tell you something which actually happened, and I know, because I am speaking from experience.

I operate three hotels. In 1952 I decided to build a third hotel. My auditor said "Where are you going to get the money?" and I said "I have not done too much about that yet. It is only in the development stage." And he said: "While you are in the city of Toronto I will send you to a firm which does lend money and perhaps you could make arrangements with them." I was not interested in bonus money, and when I went to see them I took another gentleman with me.

In his very plush office on Bay Street a gentleman said: "How much money do you want?", and I said "I do not know exactly; we have not got that far; but I shall require at least $100,000".

He thought for a moment and said "I can let you have $90,000 right away, but it will cost you $117,000 at 8 per cent". I did not say anything. He thought for a moment more and then said: "I can let you have $100,000 with a figure of 32 per cent bonus", and I still did not say anything. Then he said "I know that some gentlemen have got up and walked out when I told them that". He said "They get a little mad", and I said "I am sorry but I am not mad. I just do not need the money that badly".

And then, I think, perhaps in order to convince me that what he said was so, he said "I know of three hotels that I have lent money to on those terms. I know of many hotels which are paying anywhere from 10 per cent to 32 per cent bonus."

How can those hotels possibly make money and keep up their payments? I did finance my hotel but I financed it largely through a bond issue with a legitimate mortgage company.

Mr. MACDONNELL *(Greenwood)*: Hear, hear!

The WITNESS: I bought my furnishings from one of the larger houses and they gave me three years in which to pay. If you are in the business and you borrow money for three years at even a legitimate interest rate, it makes for pretty heavy payments to buy $62,000 of furnishings, and I paid $1,950 and some odd dollars per month for three years. I have an investment in that hotel of $547,000. Approximately $300,000 of it borrowed. I pay approximately $5,208 every month to pay for interest and principal, some $60,000 a year.

Now, you gentlemen place yourselves in that position. I am fortunate in that particular hotel. I am in a good location and I am doing a good business because perhaps I have something a little better than anyone for

hundreds of miles around me. I cannot be that fortunate in every location I am in. Normally speaking, you just cannot pay money off that fast.

I am trying to pay for a hotel, and give first class hotel accommodation, in less than six years time. That just is not reasonable, gentlemen. I know of legitimate hotelmen all across Canada who would like to build an addition of 20 rooms, or 25 rooms, who would like to refurnish their hotel, who would like to have a larger and better type of dining room, and they require perhaps $10,000, $25,000, or $35,000. If we take our friend who is going to borrow perhaps $25,000 and is going to have to pay it back in three years time, what is going to happen? He is going to have to pay about $12,000 a year. You cannot pay money back that fast, gentlemen, and still operate a constructive business.

I heard Mr. Coyne remark this morning that he did not feel that hotels were perhaps a sound market investment, or words to that effect.

By Mr. Benidickson:

Q. I do not think he said that at all. He said he did not think his organization was in a position to inspect the hotels.—A. I apologize if I got the wrong impression. What I wanted to point out was, hotels today are not, apparently, as sound as they might be, for the very reason that the moneys they are getting are on such short term that they just do not have too much money to work with. The majority of our hotels, gentlemen, are operated by pretty sound people; they are operated by people who are anxious to give you real accommodation for your money, and they would like to give it to you. As I said, every dollar they spend today is short-term money.

Just recently—you may think I am telling my life history, but I think it is better to tell you the plain facts—just recently I built an addition to the hotel I told you about, and because I have a good business and good prospects the bank manager said, "How much money is it going to take for that addition?" and I said, "$60,000". He said, "Well, I think we will finance it for you". I do not mind telling you, I almost fell through my chair. They did finance it for me, but on the understanding that I would try to pay it all back in three years—the whole $60,000, in addition to what I am paying. I am trying to pay it that way because, fortunately, I have a couple of other hotels that I can call on to help out. Again I say, gentlemen, we are not asking for any special consideration. I have a great deal of sympathy for the gentleman, who spoke just before me, from the Professional Association of Industrialists, claiming they are small industrial operators. I can very much appreciate the situation they find themselves in, although they are perhaps a little better off than we, because at least the gate has been opened for them.

Another thing I would just like to leave with you gentlemen is the fact that on page 8 of the annual report, I believe it is, of the Industrial Development Bank, they set out 20 industries to which they loan money. If you look those over, gentlemen you yourselves can easily pick out 13 of them that we purchased from. Last year in Canada alone we purchased over $200 million from them for our hotels in Canada. We did a gross business, according to the 1954 Dominion Bureau of Statistics report, of over $400 million. Over $98 million of that we paid out in wages. Over $200 million of that we paid out to these people who loan money under the Industrial Development Bank Act. I do not mean to them alone, but to the manufacturers of those different products and items.

I just want to leave one last impression with you gentlemen, and that is—and I think you will acknowledge it—the hotel industry is very important to the economy of Canada. It is important from two sources: first, it is a large industry itself, and second, it is also important to our tourist industry.

Thank you very much for your attention and consideration.

The CHAIRMAN: There will be some questions. If you will excuse me, I must attend the House at 5 o'clock. Mr. Valois, as the Vice-Chairman, would you take the chair?

(*Mr. Valois assumed the chair.*)

The VICE-CHAIRMAN: Mr. Gour, you have a question?

By Mr. Gour (Russell):

Q. Do I understand aright that you borrowed $60,000 to be paid off in three years, and do I understand that you are able to repay that in three years? —A. That is right, sir. I was very fortunate to get the bank to loan me $60,000 for three years.

Q. This is the point that I do not understand, when you say that you give people jobs, and give good service, and you give people value for their money, and still you are able to refund these large amounts in a short time. You speak about these big propositions, such as $60,000 and $200,000; if you make enough money in three years to pay off all that money, then I believe the people who get this good service you speak of might well be overcharged. I do not understand how, otherwise, that can be done.—A. Mr. Chairman, I will let the gentleman judge for himself.

Q. Yes.—A. I supply the type of room you would find in the Royal York hotel—fully carpeted, combination type tiled bathrooms with showers and tubs, dressing tables, television sets, radio and telephones, two entrances to the rooms—and I charge $9 double for it, sir.

Q. $9?—A. Yes, so you be the judge as to whether that is fair or not.

Q. The judgment is if you are able to pay so much money—$100,000 or $60,000—in three years. Nobody else in this country can do that.—A. Of course, I have expenses in respect to the other two hotels that I operate.

Q. Yes, but you have paid for the other hotels too.

Mr. BENIDICKSON: I have seen Mr. Caswell's hotels, and I think they are most comfortable.

Mr. ARGUE: If he has so much trouble getting money, how about the rest of the hotel people?

Mr. GOUR: That is the question I wanted to ask him, because if it is possible for the Industrial Development Bank to have enough money to lend to all the industries that wish to open up in this country, if it has enough money to lend to manufacturers, and enough money to lend to the farmers, who have to feed the large population of this country, and if it has enough money to develop this country as it is developing today, then I would be in favour of its lending to the hotelkeepers. But, first of all, if we have not enough money, then I say that the farmers should come first, and industry next, and hotels in the third position. We hear so many complaints about money coming in from outside—because this country is developing so rapidly we need outside money. If the Industrial Development Bank is able to get enough money for all these things, then I would be in favour of its lending money to the hotelkeepers. But first should come the farmers, and then industry.

Mr. ARGUE: Treat them all the same.

The VICE-CHAIRMAN: Mr. Regier?

By Mr. Regier:

Q. Mr. Chairman, I wonder if the witness could tell us—we have had information supplied to us over the past few minutes that yong-term mortgage money has definitely withdrawn from the field of investment in agriculture. Now, according to what he is saying, long-term investment of money has also

left the hotel business, and they have to resort to short-term measures, be they legitimate lending institutes, or loan sharks, or what have you. I wonder whether he has an explanation as to why Canada's insurance companies and mortgage companies seem unwilling to enter into long-term mortgages with the hotel business.

The other question I have—well, maybe I should wait for an answer to this first question.—A. I do not think I would be qualified to give the bank's answer, sir. I would only say that, as is well known, like practically all industry back in the thirties, the hotels and resorts had it pretty tough for a while. The only answer I can give in regard to that question is, we have only been able to get from the finance companies—I am talking, of course, about the small hotel operators, and when it comes to our large chain organizations wanting to build a $20 million hotel, they do not have any difficulty, being a large industry, when they want to spend $20 million. In other words, they can go out and float a large bond issue, and do it very satisfactorily. But when the small operator wants to borrow $25,000 or $50,000, the best answer he can get from the mortgage companies is that they can invest that money in private home mortgages on a much more profitable basis by spreading out their loaning over perhaps five or six homes at $25,000 than by putting it in one hotel.

By Mr. Macdonnell (Greenwood):

Q. I am surprised that you say that their answer is that they could lend it on a more profitable basis.—A. That is what they tell us.

Q. I thought that they might say they were not familiar with that kind of business. However, you are satisfied that on mortgage loans they were going to lend on a more profitable basis?—A. I am not satisfied. I do not know. That is what they told me.

Q. You have surprised me.—A. One of the largest mortgage companies in Ontario told me that they would much prefer to loan their money out on home mortgages.

By Mr. Regier:

Q. And I assume that the insurance companies and the trust companies give you a reply of a similar nature?—A. Frankly, we have never had very much borrowing from insurance companies.

Q. Do you feel that the hotels of Canada would be able to provide a better type of accommodation if they could be relieved from the apparent necessity of relying on the breweries for their capital financing?—A. Well, sir, I think there is only one province that I know of that does get any financing from the breweries.

Q. Only one?—A. Yes, I think so. In Ontario, for example, the breweries cannot even supply you with an ashtray today.

Q. What about British Columbia?—A. I am not fully acquainted with their situation, but my understanding is that since the new act came in that they cannot participate in financing.

By Mr. Power (Quebec South):

Q. What is the one province?—A. Manitoba, until their new act came in. Now the situation is the breweries can still maintain the interest they have in hotels but cannot add to that interest, nor can they have any additional new hotels in Manitoba.

By Mr. Argue:

Q. You gave us an example from your personal experience of a loan being offered to you with a fat bonus attached to it. To what extent do you

feel, from your experience, that loans obtained today by hotel operators are similar?—A. Small hotel operators borrowing today are paying from 10 to 30 per cent across the board.

Q. As a general thing?—A. Yes.

Q. What was the period over which the loan which was offered to you was to be repaid?—A. I did not go that far. Once I saw that it was at 30 per cent I was not interested. I do believe that most people who borrow money on bonus payments get seven or 10 years in which to pay it. The man who loans the money, of course, is being paid the interest on that extra money all the time. So, he is happy to have it out for a long time.

Q. If it was at 8 per cent interest— —A. 8 per cent on the total. If I borrowed $100,000 I would have paid 8 per cent interest on $132,000.

Q. Which would work out to what?—A. I did not work it out. I never got into that myself, but it is a true fact that that is the way it was offered. I do know that money has been loaned on bonus payments from 10 to 30 per cent and that they pay the interest on the additional money.

Q. I feel that good hotel accommodation is essential to our country and I think that you have made an excellent case. As you are now telling us that the majority of small hotel operators, as you have defined them, are paying interest rates in the range of 8 to 15 per cent, that is a very strong argument in favour of amending this act so that you can obtain this kind of money.—A. It is no figment of the imagination. As a result of it, the trouble is that the majority of the legitimate hotel operators who are trying to operate good hotels with food and room service, will not spend money on their hotels and will not add extra accommodation because on that basis it is a 'strangle'.

Q. Another effect which must flow from this is that the small hotel operator is being squeezed out?—A. Absolutely.

Q. His standard must be lower than the standard of the big hotels and also he is being squeezed out?—A. Yes.

By Mr. Carrick:

Q. I notice in the brief you do not suggest that loans be extended to new hotels. What is the reason for that?—A. The reason is perhaps fairly obvious, that if this were extended by the Industrial Development Bank so that we could go to the bank and borrow money and the new hotel man could also go to the bank and borrow money at 6 per cent for 10 years and build new hotels in the communities, then the competition to the present hotel owner would be pretty tough, because he has not been able to get money on that basis. It would be unfair competition, and it would be government money being provided for direct competition. If, on the other hand, the bank will lend that money for the present hotel operator to renovate his hotel, add another 20 rooms or add a new dining room, then that would directly help that hotel and the community.

Q. You do not think it fair to give it to the new hotels at a lower rate of interest?—A. One very good example was the building of Eleanor Village in Florida which was built with reconstruction finance money on the basis that they were to provide homes for GI's when they came back from service. They borrowed several millions of dollars from the reconstruction finance company and built all these cottages in one section until they came to the saturation point for GI's, and then they kept on building on the other section with the prime objective of having a big resort. They were able to say, "we do not have enough applicants for these extra homes" and therefore they were able to sell. They got their money for 25 years at 3½ per cent, and they were able to cut the price of a legitimate operator who had to borrow his money at 7 per cent over perhaps 10 years.

Q. Why do you distinguish between money being used in connection with increasing the sale of beverages and money being used for other purposes?—A. First of all, we do feel that the legitimate sale of beverages is another service which a hotel should have. At the same time, we are quite willing to accept that, because of the licensing act in some of the provinces, some of our operations are not hotels but only hotels in name, because they have to be qualified as a hotel in order to have a licence. We do not feel that the government would look with sympathy on the question of loaning money for the promotion of beverage sales. We have seen the rising need for promotion of better room accommodation and better food facilities.

Q. In many hotels would it not be difficult to distinguish between the revenue you would get from beverages and from other sources?—A. I would expect when an application was made to the bank that the application would state that they wanted so much money and the reason for it. It would be for an addition of 20 rooms, furnishings, and so on. Normally, I find that that is the first thing someone loaning money wants to know. However, if someone said, "I am going to spend $20,000 putting in a new beverage room", that would be a different thing.

Q. Does not the ability of the hotel to fill rooms and the availability of customers sometimes depend upon the beverage room?—A. No. A beverage room is a service which many customers like to have, but it certainly has very little influence on the occupancy of the rooms. In other words, good food definitely has an influence, and good service and good accommodation, but I never heard anyone suggest that a hotel which has beverage room service is more attractive from the point of view of rooms and meals.

By Mr. Follwell:

Q. I think Mr. Macdonald said there were 730 members of your association. Does that include the so-called public houses which do not have room accommodation but purely a beverage room?—A. In the province of Ontario it includes some of the public houses. The reason for that was that they were all classified as hotels and still operate under a licence, but in Ontario they are still public houses.

Q. They support this brief?—A. Yes.

By Mr. Power (Quebec South):

Q. Does that include motels?—A. No, sir.

By Mr. Enfield:

Q. Then you say that you advocate an amendment to the act which would allow loans for additions only to existing hotels?—A. For additions or renovations.

Q. It is the same thing. And you are against loans primarily for new hotels, motels, restaurants or anything else, which might service the tourist or the resort people?—A. No. We have only defined it to the extent that we are not requesting loans for beverage services. We are not interested in the restaurant field argument, or the motel argument, for the very simple reason that perhaps dining rooms in hotels can be called restaurants. What we are requesting is that the Industrial Development Bank Act should be amended to include loans being made to hotels for the addition to or renovation of room and food accommodation.

Q. And, as you have said previously, that is because you think it is unfair competition if money is provided for new hotels?

By Mr. Fulton:

Q. Can the witness tell me whether, when he has spoken to the banks about borrowing money for the purpose of renovation, or for the construction of new hotels, the banks have intimated in any way that they would like to do this business but that under the terms of their act they have been unable to offer the facilities which they would wish to extend? What is their attitude?—A. Frankly, they have been very friendly to the hotels and to the hotels they deal with, but they point out to us always that the act does not allow them to lend money to us on long-term. In the particular case of the money I borrowed it is a "term loan"—in other words an open loan—and I suggested they would like to have it paid off in three years. If I am doing well but cannot pay it back in three years I do not expect to have any difficulty with them, but they do not want to entertain loans to hotels on a long-term basis. We would like to see repayment periods of at least 7½ years and, better still, 10 years.

Q. The banks gave you to understand that they could not entertain such a period because of the terms of their act?—A. That is right.

Q. Would you have any objection to an amendment which would make it possible for you to go to the banks and get money on those terms?—A. We would not. We would have no objection. I cannot speak for the banks.

Q. You would be prepared to offer mortgages?—A. Definitely, we are quite prepared to meet the requirements required by the banks, or by the Industrial Development Bank, in the same way as any other person applying for credit.

By Mr. Cameron (Nanaimo):

Q. Mr. Caswell, were you given any reasons by the financial houses that you approached for the apparently rather severe discrimination against your particular line of business? Was any sort of excuse given you why hotels should be treated in that way?—A. None. I have talked to several of them and, as I said, I got the main portion of my loan from one of the larger mortgage companies. They did not expand on it at all; they are just not anxious to lend money to hotels, and my understanding, after talking to two of the larger mortgage companies, is that a considerable demand exists for money as far as they are concerned, and they can be quite "choosey". That is the impression I got.

Q. Did you gather the impression that other types of industry were met with the same sort of conditions?—A. No, I could not say that, sir. I do not know enough about it. From the only open discussion I had with them I understood that they had lent a lot of money on home mortgages.

By Mr. Carrick:

Q. I would like to take up a question which was raised earlier during this hearing. Would not the government logically be obliged to extend this act to motels if they extended it to hotels? Motels are competitors of hotels, and would be placed in a disadvantageous position if they were excluded from a type of advantage which their rivals are permitted to use.—A. If the motel was giving what we call complete service we think they should be included in the same way as the hotels. I have been in business a long time; I operate a hotel in Sudbury and I think the motel, as we have known it in the past, where no food is provided, where there is no service, and no clerk on duty, and where as soon as a room is let they hang out a vacancy sign, will before long be as dead as the roadside taverns. I think they will have to supply a complete service—dining room, telephone service and all the rest—and then I think they should be included.

By Mr. Macdonnell (Greenwood):

Q. I would like to ask a few questions, Mr. Chairman.

May I make bold to say that I have had the pleasure of being a guest at Mr. Caswell's hotel in Sundridge recently and I am not surprised that he was able to borrow money.

Did I understand you to say that when you got this three year loan it was you yourself who suggested that the term should be three years?—A. Oh no. It was not phrased exactly as a three year loan. The bank told me they could not lend money on a long-term basis and said they would not like it to extend beyond three years.

Q. I misunderstood you, then. Incidentally I might also say that I feel humiliated, as a man who was once in business, to hear your story about the fellow who tried to "gouge" you, and my only comment is that I think you got into very bad hands.

The other question is this and it affects what I understand Mr. Coyne said this morning, namely, that the hotel business was a difficult and complicated business for which special training was needed—and it would be my own feeling that it is more difficult.

In your brief you say that in the United States the Small Business Administration makes loans to hotels, and then you talked about France and Britain. Can you say a little more about what happens in the United States and about the Small Business Administration? What are its characteristics? How small is "small" and what is the range of this agency's activities?—A. Mr. Macdonnell, I cannot supply the committee with that information, unfortunately. I did not bring it here because I did not realize I was coming to Ottawa until yesterday, and I happened to be in Toronto away from my own office. I would, of course, be happy to get the information for you. I know that in the United States they have a Small Business Administration Agency in Washington which helps small businesses and makes loans to hotels. I would like to obtain more specific information about the extent of its operations.

Q. Yes, that seems to me desirable. I did run across the Small Business Administration in the United States and it seems to me, just from the name, that a great deal could be said for it but I would like to know more about it and, in particular, what it is doing for hotels, particularly for small hotels in the United States. It was not very clear from what I read, but it does not seem to resemble the Industrial Development Bank—

The WITNESS: Oh, I do not think it does, but it is a source of money for the small hotel operators. I will get you the necessary information directly form the American Hotel Association and send it to you.

Mr. MACDONNELL (*Greenwood*): Then you go on to France and Britain—

The WITNESS: Mr. Bureau could, I believe, answer that question. He has had the pleasure of making a trip to Europe and he has more information about that aspect of the matter than I have.

Mr. Pierre Bureau—Director, Hotel Association of Canada Incorporated, called:

They do have in France, through the Monet plan a loan organization through whose assistance it is possible for hotels to be renovated.

Mr. MACDONNELL (*Greenwood*): And is there a special organization for that?

Mr. BUREAU: It is a part of the Monet plan. Also I believe, the government of Switzerland has helped the hotel people with regard to loans for the same purpose.

Mr. MACDONNELL (*Greenwood*): I am not familiar with the plan you spoke of. Could you indicate its scope in a word or two?

Mr. BUREAU: I would be happy to get that information for you, but I would not like to reply when I am not fully aware of the situation. We were told over there that hotel people were able to renovate their hotels by means of the hepl they were given by the government. That also applies in Switzrland.

Mr. FRASER (*Peterborough*): That has been the case in Switzerland for many years. I understand that for forty years the government has been helping the hotel keepers, because it realizes that the tourist industry is one of the country's most important industries.

Mr. BUREAU: Indeed.

At this point, Mr. Chairman, if I might just underline our request, I would say that this is a business, and that I quite understand that we who work in the hotel field are not recognized as being honest citizens. However, one must remember that the hotel industry is playing a great part in helping to build up the economy of the country. Therefore, the real hotel keeper is not a man who is interested so much in developing the side of the business directly concerned with alcoholic beverages as he is in improving the general facilities which he offers and the general standard of his services. That is one of the reasons why we did not emphasize that particular side of the business; we do not want the Industrial Development Bank to feel that this is just a matter of availing ourselves of the privilege of its loans in order to promote liquor sales. Far from it. It is to insure that this country has good accommodation, like other countries. I believe that each of us, in our respective municipality or country place, considers that the tourists who pass by are not getting adequate service and accommodation on the lines advertised by our provincial and federal travel bureaux. It is a true fact that we have a lot of trouble in availing ourselves of loans. We cannot repay loans over a short term, and for that reason advances are not available to us. Also it seems that the policy of the mortgage companies and of the banks is not to lend to hotels, whatever their respective reasons, and in consequence I think that a government institution such as the Industrial Development Bank should consider meeting the real hotel keepers and helping us out in order that we may help increase the tourist rtade and bring the accommodation available here in Canada up to a proper level.

That is why we humbly ask if you would consider placing us in a position where we might have the opportunity of availing ourselves of these borrowing facilities.

The CHAIRMAN: Are there any further questions gentlemen? Do you wish now to proceed with the bill?

Some Hon. MEMBERS: No, not now.

Mr. ARGUE: I move we adjourn.

Mr. CARRICK: I think that before we do that we should extend our thanks to all the witnesses for their attendance here and for the manner in which they have given their evidence.

Hon. MEMBERS: Hear, hear.

THURSDAY, May 3, 1956.

11.00 A.M.

The CHAIRMAN: Gentlemen, we have a quorum. We are ready to go over the bill. Shall clause 1 carry?

Mr. J. E. Coyne, President, Industrial Development Bank, called:

By Mr. Macdonnell (Greenwood):

Q. I would like to ask one question. I do not want to take much time, Mr. Coyne, but in general, can we take it that the present definition of

"industrial enterprise", though so much longer is substantially the same in scope as the one before, except for the fact that I notice that repairs of ships or vessels is left out? Do I understand that the general words of the clause are broad enough to cover it or are you specifically leaving that out?—A. No. As I understand it it is in there. Ships and vessels can be called goods or chattels in English law.

Q. Called goods or chattels?

The CHAIRMAN: Yes, they are not real property.

By Mr. Fraser (Peterborough):

Q. Would that now come under the heading "construction"?—A. Or it would come under the heading of "construction".

By Mr. Macdonnell (Greenwood):

Q. If you are satisfied on that point, I will not pursue it.—A. I presume they could also come under transportation of goods or transportation of persons. That is the shipping company; but the company that does the building of the ships—

By Mr. Fraser (Peterborough):

Q. Would it come under "construction"?—A. I am in the hands of the lawyers.

Mr. MACDONNELL *(Greenwood):* You have got under clause 1 of the bill, subparagraph (*d*) (i) "altering, repairing". Would that be the place to find it—because in the other one it is "alteration or repair"?

By the Chairman:

Q. And under clause 1, subparagraph (*d*) (ii) "construction".—A. There is "construction" in one of the subparagraphs and there is "repairing" in subparagraph (i).

By Mr. Macdonnell (Greenwood):

Q. At any rate, if you tell me you are satisfied, I will not pursue it any further.

We were told also the other day that gas comes under the heading of goods. Are you satisfied that it comes under goods?—A. So I am told.

Some Hon. MEMBERS: Carried.

Clause agreed to.

On clause 2—Bank continued:

The CHAIRMAN: Shall clause 2 carry?

Some Hon. MEMBERS: Carried.

Clause agreed to.

On clause 3—Directors' fees:

The CHAIRMAN: Shall that clause carry?

Some Hon. MEMBERS: Carried.

Clause agreed to.

On clause 4—Absence, etc., of President:

The CHAIRMAN: Shall that clause carry?

Some Hon. MEMBERS: Carried.

Clause agreed to.

On clause 5—Loans, investments and guarantees:

The CHAIRMAN: Shall that clause carry?

By Mr. Macdonnell (Greenwood):

Q. I wanted to ask a question there. The wording, "—where in the opinion of the Board or of an officer authorized for that purpose by the Board": does the wording "—for that purpose—", mean a general authorization, or an authorization for a particular loan?—A. What we would have in mind under that clause would be to authorize the supervisors of our regional offices as well as, of course, the general manager, to exercise powers under this clause with respect to any loans in categories that we would specify. Probably the first category, I would think, would have a dollar limit on it. It would be intended to be a general authorization for the purpose of dealing with that category of loans.

Q. Would that mean in practice, then, that your various branch offices would be independent kingdoms, so to speak?—A. No. It would make very little difference in practice. It is a little different in the timing. I do not think our branch offices would make a loan which the board, or the executive committee would turn down. I think the understanding that now exists with regard to the standards to be applied and so on are very good, and the officers are capable of dealing with these matters. Also, every loan will be fully reported to the head office, and the records will be kept at the head office.

Q. That would be after the event?—A. In the case of the individual loan, that would be after the event, yes. That is why I think the delegated authority would have to be limited in amount.

Q. Would you care to indicate in a general way what kind of amount you would have in mind? Would they have authorization, for example, to make a big loan of over $200,000?—A. Oh, no, I do not think so.

By Mr. Fairey:

Q. The purpose of this is to speed up the service in respect to these loans, is it?—A. Yes.

The CHAIRMAN: Shall clause 5 carry?

By Mr. Macdonnell (Greenwood):

Q. I have one more question. I am sorry to be taking so much time. Would you say a word about those new words, "—or from a shareholder of the corporation—"?—A. Yes. I am not sure how much use will have to be made of this, but probably not very much. At present we have authority to take some shares of the corporation, either directly from the corporation, or as part of an underwriting, where we would be acting in conjunction with an investment dealer—that is assuming that the corporation had some unissued stock which they could sell to us. There may be cases where the corporation has not got any unissued stock, but one of the owners of the business would be prepared to sell some of his stock in connection with the whole financing of the company for the future, and where we were going to make a loan, and the question of taking some stock came up.

Q. One further question in connection with that. This leads me to ask about the nature of the powers which you take when you make a loan. You used words yesterday, I think, to indicate that they were very ample. On the basis of that, one might say, if you are a creditor, what good does it do to expand your position as a shareholder, which is junior to a creditor? It has been suggested that there might be a case where the control of a company might be useful. My question is this: would you explain just what strengthening of your position comes from the acquisition of shares from a shareholder, when you already have, I presume, very ample powers under your agreement, in the senior position of a creditor?—A. Yes. I think you really want the answer to a rather broader question: why do we ever take shares in the corporate stock as well as being a lender?

Q. Yes, I think that would help me to understand it.—A. It is true, we do not have very many cases where the applicant wants us to take an equity position. It sometimes does arise through his initiative, and it sometimes arises from our initiative, where the total amount needed by the business seemed pretty large in relation to what other people had put into it. If we were asked to make a relatively large loan, and that loan represented a substantial portion of the total amount of funds invested, or going to be invested in that company, and therefore it looked as though we were being asked to take the major part of the risk of the entire enterprise over the next few years, or longer, we would be inclined to say: we cannot do that merely as a lender. We would not be justified in going that far purely as a lender with a fixed amount of money and a fixed interest rate. But if you want us to go that far and take more of a risk than we should take as a lender, or more than any other investor would take, the excess amount, it seems to us, is of the nature of equity investment. Naturally that has some risk of loss, it is true, but there is also the possibility of profits greater than would be received merely by a rate of interest.

Now, we feel it is the intention of the act that we should be able to, and should do that in appropriate cases, although, as I say, it does not happen very often. I would not want to be in the position of either, on the one hand, turning down a request for assistance by businesses which seem to have pretty good prospects or, on the other hand, of taking three-quarters of the risk, and somebody taking 90 per cent of the profits. It is just a question of business judgment. We would try to apply, on a reasonable basis, the same standards as another investor would do. For instance, you have seen public financing by way of convertible debentures; we might do that on occasions. There might be public financing by buying a bundle, a packet, consisting of so many debentures, and so much stock. We might conceivably do that.

Q. Have you ever done that?—A. Yes. I am not sure of the identical form it has taken. Usually it is preferred stock that we would be taking, but also common stock, in some cases.

Q. I am interested and a little surprised at the use of the word "investor". I thought you were a banker. I knew a case where a banker was asked to take certain securities in a reorganization. His reply was that he was not an investor, but was a banker. The answer given him was "you may not have intended to be an investor but you have become an investor". The impression which you have made upon me, and it may not have been your intention to make that impression, is that you are an investor.—A. I think we would have to decribe ourselves as investment bankers, would we not?

Q. I am serious, though.—A. So am I. I think that is a phrase that is properly applied to an institution of this sort.

Q. I mean, frankly, I would be rather uneasy if I felt you did regard yourselves as investors. Let me make it clear, Mr. Coyne; the impression you gave me the other day was not that at all; but you have used the word "investors" twice today.—A. I stand open to correction there. I do not mean an invester in the sense of someone who is going to buy stocks and keep them for a long, long time as a revenue bearing investment. We do so only with a view ultimately of getting out when the business could be financed in other ways. We would not continue, for example, to hold common stock in an enterprise—not for very long at any rate—after it had paid off its loan to us.

Q. You buy for protection.

By Mr. Fulton:

Q. Do you buy for protection, or for profit, or for both?—A. Both.

By Mr. Carrick:

Q. It might even be an agreement to resell to the shareholder from whom you puchased the stock, I presume?—A. That would be possible. It would certainly be desirable that we give the shareholder the first chance of buying the stock, other things being equal.

By Mr. Fraser (Peterborough):

Q. Have you ever had to buy shares in order to get control of a company? —A. No, we have never taken that position.

Q. That is not the intention here?—A. No.

The CHAIRMAN: Shall clause 5 carry?

By Mr. Vincent:

Q. Would you more likely buy preferred stock, or common stock? What would you buy preferably?—A. It would depend so much on the circumstances of the individual company, and the kind of financial structure it already had. I would hesitate to say there.

Q. I mean— —A. We have done both, I know.

Q. You have done both; but would you prefer to buy preferred stock, or common stock?

Q. You are not protecting your investment with the common stock alone?— A. We would not only be buying common stock; that would be sort of an additional protection. What we do have in the way of protection, let us say, is a first mortgage.

Mr. MACNAUGHTON: You would have further security.

By Mr. Vincent:

Q. Would you partake in the management; that is what I mean?—A. No.

Q. You would hold common stock without partaking in management?—A. That is right.

By Mr. Fulton:

Q. So long as you had confidence in the management, you certainly would not tie yourself to that category?—A. No. We have never done so, Mr. Fulton. It is not our object to participate in management as such. It is a financing transaction.

Q. Yes. Perhaps if we put it this way; if you lost confidence in the management, you would see that the management was changed, or would you actually participate yourself?—A. Yes, that is right. We have done that, even on occassions when we did not have common stock in the company, because the business was not doing well, and our loan was in default of some kind or another, interest or principal.

By Mr. Follwell:

Q. Do you on occasions step in and run a business?—A. We do not want to run a business.

Q. But have you done it?—A. No, we never have.

By Mr. Macdonnell (Greenwood):

Q. You never have?—A. No.

Q. Have you ever had occasion to have a receiver appointed, for example? Have you got that power under your lending agreement?—A. If a loan goes into default, we have all the rights of a secured creditor, and there is practically nothing, within reason, that we cannot do.

By Mr. Richardson:

Q. Mr. Chairman, the balance sheet for 1954 shows loans and investments in the nature of $44 million.—A. Yes.

Q. What proportion of that would be loans, and what proportion would be investments?—A. I have got that here somewhere. Just a moment. At that time, at Sept. 30, 1955, we had investments in ten different companies, ten borrowers. The book value of these investments was $250,000.

By Mr. Cameron (Nanaimo):

Q. When you say "investments", Mr. Coyne, that is equity investments?—A. Yes.

By Mr. Fraser (Peterborough):

Q. May I ask a question on that? On page 11 of your annual report with regard to the profit on the sale of investments, it is a case of minus $804,000 there?—A. That is the change from year to year. It is rather awkward.

Q. I understand that is the change from year to year.—A. The year before we had a very good profit on one of our investments.

Q. On one investment, was it?—A. Or on several, I should say. Those were no longer held; we sold them out.

Q. Last year you had no profit?—A. That is right. Last year we did not sell any.

Q. Did you have any to sell?—A. Yes. We held five at the end of the year. Is that what I said? It was ten, rather, that we held at the end of the year.

Q. You held ten?—A. Yes.

By Mr. Macdonnell (Greenwood):

Q. I do not think I am quite clear, Mr. Coyne. The item appearing on page 11 is the profit on the sale of investments, shown as minus $804,000. Does that mean that it is just a case of revaluation?—A. No. The first column relates to the year 1955, and shows nil. The second column relates to 1954 and shows what happened that year. The third column is merely the difference between the two years.

Q. Yes.

By Mr. Fraser (Peterborough):

Q. You did not sell any at all last year?—A. That is right.

Q. You have not sold any so far this year?—A. No.

By Mr. Macdonnell (Greenwood):

Q. Could I ask one further question? At the time of this annual report your loans over $200,000 were $33 million?—A. That would be the authorized amount. Some of that has been paid off by now. The amount outstanding is about $23 million or $24 million.

Q. $23 million or $24 million. So of the $50 million authorized for $200,000 and over, you still have $25 million available?—A. Yes, but some of it has been committed.

Q. How much?—A. I am not sure, but somewhere between the $24 million and the $35 million that you mentioned represents a commitment in the future.

Q. Roughly what would be the normal year's commitment for loans of $200,000 and over?

By the Chairman:

Q. What is a normal year?—A. I think these particular ones fluctuate a good deal from year to year. I do not think I can give an average.

By Mr. Macdonnell (Greenwood):

Q. Let me put it this way—when you ask to have this raised from $50 million to $75 million, is it with the idea that you might perhaps need something in the nature of that spread? Do you anticipate it is going to increase very much?—A. I do not anticipate it will increase rapidly. I can see the

possibility, and, from our point of view, since the act is being amended now, it would be convenient to make that change now.

Q. One more question on the amounts of these loans. You explained to us very clearly the original idea with regard to these larger loans, and that was that they were not going to be big enough to market by the ordinary bond issue method, through investment bankers. I was surprised to find that you have over $4 million all in one loan, because that seemed to me to be far outside what I would have expected to be your range. Then you have, I think, several over $1 million, and over $2 million. Those seem to me to contravene, rather sharply, the general description that you gave, and which I had previously understood to be the practice of the bank. Are these in some way rather exceptional, or could that happen again?—A. It was not over $4 million; it was $4 million. I think that one was quite exceptional. As I mentioned the other day, it was related to a defence industry shortly after Korea, and it was something, where, for defence purposes, it was desired to expand the capacity of a certain product.

Q. Could that be said in a general way of other large loans?—A. No. There may have been one or two other cases relating to defence projects, but we have made $1 million loans, and occasionally $2 million loans, for other purposes, but not very often. There are two over $2 million and five from $1 million to $3 million, over a period of 11 years. Those would be cases where all of the circumstances made it look as though the business could not get its money elsewhere. Now, you might think they could, or I might think they could. That is a general proposition; but we have to look at the facts of the individual case.

By Mr. Hollingworth:

Q. They would not all be defence industries?—A. It is perhaps a little different today, but a year ago, or two years ago, a substantial company was not willing to pay 6 per cent interest on money if they could get it for anything less, and a well established company could borrow for less than that.

The CHAIRMAN: Clause 5 carried.

By Mr. Cameron (Nanaimo):

Q. Just a minute, Mr. Chairman. Has the bank ever sold any of its debentures to the public, Mr. Coyne?—A. No, we never have.

Q. It has always been to the Bank of Canada?—A. Yes.

Q. Would that indicate that the bank is considered, among other things, as being one of the instruments of monetary policy?—A. I suppose in a very broad sense it could. Our preamble say something to that effect. The preamble to the statute refers to making monetary policy more effective. I think that was putting a little "icing on the cake". It seems to me that the operations of the Industrial Development Bank on the scale which has been true, and more or less will be true in the future, is not significant in terms of monetary policy.

Q. What sort of market would your debentures find? Would they find a ready market?—A. We have never tried it. There is a market for short-term government securities, and the Bank of Canada has been encouraging developments of that kind on the market. A number of corporations have sold short-term securities in that market, so I think that at some interest rate the Industrial Development Bank could find a market. They are exceedingly well backed, with the $25 million capital and the $7 million reserve behind them, and at the moment there is only $12 million of debentures outstanding.

Clause 5 agreed to.

Clauses 6 to 12, inclusive agreed to.

Preamble and title agreed to.

Bill reported without amendment.

APPENDIX

HOTEL ASSOCIATION OF CANADA
Incorporated

Dalton J. Caswell, Executive Chairman
Sundridge, Ontario, January 27, 1956.

The Honourable Walter Harris,
Minister of Finance,
Ottawa, Ontario.
Honourable Sir:

This brief is being presented by, and on behalf of, the Hotel Association of Canada, representing through its membership of all Provincial Hotel Associations the majority of hotels and resorts in Canada.

The brief is intended, Sir, to request that the Industrial Development Bank Act be amended to include within its sphere the hotels and resorts industry, a service industry.

The tourist and travel industry is recognized as being of considerable importance to the economic stability of Canada, and for many years tourist receipts, as a source of United States dollar exchange, have been second only to our export of newsprint.

Travel in Canada, both by Canadians and foreign travel, has continued to increase, and the anticipated increase in Canada's population suggests a corresponding increase in travel.

Travel service can expect an increasing share of Consumer spending to come their way, *provided* they offer the Consumer as good value for his money as do any of the other recreational or luxury industries.

Unfortunately in the past few years many hotels and resorts have been unable to keep pace with the expanding tourist market, and especially with improvements in accommodation and services which are required by a people whose general standard of living has so greatly improved.

In Canada the hotel and resort business largely consists of small enterprises with limited capital. Ninety-seven per cent of all hotels in Canada are of one hundred rooms, or less. These hotels and resorts are anxious to contribute to the prosperity and growth of our Canadian communities through increased travel which can only be reached through more and better accommodation provided at reasonable rates.

It has long been recognized that the prosperity and progress of a community, whether a small town or a larger metropolitan city, is as progressive and prosperous as the hotels in the community. A lack of accommodation, or poor accommodation, in any community is definitely a liability, while there are whole areas in Canada which have been, and are being, developed principally due to the development of the tourist business within that area; the first requirement being good hotels and resort accommodation.

To date, hotels and resorts have found it increasingly difficult and in many cases it is impossible to borrow money on terms reasonable enough to justify expansion, renovation, refurnishing, and the required modernization.

Better credit facilities for hotel and resort accommodation construction, or improvements, could do much to raise accommodation standards throughout the whole of Canada.

We feel that it should be possible to provide hotel and resort business with the kind of regulated and regulating credit that is available in many other industries. We do not suggest loans from the Industrial Development Bank for new hotels, but principally, as suggested, for additional accommodation to present hotels, and resorts, and for renovating and modernizing.

In the United States the Small Business Administration makes loans to hotels, while in France and in Britain the Governments there also provide financial assistance. Detailed information on this may be supplied if required.

Such money as is available to hotels and resorts in the present day market is, invariably, available only through the payment of a bonus, or a discount on the money borrowed, the bonus at times being extremely high; with interest rates at seven or eight per cent, and known to be even higher. Invariably the money is loaned on a short term. This means in the majority of cases that hotels cannot afford to borrow the money, and in cases where it is borrowed it means high rates must be charged and services curtailed in order to meet the payments.

We, therefore, Sir, respectfully request your most sincere consideration of this brief, through the recognition of the hotels and resorts in Canada, as an important Service Industry, important in the Canadian economic life and deserving of consideration.

Respectfully submitted,

HOTEL ASSOCIATION OF CANADA.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 8

BILL 51

An Act to amend the Small Loans Act

TUESDAY, MAY 15, 1956

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

74142—1

STANDING COMMITTEE

on

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Argue
Ashbourne
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Charlton
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fraser (*Peterborough*)
Fraser (*St. John's East*)
Fulton
Gour (*Russell*)
Hanna
Henderson
Hollingworth
Huffman
Low
Lusby
Macdonnell (*Greenwood*)
MacEachen
Macnaughton
Matheson
Michener
Mitchell (*London*)
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Quelch
Regier
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Stewart (*Winnipeg North*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, May 15, 1956

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Ashbourne, Benidickson, Blackmore, Cameron (*Nanaimo*), Carrick, Deslieres, Enfield, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Macdonnell, (*Greenwood*), MacEachen, Michener, Philpott, Power (*Quebec South*), Quelch, Regier, Robichaud, Viau, Weaver and White (*Waterloo South*).

The Committee proceeded to give initial consideration to Bill 51, An Act to amend the Small Loans Act.

On motion of Mr. Argue,

Resolved,—That Mr. Stewart (*Winnipeg North*) be substituted for Mr. Johnson (*Kindersley*) on the Sub-committee on Agenda and Procedure.

On motion of Mr. Hanna,

Resolved,—That the Committee print 750 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of Bill 51, An Act to amend the Small Loans Act.

The Chairman presented the Third Report of the Sub-committee on Agenda and Procedure, as follows:

Your Sub-committee met at 10.00 o'clock this day and agreed to recommend:

That the Committee at its meeting this day first deal with certain organizational matters relating to the subsequent consideration of Bill 51, An Act to amend the Small Loans Act, and then proceed to consider the report of the Bank of Canada for the year ended December 31, 1955; and

in relation to Bill 51:

That the evidence of Mr. Leon Henderson, Consulting Economist, of Washington, D.C., U.S.A., before the Banking and Commerce Committee on March 2, 1938, be printed as an appendix to this day's proceedings of the Committee on Bill 51; and that those proceedings be printed separately from the proceedings of the Committee on the report of the Bank of Canada; and

That the order of business on Bill 51 at subsequent meetings of the Committee be as follows:

1. To hear Mr. K. R. MacGregor, Superintendent of Insurance;
2. To hear representations from the following:

Canadian Consumer Loan Association
Canadian Bankers Association
Canadian Bank of Commerce
Personal Finance Company of Canada
Niagara Finance Company Limited

74142—1½

The Honourable Senator Cyrille Vaillancourt, representing La Fédération des Caisses Populaires of the Province of Quebec

The national organization of Credit Unions

3. Clause by clause consideration of Bill 51; and

That the Committee not sit at 3.30 o'clock p.m. this day as had been planned; but that it next week meet at the call of the Chair.

Respectfully submitted.

The Third Report of the Sub-committee was adopted unanimously. The Committee agreed to let stand further consideration of Bill 51.

(*Note: At 11.20 o'clock a.m., the Committee proceeded to consider the report of the Bank of Canada for the year ended December 31, 1955, in respect of which the Minutes of Proceedings and Evidence of the Committee are recorded in Issue No. 9 of the Committee.*)

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

TUESDAY, May 15, 1956.
11.00 A.M.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. Argue, you have a motion?

Mr. ARGUE: Yes. I move, Mr. Chairman, that Mr. Stewart (*Winnipeg North*) be substituted for Mr. Johnson (*Kindersley*) on the Sub-committee on Agenda and Procedure.

The CHAIRMAN: You have heard the motion gentlemen?

All those in favour? Contrary if any? Carried.

Mr. Hanna, you have a motion?

Mr. HANNA: Mr. Chairman, I move, seconded by Mr. White (*Waterloo South*), that the committee print 750 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of Bill 51, An Act to amend the Small Loans Act.

The CHAIRMAN: You have heard the motion, gentlemen.

All those in favour? Contrary if any? Carried.

The CHAIRMAN: The reason we brought that up at this time is that we are going to go into Bill 51 very briefly right now for the purpose of having certain evidence from the 1938 evidence of the Banking and Commerce Committee printed and made available to the committee.

In 1938, before the Banking and Commerce Committee, there was evidence by Mr. Leon Henderson who had been an economist with the Russell Sage Foundation. The Russell Sage Foundation was a philanthropic foundation which specialized in sociological problems. It originally had made an intensive and prolonged investigation into the "loan-shark" business. It was as a result of their investigation and recommendations that the 48 states of the United States have their Small Loans Act. His evidence was given in an extremely impartial way, and I thought that, since it had been given in such an impartial and detached way, it would be of value now to have it before this committee. Therefore, as a result of that, I am going to ask you to approve the third report of the Sub-committee on Agenda and Procedure, as follows:

(Note: See Minutes of Proceedings of Third Report of Subcommittee on Agenda and Procedure.)

The CHAIRMAN: I thought the committee could decide that they would call, perhaps, Senator Vaillancourt in connection with the credit unions. We could find out who would be a suitable person to represent the national association of Credit Unions and we would endeavour to get a representative from that organization.

Then the next order of business on Small Loans would be a clause by clause consideration of Bill 51. Further, your sub-committee recommends that this committee will not sit at 3.30 p.m. this day but that it next meet at the call of the chair.

Is this report of the sub-committee agreed to?

Agreed.

Mr. MACDONNELL (*Greenwood*): Mr. Chairman, may I make a comment? I am wholly and heartily in favour of the printing of the Henderson evidence, but I raise this: I have read the minutes of 1938 and it seems to me the evidence contains a lot of valuable information. I was wondering if it would be too much to ask that the whole of that be printed. It was evidence from a wide range of people, and as far as I am concerned, I think I learned a great deal from reading the whole of the minutes.

The CHAIRMAN: It is pretty bulky. I should add that the report of the committee sitting at that time will be made available to this committee.

Mr. MACDONNELL (*Greenwood*): That will raise another question. The volume that you hold up there includes all the evidence, does it?

The CHAIRMAN: Yes.

Mr. MACDONNELL (*Greenwood*): Was the report itself not reasonably short?

The CHAIRMAN: This is it, here. This will be available to this committee. We have sufficient copies to be distributed to the committee.

Mr. HOLLINGWORTH: Mr. Chairman, when will we begin consideration of the Small Loans Act? When will Senator Vaillancourt appear?

The CHAIRMAN: I am not sure of that. I will have to let you know later.

Mr. HOLLINGWORTH: Will it be this week or next week?

The CHAIRMAN: It will not be this week.

Mr. HOLLINGWORTH: No.

The CHAIRMAN: Possibly next week, or maybe the following week. I am not sure of that, Mr. Hollingworth.

Mr. MACDONNELL (*Greenwood*): One other question, Mr. Chairman. You read quite a long list of people in the report of the Sub-committee who are going to be asked to give evidence. Supposing there is someone who turns up and wants to give evidence, who was not as yet—

The CHAIRMAN: I think in that case the steering committee can report its recommendation to the committee. These are the only people who have indicated, I believe, that they wish to appear, with the exception of the Canadian Bank of Commerce, who have not indicated that they wish to appear, but whom we wish to call. Senator Vaillancourt has not indicated that he wants to be heard, but he was there in 1938 representing les Caisses Populaires, in Quebec, and we thought we would ask him to be present.

We would also like to get an official from the Canadian Association of Credit Unions, with whom we have not communicated so far.

All those in favour of adopting the report of the sub-committee? Contrary, if any? I declare the report adopted.

APPENDIX

EXTRACT FROM THE MINUTES OF PROCEEDINGS AND EVIDENCE OF THE STANDING COMMITTEE ON BANKING AND COMMERCE OF MARCH 2, 1938, RESPECTING SMALL LOAN COMPANIES, BEING THE EVIDENCE GIVEN BY

MR. LEON HENDERSON,

Consulting Economist, of Washington, D.C., U. S. A.

The WITNESS: Mr. Chairman, Mr. Minister and members of the committee. My name is Leon Henderson. My present home address is Washington, D.C. I am a consulting economist for various government agencies, such as the Works Progress Administration and the National Resources Committee; but I am also engaged in private work and work with State and local governments.

For eight years, beginning in 1925, I was Director of the Department of Remedial Loans of the Russell Sage Foundation; that is, from 1925 to 1933 inclusive, when I left to become chief economist for the National Recovery Administration in Washington. In that eight year period there was a dynamic quality to consumer credit which made it one of the most interesting phenomena, I think, of the period that we know as the boom period in the United States; and we were beginning at the Sage Foundation in research to have some vague intimation of the part that consumer credit plays in the economic process.

The Russell Sage Foundation itself is an endowed institution, and I quote part of its charter—"for the improvement of social and living conditions." It is generally thought of in the list of American foundations as the one which has devoted its research to social and welfare affairs while, for example, in a similar field, the Rockefeller Foundation has devoted its research to medicine and education. The Foundation was endowed by Mrs. Russell Sage, and it has been an independent enterprise. One of the first excursions into the causes of poverty was in this field of consumer credit, or, as it was then known, remedial loans. Mrs. Sage inherited quite a large fortune from the capitalist, Mr. Russell Sage, and she was besieged as well as beseeched by literally thousands and thousands of people to come to their rescue and aid with some part of this inheritance. As a result she set up quietly a staff of investigators and almoners, and one of those to whom I had talked at rather great length is now in charge of the United States Employment Service W. Frank Persons.

One of those investigators and almoners would go around to find out why it was that people and families were in such dire straits that they would write such pathetic letters, and he found literally hundreds and hundreds of loan shark cases. So the first investigation was begun under the general direction of two Columbia professors with two graduate students, Arthur Ham and Clarence Wassam. That work has continued fairly uninterruptedly from 1907 down to the present time. There was a break during the war period. But there have been four directors, one of whom was an acting director in that period, and it is pleasant to survey a condition stretching over thirty years and find that four directors have never had a single large disagreement as to principles involved in consumer credit. There has been this continuity and constance of opinion. I say it is pleasant because the area of conflict of ideas in economic matters and consideration seems ever to be widening, and it is nice to find a calm place. Therefore, though I do not represent the Russell Sage Foundation today, I believe I can say that I represent their point of view and that of the other directors who have been with the Russell Sage Foundation.

Just one small observation as to the relation of credit to the economic process, which I think is worth while. I said that in that dynamic period of the United States boom of the twenties we began to feel that there was a definite relationship between the amount of consumer credit being extended

—that is, instalment credit, small loans, loan shark credits, credit unions, industrial banks and bank loans for consumptive purposes—and the acceleration that was taking place in the whole credit structure. We were a bit apprehensive as to what would happen once there was a puncturing of the boom.

I must say that it was not possible until the last few years to really get any kind of measurement of the feeling as to how important this consumer credit extension is to the business cycle. But I can say most sincerely, first, that we know that its accelerating qualities in the boom are tremendous and that its aggravation of the decline is so tremendous that no industrial country which is influenced largely by credit can escape taking notice and perhaps looking towards some type of control or regulation of the various forms that this credit takes.

We estimate that the open book credit, plus the instalment credit and all forms of lending pawnbroking and things like that, attained a status of $11,000,000,000 in 1929, and that we had returned in the United States to that figure and perhaps would have very soon exceeded it by the middle of 1937. There is just one figure to which you might relate that. The total volume of retail sales in the United States in 1937 will be something of the order of forty billion dollars. So that you can see that this eleven billion dollars available for the investment market.
it has to be liquidated in a short time, as it must by its nature and character, exercises a tremendous effect on the business cycle and tends to aggravate the amplitude of the swing.

There is one other very large factor which I will not take much time to discuss this morning, but it is of extremely high importance in the American economy at the present time. We have an inbalance as between savings and investments, which is very, very substantial—

Mr. MARTIN: What is that?

The WITNESS: The inbalance as between savings and investments—new investments. That is, we are not finding as we did in our dynamic period, an outlet for all the savings. That is partly due to the fact that our savings are concentrated in the higher brackets. Where we had, say in one high bracket in 1929, a billion dollars of income, the personal expenditure of that particular group did not exceed eighty million dollars, leaving over nine hundred million dollars availabe for the investment market.

The American economy has got to a stage where it is not expanding fast enough to take up this saving which in 1936 was probably in the order of about six billion dollars. Up to that time, government financing had tapped the market and the amount of durable goods, plant extension, was being paid for largely from depreciation accounts which had been unspent up until that time. And a part of the dearth of the market for plant expansion and new issues very definitely can be traced to the fact that our industrial empire is not expanding, certainly not at a rapid rate. But the more important thing is this, as it relates to purchasing power: if we assume that there is six million dollars of savings in any one year, and that is not called up by the investment market, then there is a lack of equilibrium between the purchasing power produced at the production end and the purchasing power at the consumers' end to take goods off the market. Now, in the twenties a part of the excess of savings that was not being taken up even then by our capital market was drawn into this consumer financing.

Hon. Mr. DUNNING: What we call here small loans?

The WITNESS: Small loans. But, Mr. Minister, we have extended at the Sage Foundation our definition from small loans to consumer credit. In fact, what was the department of remedial loans and what was our small loans research now have become consumer credit.

Mr. TUCKER: Would that include instalment buying?

The WITNESS: Yes.

Hon. Mr. DUNNING: Instalment financing generally.

The WITNESS: Instalment financing generally, pawnbroking, and all loans that are made for consumer purposes, the extension of credit, including open-book credit.

Now, when a part of the savings which ordinarily would go into the capital markets and would become really productive equipment is drawn off for consumers' goods and then you get for any reason, cyclical or otherwise, a diminution in general purchasing power being made available to consumers, there is this pressure to liquidate consumer credit, and you have very, very quickly the money being paid currently on instalment accounts, on small loans, and on retail credit going back into capital account. That is, it is again available for capital expenditures but since in a declining market or on the down-side of a business cycle there is no huge demand for funds for investment, there is an accentuation which may or may not account for some of the continuance of possibilities of cheap money. I have gone to some length on this because it seems to us—when I say "us" I am speaking of the labours of the Russell Sage Foundation and using their terminology—that entirely apart from the social considerations that have moved us in the past to look for regulation of lenders and protection of borrowers, there is this large cyclical matter which is bound to engage the attention of any government, particularly with the growing pressure for intervention of all kinds by government in economic affairs.

Hon. Mr. DUNNING: And because of its effects on the general economy.

The WITNESS: That is right. I had that very definitely in mind, Mr. Minister. There is this growing pressure, and if there is no control at all then you would have left out of your scheme of reckoning something which is of high and extraordinary importance.

The general types in the United States of small loan extension entirely apart from open books and instalment credit are the institutional agencies such as credit unions and personal loan departments of banks, semi-philanthropic agencies, what would be called the mont-de-piété in France, and the personal finance companies which are the commercially regulated lenders. Now, the Russell Sage Foundation has spent several hundred thousands of dollars in research since 1907; but its initial aim, as I say, was to eliminate the loan shark. It very quickly found that although you might have alternative sources growing up, such as philanthropic funds—and one of the greatest pools of money that is available to poor people in New York is the semi-philanthropic fund, the public loan societies—as alternatives to the credit union there still remained a wide area that needed to have a general supervision because of its impingement on society. That was the field of commercial regulation. So the Russell Sage Foundation for a long time has been working on an analysis of the causes of borrowing and how it might best be approached in regulation. That has pretty generally been by means of the recommendation of the uniform law, which is a model law now in effect in about twenty-seven states. These twenty-seven states pretty largely include the states with the largest industrial population in the country.

Hon. Mr. DUNNING: Excuse me for interrupting you, but in the United States there is no question of jurisdiction. Jurisdiction is wholly state, is it not?

The WITNESS: That is right. In fact the interest provision is written into many state constitutions.

Hon. Mr. DUNNING: It does not enter into the picture.

The WITNESS: No. In the NRA we felt that there was interstate commerce of a character which would allow us to require a code for companies, but that

would be mainly for purposes of getting labour standards rather than for practices; although there was a very definite drive in the NRA to establish consumer protection, particularly for a clear statement of the rates that would be charged to borrowers.

Now, the Russell Sage Foundation considered world legislation and world attempts at money lending. There were pretty generally three kinds of methods used. One was the free market, sanctioned by Jeremy Bentham and which stated pretty generally that contracts were relationships between the borrower and the lender and that they were no different from any kind of contract or relationship. There was the restraint type which assumed that the lending of money in small sums ought to be forbidden, even up to the amount of prohibition, or that it ought to be under restraint. We had consideration of freedom of contract, restraint or prohibition, and as you probably know, in England the leaning is now towards the free market and restraint. I have been through the Australian and the Straits Settlement legislation pretty generally, and I have made a study of the legislation in the entire British Empire. Their legislation has tended to be modelled on the British statement of 1900 and 1927; but it is interesting to notice that increasingly they are having to widen the area of state intervention and supervision, and also—and this relates to what I have said before—attention is being given to bring hire-purchase agreements under some sort of general supervision and regulation.

Our first draft of the uniform law required the licensing of money lenders on bond, a flat statement of the charge, and that required a dip into ice-cold water. The first rate was three and one-half per cent a month on unpaid balances, because the Russell Sage Foundation felt that very definitely the borrower ought to be put on notice as to what his charge was, and that a high charge would be a deterrent. There was provision for the keeping of records, the type of security and more than anything else, however, even in its earliest days the uniform law very definitely went towards assessing the responsibility through some public officer. That is the keystone upon which the uniform law and its succeeding draft have been built. That keystone was the public officer. Under that system we made a strict and clean cleavage and departure from the English System. We felt that there was no other way to afford a borrower that kind of protection that he needed. Now, as to that restriction and as to whether or not the rate does prevent too wide an expansion of borrowing there has been much controversy. But I checked the amount of borrowing in Minnesota, which is a loan shark territory and has no regulation, with New Jersey, one of the most industrialized populations that we have, and found that it was almost the same. In other words, whether the rate was about twenty per cent per month as in Minneapolis, St. Paul and Duluth and some of the other cities—

Hon. Mr. DUNNING: We are just getting our breath after hearing you mention that rate.

The WITNESS: Twenty per cent per month is the prevailing high rate in the United States. If I might put a peg rate there I will say that in the states that have not adopted the uniform law the prevailing rate of charge is twenty per cent per month.

Mr. HOWARD: Without endorsement?

The WITNESS: Without endorsement; but very frequently it involves a pretended sale of wages. It is collected—

Hon. Mr. DUNNING: They buy so much of the man's wages?

The WITNESS: Yes, any types of usury that he can get away with. The volume of business at twenty per cent per month in Minneapolis, which is the rate at the present time, is almost equal per capita to the amount in a regulated state.

Hon. Mr. DUNNING: Like New Jersey?

The WITNESS: Yes, which proved to us that, of course, the demand was there; that it arose out of the conditions of the people rather than being stimulated by the existence of the available agencies.

Hon. Mr. DUNNING: Then, to complete that picture, what is the prevailing rate in New Jersey, the regulated state, with which you are making a comparison?

The WITNESS: Two and one-half per cent per month on the unpaid balance.

Mr. PLAXTON: Is that a flat rate applicable to all classes of loans?

The WITNESS: Yes.

Mr. DONNELLY: Do you mean on a small loan, under $500, or what do you mean?

The WITNESS: In New Jersey it is $300. The limit of the uniform law has been $300 and that been kept at $300 regardless of the fluctuation of the population, partly for constitutional reasons and partly because our experience showed that while there were a number of other agencies, this was the proper flat limit.

Mr. VIEN: Would that be inclusive of all charges, and disbursements?

The WITNESS: Yes.

Mr. VIEN: All inclusive?

The WITNESS: Yes, excepting where there were state laws which would require some kind of registration fee which would necessarily affect different companies.

Mr. COLDWELL: What is the rate in New Jersey?

The WITNESS: Two and one-half per cent per month on unpaid balances.

Hon. Mr. DUNNING: Covering everything?

The WITNESS: Covering everything. I shall come to the discussion on the rate later. I welcome this kind of interruption, because I have been a school teacher and public speaker for years. In that way I have felt the force of heckling and interruptions. It has been rumoured that I like it. This uniform law which was adopted first by the Russell Sage Foundation in 1916 has had several modifications. I am not going to take you through the techniques of them, but simply to point out that there has been a decided shift of emphasis due to the experience of the 1920's. The Russell Sage Foundation felt very definitely that there was a place for a business to render a typical business service in this field. It felt that if it were legitimatized there would be capital available. It was not, however, until the late 1920's that the ordinary facilities of the market were available to small loan companies, so great was the taint on money lending and so great was the confusion as between money lending companies under strict scrutiny and supervision and the vicious loan shark practices, amounting to rackets in many of our cities. But the Foundation had consistently been changing the nature of the public officials responsibility under sections 3, 4 and 5 of the draft, and even giving encouragement to the exchange of information among the supervisors of the various state laws. And out of that has come a decided advantage, and by the late twenties when they had begun to meet the test which our security market puts upon the business and when we had become convinced that there were in the picture several corporations, competing corporations I should like to emphasize, whose responsibility and whose acceptance of responsibilities were equal to and higher than most of the American industries, we thought that there had come a time in which the emphasis on small loans could be shifted. I want to mark that particular point, because

there has been confusion about the Sage Foundation and the small loan business. Too often it has looked as if the Sage Foundation and the small loan business might have stemmed from the same general body, and of course it was to the advantage of those who are opposed to small loan legislation to magnify that as much as they could. There has never been a time in which the Sage Foundation has not wanted to work within the existing frame-work of free enterprise and capitalistic venture, ever striving to bring about the kind of business service in this field through business agencies rather than from the angle of state subsidies, state socialism or anything like that. In all our pamphleteering and all of our appearances before legislatures there has always been that emphasis, and that emphasis still is there, mainly I think because very gratifyingly the corporations that came into this business and those that remained in this business met the test pretty well. I had an opportunity under N.R.A. to see what the code of ethics is in practically all American business. I can say unqualifiedly particularly from my close association with the lending business that if anything the lending companies exceeded American business generally. They had found probably that it was good business, and they had found they were under a stricter pressure. They were under almost constant legislature restriction of course, because of their high rate, and if I say so, I do not believe that they ought ever to get to the place where the public official takes his finger very far away from their neck. I think that is a very good thing.

Well, then, the trend of emphasis was very definitely to administrative control. There has been a large development in the United States, as you probably know, towards administrative law due to complex conditions and due to the fact that the general principles no longer are able to be used for ordinary executive administration; and our emphasis is very decidedly shifted. In our sixth draft we shifted very definitely towards an increase in the powers of the state supervisor. We shifted to a demand for official responsibility, because we found that if the amount invested was too small there was a pressure towards unfair practices. We wanted to establish what amounted to a certificate of convenience and necessity of the community before a small loan agency would be permitted in a community; and I think our New York experience has been very very helpful, because by putting the responsibility in the banking department for small loans—

Hon. Mr. DUNNING: The state banking department?

The WITNESS: Yes, the state banking department. Then when they took up the question of a certificate of necessity and convenience for the community they did it with very very high standard rather than as to whether it was an outlet for somebody to make some money; and also as to the character of the applicant who was at the door asking for a licence. In addition to that we went into a wide reporting system, and I have brought, for the purposes of the committee, from the Sage Foundation several copies of a suggested report which most American states having uniform laws now employ. It will give you an idea of how vigorously we have tried to pursue the elusive question which accountants ordinarily cover up as to what earnings and costs are. And again, the desirability of a state supervisor getting reports which are available for comparison year by year within his own jurisdiction, and for comparison as against other jurisdictions, and for reference by means of specific data on offices, which we have also urged. That to my mind has been one of the best things towards driving the rate to that rate which is economically necessary for carrying on the business.

Now, we have relied on three things for competition: One has been the competition as between the licensees, and while I never as director fomented inter-company disputes I never took a pessimistic viewpoint if one of the

corporations and another one were to get into some sort of competition which led to betterment of borrowers' rates and protection. There was the competition of other alternative sources of lendings, such as the Morris Plan companies—which are of the Taxative character—and then the personal loan departments of banks became quite competitive. There were also the credit unions and other agencies. But we relied also on the supervising agencies' regulations of putting a burden on the lender to meet the terms which they thought necessary. That is, we felt that you could be crowding the maximum rate down to a lower level constantly, that you could shift the burden to the strongest member of the contracted relationship to find a means of doing business and of making a profit; and that has worked out very well. I can recall that when I first came to the Foundation it was assumed that 3·5 per cent would always remain the rate even if you got cheaper money and cheaper loan bank methods like that; and it is very gratifying to know that that rate has been reduced by them voluntarily, and because of this pressure of the supervised states.

Hon. Mr. DUNNING: It has been reduced now to two and one-half per cent?

The WITNESS: It has been. I am going into a discussion of rates pretty largely.

I forgot, Mr. Chairman, to make one other statement as to myself. While in my capacity as consulting economist, and while out of government service in 1935—in fact while I was teaching at the University of Miami—I made a study for Clark—Dodge and Company, New York bankers, of one company which had applied to them for financing the Household Finance Corporation. In other words, I represented the company which was considering whether it would underwrite the issue of security for one of the leading small loan companies. In that capacity I was able to demand income tax statements from the loan company, break-downs, and accounting analyses, and things like that, that had never been freely available to me when I was with the Russell Sage Foundation. In that way I added to my knowledge tremendously. I, of course, was paid a fee by the banking house as a consulting economist. I will speak of that when I get to the rate changes.

Now, this period around the twenties with which I am more familiar saw several changes. It was to see the bank loans, and to see the companies tapping the security market. It was also a time of general endorsement by social agencies, better business bureaux, local aid societies, junior chambers of commerce, labour unions—Mr. William Green, President of the A. F. of L. has endorsed it, Governor Lowden, of Illinois, Governor, and later President Wilson; and Calvin Coolidge, as governor, had signed a small loans bill; and Franklin D. Roosevelt, Governor of New York at that time, signed a change in the New York bill that I was sponsoring at the time for the Sage Foundation. New York had had a rate which was equivalent to about 2·25 per cent over a period of something like eleven to fourteen years, and no lending of any great amount had ever gone on under that particular rate, and the loan-shark had come in and had taken the place of the lending that had been contemplated by the licensing department. Through the assistance of the banking department and our work the attorneys-general conducted a loan-shark drive, and the recommendations of the general committee did away with the difficulties and expended their loans, and the National City picked up from that. It was also recommended that the state small loan law rates be increased, which was done under the last term of the Franklin D. Roosevelt administration there. We had a new period of very fruitful experience, which was very painful for me at times because of the work it caused me. But some of the states were reducing their rates. Some of the states that were adopting the law were changing their rates, and others were almost rendering their small loan

law inoperative by a reduction to too low a rate. I was going to speak very briefly about five of them as I know them. One of them is New Hampshire, and New Hampshire reduced its rate so that practically all licensed lending left the state. New Jersey, after a violent fight in the legislature, reduced it to one and a half per cent. The lenders left the state and as a result pretty largely the business shifted into New York and Pennsylvania, particularly Pennsylvania. Later the state raised its rate to two and one-half per cent where it had been before. Wisconsin moved its rate down until I think the effective rate is about, as I recall from my Clark-Dodge study, about 2·27 per cent—it is something like that; but that gave a monopoly almost to one group. At the time I made my study between eighty-five and ninety per cent of all the business was being done by one loan company in the state. Missouri reduced its rate to below what we thought was the minimum rate, two and one-half per cent, regardless of how it were fixed; and Missouri has had a resumption of loan-shark conditions to such an extent that the attorney-general and the Better Business Bureau are moving now towards the restoration of a higher rate. The West Virginia experience was what you might call a theorist's dream. We had predicted with great brashness that if the rates were reduced from three and one-half per cent in that state, which is rather sparsely populated, licensed lending would go out and twenty per cent lending would come back, and it happened within three or four months. As I say in connection with these theorist dreams, too often your prognostications catch up with you and destroy you. This one, however, validated our general research experience and testing of these states.

Other states, however, began to adopt our six draft recommendation, which six draft recommendation was what we would call a graduated rate; and pretty generally we would allow three and a half per cent or three per cent per month on the first hundred dollars of a loan and two and one half per cent on the balance above that. That is, if a loan were for two hundred dollars, you would pay three and a half per cent on the first hundred dollars and two and a half per cent on the second hundred. When the loan was paid, you paid off the cheap money first. You paid off the two and a half per cent money first. A number of states experimented with reductions of that order and very successfully. To my mind there was no real abandonment of the service to which the borrowers are entitled.

By Mr. Martin:

Q. What was the increase in the rate in New York State under Mr. Roosevelt—from two and a half per cent to what?—A. Rather than trust may memory, I will look it up. It was to three per cent per month on the first one hundred and fifty dollars and two and a half per cent on the balance.

By Hon. Mr. Dunning:

Q. That is the present rate in New York?—A. That is the present rate in New York. I think, without making a very serious study of this, with the cheapness of funds, that rate can probably be reduced by some variation of this joint rate. The New York supervision is very, very good. Under this amended law we stiffened the penalties and lessened the possibilities of law evasion and things like that to such an extent that when Dewey was prosecuting the racketeers, he sent one hundred and forty loan sharks to Sing Sing under that law. There is a distinction between this uniform law and what are permissive rates—extra, beyond the normal legal rate—such as the credit unions, industrial banks or personal loan departments of banks enjoy. They are permissive rates granted for purposes of competition and so forth, but do not allow the state to exercise, in an administrative way, the enforcement of

the law. In a state like New Jersey or New York, the alertness of the racketeers is well known, and in the absence of anything except competition from other lending, very quickly would build up bad practices if the state supervisors did not have this weapon constantly available.

By Mr. Martin:

Q. Mr. Henderson, having stated that you think the present New York State rate could be whittled down, would you care to state what would be the minimum in the whittling down process, in your judgment?—A. I think that the $150 limit on the three per cent rate could be brought down to $100 and two and one half per cent on the balance, fairly easily. The costs of doing business in New York are higher than they are in other places, but I am quite sure that that could be done.

By Mr. Edwards:

Q. All charges are included in that, are they?—A. Yes. As I recall, there is no other charge.

Q. No registration fee?—A. No.

By Mr. Tucker:

Q. Is that by endorsement or a chattel mortgage?—A. No. That is mainly on the personal loan business which covers wage assignments and chattel loans.

Q. Do they not have to register the chattel mortgages?—A. No, they do not have to register. That is usually optional with the lender under this.

Q. Yes, but to protect the security I would think they would have to register the mortgages?—A. Curiously enough the mortgage—the furniture is not the lender's protection. He would go broke if it were. I came to the conclusion that the best way to beat the game, if you ever wanted to, was to find some way tapping the general flow of wages and vesting your security in the honesty of the common, ordinary person. His reliability with regard to payment and his guarantee of payment is probably the best security in the world today. Very seldom are these chattels or these mortgages ever used. I have here Illinois, and they keep a record of the suits and repossessions. They had something like 317,000 loans outstanding at the end of 1936 in the state, which would mean, roughly speaking, at least a half a million of loans had been made. They had 291 sales of chattels and 263 of them were automobiles. I mean, the use of the mortgage is at a minimum. The dependence mainly is on the fact that the person has to have the money, and is reasonably grateful to be able to borrow it in a quiet, decent, business like way; and he is very anxious to keep that credit. To my mind, it is very difficult for most of us to get down and understand the real service which a small loan company performs.

By Mr. Coldwell:

Q. May I ask you a question, Mr. Henderson? How far back do your records go with the State of Illinois? What I have in mind is that in 1936 the repossessions were very small; but in a very spectacular decline, like that of 1929, how would seizures be under those conditions?—A. As I recall, they were not very large. In fact, the American Association of Personal Finance Companies made an engagement with President Hoover, I think, which they later continued under Roosevelt, that they would examine into any threatened foreclosure and if it was unfair—if there were not elements of dishonesty on the part of the borrower and things like that,—and if there was a real lack of capacity to pay, they had a special committee to try to work it out. That

was one of the most gratifying experiences from the standpoint of the Sage Foundation of Research. That is, there was pressure on the borrower to pay, the same pressure that goes on all the time as between debtor and creditor; and perhaps with the loan company they have better techniques of collecting. But it met the test. The small loan lending pretty generally met the test.

I wanted to touch on something, without being too sentimental. The thing that I have like about the Sage Foundation, before I went there, while I was there and later, is that they were realistic. They were not interested in hypothetical solutions and things like that. They wanted to see something done and done quickly today, not forty years in the future. They very seldom got sentimental about the small loan law. We felt that, entirely apart from these high questions of lofty service and ideals that business speaks about, the thing would stand on its own feet, and it did. As to the necessity of having loans, there was never any doubt in our minds. Each succeeding year of research convinced us that consumer credit,—the necessities for borrowing—were increasing, that in the absence of a decent place to which borrowers could and would go, you would compound the distress, and that the service which the lender rendered in a business-like way was far in excess of what was ordinarily realized. As a result, we maintained our position on the flat rate. We defended the lender. We kept on with the research. It would have been easy at times for the Sage Foundation to drop this thing and say, "we have done all we could do." But they kept on because they really believed in it.

By Hon. Mr. Dunning:

Q. Might I ask you a question just here, Mr. Henderson? The trend of your experience would appear to indicate that you believe that regulation of the loan shark by criminal law is not really effective; that, in fact, regulated competition with the loan shark is much more effective? Have I gathered your thought correctly?—A. Absolutely.

Q. Why is it that the criminal law is ineffective? It is a crime to charge the twenty per cent rate, I suppose, even in Wisconsin. Out in Minnesota, it is a criminal practice, is it not, to charge this?—A. Not in some states if it is expressed in certain ways; but in many states it is a criminal practice, yes.

Q. Just why is the criminal law not effective?—A. The main thing is that the borrower needed the money in the first place. That is the reason why the borrower seldom undertakes to prosecute a loan shark. The second is that under an illegal business, there are all types of concealment. The third thing is that you have got to go to court, which costs money, and very often the courts do not understand as well as the supervisor gets to understand.

May I go back to my first contention. It is because, regardless of that high rate, the borrower who needed the money desperately in many cases feels that he made the contact and he got the money—what is it our President, Calvin Coolidge, said—"They hired the money, did they not?" He was speaking of war debts. I have interviewed literally hundreds—probably thousands—of borrowers; but until the loan shark gets into racketeering, very seldom is there an outcry.

Q. You spoke of a drive being made by the Attorney-General?—A. Yes.

Q. Just what does that mean?—A. The Attorney-General in the State of New York invited the borrowers who were being fleeced to send their complaints to him. We were working with him behind the scenes, somewhat. We supplied the technique. I might as well say that. There had come, from out of the unorganized territory in the south, chain loan shark groups that established what we call salary buying companies, twenty per cent per month companies,

all along the New York Central lines and so forth. One company had gotten is high as $128,000 out of the city.

Q. At 20 per cent a month?—A. Yes, at 20 per cent a month. From a net investment of about $16,000 they ran it up until it stood at about $128,000 and their net income per month was nearly what their investment was. You can have a drive against that, but if you do not have alternative sources, they come right back.

Mr. FINLAYSON: Were the regulated companies doing business in those districts?

The WITNESS: No; that was in 1928 before the small loan law was changed. The loan shark business as generally practised has escaped the sporadic drives because—I do not know why I should not say it—next to the politicians they are the smartest understanders of human beings that I know of. They always get out in a place where they do not get blind red action against them.

But if the racketeer comes in, that is, of a criminal instinct rather than just an off-colour bootleg kind of fellow, then it is very difficult to get to him under the criminal law unless you have a long campaign by a very intelligent supervisor with some help. The law will not keep the racketeer from trying something, because he will use force.

Hon. Mr. DUNNING: There are all shades in criminology, really.

The WITNESS: In New York we had a lot of automobile lending, and there they would go out and bump a fellow on the head and take his car from him if he did not keep up his payments.

Mr. TUCKER: Where was that, in New York?

The WITNESS: Yes; in 1928 and even recently.

Mr. TUCKER: One of the things you mentioned was this: You said that in New York, coincident with a change in the rates, steps were taken whereby over one hundred people were sent to jail. At that time there were these legitimate companies operating in the States, but apparently as you state, they were forced to operate at a lower rate and they were willing to do business. You said coincident with your raising of the rates under the administration of F. D. Roosevelt you actually made a drive against the loan sharks.

The WITNESS: Pardon me. The first drive was in 1928; the law was amended in 1930. In 1935 the racketeering ring in New York got into the loan shark business, particularly on automobile loans rather than small family loans and built up a very terrifying business. But Dewey struck it down by using the penal features of the law as amended in 1930. So there were two drives.

Mr. TUCKER: Then was it the drive in 1930 or the one more recently in 1935; which did you say?

The WITNESS: 1936 and 1937.

The CHAIRMAN: Mr. Tucker, the people in the rear of the room are trying to hear you but can not. I think you had better speak a little louder.

Mr. TUCKER: What I had in mind was this: I take it that after the bill was passed by the Roosevelt administration in New York these companies were operating thereunder, still the loan sharks entered the field?

The WITNESS: That is right.

Mr. TUCKER: And it was then necessary to crack down on them very drastically by criminal law?

The WITNESS: That is right.

Mr. TUCKER: Does that not indicate, then, that when they enter the field even at this rate there is the type of borrower that the legitimate companies will not lend money to, and that you are, after all, only covering part of the field. If it is necessary to cover the field with the criminal law, why can you

not cover a wider area than you are trying to cover? You have got to cover it anyway to protect certain people from racketeering practices, so why can you not cover it in regard to people who legitimately borrow and who do pay back—people to whom legitimate companies will loan money?

The WITNESS: Most of this lending racket that Dewey broke up was in New York city. It was in connection with automobile loans rather than with what we call family loans or the usual loans made by the licensed loan companies. A lot of those loans were made ignorantly; that is, the borrower does not know the difference between a licensed lender and a non-licensed one. These racketeers had pluggers and cards and solicitors—all the trappings and pull-in stuff that the old loan sharks had, and once in, he was pretty tightly held. Now that was being done, as I say by a criminal class, a racketeer class tied right in with the big ring in New York. And that thing cannot, in my opinion, either be stamped out by competitive lending—I make no claim here as I want to be very careful on this point. You can have thirty million dollars out by the National City Bank in small loans, you can have fifteen millions dollars out by the credit unions, and you can have three or four millions out by the personal loan companies, and in a large city the size of New York, you can still have that kind of viciousness. There is no way, Mr. Tucker, of meeting a doctor's bill by the criminal law. That is the reason for small loan licensees. You can make usury a high crime—flogging, or death to the lender and borrower both, but that will not meet the needs and the demands that come from emergencies that spring up in the low income group.

Mr. TUCKER: But if you have got to send people to Sing-Sing, as you say, even though you provide these facilities, then the actual borrowing of the money at these high rates of interest does not arise out of the needs of the borrower but out of the activities of the lender; otherwise, if these people could get money at cheaper rates you would think they would get it and not go to the loan sharks. Why is it necessary to have the criminal law on top of that and send people to Sing-Sing? It must be that it does not arise out of the necessity of the borrower so much as it arises out of the tactics of the lender.

Mr. EDWARDS: It strikes me that it does arise out of the necessity of the borrower rather than out of the activities of the lender.

Mr. TUCKER: Then these companies cannot be covering the field.

The WITNESS: The small loan companies, licensed companies, do not cover by any means the entire field and the demand for loans. There is no question about that. We used to have at my office a constant stream of people coming in for whom there was no agency available that could loan to them, I mean, at the ordinary going rate, as the risk was entirely too great.

Mr. TUCKER: But these companies only cover the people who are able to pay, who are good risks, but the person who is a doubtful risk is not helped by this legislation at all.

The WITNESS: I would not agree. It depends on what you mean by a good risk. You mean a good bank risk? No. The man who comes to the personal finance company usually is a fellow who cannot satisfy the requirements of the bank or a credit man or who has not immediately available two endorsers to stand good for him, or who has not any jewellery which he can hypothecate with a pawn broker. All that he has got usually is a reputation in the community of meeting his debts when he can, paying his bills, and who has reasonable prospects of employment. Now that fellow is a good risk for a licensed company at the rate they charge. You get beyond him into the type of fellow who has no job, who has nothing on which anybody would make him a loan, and then they can get a tremendous high return from him very quickly, and exercise some kind of terror on him usually, causing him to lose

a job, or something like that, or take a wage assignment. Under this law we pretty generally limited the use of wage assignments, so that the borrower's job is not put in jeopardy by applying for a loan. There is that group, and if you did not have the licensed lenders, however, then the hundreds of thousands of borrowers who do go would go as they do in Minnesota only to the high rate lenders. There are in Minnesota right now probably 65 per cent—I think at one time it was 70 per cent—of persons who would be good risks for licensed loan companies. I had an opportunity to check one time as to the type of customer who went to the loan sharks' office. We found some records in a raid and I made an analysis of the line of credit there, and I thought that about 70 per cent of them would be good risks for licensed loan companies at probably one-seventh of the rate that was charged. A lot of those cases are gambling cases. A lot of them are cases where men borrow without their wives knowing anything about it. A lot of them were cases where they already had loans with other agencies which they were not paying.

Mr. TUCKER: I will tell you one of the things that bothers me. I do not know whether you considered it at all. These people who borrow at rates of 2½ and 3 per cent, according to the records of the companies, pay the money back and the interest just as well as people who make large loans under our regular banking system. The question that bothers me is this: We have given the banking system certain rights to expend credit roughly ten to one against their cash reserves and so on, in order that they will be able to make credit available cheaply to the wealthier members of the community. If they did not have that right to furnish and expand credit, and so on, if they had to lend the actual money, they could not lend it as cheaply as they do. If we set up a banking system that enables the wealthier members of the community to borrow money, by virtue of being able to expand credit in that way, have we not got some obligation to make credit available cheaply to the poorer people? In this regard we have simply got to say this is the rate that is necessary without giving them any rights such as the banks have to loan money to the wealthier members of the community.

Mr. EDWARDS: Why say "wealthier"?

Mr. TUCKER: It is the wealthier members—

The CHAIRMAN: Gentlemen, I would suggest that Mr. Henderson be allowed to finish his statement.

The WITNESS: I would like to answer. I have probably worried more hours about it than you have, Mr. Taylor.

Mr. TUCKER: I would like to hear you.

The WITNESS: My feelings on the question of the banking system are not perfect, but I have always felt, or at least the Sage Foundation has always felt, that there was a much larger area in consumer credit that the banks could satisfy than they are presently satisfying. How far that could go I am not quite sure, because of the fact that it is the depositor's money. That is the key question. It is not money put at risk for the purpose of gain. That, Mr. Minister, is the essential difference. We have had a tendency in the United States, as you know, to encourage personal loan departments of banks that will make loans on three-name paper—two endorsers. The federal reserve system has been giving increasing attention towards making paper arising out of a consumer credit transactions available for discount with the idea that a saving would be passed on. Now there is somewhere a limit to which the banking system can go, but they have not anywhere near probed that limit yet. The Russell Sage Foundation never thought that the banking system, the philanthropic companies or the co-operative credit societies could ever absorb the entire field, and we were not, as I say, willing to wait as enthusiasts of the

credit union would have liked us to have done until the banks did that. There were before us hundreds of thousands of people right then paying twenty per cent a month and becoming charges on society, something adding to the welfare burden.

Now, I believe that what you will eventually need to come to—and I think Canada can profit by our experience mainly—is to catch this thing early and provide some help to your credit unions. I have always felt that if the Canadian government had helped Alphonse Desjardins when he started and took up the idea you would have had a much better rural credit system than the one you have to-day, and you would have had a lot of avoidance of the pressure that you now have. I believe your banking system could go a certain distance, limited always by the thing which is the strength of your banking system, and that is the availability of depositors money on demand. I believe that you could avoid the excesses of hire-purchase instalment selling if the supervising agencies before us are expanded so that they would include money for research and observance of recommendations to parliament. I think very definitely that anything you can do towards getting uniformity in regulations through a dominion law is well worth while, particularly to avoid any possibility of the chain loan shark methods, which was one of the toughest things we had to avoid, because they bring to this interest field ingenuity, money, and a tremendous amount of bribery and extraordinary legal talent and so on; so much so, that they become a social sore. I believe you are moving in the right direction but I would rather think, Mr. Tucker, that here you would probably move in two directions: first get general oversight over the whole field of consumer credit through the state agency; and secondly have a prompt set-up of the commercial agencies on a basis that would have a clear right to forbid overcharges and outline the security and flexibility that is desired when you talk of cempetitive bases, and lay down the rate under which the business can operate. That is the highest form of a democratic competitive system, competition on the rates that are set down.

Hon. Mr. DUNNING: You appreciate our jurisdictional difficulties?

The WITNESS: I appreciate that.

Hon. Mr. DUNNING: In the hire-purchase field with respect to the property and civil rights, etc.

The WITNESS: I have been through it, and went through it some years ago. I have been trying to keep away from things on which I am stale.

Hon. Mr. DUNNING: Property and civil rights is within the competence of the province when the transaction is one wholly within the province. That is a difficulty we come up against.

The WITNESS: We had similar difficulties, Mr. Minister, in which I had to make up my own mind. I had to make up my mind first of all as to what was interest and what was not interest and whether a thing was a loan or whether it was not. We came to the conclusion that—we used to say if you are going along the street and a flower pot falls down and hits you on the head the cut is just as bad, whether it was an accident or whether somebody threw it. Now, from the standpoint of the borrower, regardless of these fine-spun legalistic distinctions—and I indicate my bias against the legal profession here—

Hon. Mr. DUNNING: Mr. Tucker is a lawyer, so you had better be careful.

The WITNESS: It is a cost to the borrower and a diminution of his ability to live a more decent and wider life. We made up our minds that so far as possible we would cut straight across these things.

Hon. Mr. DUNNING: You were dealing in the United States with individual states.

The WITNESS: Yes, but also with state laws and precedent decisions as to whether the thing was purchase wages or not. The loan sharks had already got in there and had obtained a decision from the state supreme court with regard to a certain transaction on an agreed set of facts. When we found that we decided we would break it, because we knew in a multiplicity of the contracts that were taking place there were pretended loans.

Hon. Mr. DUNNING: You always knew the state legislature was supreme?

The WITNESS: Well, after we had been to the Supreme Court three times and they refused to take jurisdiction, I believe we did.

Mr. MARTIN: I just want to follow up something that Mr. Tucker has raised in connection with loans made by banks. Having in mind your experience with the National City Bank of New York, is there any class in the state of New York that the National City Bank cannot reach in respect of small loans, and if there is would you mind explaining it?

The WITNESS: Well, the National City bank type of loaning is usually for higher amounts than the average borrower borrows from the small loan companies, and there is a requirement of two endorsers. The average householder has great difficulty and has a certain reluctance in satisfying these requirements, since the amount does not warrant all that trouble. Sometimes a man who might by scurrying around to get the endorsers prefers to go to a pawnbroker or a small loan company for his credit. In the main where you have credit unions and a personal loan department of banks, personal finance companies and such a wide luxuriant growth of instalment selling, your borrower tends to pick the one which is available and with which he is familiar. He tends to go down the line as to his class of credit risk.

Mr. DONNELLY: You have a fixed rate of interest in the banks that the banks cannot go beyond?

The WITNESS: In New York state, yes.

Mr. DONNELLY: What is that?

The WITNESS: I think it is six per cent discount repayable by instalments. Limitation, with certain minor fees. The National State bank cost of lending is among the cheapest that there is. There is an awful lot of small businessman's loaning that goes on with the National City bank in which a businessman with no established line of credit does not have to maintain compensating balances and is under caution to pay out of his weekly receipts, rather than a straight out-and-out consumer purchasing.

Mr. MARTIN: That would not come under personal loan companies?

The WITNESS: No, they are under a separate statute.

Hon. Mr. DUNNING: Under the banking department.

The WITNESS: Under the banking department. But at the risk of being wearisome I should like to emphasize the high desirability of state supervision of the bank department. Once that business started to assume large proportions they went into the legislature and asked for special legislation because of the peculiar character of the consuming credit that segregated it from the ordinary banking credit. That is, they recognized—the alert banking department—that this was something where there were other tests to be applied and that the borrower ought to have other guarantees.

Mr. TUCKER: Our banking system grew up to finance production, and as you point out now there is a tendency for wealth to confine itself in positions where it is not immediately available for purchasing power, and the result is that there is an apparent lack of purchasing power through that maldistribution of wealth, you might say. Now, it is very important that if a system is to function at all there should be a corresponding building up of the system to finance purchasing

power as we have built up the banking system to finance producing power. Are we not simply trying to attack this thing in a make-shift way? Are we not failing to go to the root of the problem? Should we not go to the assistance of the banking system so that they may be able to finance purchasing power the same way as they are financing producing power? We have given the banks in this country the right to loan on a ten to one basis, expand their credit to that extent; if they had not that they could not give credit at the rate that they do now. Should not we give the same privileges to society in order to finance consumption?

The WITNESS: That is right. I hope that is what I have been saying. I want to go further back. If you want to go to the root, I think the root is the maldistribution of income of most of the extra-legal borrowers.

Mr. TUCKER: What I am getting at is this: you are financing production. Our big producing concerns in this country pay five and six per cent. Now, there are people who get credit to that extent because we have set up a banking system which gives the banks the rights to expand their credit. Can we hope, on the other hand, and is it fair to expect people who are going to do the buying to pay as high as thirty per cent, because we have refused to give the same rights to society to expand its credit to finance purchasing power as we have given the banks? In other words, can you finance producing power at five per cent and hope to balance it by consumer power at a rate of thirty or forty per cent?

The WITNESS: Well, in the first place, I do not think that they are opposable at all. In the second place, the financing of production is less many, many times the financing of consumption. I think there are things inherent in the nature of the risk and the cost, particularly, of doing business which makes the higher rate on the consumption side absolutely necessary. The actual cost in dollars of loaning in small amounts was double and treble the whole interest return of the producer's notes, most of which is pure interest; that is, a reward paid for the use of funds. It is the cost, the actual cost. There would be very little. You could multiply the ratio probably one hundred to one, if you wanted to, rather than ten to one, for the same amount of credit and you still could not get away from the fact that to send a clerk out to investigate the ability of a worker to pay will cost you a certain amount. It will also cost you when collecting that money in small amounts. Every time that you make an entry is costly. That probably will run around one and one-half per cent a month for actual pocket outlay. What makes the rate seem so high, Mr. Tucker, is because these charges are applied against such small amounts of money.

Mr. TUCKER: It would be higher if it were applied against a larger amount of money.

The WITNESS: No.

Mr. TUCKER: Is not the reason that the banks loan money so cheaply due to the fact that they get the funds they loan so cheaply; and the banks loan their money to protective enterprises. If they had to get their money in the same way as the small loan companies do, in other words, if they had to pay 6 per cent for it, they would not be able to loan at 6 per cent or 5 per cent.

The WITNESS: There is another factor which enters in there, and that is that with these loans in large amounts the cost of investigating the borrower is less.

Some Hon. MEMBERS: Hear, hear.

The WITNESS: There is another factor which enters in there, and that is is usually of a character that can be transferred; and then they also have this ten to one ratio. But, outside of the cost factor as applied against the average

size of the loan, there is no way, in my opinion, even if you multiplied the rate of expansion up to one hundred to one, that you could get it down to a comparable ratio.

Mr. TUCKER: I do not see this—

Hon. Mr. DUNNING: Mr. Chairman, a question is one thing. Mr. Tucker is a lawyer. We ought surely to accord some courtesy to the gentleman who is making the statement.

Mr. TUCKER: I did not want to interrupt. I want to get all I can from this witness, but I think it would be hardly fair for me to interrupt.

Hon. Mr. DUNNING: We want to get on.

Mr. TUCKER: There is just one other question I wanted to ask. The point I wanted to make is this: I suggest that the cost of credit to the small loan company by the state is made much higher than it is to the commercial bank; is it not fair to say that if you gave the same consideration to a system whereby we might make the cost of credit to the small loans companies somewhat the same as the cost of credit to the commercial banking system it would benefit the borrowers?

The WITNESS: Let me answer that in this way: I believe that if deposit money were available for small loans there could be a reduction in the cost of loans to customers. I do not believe that even if they got their money for nothing you could hope to approach the banking rate of interest for consumers, and the result of that would be that you would have to have an extra legal rate. But more important than anything else to my mind is not the rate as between the two fields so much as it is the factor of state supervision over that entire field. That saves more for borrowers than any difference in the small loan rate. That is why the English thought proper before they began to determine what is an unconscionable rate to provide for about four per cent a month, and so forth. They have a different attitude entirely. We dealt with the matter differently. We have never felt that the rate was half so important as the surrounding conditions for the protection of consumers.

Mr. DONNELLY: Do you not find that when you push the rate down you narrow your field of loans?

The WITNESS: Yes, very definitely. As your average loan goes up it excludes the more necessitous borrower. The state could I believe after a period practically decide which class of borrower will be served by the way it pitches its maximum rate, and its burden of rate. It can do that if it wants to.

Mr. COLDWELL: Don't you think that the growth of large accumulation of wealth by individuals would be a factor in driving down rates in the future?

The WITNESS: You mean, in small loans?

Mr. COLDWELL: Yes.

The WITNESS: The thing which it tends to do is to make more funds available for open credit.

Mr. COLDWELL: You say it makes more funds available for open credit?

The WITNESS: That has been the experience.

Mr. COLDWELL: If this credit is not being taken up it will seek a new field, will it not?

The WITNESS: Yes.

Mr. COLDWELL: Is not this one of the fields it would seek?

The WITNESS: This is one of them, yes; but it is more likely to enter into the competitive field for established securities, driving your security rates up.

Mr. MARTIN: Most of your remarks have been confined to the United States. Has the Russell Sage Foundation covered other countries as well?

The WITNESS: We made a special study of the British situation, and I am leaving with your chairman a copy of "Money Lending in Great Britain," a report that we have made. Then, we have kept track of the trend in Australia, New Zealand, in the Strait Settlements, in India, Assam, South Africa and West Africa. We have kept up as closely as we could with other countries, but we have specialized more in co-operative banking arrangements there. One thing we noted was pretty general. In the Commonwealth they have been tending toward the requirement of the borrower getting a legal statement; that he have a book of some kind, with a contract, to be available, to be open if it were a case of hardship or unconscionable rate. There has been a tendency to limit, as in Tasmania. Tasmania used to have a rate of 100 per cent. It is down to 50 per cent now, as I recall. There is a tendency in Great Britain—all the small loans do not pay much attention to the 40 per cent determinative. However, the significant thing from our experience with respect to Tasmania is that they are borrowing and moving towards more protection to the borrower through the state.

Hon. Mr. DUNNING: In Great Britain it is only operative through the courts, isn't it?

The WITNES: Yes.

Hon. Mr. DUNNING: It is determined in each individual case.

The WITNESS: That is right.

Hon. Mr. DUNNING: And "unconscionable" does not come into it at all until it exceeds four per cent a month.

The WITNES: That is it.

Mr. COLDWELL: How long is Mr. Henderson going to be with us, because we want to hear as much from him as we can?

Hon. Mr. DUNNING: I would like to see him have an opportunity to finish his statement.

The WITNESS: I have practically finished. I had a peroration about the general desirability for supervision.

The CHAIRMAN: Mr. Henderson would you like to get away this afternoon?

Mr. PLAXTON: Perhaps I could direct one question which would bring Mr. Henderson's remarks to a head. What scale of rates does the Russell Sage Foundation now recommend; and to what brackets of loans are they applicable?

The WITNESS: I think in a new community in our state (New York State) the Sage Foundation would recommend about three per cent on the first hundred dollars of a loan, and two and one-half per cent for all amounts above that.

Mr. DONNELLY: You are very strongly in favour of state supervision?

The WITNESS: Yes. Again I would say that the nature of the Act and the character of the supervision is much more important. We have had more gains from the work which the state supervisors have been doing in their own jurisdiction by exchanges through their own association than through any other single factor, outside of the compelling character of competition in recent years. The state reports that I went over in the last few days show that very very thoroughly.

Mr. HOWARD: You stated a few moments ago that you thought one of the best suggestions was to have a certificate of necessity; who could give that?

The WITNESS: The state supervisor. We had in mind something of the Oklahoma Ice case, in which a dissenting opinion was given by Mr. Justice Brandies. When you come to a place where extra units really do not add to the convenience of the community the community really ought to have something to say about it.

Mr. TUCKER: What time do you wish to leave this afternoon?

The WITNESS: I wanted to get a train so as to get back into New York to-night.

Hon. Mr. DUNNING: Then, you could get a train at 5.55 out of Montreal which would get you into New York City to-morrow morning.

The CHAIRMAN: The minister has pointed out that to-day is private members day and suggests that we might have difficulty in getting a quorum. Is it your pleasure that we should meet this afternoon?

Some Hon. MEMBERS: Yes.

The CHAIRMAN: Then, unless Mr. Henderson might like a little relaxation—

The WITNESS: Oh, no; this is meat and drink for me.

Hon. Mr. DUNNING: Before we adjourn I would like Mr. Henderson to think if he can of one thing before we meet again, and that is the relationship of our essential differences to the systems he has been discussing, the main essential being that this is a national parliament attempting to secure national control over this business but complicated by the fact that the provinces, which correspond to your states, have certain constitutional powers not yet clearly defined by judicial decision in relation to this problem. I am thinking not of asking you questions relating to jurisdiction, Mr. Henderson, but that you should turn over in your mind what these differences apparently are, and the necessary qualifications which would be introduced by the known differences in your suggested techniques of control. For instance, just to illustrate if I may. You mentioned the desirability of extending this field into what is now one of the biggest aspects of it; that is, the hire purchase—the automobile loans, the refrigerator loans, and all the rest of it. Of course, this is a national parliament in Canada trying to deal with a problem. Wherever chattel security is taken, as in the case of automobiles and refrigerators and all that type of credit, that is within provincial jurisdiction.

Mr. EDWARDS: Are not all of these provinces in union with the federal government, Mr. Dunning?

Hon. Mr. DUNNING: Well, I have not found complete unanimity. If you could give some reflection to that we are anxious to do something with that.

The WITNESS: I will do that.

Mr. VIEN: Have you had occasion to study the systems of legislation prevailing in countries outside of the United States and Great Britain—for instance, France or Germany or other civilized countries?

The WITNESS: Not to any extent to present any definite information. The German small loan system revolved mainly around the two great systems of credit unions, and outside of that there was the usual loan shark and the pawn broker. In France there has been a great reliance on the pawn broker and the credit societies, and there has been very little regulation of the so-called industrial money lender.

Mr. VIEN: Are you familiar with the rates of interest in these countries, the maximum rates, if any?

The WITNESS: No.

Mr. MARTIN: In those states where the uniform law prevails, what is the lowest rate? 2¼ per cent, is it not?

The WITNESS: The lowest operating rate, and I mean by that where there is licensed lending, is about 2½ per cent, except for Wisconsin. Wisconsin has a rate of 2½ per cent on the first $100, 2 per cent on the second $100 and 1 per cent on the remainder. 90 per cent of the business is done by one

company, and the average rate is 2·28 and 2·30. It is a little bit above 2¼ per cent. But pretty generally you can say that any rate below 2½ per cent, under uniform law, gives only a very, very highly specialized loan service.

Mr. MARTIN: Below?

The WITNESS: Yes.

Mr. PLAXTON: Does that invite the loan sharks?

The WITNESS: It does. In connection with Missouri, the Sage Foundation showed me correpondence that they had received recently from the attorney-general, the Bar Association, the Better Business Bureaux and a number of other quasi public agencies, to the effect that they were seriously bothered by the high rate lender, and that the companies that were licensed were selecting their risks to such an extent that they did not get what they had been getting under the old system. Now, Missouri is traditionally a very, very bad state for loan sharks because, frankly, there has been a tie-up between the political machine and the loan shark gangsters for some time and it never has been adequately cleaned up.

Mr. PLAXTON: Would it be fair to assume that if we drove the rates down to Wisconsin levels it might result, first, in a monopoly here in Canada, and, secondly, give encouragement to the development of the loan shark business?

The WITNESS: Separating your propositions, I think if you did put your rate at the Wisconsin rate you would have a tendency towards concentration of the business, and I think you would have recurring trouble with high rate lenders.

Mr. MCGEER: What is the situation in Wisconsin now as a result of that?

The WITNESS: The situation was pretty fair the last I knew about it. There is an alertness on the part of the Wisconsin authorities that you do not have in some of the other communities. Wisconsin is, as you probably know, Mr. Chairman, a state like Massachusetts which has been very, very alert as to the rights of the public. There is some high rate lending, but it is not of tremendous importance there.

Mr. COLDWELL: What factor are the credit unions in Wisconsin?

The WITNESS: The credit unions are quite a factor because there is decided encouragement by the state, and, in addition, Wisconsin is one of the two states that has moved on instalment credit to bring it within regulation, and they have general supervision over automobile instalment financing. I think, Mr. Coldwell, that encouragement of the credit unions has been very, very helpful there, plus the fact that the United States government has had a very definite policy for encouraging national credit unions, and there has been a sympathetic reception of the federal government's activities in general to credit unions in Wisconsin.

Mr. TUCKER: That is, they had paid organizers both by the state and by the federal government?

The WITNESS: Yes.

Mr. MCGEER: What is the population of Wisconsin?

The WITNESS: I do not know.

Mr. COLDWELL: It is a thickly populated state.

Mr. MCGEER: The question I asked before was, what are the provisions as to supervision as to money lending activities in the state of Wisconsin.

The WITNESS: As I recall, and I am a little bit rusty, it is in the same Commission that administers the utility in railroads and banks. Do you know, Mr. Finlayson?

Mr. FINLAYSON: I think that is right.

The WITNESS: It is a very high type of commission, Mr. McGeer, and a very alert one, too. Organized lending business had some difficulty in getting started there despite the fact that one of the biggest loan shark chains had its office there.

Mr. MCGEER: They have, I take it, power to step in and investigate the books of anybody engaged in the business of money lending?

The WITNESS: Yes.

Mr. MCGEER: And you would consider that an essential factor in the supervision of money lending? You have noticed that in our Money Lenders' Act we have no such powers at all. There are really no supervisory powers here at the present moment, unless there is a violation of the Act itself when a charge can then be laid under the Code. Even then there is no power to investigate what is going on outside of a specific charge being laid. You recognize that as a hopeless situation as far as supervision is concerned?

Mr. QUELCH: Should not the rate of interest on renewals be lower than the rate charged on new loans in view of the fact that the cost of the investment has already been met?

The WITNESS: There is quite a dispute about that and, frankly, Mr. Quelch, I am not prepared to say. On a small loan, if it is repaid very quickly, the costs are not covered. We have preferred to look at the general matter of lending rather than at the specific and individual transaction. We have tried to provide as wide a line as possible for free operation under the law and still give intensive regulation in the interests of the borrower. I cannot give you a very satisfactory answer to that.

Mr. DONNELLY: If a man is not able to pay a small loan the risk could not have been so good as you thought it was.

The CHAIRMAN: Mr. Kinley was asking a question and was interrupted.

By Mr. Kinley:

Q. You think that the chartered banks in the United States cover a larger field of loaning than do the Canadian banks? I understand the chartered banks in the United States loan money on real estate and take securities. They are not allowed to do that in Canada.—A. Well, they did.

Q. And came to grief?—A. Their experience with that kind of security has been unfortunate, I would say. If you do not mind I would rather we did not get into a discussion on the relative merits of the American and the Canadian banking system except to say that I am a great admirer of your system as against ours.

Q. I was trying to establish that there might be a greater need for loan companies by reason of the fact that your banks are more local than ours and make loans that our banks are not allowed to make in this country.—A. I could not pass on that. If I might make one statement on that, I should say I think there is some gain very definitely in not having a plethora of loan agencies because it gets to a place where the lender has got to make money and has to have his money out and there is an encouragement for credit that we have always frowned on.

Q. Your idea is the banks should get away from that kind of business?—A. No. Our idea very definitely is that the banks or credit unions ought to get every bit of the business that they can. I am glad that you brought that out because I want to make it very, very clear. The Russell Sage Foundation has always felt, as I said this morning, that there was a wider area for the banks on consumer credit and that the banks generally had not pre-empted that area yet. We have always hoped that they would go into it much further.

When the national city system was set up we spent a tremendous amount of time working upon that, based upon what has been the deterrent in schemes for consumer borrowers, and gave a great deal of encouragement to it. With regard to credit unions, we feel that the area ought certainly to be extended.

Q. By the banking field?—A. Yes.

By Mr. Tucker:

Q. The question I should like to ask is this: I have grave doubts about the real value of credit at such high interest rates, if the persons getting it are permanently turning over part of their salary to the people who are giving them the use of the credit indefinitely. I was just wondering if your Foundation has made any investigations as to the extent to which once these people make loans at these rates of interest they continue to owe some small loan company permanently the same amount of money. That is, they may have one company who they will borrow from and then they will go to another company to obtain money to pay the company from whom they borrowed in the first instance, and so on. I was wondering to what extent these loans are really loans that are paid for and to what extent the person, once he gets a loan from these small companies, thereafter permanently contributes to the exchequer of the small loan companies?—A. Well, the federal government has just finished a study of the income and disbursements of the largest sample that was ever taken on an absolute income and outgo basis. It shows the general annual income varying in different states, and that anywhere from twenty to thirty per cent of all families are compelled to spend more money in a year than they earn. In other words the balancing of the budget does not go on in a large number of families, because of the high cost of medical attention, legal needs, intermittent employment, and the fact that money comes in in driblets and there are substantial expenditures to be met.

The small loan company is the residuary legatee of all of the difficulties in meeting the budget that many many families have. The small loan company is the company that lends the cash, and cash is the solvent for many of the difficulties. It inherits, for example, the difficulty of balancing a budget when a car or a refrigerator or some other physical item sold on instalment credit has to be met or the loss of the particular goods take place.

Mr. VIEN: Repossession?

The WITNESS: Or the goods will be repossessed. There is a large amount of renewal; and we have always been uneasy about this—I speak very frankly—but we have felt very definitely that the largest part of that was not due to the drive of money lenders to keep their accounts settled, although that is always present. We have felt that the maldistribution of income, the failure of large groups of people to have enough consistently to have a decent standard of living was responsible more than these agencies, which, as I say, are the residuary legatees of a lot of the balancing troubles. For that credit they pay a very, very high cost. Let us not misunderstand that; but it is a necessary one. As you know, the Russell Sage Foundation is very close to all the charitable organizations, welfare societies and things like that, and we felt that although there was a tremendous amount of disservice done by pressure for renewals and things like that, that the absolute economy service rendered left no question about it at all.

By Mr. Tucker:

Q. If eighty or ninety per cent of the people who get these small loans to pay doctors' bills remain thereafter in the hands of small loan companies, is not there grave doubt about the value of the service rendered to that person in lending him money and he thereafter having to pay interest indefinitely on

that loan?—A. I do not think that is the picture. Certainly nothing in my experience or in the experience of the supervisors of loan companies that do the auditing and hear the complaints would lead us to believe that. If that were true, Mr. Tucker, I do not believe that the small loan law, starting at as much of a disadvantage as it has, would have ever stood all the public pressure that has been put on it. I do not feel that in these individual cities they could have obtained the support of the local aid societies, the better business bureaux, the junior chambers of commerce and the social agencies to public presentation of a case at a legislature when there is an attempt to repeal the small loan law or to modify it so that it is unworkable. That, perhaps, is the best testimony that we ever had as to that fact.

Q. Is not that the main reason why—you presented it yourself—you have these exorbitant interest rates? If you do not have them you turn the field over to racketeers whom you cannot control, to charge more, and you cannot stop their preying upon the people. Is it not something like the dope traffic? We say we cannot stop the dope traffic therefore we will let them take dope of a less vicious quality?—A. I do not accept any analogy with the dope traffic. I submit that the paying of a medical bill is not analogous with the dope traffic at all.

Q. If you do not pay the medical bill at once you can pay it by instalments just the same as you pay the small loan sharks, and you will have some money. If you do not pay these high rates of interest you will have some money to pay the next medical bill?—A. You mean you cannot pay a medical bill or a hospital bill by instalments?

Q. Yes, I can.

The CHAIRMAN: The witness has only an hour or so to catch his train.

Mr. TUCKER: I do not want to take up too much time.

Mr. MCGEER: I should like to ask this question, and I will give it to you so that you can frame your answer to it. I have been asked by Mr. Walker to ask this question: What is the name of the company which you say is doing ninety per cent of the business in Wisconsin?

The WITNESS: That is the Household Finance Corporation.

By Mr. McGeer:

Q. Now, I should like to ask these three questions. You mentioned the different series of rates in the state of Wisconsin. What amounts are allowed under the law of Wisconsin?—A. I put that in the record this morning.

Q. You did not give the amounts.—A. I did.

Mr. PLAXTON: I made a note of them here.

By Mr. McGeer:

Q. Will you give them to me again?—A. Two and a half per cent on the first $100; two per cent on the second $100, and one per cent on the remainder.

Q. What is the remainder?—A. $100.

Q. The limit in Wisconsin is $300?—A. $300.

Q. What is necessary, in your opinion, to effect a proper supervision of the administration and enforcement of that particular law?—A. That particular Wisconsin law?

Q. I took that as a sample. What I understood you to say before lunch was that the rate was not so important as the general circumstances surrounding the administration of the money lending laws.—A. What I meant by that—

Q. Will you tell us briefly what is necessary to supervise it?—A. Yes. In that statement where I said that the rate was not as important as the surrounding conditions of supervision I meant that, for example beween 2½ per cent a

month and 2¾ per cent, say in New Jersey, it was very possible that 2¾ per cent with adequate supervision provided better protection for borrowers than say 2½ or even 2¼ per cent without supervision; because it was due to the powers of the supervisor that the borrower had the ultimate of protection. Now, that requires, in my opinion, first that an applicant for a licence should have enough funds to do a reasonable volume of business. It involves a certificate of convenience and necessity to be issued by the state after an investigation of the community, and after an investigation of the character and general reputation of the applicant for the licence. It presupposes that there will be a required reporting in terms which the state will set, and not of a private accounting organization, and that the state shall have the right of audit and shall actually audit at least once a year the actual accounts at the office in which lending is taking place. As far as rates are concerned it requires that the rate shall be adequate enough so that there will not be a monopoly; so that there will be the possibility of small companies and small loan balances that would leave a service available to small communities. It requires that the rate be stated in flat terms, or without any concealment; that the borrower shall be given a full and adequate statement of what his account is; that there will be entry in ink each time there is a payment; and permission to the borrower to repay at any time that he wants to; that is, that at any time he wants to make more of a payment than he has contracted for he can do it. It supposes that the supervisor will have something mentioned before—not only the right of entry to the books, papers and records of licensees, but of any person whom he thinks ought to be brought within the terms of the law. Now that is as most lawyers would say a tremendous amount of power to be given by delegation to an administrative officer. To my mind it is of extraordinary importance because of the means and devices by which the law may be evaded. The penalties ought to be severe. In our experience there are two things which hold loan licensees to high standards: One is the fear of a loss of the principal and licences, their right to do business; and the other is the fear of jail. And, in our opinion, these penalties ought to be severe. The law ought to be comprehensive enough if possible to cover by terminology the various devices which the money lender is accustomed to employ in order to avoid proper statements. In general, those are the conditions that I feel are laid down in the last draft of the uniform law, with the emphasis very very definitely on the type of supervision provided by the state.

Q. Have you a copy of that draft uniform law?—A. Yes.

Q. Without that supervision could the licensing of companies accomplish anything?—A. It would accomplish only such service as that licensee wishes to give in the terms of his licence. It won't get to the general problem of regulation. I do not know how you can constitutionally do all these things. I think, however, you ought to be bold and try to get further than Mr. Walker intimated as possible yesterday; that is, just a regulation of interest extended as far as possible; and have in mind in whatever the drafting is as the regulation of interest things which are regulatory of the business of money lending.

Q. Would you mind indicating what states you consider have the best legal machinery for the enforcement of these regulations. Or, what group of states. I do not want you to say which is the best. I was wondering what states are really progressive in this respect?

The CHAIRMAN: Could you give us three or four?

The WITNESS: New York, New Jersey, Indiana, Ohio, Connecticut, Massachusetts—and there is no invidious comparison to be taken from the order in which I have named these states.

By Mr. Coldwell:

Q. I notice you are not including Wisconsin?—A. In the way the question was framed I would not inolude Wisconsin, because I am against monopoly, except it be a state monopoly; and that goes for the whole frame and reference of enterprise.

The CHAIRMAN: Mr. Kinley.

Mr. KINLEY: I think my question has been answered. I was going to ask the witness in what states they had that kind of control.

The CHAIRMAN: Mr. Martin.

By Mr. Martin:

Q. Mr. Henderson, what would you say in the light of what you have just said now about those states where regulation seems to be working out satisfactorily? In the light of that, what would you say would be the most satisfactory rate, or what would be the minimum rate from the point of view of this country that we should adopt?—A. In the first place, as I think I have indicated, I do not believe that a rate ought to be so low that it monopolizes the business, nor do I think that it should be so low that you cannot get local lenders in smaller communities. I talked this over informally with Mr. Nugent —and I am responsible for my own interpretation—and we felt that Canada probably ought to do better than we would do in the States; and we felt that probably 2½ per cent with none of the recommendations we usually make of 3 per cent on the first hundred—we thought that 2½ per cent flat rate ought to be fairly adequate for your needs. Particularly as you would get in some cities, I am quite sure, the larger cities, where larger loan balances are possible, a lower rate; and particularly that, on the basis of actual experience.

By Mr. Kinley:

Q. You mentioned New York; what is their rate?—A. New York is 3 per cent on the first one hundred and fifty dollars and 2½ per cent on the remainder.

Q. For a month?—A. For a month.

Q. Is there much difference in this respect, or is it pretty well settled within the rate?—A. There is quite a large difference. The prevailing rate lending companies do not have quite such a spread as the state rates do.

Q. Do you think we should be able to figure it out on a somewhat more scientific basis?—A. I think I would prefer to reserve the term scientific for something other than that.

Q. Well, say, should we be able to plan from experience?—A. We have been acting through experience and practice. The Sage Foundation has felt that it was very valuable to them, painful at times; it pained you to see a state like New Jersey, for example, go to one and one-half per cent from three per cent, and then back to two and a half per cent. It pained you to see a state go like West Virginia from three and a half per cent flat rate, and then down to an unworkable rate, and then back to two and a half per cent. But in the end it has been very helpful.

By Mr. Coldwell:

Q. You said that provision should be made so that the borrower might repay a larger amount. Have you any regulations covering what shall be done in that event, with regard the arrangements?—A. Under the proposals in the uniform law there is no discount. The rate they have, 2½ per cent, is paid on the amount of money used for a certain period at the end of the period. For example, if one hundred dollars is borrowed, at the end of the first month if payment is made on principal $2.50 is paid; and then the principal payment of

$10 was made, leaving $90; then they run another month and the 2½ per cent is paid on the $90. Under the uniform law, the borrower, although he may have made a contract to pay that $100 in ten equal payments, might come in the next day and pay only one day's interest on the hundred dollars. He has the right to repay and have his interest calculated only for the number of days that it is in use.

By Mr. Vien:

Q. That is on the outstanding balance?—A. Yes.

By Mr. Coldwell:

Q. Is there any minimum charge?—A. No. However, you will understand that such cases arise very infrequently. It is not very often that a borrower in this class can take advantage of a provision of that kind by advancing a larger payment than that for which he has contracted.

By Mr. Kinley:

Q. Is there any special report on the excess profits of these companies?—A. Control over excess profits has been pretty largely due to the work of supervision and the Sage Foundation; in the first instance reducing the rate, and in the second because of competition reducing the cost of loans; and also for their own private reasons reducing rates.

Q. What would you think of a provision in the law which would say that profits over a certain amount would go to the state? Would that curb their desire to charge too much?—A. Well, you mean profits of any one lender?

Q. No, of all such companies?—A. Well, suppose you and I each charged the maximum rate and I am a more efficient lender than you are; you want to pay the results of my efficiency to the state.

By Mr. Tucker:

Q. You spoke about the Provident Loan Society of New York, a semi-philanthropic institution. What rates do they charge?—A. they have a varient rate. It runs something like one per cent a month, as I recall it, but they have made some special reductions also. The Provident loans are on pawnbroking security entirely. The Provident Loan Society of New York loans on watches, jewelry and things which are actually delivered and put into its vaults. It is a pawnbroking business.

Mr. BAKER: That is different.

The WITNESS: They loan a specified amount of their valuation and then you pay about one per cent per month. In the semi-philanthropic companies which make chattel loans in competition with the commercial personal finance companies, their rate on chattel loans will run around two, two and a quarter and two and a half per cent, depending on the community.

By Mr. Donnelly:

Q. Mr. Henderson, has your organization, the Russell Sage Foundation, made any survey of the necessity for loans?—A. Yes.

Q. That is, as to how many people there are or what classes of people would be better off without a loan at all—people who borrow money without a real necessity for it?

The CHAIRMAN: Is that a question?

The WITNESS: There are two questions. The answer to the first one—as to whether the Sage Foundation has made any studies as to the necessity for loans,—is yes. That was basic to the initial work and to the continuing interest

that the Foundation has had. On that question, all four directors have never had any hesitation. As to the necessity for regulated lending, as to where you can draw the line on the right of the individual to borrow or not to borrow, the answer is no.

By Mr. Donnelly:

Q. Do you not find that there are a great many people that could get along without loans,—people who borrow money without any real necessity for it?

Mr. TUCKER: People who would be much better off if they did not?

The WITNESS: If you mean that the human being is fallible, yes.

Mr. KINLEY: He has a right to be, if he wants to.

By Mr. Vien:

Q. I wanted to ask you if it is a fact or not that lending money on pawnbrokerage is less expensive than the business carried on by these lending companies?—A. Oh, yes.

Q. Yes, it is?—A. The actual cost of pawnbroking loans is considerably less.

Mr. BAKER: They have the actual security.

The WITNESS: A loan shark once said to me, "The Provident Loan Society has got its borrower locked up in its vault. My borrower is probably in a saloon spending my money."

By Mr. Vien:

Q. Have you a copy of the law and regulations of the various states which you cited as being good examples to be followed?—A. I have, and will leave with the committee, the sixth draft of the uniform law which contains that information.

Q. Where is it applicable?

Mr. MARTIN: In the six states.

Mr. VIEN: In the six states in the United States?

Mr. MARTIN: Twenty-six.

The WITNESS: No. This is the sixth draft which is the model which is proposed now and is the recommendation. Twenty-six or twenty-seven states have something like the uniform law, beginning with the first draft and with various modifications down to this.

Q. You would not say this has been enacted throughout the states you have mentioned?—A. No.

Q. Have you a reference to the statutes which are in this? Perhaps Mr. Finlayson has that.

Mr. FINLAYSON: What is the date of that draft?

The WITNESS: It is 1935.

By Mr. Vien:

Q. What I have in mind is this, Mr. Chairman. Mr. Henderson has mentioned to the committee certain excellent legislation that has been introduced in five or six states that he has named. I wanted to know whether we could have an easy reference. We must have that in our library. The statutes are in the library.—A. If you want the actual statutes, the reference is here.

Q. The reference is here?—A. Yes.

Q. That will be plenty.—A. In these books here they are discussed. I am leaving these with the chairman.

Q. Would you read into the record the names of those books that you refer to?—A. The books?

Q. Yes, if you would.—A. I am leaving with the chairman a book entitled "Small Loan Legislation" by Gallert, Hilborn and May; a book entitled "Regulation of the Small Loan Business" by Robinson and Nugent; a book entitled "Money Lending in Great Britain" by Orchard and May; and a copy of the sixth draft of the uniform small loan law and citation of the small loan statutes, all of which are publications of the Russell Sage Foundation.

Mr. VIEN: Mr. Finlayson, I think you have a further reference.

Mr. FINLAYSON: What I was going to say, Colonel Vien, is that in this Robinson and Nugent book, "The Regulation of the Small Loan Business," at page 134 you will find a list of these states which have adopted the uniform law with the rates which they have inserted in it.

Mr. VIEN: Thank you. What is the date of the book?

Mr. FINLAYSON: This book is 1935.

By Mr. Tucker:

Q. There are two questions I would like to ask, just to follow up the question I started to ask about these semi-philanthropic institutions. I suppose you have investigated them to find out whether they lost any money by lending at those rates that you have mentioned?—A. Yes. For a long time the director, my predecessor, acted as secretary of the association of the philanthropic and semi-philanthropic associations. We were in very close touch. In fact, we had more adequate information from them than we had from the commercial companies.

Q. Well, was any money lost by those companies?—A. There was great variation in their earnings. There would be in the early stages. When they were getting started, they might lose some money; but pretty generally they made some money.

By Mr. Vien:

Q. But they are not operated for a profit?—A. No. They make a certain limited return, and they have pretty generally been taking selected risks. They have been interested in continuity and the preservation of their capital. They have not been bold enterprisers at all. They have done a grand service for the borrowers.

By Mr. MacDonald:

Q. What do those companies charge?—A. It varies, as between cities and as between the type of collateral that they take. But those companies which do a chattel loan business, on semi-philanthropic funds, charge from two to two and a half per cent.

By Mr. Donnelly:

Q. Per month?—A. Per month.

By Mr. McGeer:

Q. Mr. Henderson, I do not want to be asking you too many questions; but would you say in our situation—you know it fairly well now— that the first thing we in Canada should do would be to draft and secure enactment of a general law supervising and providing for the regulation of money lending, and that that should be the preliminary to the licensing of individual corporations to carry on that business?—A. Most assuredly. The whole burden of my testimony, I think, has been in that direction.

By Mr. Tucker:

Q. The other question I wanted to ask is this: if you incorporate these companies and give them the right to charge these high rates of interest without

having, first of all, done all you can to extend the field of operations by virtue of state assistance, of credit unions and by putting the onus on the banks of extending their field of operations as far as they can reasonably be expected to do, is it not likely that these other companies will occupy the field by virtue of extensive advertising campaigns and so on, and that the banks will fail to discharge the duties they should towards the small borrowers and the chances of expanding co-operative lending as it should be expanded under the credit union idea will be prevented? Is there not a danger there?—A. I do not see that danger. As I said before, the Sage Foundation moved very vigorously into this area. The first Morris Plan Bank was around 1911 and your first credit union was around 1910; the first small loan law was around 1911. Now, the credit unions and the banks, regardless of whether there is a small loan law or not, do not seemingly absorb the entitre market; and my own feeling very, very definitely is that if it is possible for a loan company, charging two and a half per cent, to take business and to keep business from a bank charging one and one and a half per cent or from a credit union charging one per cent, then there is something faulty in the mechanism of the credit unions and the personal loan departments of the banks. I do not see that it is realistic to assume that small loan companies could keep borrowers against their will if there were an alternative, a much cheaper and presumably a much more dignified source of credit. In my experience, it just did not happen that way.

Q. Would you not expect that people with money to loan—take for example, a banking corporation—would rather loan to one of these companies and have them do the business, and be sure of their rate of interest, whatever it might be—five or six per cent—than have to enter the field themselves; and that if you simply enter this field you relieve the bank of any responsibility of fulfilling the duty which it should fulfil perhaps by virtue of getting charters, which are very valuable? Is that not possible?—A. It is possible. I hope I will not be misunderstood, but I do not think it is realistic. I gathered something in what you said that you might try to compel the banks to make certain classes of loans, and I certainly would think that was decidedly unwise. Certainly in any essence of banking that I know anything about, you cannot compel them to make certain classes of loans and still maintain the character of that institution.

By Mr. McGeer:

Q. You know that one of our banks has gone into the small personal loan business?—A. Yes. But that is something different from saying that a bank must make certain classes of loans.

By Mr. Tucker:

Q. If one bank has gone into the field and is filling the need there, could you not say to the other banks, "You must enter the field too," and investigate as to whether they are really satisfying the credit needs of the community? If they are not doing that, their charter should be cancelled—I mean, reasonably satisfying it?—A. Mr. Chairman, that involves a question of what the national policy on banking ,acts is that I would not want to respond to. Certtainly I have indicated that I think it would be a highly undesirable thing for any bank.

By Mr. McGeer:

Q. Mr. Henderson, surely it is the consensus of your investigation that the small loan is an inevitable situation, and that supervision is the only available alleviation of the abuses that attend it at the moment. Is that not the Russell Sage view?—A. Yes. Unfortunately, there have been dynamics in the increase of the use of consumer credit over which we have no control, and which we say ought to be brought within social control.

Q. And they are likely to increase, are they not?—A. I am afraid that they are, yes.

Q. Would you mind giving me the name of the organizations in New York, Ohio, New Jersey and the other states that you mentioned? Suppose we wanted to have witnesses from Massachusetts or New York or Wisconsin or New Jersey —who would we get in touch with there?—A. I think that the secretary, by writing—

The CHAIRMAN: We have that information, Mr. McGeer.

Mr. MCGEER: All right.

By Mr. Plaxton:

Q. I took it this morning from what you said, Mr. Henderson, that the Russell Sage Foundation recommends a rate of three per cent on the first one hundred dollars and two and a half per cent on the second and third hundred dollars. When you were speaking of a rate that might be applicable to Canada, I took it, as I recall it, you mentioned two and a half per cent. Was that the minimum rate?—A. Yes.

Q. In other words— —A. And a maximum.

Q. In other words, you suggest that as a flat rate?—A. As a flat rate, yes; because as I said, I felt that you would get lower going rates from the operating companies here.

Mr. MCGEER: That maximum should include all interest and charges, if there were any.

Mr. KINLEY: Why do you think it would be lower?

Mr. MCGEER: Competition.

The WITNESS: Competition and based on experience to date.

Mr. KINLEY: They must do more business. Their turnover must be greater.

The WITNESS: Yes. You have some companies that are doing business here, and you have under your act a general limitation of two and a half per cent, if I read Mr. Finlayson's report correctly.

Mr. KINLEY: They are doing pretty well.

The WITNESS: They are not doing at all badly.

By Mr. McGeer:

Q. Are there any companies lending at less than the flat rate, in the states where they are in operation, that you know of?—A. In the United States?

Q. Yes, I mean where you have the flat rate situation?—A. Oh, yes.

Q. Have you had any experience of where companies are lending at less than that?—A. Yes.

Q. I suppose that is fairly common, is it not, in all the states?—A. Yes, it is. As I said this morning, we rely on getting this effective rate in competition from other lenders, other licensees—competition from other types of lending and on the alertness of the state supervisor in keeping the maximum at what amounts to a driving force.

By Mr. Donnelly:

Q. Would you fix the maximum amount at $500 or $300?—A. I prefer $300.

By Mr. McGeer:

Q. How many states have that limitation?—A. As far as I know, twenty-six out of twenty-seven that I know of have that $300 limitation.

By Mr. Tucker:

Q. Why do you prefer that $300 to the $500?—A. I think I said this morning we had found that it was adequate to cover most of the needs of the borrowers arising from emergencies and the type of the loans which are contemplated to be made by the licensees; and second because it has stood up under our constitutional requirements. To put it bluntly, it has never been seriously questioned except by loan companies that would like to get a much wider range.

By Mr. Plaxton:

Q. Is not a flat rate open to this objection, that it might conceivably be too high for loans falling in a certain bracket and too low for the upper bracket loans?—A. That is right. For that reason I think that there is a high value in getting hold of this thing early. I think that a two and a half per cent, as I say, it would give you at least a period of observation, all that you perhaps, ought to have, for small loan balances in small cities, and still would permit loan companies that are now existent to have lower rates. I think you would get an effective rate lower than that.

Mr. KINLEY: Your rate is a state rate; that is, the rates that you have in the United States are all made by the state legislatures?

The WITNESS: That is right.

Mr. KINLEY: The rate that we would make here would be a national rate covering the whole country. What would be your problem if you had to have a rate for the whole country?

The WITNESS: I think we could handle it very easily. I think the rate would be around three per cent on the first $100 or $125 and two and a half per cent on the balance.

Mr. FINLAYSON: Following up Mr. Plaxton's question, what is the object of the graded rate such as you have in Wisconsin and New York?

The WITNESS: The graded rate in Wisconsin was the selection of the state legislature itself.

Mr. FINLAYSON: In principle, what is the object of the graded rate?

The WITNESS: In general terms, the object of the graded rate was to see that loans of a smaller denomination were made, and since there is a fixed cost applicable against any loan, there has been a tendency for the average loan to move up, particularly with increasing costs that have been taking place in the various states.

Mr. FINLAYSON: So that with a flat rate there is the danger that a man who only needs a small loan would not be able to get it?

The WITNESS: Yes, there is.

Mr. FINLAYSON: And the object of the graded rate is to permit the company to charge a slightly higher rate for the very small loan in order that it may serve that field?

The WITNESS: But we did that, Mr. Finlayson, after the business had been established. That was a sort of corrective thing, and that is what I had somewhat in mind, that I feel after you get started that you can pretty well—

Mr. FINLAYSON: Get started early?

The WITNESS: Yes.

Mr. FINLAYSON: If 2½ per cent were fixed as the rate, the company might be quite able and willing to make $150 loans at that rate, but they would not want to make $50 loans?

The WITNESS: That is quite possible.

Mr. FINLAYSON: Therefore, the man who only needed a $50 loan would have to look elsewhere for his money?

The WITNESS: There is that possibility.

Mr. FINLAYSON: Will you just explain how that graded rate works? When you say that the graded rate is 3 per cent on the first $100 loan, how does that work in the case of a $300 loan?

The WITNESS: On a $300 loan the man would pay at the end of the first month $3, plus $5 or $8, and then if he made a principal payment on the next computation he would pay 3 per cent on $100 and then he would pay 2½ per cent on $170. He has a combined rate.

Mr. FINLAYSON: Take the $300 loan, the entire balance bears what rate of interest at the beginning of the repayments?

The WITNESS: $266 at the beginning.

Mr. FINLAYSON: And the first repayments are applied to discharge which element of the loan?

The WITNESS: The cheap loan.

Mr. FINLAYSON: So that when the loan gets down to $150, the lender then gets what rate of interest thereafter?

The WITNESS: Well, if the break is at $100, he gets 3 per cent on $100.

Mr. FINLAYSON: Take the break at $150.

The WITNESS: 3 per cent.

Mr. FINLAYSON: On the balance of the loan?

The WITNESS: Yes.

Mr. FINLAYSON: So that on the average the lender is getting on that $300 loan possibly 2¾ per cent or more?

The WITNESS: I do not know.

Mr. FINLAYSON: I have made the computation here. He gets 2·86 per cent on the average on that loan.

Mr. DONNELLY: That is if he meets all the payments when they become due.

Mr. FINLAYSON: That is right. Now, what you have is this: that while 2½ per cent might enable that lender to make the $300 loan, by that graded rate that you have suggested, he gets in fact 2·86 per cent on the average?

The WITNESS: Yes.

Mr. FINLAYSON: So that the graded rate, it seems to me, works to increase the rate of interest on the large loan and that is quite foreign to the object of the graded rate which is to enable the $50 man to get a loan?

The WITNESS: Well, when we were coming down off the high level, the experience very definitely was that there was an increase in the small loan, which we wanted, and there was a decrease from 3 or 3½ per cent to 2·86, if that is the rate,—a very substantial reduction in the rates on the high loans. So that the purpose of the Sage Foundation in both instances, that of serving the small borrower and of reducing charges to the high borrower, was accomplished.

Mr. MCGEER: What Mr. Finlayson suggests is that if a man borrows $300 he pays the graded rate all the way through, but he does not pay on $300 a flat rate. He does not pay 3 per cent on $100 and another rate on the next $100 and another rate on the next $100 if he borrows a total amount of $300.

Mr. VIEN: Yes.

Mr. FINLAYSON: He pays 3 per cent on $150 right through the whole year.

Mr. BAKER: The first $100.

Mr. McGEER: That does not mean if he borrows $100 he pays 3 per cent, and if another man borrows $200 he pays the lower rate, or if he borrows $300 he pays the minimum?

Mr. FINLAYSON: No.

Mr. KINLEY: If he borrows $300 he puts up security, and that security is held until the loans is paid. Why should he pay a high rate of interest when he gets to the low break? It seems to me it would be eminently fair for him to retain that rate of interest on that loan notwithstanding that he pays it off on a $150 loan.

The WITNESS: You are getting into a technical difference there. If he wants to say he has paid 2·86, that is all right.

Mr. KINLEY: There is no expense in connection with the loan after it is made; you have got security.

The WITNESS: Let us get back to what the actuality is. He pays a certain number of dollars for the use of $300.

Mr. KINLEY: Yes.

The WITNESS: Now that is the thing which is the net subtraction for him. That rate may be 2·86. What we were doing in this step-down was trying to get a lower rate on the higher loans and a drive to smaller loans, and both of these things were accomplished. And I have said here that I thought if you caught it early that you could do much better than we did.

Mr. VIEN: 2½ per cent flat is a better condition than you have?

The WITNESS: Yes.

Mr. QUELCH: If you raised the limit to $500, there should be a slight reduction in the flat rate.

The WITNESS: If the $500 loans are made, yes. If you could show that the small loans were not being made, I would be prepared to recommend that the rate be increased to 3 per cent on the first $100.

Mr. FINLAYSON: When you speak of a graded rate of 3 per cent on $150 and 2½ per cent thereafter, it does not mean that the man who borrows $150 pays 3 per cent and that the man who borrows $300 pays only 2½. It means this—

Mr. McGEER: You can make it that.

The CHAIRMAN: Just a minute; let Mr. Finlayson finish his questions.

Mr. FINLAYSON: Take the New York provision. The rate there is three per cent on the first $150 on all loans and two and a half per cent on the balance over $150. On a loan under $150, of course, the rate is three per cent. On a loan of $200 the rate is not two and a half per cent but 2·96 per cent.

Mr. BAKER: Because he paid off the first $250?

Mr. FINLAYSON: On a loan of $250 the rate is 2·91 per cent and on $300 the rate is 2·86.

Mr. McGEER: If the purpose of making a higher rate on the lower amount is to induce the borrowing of small loans and yet provide the loan company with the overhead, is there any reason why the legislation should not provide for a flat rate on the first $100 and an actual rate of so much on the second amount and so forth?

The WITNESS: There is none, except you get into an awfully bad mathematical problem there in which you leave a gap of $40 or $50 in which it is better for the lender to borrow the larger amount. We spent months on the joint rates, and what I have been suggesting here is a rate of two and a half per cent and to try that to see whether competition did give you the lower

rate, and then if you found the smaller borrowers were not served there is no reason why you should not make a split there. The two and a half per cent, as I have suggested, is a much better rate, as Mr. Finlayson has certainly pointed out.

By Mr. Finlayson:

Q. May I suggest this, that with the graded rate you might provide for the repayment of the higher interest bearing element first? That would still give you the gradation that you are looking for, but would reduce the average rate.—A. If you let the man who borrows $300 pay off the cheap money first; but take the man who borrows $100.

Q. If the man who borrows $300 applied his first repayments to paying off the three per cent element, and then took the lower rate element— —A. We thought of that, but because of the scope of the arrangement and the confusion that it caused and the distortion it would do to the lending business, we never gave much time to it.

Q. Can I put one more question to you. Has the Foundation ever considered what is a fair rate of return on invested capital or total net assets in this business? You suggest that there should be administrative discretion to fix a rate below the maximum. Have you ever considered at what point the reduction would be justified, based on the returns to the lenders either on their paid-up capital or on their total net assets after deducting reserves?—A. We had a lot of consideration of that; but for the most part there was never enough funds coming in to the small loan business through the established capital market to supply the demand. That is where we felt that we ought to have a general maximum and that the greater return ought to be geared to the amount of capital that was necessary in the business. Contrary to most kinds of business there never seemed to be enough cheap money available, and so we never assessed what ought to be the proper rate. However, we did go to a tremendous amount of enquiry to establish what the earned rate was, and you have available the studies that we have made on that.

Q. Do you think that is a material factor in determining whether there should be a lowering of the rates and in the return actually received by the lender?—A. Yes.

Q. Perhaps you are familiar with the Massachusetts rate. Massachusetts has actually regulated it on a flat three per cent.—A. With some modifications of special classes of security.

Q. I believe they have modified it recently so as to provide two and a half per cent on some types of security on amounts above $150. I notice from the Massachusetts report that the average earnings on the net assets in 1936 were about seven and a half per cent for all lenders, small loans companies around 8·36, the Morris plan 3·53, and altogether 7·57. With the rate of earnings the commissioner, who has administrative discretion, reduced the rate of interest to approximately the New York figure. The provision is that the rate is three per cent on the first $150, and in the case of a chattel mortgage two per cent on the balance of the loan; if the security is a single signature or the signature of a husband and wife it is three per cent on the first $150 and two and a half per cent on the excess. Now, that reduction was ordered to be put into effect on the earnings that I have mentioned. Suppose we had in Canada a company earning on the average say two and one-third per cent or 2·4 per cent per month, and earned ten per cent or more on its total net assets less reserves for unearned income and losses, would you think there would be justification there for a reduction in the rate?—A. I cannot—

Q. Perhaps you would not care to answer that?—A. I cannot make that fine distinction on the proper rate to be allowed, first because of the difference between an established community like Massachusetts and Canada.

Mr. VIEN: A growing country like Canada.

By Mr. Finlayson:

Q. At any rate, when you speak of administrative discretion you would say that that point which I have mentioned is one that should be taken into consideration by the administrator?—A. I have looked at that and I think the Russell Sage Foundation has looked at it from the standpoint that that is what the administrator ought to be constantly reporting to parliament so that the parliamentary decision would be more intelligent. I would put it that way. I would assume he would know much better what was the rate necessary to attract capital, and that he would not be trying to penalize efficiency. I can conceive of a situation where a company could earn eleven or twelve per cent and the borrower would be much better served by a company that lost money, you see.

Q. The Russell Sage Foundation does not favour the graduation of the rate with the type of security taken?—A. It is not—

Q. It favours a uniform rate for all types of security?—A. We have felt, I think, that the supervisor would make a recommendation if a business grew up on a kind of collateral or security where the risk was not as great as that contemplated by the law.

Q. Do you think that there has been over there excessive expenditure on publicity and solicitation?—A. Yes, I think it has not been so much the excessive expenditure that would affect the cost to the borrower, as it has been the bad character of the thing. I refer to the circulars.

Q. Has there been what you might call competitive advertising, the feeling that one lender must keep up with another lender and so forth?—A. I believe there has been some of that.

Q. That may have been developed into an evil?—A. I think I can speak of that constructively. We provide in the law (the sixth draft) that rules and regulations may be established by the supervisor requiring copy to be submitted to the supervisor and some information to get rid of the most vicious of these things. We certainly approve of that.

Q. Has there been an attempt to deal with the problem of the limitation on the percentage of gross income which may be expended for advertising?—A. No, and I think that would be an unwise way to get at it. I would prefer again that the administrator, familiar with it, should have some authority to say wheher or not the circulars should be addressed to all the people.

Q. This is the case of an administrator seeking advice and counsel from the man who knows most about this business.—A. I would say constructively it cannot be done on a percentage basis, because I know in some cases the advertising itself reduces the cost of doing business, and I am pretty generally against this forced advertising. I know in general the United States public has been very very badly abused.

Q. Let us get down to cases. We have three regulated companies here, and they have spent about ten per cent of gross income on advertising; whereas other kinds of companies, loan companies, trust companies and so on, spend only one per cent or less. Now, does that appear to you to be a disproportionate cost of advertising, or would you care to say?—A. Mr. Nugent could give you a better answer than I can. Mr. Nugent has that comparison.

By Mr. Baker:

Q. Should we have legislation against advertising?—A. I think not. I would trust again to the fellow who lives with it day in and day out.

By Mr. Finlayson:

Q. I am just through now. I just want to ask Mr. Henderson if he can give us any information about the Morris Plan bank. My impression is that these Morris Plan banks differ from the small loan companies in this respect, that they have the power to take deposits from the public and to issue certificates; thus, they get their money from the public otherwise than by share capital. As the result, their rates are substantially lower than those of the small loan companies.—A. The Morris Plan is the name given to one type of what is known as industrial banking concerns; and in some of the states where they got started early they were able to sell certificates of deposit—that is what they in effect are—and so cheaper cost money; but the main thing that they relied on and a thing which distinguishes them from the small loan companies, is that their loans were not limited to $300 in their amount; and secondly, they required endorsers. In other words, they loaned all their money on paper, and they usually loaned at a rate which is about an effective rate of 1½ per cent a month, and they usually had a much higher loan rate, and they had more business loans. That business has come directly in competition with the loans by the personal loan departments of the banks, and they have had quite a considerable success in that type of lending.

Q. If they were not permitted to take this money from the public by way of deposits, or by way of investment certificates, they could not lend at that low rate?—A. That is right. There are three things which I think enter into it: They are not limited to $300; they have a deposit capital; and the security of co-signers is there.

Q. Have you any information as to the personal loan departments of the banks? Have they been faced with any excessive losses, or any substantial losses, or, is there any information of a public character on that?—A. No. Mr. Nugent had an article that he could not get at what those losses were. It is very difficult to get at that because the banks have not segregated that information.

Q. Can you say in framing the rate structure for the small loan companies in the United States what provision is made for losses that will have to be written off? Is there any rate assumed in building up the rate structure?—A. No, it was not built up that way, Mr. Finlayson.

Q. Have you any knowledge as to what the actual realized loss is in your companies generally, over a period of years?—A. Yes, that was in the Nugent study—

Q. Just in general?

The CHAIRMAN: Give us the reference and we can look it up.

The WITNESS: I think that will be found in the pamphlet called, "The Expenses of Small Loans Licensees".

By Mr. Finlayson:

Q. Is that a pamphlet Mr. Nugent has just published?—A. Yes.

The CHAIRMAN: Could we have a copy of it?

The WITNESS: Yes, I will leave my copy with you.

By Mr. Finlayson:

Q. I just wanted to ask if you think a loss of one-half of one per cent would be large or small?—A. It would be small for licensed companies. Probably the only time I have seen them use that was when they were trying to sell some of the securities.

Q. And if Canada proved to have a loss of one-half of one per cent while some of the states in the United States might have a 5 per cent loss, that might operate as a warrant for a lower rate in Canada?—A. Yes, if you were striving to try to get the tightest rate you possibly could get.

Mr. MARTIN: It will be remembered that at a meeting of the subcommittee it was agreed that we should ask the Russell Sage Foundation when their representatives came here if they would care to recommend someone who had actually to deal with the operation of the law whom this committee might summon as a witness at a later date if it so desired.

The CHAIRMAN: You mean, an administrator?

Mr. MARTIN: Yes.

The WITNESS: I would prefer it if you would ask Mr. Nugent about that, because I am really out of touch with it now.

Mr. COLDWELL: Mr. Chairman, I am sure that we are all very grateful to Mr. Henderson for coming here and giving us this very excellent exposition today.

Some Hon. MEMBERS: Hear, hear.

Mr. COLDWELL: On behalf of the committee, seconded by Mr. Baker, I wish to move a very hearty vote of thanks to him. In doing so I would just like to say this, that I do not think I have ever heard a witness who has given a clearer explanation or clearer answers to questions that have been asked. I am quite sure that we have all benefited very greatly from his presence here, and what he has been able to give us will help us very materially in meeting this very difficult problem which we are called upon to deal with.

Some Hon. MEMBERS: Hear, hear.

Mr. BAKER: I have very great pleasure, and I esteem it an honour, in seconding this motion. Speaking for myself personally, it has been a great pleasure to be seated in this committee because I always enjoy meeting a man who knows his job; and we have certainly met one today. It is a very great pleasure also to feel that we have among our cousins to the south valuable power to draw on when we need it; and we certainly made a good draw on this occasion. We have received in condensed form in a very short time an amount of knowledge which it would have taken us a very long time to acquire in any other way. And I express great appreciation, I am safe in saying on behalf of the chairman and the members of this committee, for Mr. Henderson's appearance before this standing committee on Banking and Commerce of the House of Commons of the Dominion of Canada. I hope that when you go home, sir, you will express to your fellows in the Foundation that we here have fully appreciated your services and your kindness in coming here, and we hope that we will have the pleasure of seeing you oft times again.

Motion agreed to.

The WITNESS: I find myself quite incapable of responding. I just want to say that this all makes me very very happy.

The CHAIRMAN: Thank you very much.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 9

The report of the Bank of Canada
for the year ended December 31, 1955.

TUESDAY, MAY 15, 1956

WITNESS:

Mr. J. E. Coyne, Governor, Bank of Canada

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

74587—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue	Gour (*Russell*)	Power (*Quebec South*)
Ashbourne	Hanna	Quelch
Bell	Henderson	Regier
Benidickson	Hollingworth	Richardson
Blackmore	Huffman	Robichaud
Cameron (*Nanaimo*)	Low	Rouleau
Carrick	Lusby	St. Laurent (*Temiscouata*)
Crestohl	Macdonnell (*Greenwood*)	Stewart (*Winnipeg North*)
Deslieres	MacEachen	Thatcher
Enfield	Macnaughton	Tucker
Eudes	Matheson	Valois
Fairey	Michener	Viau
Fleming	Mitchell (*London*)	Vincent
Follwell	Monteith	Weaver
Fraser (*Peterborough*)	Nickle	White (*Waterloo South*)
Fraser (*St. John's East*)	Pallett	
Fulton	Philpott	

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
FRIDAY, May 4, 1956.

Ordered,—That the report of the Bank of Canada for the year ended December 31, 1955, tabled Thursday, March 1, 1956, be referred to the said Committee.

Attest

LEON J. RAYMOND,
Clerk of the House.

MINUTES OF PROCEEDINGS

TUESDAY, May 15, 1956

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Argue, Ashbourne, Benidickson, Blackmore, Cameron (*Nanaimo*), Carrick, Deslieres, Enfield, Follwell, Fraser (*Peterborough*), Fraser (*St. John's East*), Gour (*Russell*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Macdonnell (*Greenwood*), MacEachen, Michener, Philpott, Power (*Quebec South*), Quelch, Regier, Robichaud, Viau, Weaver and White (*Waterloo South*).

In attendance: Mr. J. E. Coyne, Governor; and Mr. R. W. Lawson, Deputy Chief, Research Department; both of The Bank of Canada.

(*Note: The Committee first considered a Public Bill in respect of which the Minutes of Proceedings and Evidence are recorded in Issue No. 8 of the Committee.*)

At 11.20 o'clock a.m., the Committee proceeded to consider the report of the Bank of Canada for the year ended December 31, 1955, copies of which had been distributed to the Committee.

On motion of Mr. Viau.

Resolved,—That the Committee print 750 copies in English and 200 copies in French of its Minutes of Proceedings and Evidence in respect of the report of the Bank of Canada for the year ended December 31, 1955.

Mr. Coyne was called; he made a statement supplementing his annual report on the Bank of Canada. He was questioned, in particular on various aspects of the operation and effects of monetary policy.

At 1.00 o'clock p.m., the Committee adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

74587—1½

EVIDENCE

TUESDAY, May 15, 1956.
11.20 a.m.

The CHAIRMAN: We will consider now the report of the Bank of Canada for the year ending December 31, 1955. Mr. Viau, you have a motion to make?

Mr. VIAU: I move, seconded by Mr. Carrick, that the committee print 750 copies in English and 200 copies in French of its minutes of proceedings and evidence in respect of the report of the Bank of Canada for the year ended December 31, 1955.

The CHAIRMAN: You have heard the motion.

Mr. VIAU: I would point out, Mr. Chairman, that although this is a routine motion, the 200 copies in French should be made available as soon as possible, and not in six months or at a later date as is customary.

The CHAIRMAN: Thank you Mr. Viau. Your comments have been noted. All those in favour of the motion?

Mr. CAMERON (*Nanaimo*): Mr. Chairman, just before we take a vote, I understood we had already passed a motion that covered all our hearings this session. That is certainly what we did last year.

The CHAIRMAN: No, because the proceedings on private bills, are not printed, and we must bring this matter up each time we are on a public bill or on a similar matter.

Mr. CAMERON (*Nanaimo*): All right. I was just curious to know why we were doing it this way.

The CHAIRMAN: All those in favour? Contrary if any?

Carried.

The annual report of the Bank of Canada has been distributed. Has everybody here a copy of the report? Mr. Coyne has suggested that the report really is his statement, but that he has certain comments which he will make.

Mr. J. E. Coyne, Governor, Bank of Canada, called:

The WITNESS: Thank you, Mr. Chairman. It is a pleasure to be back with you again. I do not have any formal statement to make other than to submit to you the report for the year 1955 which has already been printed and distributed. It deals, of course, mainly with the events of the past year.

I might say a few things, if you thought it would be helpful, by way of background and to start off the proceedings, and then, of course, I will be glad to answer any questions or participate in any discussion.

Two years ago this committee had a very comprehensive discussion and review of monetary policy in all its aspects. I am not going to try to cover the same field again, but simply to mention a few points in connection with one or two aspects of the job of the central bank. Members of this committee are, of course, familiar with the history of the Bank of Canada. It was incorporated by act of parliament in 1934, and a preamble was put into the act giving a general outline of what the bank was intended to do, the objectives of its operations, which I think perhaps I might read. The preamble declared,

> Whereas it is desirable to establish a central bank in Canada to regulate credit and currency in the best interests of the economic life

of the nation, to control and protect the external value of the national monetary unit and to mitigate by its influence fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of the Dominion:

That is a very large mouthful, and a very large, broad set of objectives. It is important, of course, for us always to bear in mind the qualifying words "—so far as may be possible within the scope of monetary action". There are many other kinds of action which are taken by government and parliament and by various bodies throughout the country which will affect the general level of production, trade, prices and employment, as well as monetary action.

The bank was set up as a corporation, a banking corporation with its capital stock held by private shareholders, but in 1936 and in 1938 parliament made changes in that respect, so that the government of Canada became the sole shareholder and owner of the capital stock in the bank. At the same time, the earlier provision by which the directors of the bank were elected by the shareholders was replaced by the present provision by which they are appointed by the Minister of Finance with the approval of the Governor in Council, for a three-year term.

There are 12 directors appointed in that way, and their terms are staggered so that one-third of them come to the end of their terms each year, and are eligible for reappointment. The provision was made in the original act that the governor would be appointed by the directors, but the appointment required the confirmation of the governor in council. That provision, of course, still remains.

It being set up in this way as a corporation, with an outside board of directors chosen largely from outside Ottawa, it follows that the directors, of course, are not civil servants. Neither, in fact, is the staff of the bank, or any of its officers or employees, who constitute a separate establishment. Having our head office here in Ottawa we are naturally in close touch all the time with the government departments, and members of the civil service. The Civil Service Commission, by the way, is our chief competitor in the selection of personnel. In the day to day operations of the bank, and particularly in those general economic matters in which we have to take an interest—though we do not carry out operations except in the monetary field—but in the general economic field we are constantly in touch with other government departments, maintaining close liaison with them, being of assistance to them sometimes, and at others receiving a great deal of assistance and information from them.

The management of the bank, as you know, was entrusted to the board of directors. They are responsible for having the bank operate in such a way, if it can, as to achieve its objectives, which are set forth in the preamble. The specific legal powers of the bank are set forth in various sections of the act.

In addition to these responsibilities resting on the board as a whole, there is a very special responsibility resting on the governor, who is not only the chairman of the board, but chief executive officer. He has the authority to exercise all of the powers of the bank, unless they be, by the act, reserved specifically to the board of directors. By and large, in the field of ordinary monetary operations, the governor has all the powers of the board of directors. He cannot necessarily overrule them. There are some technical provisions in that regard. If there were ever any dispute between the governor and the board of directors, provision is made for it to be referred to the Minister of Finance and he submits the matter to the governor in council, who has the power to decide it. However that, of course, has never happened, and I trust it never will happen.

I might just say a few words, I think, Mr. Chairman, about how the bank operates and what it actually does—not so much the technical matters related to note issue and custody of public debt records and so on, but in the field of monetary policy and monetary operations.

The first point of importance, I think, is that every transaction we make—every item we buy or sell securities or foreign exchange—has an immediate effect on the cash reserves of the chartered banks. If we buy securities we pay by cheque on ourselves and the person who gets paid in that way deposits his cheque to his credit at his bank. The bank in turn deposits the cheque to its credit with us. Similarly, if we sell securities, the payment we receive from the buyer has to be charged against his account with his bank, and against that bank's account with us.

In addition to the fact that our transactions increase or decrease the cash reserves of the chartered banks, they may also have a direct effect on the supply of money in the country. If we deal with the general public we immediately affect the supply of money in the hands of the general public. But whether we deal with the general public with a chartered bank, the effect can be multiplied twelvefold as regards the supply of bank deposits in the country because the banks are required to keep only 8 per cent cash reserve against deposit liabilities. Any bank that finds it has more cash than that can make additional loans, or buy securities from others. As the other banks in turn, receive more cash, the multiplier process operates, by which deposits are increased by about 12 times the amount of the increase in the cash reserves of the chartered banks.

The central bank does not ordinarily take the initiative to increase or decrease the cash reserves of chartered banks. That is to say, it does not step out and bid for securities if it thinks an increase in cash reserves is desirable, or step out and offer securities in the market, if it thinks a decrease in cash reserves is desirable.

At any rate, not usually. For the most part there are transactions going on in the market all the time. People are making offers to buy or to sell, and the central bank is usually in a position to be able to respond to offers to buy from others rather than to take the initiative to make offers itself.

When there is a need for more money in the country, you probably find some people—you are certain to find some people—are selling securities in order to raise cash. If there is a need for more money as indicated by that fact, the central bank can buy some of those securities that are being offered, and thereby provide the cash. It will probably do so at prices which progressively decline as the strength of the selling pressure keeps up, so that you will probably find rising interest rates at a time when there is a demand for more money.

The rise in interest rates, of course, would be much greater if the central bank took no action at all. If we simply stood still interest rates would rise, until sufficient buyers were found among the general public to balance the sellers among the general public. So, on the other side of the picture too, when, for a lack of other opportunities to invest, people are interested in buying government securities on an increasing scale, the tendency will be for the central bank to provide some of those government securities and sell them, and in that way dampen the fluctuation, which in that case would be a rise in government security prices, and a decline in interest rates. Generally speaking the central bank tries, and I think certainly should try, to foster orderly conditions in markets, and to dampen fluctuations, but not necessarily to prevent fluctuations if they represent real changes in supply and demand.

One of the things that we have no control over whatsoever, paradoxically enough, is the size of the note issue. This was presumably one of the first

central banking functions. To-day currency in the form of notes is only one form of money,—convenient form up to a point, but an awkward form beyond that point. The public in general prefers to hold a good part of the money in the form of bank deposits which it can transfer to others by cheque. The total amount of money which the public chooses to hold in the form of notes instead of bank deposits is decided entirely by the millions of individuals and businesses themselves. It is the job of the central bank to make sure that there is a big enough supply of notes to enable business to be transacted in that form to the extent that people want. So that you will find changes in the note issue occurring entirely without any volition on the part of the central bank, merely reflecting the proportion of money which people want to hold in that form.

This may change from time to time. There may be various reasons why people decide to hold more notes rather than more bank deposits, or rather, let us say, more notes and less bank deposits. There may be secular changes. There may be seasonal changes and there generally are. You find a rise in the note issue in November and December, and then a decline in January and a gradual rise throughout most of the rest of the year. From year to year as economic activity increases, and the whole economy grows, you will probably find a growing volume of notes. Now, I mention this, not just as an interesting factor in itself, but because the demand for notes affects the cash reserves of the chartered banks, and therefore creates a situation in which the central bank is called upon to make a decision of some sort. At a time when the public want more notes they withdraw them from their banks by writing cheques on their bank accounts. The chartered banks, up to a point, can take care of small fluctuations, because they have got a supply of notes on hand. There is quite a fluctuation within each week, for example, which the chartered banks can take care of quite easily.

But if there is a longer seasonal movement going on, or a secular movement going on, the chartered banks have to come to the central bank to get more bank notes. They can only get them by giving a cheque on their deposits with the central bank. That form of their cash reserves, therefore, declines. When the public wants more cash the banking system loses cash unless the central bank takes special action to relieve that situation. *Vice versa*, when the public decides to turn in part of its notes to the chartered banks, the banks deposit the notes with the central bank and they have a rise in their cash reserves unless the central bank takes other action which has the effect of causing these cash reserves to decline.

As a result of all the factors which may affect the supply of cash, the supply of money, and the buying and selling of securities on the market prices of securities will rise and fall, and interest rates will move correspondingly. This will occur in response to economic developments even if the central bank does nothing or even if it keeps the cash reserves of the chartered banks constant. It would happen even if there were no central bank, but it will happen to a different degree according to how the central bank responds to these demands of the market. It can even happen in a different direction if the central bank decided things were going wrong within the economy, and it had not only to offer some resistance but actually to take some strong action to reverse the direction of the movement. That, however, is a very rare event today. It generally means that things have got out of control, for a non-monetary reason perhaps, such as the outbreak of war elsewhere on the globe, or a big change in our defence programme at home, or something of that sort.

I do not want to bore you with a long discussion of monetary policy or operation, but I will try to say just a few words on the events of last year.

As we all know, generally economic conditions were not too good at the beginning of 1955. There had been a recession in business starting late in 1953, unemployment had risen, and in fact, in the winter of 1955—that is in January, February and March—our unemployment ratio got quite high something over 7 per cent of the labour force as compared with the situation in the United States at that time, where unemployment was 5 per cent of the labour force. The force of recovery from the recession had apparently got started earlier in the United States than in Canada, just as the recession itself had started earlier in the United States than in Canada. It was, for us, a curious kind of recession, or a curious use of the word "recession", because actually there was not a recession, there was not a downward movement of much consequence. The total output of our economy scarcely declined at all, except in the field of agriculture where the special factor was the small grain crop in the year 1954. Apart from that, economic activity in this country levelled off rather than declined. Generally we called it a recession, and I think rightly so, because we have to use some words to describe a situation in which unemployment is rising. Unemployment rose not because production was declining but because the population was rising, the labour force was rising and the productivity of men employed was rising. Anything apart from growth could be said to mean recession and would be consistent with a situation of growing unemployment.

In early 1955, as throughout 1954, monetary policy was on the side of what is generally called easy money. The central bank's operations were such that the chartered banks at all times had plenty of cash and were able to make all the loans that seemed good in the circumstances. To the extent that there did not seem to be sufficient opportunities for making loans under those conditions, the chartered banks went out and bought government securities in the market with the surplus funds which you can say central bank policy permitted them to have. That put money into the hands of the people who formerly owned the government securities, at times just as effective a way of stimulating economic activity as making a bank loan.

However, in the second and third quarters of the year recovery came fairly quickly, particularly after June, and there was a very rapid rise in all forms of economic activity. Unemployment became quite small in the summer of 1955. This rise in economic activity was accompanied by a very rapid rise in bank loans, after March. Not only were there bank loans to business and to persons, but there was another form of credit, consumer credit, financed outside the banking system to some extent and partly by the banks, which also went up very rapidly, particularly as a result of the very heavy sales of automobiles in 1955. Capital investment by business had been forecast at the beginning of the year as somewhat higher than the expenditures of 1954, but no higher than 2 years ago, 1953. However, as it turned out the rate of expansion quickened throughout the year and the final outcome was a substantial rise in capital investment spending over 1953. There was also a substantial rise throughout the year in consumer spending. In the course of the year monetary policy changed from one of ease to one of neutrality, and finally to one of restraint.

There were three or four particularly interesting monetary developments during the year which engaged our attention for a considerable time. One had to do with the further development of the short-term money market. As I said earlier, the central bank at all times is entering into transactions taking place in the financial and securities markets. In securities matters, it deals in government of Canada securities of all kinds, both short-term and long-term, and these really are the significant day-to-day operations of the central bank. We

did not have, in the early days, much of a short-term money market in Canada, but from the beginning—from the establishment of the Bank of Canada—the bank has encouraged the development of a short-term money market for several reasons. For one thing, it is useful to have as good a market for short-term loans as for long-term loans; it is a convenience to the public and an assistance to business. Another thing is that it is a very convenient way by which banks can adjust their surplus or deficit cash reserve positions. One way would be for them to come direct to the central bank and deal in securities with us or, if necessary, obtain a loan from us, but that usually should not be necessary because at a time when one bank is short of cash the probability is that another bank is long on cash. A money market is a convenient mechanism by which the two can be brought together; it is ideal for that purpose. One requirement was that there should develop a group of skilled middlemen, the money market men or investment dealers, who know their job and have confidence that the market will continue to operate in a reasonably orderly way. The central bank has encouraged and has in a sense underpinned the market by saying to those who are specializing in this kind of activity that if the market seems not to be operating properly, and, in particular, if money is too tight, "you can come and sell your short-term securities to the central bank, provided you promise to take them back again after a short interval". This arrangement is called a purchase and resale agreement, and through it the money market can obtain cash from the central bank directly instead of forcing the chartered banks to come to the central bank.

One of the features of a short-term money market, then, is that the central bank engaging in an operation there has to determine the interest rate at which it will do so. Practically speaking it wants to set an interest rate higher than that normally ruling in the market, so that it will only be a source of cash or funds in the last resort; we want the market to operate by itself as far as it possibly can. In dealing with the money market we decided to use the same rate of interest as that mentioned in the Bank of Canada Act—the bank rate—which may be charged on loans made to the chartered banks by the central bank. In this case we could give additional significance to the Bank Rate which hitherto had not very often been an operating rate. In fact, the Bank of Canada bank rate—the minimum rate at which we may make loans and advances to chartered banks—had been changed only two or three times in 20 years, prior to the year 1955.

In February of 1955, as a result of various improvements in the short-term money market which are referred to in our reports for last year and the year before, we decided to take a further step by bringing the bank rate into line with short-term rates generally. That required a decrease in the existing level of the bank rate, which at that time was 2 per cent whereas the treasury bill rate had fallen to ·80 or ·90 per cent. So we reduced the bank rate to 1½ per cent and made public the fact as we are required to do by law, and in addition to that we put out a public statement because we wanted to make clear why this change was being made. I think the statement made it clear that the bank rate change was made in order to effect an improvement in the operation of the money market, and the fact that there was a decrease was not to be taken necessarily as an indication that we felt that money should be still easier than before. Indeed it could hardly be, because in the latter half of 1954 interest rates had been declining and were pretty sure to rise again from such low levels. We did not want the bank rate to be too high in comparison with market rates and we put it down where it would come into touch with market rates that much sooner. That did happen in August, when we put it up to 2 per cent because the treasury bill rate, in particular, had been

rising ever since the 15th of February. If there are any further questions on that point I will try to answer them later on.

Another factor in 1955 was, as I said, the very rapid rise in bank loans after a slow start. I think everybody was surprised by the acceleration in the rate, particularly in the second half of the year. We realized, for one thing, that we did not have good enough information as to what was happening in the field of bank loans. We did have a weekly figure of the total loans, but very little idea of the elements which went into the total and the reasons why the total was increasing.

At our meetings with the chartered banks in September and November of last year we asked for information, in the first place, on capital loans which they were making, and asked for that information at the time the loans were being made; and, secondly, for a monthly report, instead of quarterly, as to loans outstanding, by various categories,—agriculture, grain, mortgage security loans, loans to merchants, loans to various branches of industry, and so on. Finally, after further consideration, we asked if the banks would agree to provide monthly information, not just on loans outstanding but on changes in lines of credit,—that is on loan authorizations—in an attempt to see whether they will give some advance indication of the trend of the actual amounts borrowed and outstanding later on. Very often a line of credit is increased or decreased months before there is any sign of it in the actual volume of borrowing by the customer at the bank.

I think we have made very considerable improvements in the type of information available to the central bank, to the chartered banks, and in due course to the public at large by those developments. In addition we found two factors operating in 1955 which had tended to make the market, the banks, and the economy in general, rather slow to respond to changing trends in monetary policy. One of these was a revival of interest by the chartered banks in the field of capital loans—in making term loans or buying directly from their customers security issues of a character which could be floated in the general market.

Mr. MACDONNELL (*Greenwood*): What name did you call that?

The WITNESS: Term loans, capital loans, the kind which could be floated in the general market and which could be—and which were in other years—loans for long-term capital purposes, as distinct from loans for immediate requirements for working capital.

This had two effects. It meant that the banks were taking on commitments to make these loans at some future time, and there was thus going to be a large increase in the actual volume of credit outstanding later on, without in the first instance, anybody knowing this was going to come about. It meant that the banks were tieing up in that way funds they would have in the future without knowing, when that time came, whether they would need those funds for ordinary financing of businesses and individuals. It also meant that their customers were not going into the securities market, the long-term capital market, which was thus being insulated from the effects of the strong demand for money which it was desirable should be communicated to it. In order that people needing money should be seeking out those who had it, and in order that this should be reflected in interest rates, as it should be if interest rates are to reflect the true state of supply and demand, we suggested to the banks that they should refrain from making loans of this character. They agreed to do that. They still continue to make or they are not prevented from making, smaller loans of this character, but they are not making large term loans.

A third element which we thought was creating some difficulty last year had to do with the way in which banks were obtaining the money to go on

making an increasing volume of loans after the central bank had stopped, or was trying to stop, putting any additional money into the market. Normally when such a thing occurs banks have to sell investments which they already own—long-term or medium-term government bonds—and they have to find people to buy those in order that the banks shall have the cash to go on making loans if they wish to do so. Normally also they retain a reserve of the very liquid assets, of treasury bills and the like, which are really held just in case of unexpected developments, when it might not be possible to sell government bonds or, indeed, the bank might not have any government bonds to sell.

There has not been any standard practice in Canada as to what proportion of these very liquid assets the banks should keep except, in the case of cash only, we have the provision in the Bank Act which now says cash must average at least 8 per cent of deposits. In Great Britain there is an accepted standard that liquid assets, including cash, day-to-day loans to the money market and treasury bills of the national government, should be kept at 30 per cent or better of deposits. Any such figure would be impractical here for various reasons. We suggested, and the banks after considerable discussion agreed, to work towards a figure of 15 per cent in that respect. The actual level is not so important perhaps as the fact that the banks should accept the principle of not going below a particular level, and that the central bank should know it, and that all the other banks and the market in general should know it. When the same situation occurs again, as no doubt it will some day when the demand for bank loans again grows very rapidly, the effect of that demand will be more quickly communicated to the capital market, because the banks have agreed not to take the temporary and easy way of running down their liquid assets below 15 per cent.

There has been some discussion to the effect that credit restrictions were adopted. I do not think that is quite correct. It was even said, I think, that the Bank of Canada had asked, and the banks had agreed, to put restrictions on credit, but that a special exemption had been requested for the field of housing. Both parts of that statement are wrong. We did not ask for any restriction on credit and we did not suggest any possible exemption for housing loans. I might, at this point, read the section in the annual report, page 10, which relates to this:

> Meetings were held between the Bank of Canada and the chartered banks on September 19 and November 21 to discuss the general credit picture. The September meeting led to the compiling of statistics on forward commitments already mentioned, and to the preparation of a classified analysis of bank loans on a monthly basis instead of quarterly as theretofore. At the November meeting, I expressed the view that the very rapid increase in the use of bank credit to finance business and personal expenditures had been well in excess of the rate of growth in the country's production which was physically possible once a condition of virtually full employment had been reached, and should not be expected to continue on the same scale. Requests for new and increased credits should be examined very carefully, and existing credit limits surveyed with a view to maintaining control over future growth. With such a policy, and the adoption of certain practices regarding term lending and liquid asset ratios, it was believed that the ordinary workings of monetary policy could moderate sufficiently the demand for and the availability of bank credit. It was not considered necessary as of that time, November, to propose any over-all ceiling or limitation and it was hoped to avoid such a measure in the future. Some continuing increase in total bank loans would very likely be required, but any tendencies toward

excessive use of bank credit by any category of borrower would have to be resisted.

I do not want to quibble on the use of the word "restriction" except to make the point that we have not suggested an actual decrease in the supply of bank credit. We did suggest that growth had been going on very fast and while there might be some future growth it could not be expected to continue at as rapid a rate. It has taken a little time for our prophecy to prove true. Bank loans have been rising rapidly in 1956 but I think there has been some change in attitude throughout the banking system and among bank borrowers.

Now, as we all know, shortly after the end of 1955 new figures were published as to capital expenditures expected to be made in 1956 by all branches of business and farming, by private individuals and governments. They show that the intention apparently was for a very large increase in spending of that character, and that is why a large increase in the demand for money could be expected; money to pay for the goods and services needed to carry on the expansion of industrial plant and equipment, of roads and highways and so on. All these are, no doubt, things that would seem individually very important and desirable, but the total was such that it was more than the economy could efficiently accommodate, and this gave rise to a general feeling that there were strong inflationary pressures still operating in Canada.

This feeling is perhaps reinforced by the fact that our imports have been rising quite rapidly. We have in Canada what, in some ways, could be called a safety valve in that if inflationary pressures get too bad here they tend to spill over into the United States and other countries, and we tend to go there to get those goods and services which cannot be produced here, or rather, to get an additional quantity more than we can ourselves produce. We also have a tendency and, fortunately on the whole, an ability, to go to the United States and other countries to get the money to pay for those goods and services which we want. However, the need for imports might not be satisfied in full, and that is why one can conceive of inflationary pressures being so strong that, notwithstanding the ability to get some imports, particularly of capital goods from the United States, we would still be in danger of internal inflation in Canada. Under those conditions the great competition among borrowers of money leads to a rise in interest rates. This increases somewhat the supply of real savings and also tends to create a differential between interest rates in Canada and abroad; and some people will find it advantageous to borrow money abroad. There you get the financial counterpart, influenced by the kind of monetary policy we pursue, of the physical fact that under this condition an increased volume of goods can be obtained only from abroad.

I am sure that I have left out a great many things which I might have mentioned. I did not bring up to date the history of the bank rate position. We reduced the bank rate from 2 per cent to 1½ per cent on February 15 last year and raised it back to 2 per cent on August 4, to 2¼ per cent on October 12 and to 2¾ on November 18. At that time it was one-quarter of one per cent above the American rate. This spring, after an intervening period and some softness in the outlook, especially in the United States, the situation tightened up again, so in Canada we raised the bank rate early in April to 3 per cent. A week later all but two of the American Federal Reserve Banks, but including the federal Reserve Bank of New York, moved up to 2 and three quarters per cent, and the remaining two moved up to 3 per cent. That is where the matter stands at the present time.

The CHAIRMAN: Gentlemen, I propose to read to you at this time the terms of reference by the House to this committee of this annual report of the Bank

of Canada, because later on we must bear in mind what type of report we should make. It reads:

> Order of reference, Friday, May 4th, 1956. *Ordered*—That the report of the Bank of Canada for the year ended December 31, 1955, tabled Thursday, March 1st, 1956, be referred to the said committee.

In other words, the order of reference does not direct that we make a report. The report of the Bank has simply been referred to us. So when we make our report to the House we are not within the terms of reference if we make recommendations but we must make some suitable report.

Now as to the questions which the members may wish to ask Mr. Coyne, would they please take them in order and indicate who wishes to ask questions? Mr. Macdonnell.

By Mr. Macdonnell (Greenwood):

Q. I would like to ask one or two preliminary questions. Would Mr. Coyne just say a word to us about the situation before the Bank of Canada came in? I have a general idea that operations were carried on under an act called the Finance Act, whereby the Treasury Department did act as a sort of coordinating influence. Could Mr. Coyne say a word or two as to the operations of that act, which began during the first war?—A. That was a little too early for me to have very much knowledge of it. You had the rudiments of a central bank there.

Q. The only reason I ventured to ask that question was that there was not unanimity of opinion at the time of the MacMillan report, and there were dissenters.—A. Yes. Whether or not they were wrong at the time, I think they have more or less disappeared now. I do not think anybody now says that we should not have a central bank because activities have become so complex that more and more the machinery of the Finance Act, which was really rudimentary, would not be able to do the job.

Q. Its chief purpose was to give the banks some recourse when they were in need of the kind of assistance which the central bank gives now?—A. Yes, but it left the initiative entirely to the banks.

Q. I have a question in regard to interest rates. Could you say a word in general to us as to the effect which the bank rate—which has almost magical significance in England—as to the effect it has had on business, or in our thinking, or the effect it has had on the bank rate which you said remained practically unchanged for twenty years?—A. It was not unchanged. Let me see if I can recall it. It was set at two and one-half per cent originally, I think, and it was reduced to one and one-half per cent in 1944 as a means of suggesting that there would be plenty of money for business to meet post war difficulties; and it was increased to two per cent in October 1950 after the Korean war started and when we had a rush of money coming into Canada at that time. That was part of the whole program which included the abandoning of a fixed exchange rate. It then remained unchanged from October 1950 until February, 1955.

It was used at first as a signal. Central banks to not like to make precise statements and to say "we think the situation is going to get better or get worse", or that any specific thing is going to happen. But people can form their own conclusions or opinions from what the central bank does, and one of the things which could be done at that time was to raise or to lower the bank rate. It did not have any operating significance for us in the money market because we did not have a very broad short-term money market, and we did not know what big or what little effect a change in the bank rate would have upon other markets and on long-term rates, and so on. It was just a signal of a major change in the general economic situation. Perhaps that is what it has been mostly used for in the United Kingdom, and I think there, as elsewhere,

there is a tendency now to make the bank rate much more flexible and to make changes in it more often.

There they have a tradition of raising it by one per cent at a time and of reducing it by one-half of one per cent at a time. That is according to an old tradition which they have. But here and in the United States,—and I think it is agreed since 1950 in both countries—the practice is now to prefer smaller movements of the bank rate, because a large movement would have too much of an impact. There should not be undue delay in making changes. You can make them at one-quarter of one per cent at a time or at less than that. In that way you try to keep abreast of developments in the money market and in the supply and demand for funds of all kinds, and it has now become an operating factor as well as a symbol or signal.

Q. Speaking of Canada?—A. Yes, and of the United States, and for the United Kingdom too, although perhaps to a lesser extent there; and we feel that that is a method which is best suited to our situation.

Q. Did you not say that it would have less of an operating effect in the United Kingdom?—A. No, I do not think I put it that way. I said that it still carried much more of the significance of a major signal.

Q. In the United Kingdom?—A. Yes; whereas in the United States and in Canada it was more of a minor signal and was more frequently used as an operating factor of monetary policy.

Q. Could you go any further in England and say that the rise of the bank rate—you reminded us that it was made as much as possible at one per cent at a time—that it had a more important economic effect on general business? —A. Sometimes it did, and sometimes it did not. It always had some effect, of course, but it may have lost some of its magic from that point of view. For example, they have increased it a number of times since the war, and a number of times in succession because presumably there were very strong influences at work there, so that any one movement of the bank rate was not sufficient to counteract those influences.

Q. I was interested to read the other day that in one or two of the joint stock bank reports they referred to the increases last autumn in most contemptous terms "mangy mice", as an indication that it was utterly inadequate for the job. What would you say as to that? I am not asking you to criticize them, but what can be said about this increase?—A. It is a bit embarrassing to comment because there was a lot of argument going on in the United Kingdom and we do not want to take part in it. The point was made by some that their monetary action should be reinforced by cutting down government expenditures and controlling the capital investments of nationalized industries. There was a lot of argument going on as to what kind of measures were needed over there. Some people were inclined to say that those monetary measures were inadequate, and that much more had to be done.

Q. You pointed out that in the first 20 or 22 years of the bank's history there were few changes, while we have had four or five changes in the last few years. Is there any disadvantage in itself in having frequent changes? Does that tend to make business timid? Does it represent a change in the policy of the bank itself?—A. It does not come out of the blue sky. If it did, if there was something unpredictable about it, it might indeed have a disturbing effect. I think the smaller the change at any one time, the less disturbance there would be.

The interest rates change every day and the central bank exerts its influence, or refrains from doing so, which is just as significant, every day in the year. We could move the bank rate every day in theory, but since it is intended as a rate of last resort, it is not necessary to move the bank rate every time there is a movement of one-sixteenth of one per cent in the

treasury bill rate. So you do not move the bank rate unless there has been a movement of other interest rates preceding it, not necessarily of the same magnitude, because there cannot be an absolutely fixed relationship between the bank rate and other interest rates. But almost always you will find there has been a movement in the same direction as the change in the bank rate but antecedent to it.

That was the case in our last change on April 4th, for example; interest rates had been rising for some time, for some weeks indeed, prior to that. There is always a problem for the central bank as to the timing of the change in the bank rate, but the trend is more and more to change it in conformity with the general market.

Q. I realize that it is hard to be dogmatic about whether it is a case of cause or effect. I suppose it is a little bit of both.—A. Yes.

Q. But I am surprised, because I have a feeling that in England at any rate the bank rate is regarded not mainly as an effect, but almost exclusively as a cause. Would that be a fair statement to make in regard to England?—A. I hesitate to pin-point myself absolutely to that statement, because it is apt to lead you to say that if it was cause, then why was it not done a month or six months earlier, or was it only done after things got out of control? I do not know what principle was at work in connection with it, and I would find it very difficult to discuss it in relation to another country.

Q. I shall give way now and reserve my further questions until later.

The CHAIRMAN: Mr. Fraser.

By Mr. Fraser (*Peterborough*):

Q. Mr. Coyne, on page 3 of your report you have this to say:

> The capacity of the economy continued to increase at a more or less normal rate - - -

Owing to the fact that at the present time in the United States alone they have over 900,000 automobiles in storage, while we have about the same proportion in storage in Canada, what effect will that have on the economy of Canada because sales have definitely dropped off during the last month, or since March?—A. I think that the movement has been much more pronounced in the United States than in Canada.

Q. They are worried about it there.—A. It now appears that the automobile industry oversold the market in 1955, certainly in the United States, and perhaps in Canada, but production here has kept up pretty well and sales have kept up pretty well these last few months. There has not been anything here like the drop there has been in the United States, so the effect would be an indirect result of what is happening down there; and if the drop in automobile sales and production and employment in the United States was such as to throw a bit of a chill into business, for instance, then it would have a very important effect upon us too.

Q. Another question: at the present time with respect to preferred stocks in Canada, the interest rate in them, or the dividend rate is rising, while on common stocks the dividend rate is going down. That means that the money market is getting a little tighter, and I wondered if that would have any effect on the interest rate given by the chartered banks to their depositors?—A. I do not think I can follow through that far. That would be quite a long chain of cause and effect, but certainly the rise in the stock market prices has the effect of reducing the yield that you get on your investment there. On the other hand falling bond prices and the rise in the coupons of new issues have an effect of increasing the yields at which you can put your money in bonds. A

narrowing of the differential generally has an influence on business and on private individuals. It may be that bond yields are now higher than stock yields, but I am not in close touch with it.

Q. Dominion bonds have gone down in price. You buy them on the market, of course?—A. We buy at times, yes, partly for reasons of monetary policy in the ordinary sense as I have explained, and partly in the interest of maintaining an orderly market. We would not attempt to buy them all in at any given level of price, but we have been buying bonds the past few months. In that case other people have been selling them, and that brings about some increase in the money supply which might be justified, although it has been very small recently.

Q. A member said yesterday that it was pretty hard to borrow from the chartered banks on government bonds at the present time. Why would that be?—A. It would be, if it occurred, because the bank concerned would itself have to sell a government bond at a loss in order to realize the funds to make that loan, and it might prefer to have the customer make the sale of his own government bonds and thereby take the loss rather than the bank having to take it. I am quite sure that loans are still being made by the chartered banks on government bonds, but they might turn them down in some cases.

Q. They would safeguard themselves with a margin, would they not?—A. Oh yes.

Q. They would have to take quite a margin?—A. Yes, but they may be less ready to lend against government bonds now that they cannot get the additional cash to support a higher volume of loans and deposits. When the banks lend money today it means that they have to sell some other assets of equivalent value.

Q. With regard to the unfavourable balance of export trade now in Canada which is over $300 million, would that have an effect on our money market here and on the interest rate? Does that have any effect on them?—A. You might say that if people had to raise money with which to buy goods from abroad, and the public as a whole had to raise funds to do that in excess of funds coming in from abroad, that would be a factor in the money market; but you have money coming in from abroad, for example from the sale of goods and from capital borrowings by governments, and by business, and from the sale of securities and so on; and all these various factors have a strong influence on the market and against each other; and the final outcome is to be found in the general level of security prices and in the interest rate.

Q. You said that a number of these Canadian firms are financed in the United States because they can get cheaper money. What is the differential in the United States on these loans?—A. Well, it varies undoubtedly with each individual case.

Q. On first class securities?—A. For national government securities the present interest yield at market prices in the United States would be about one-half of one per cent less than it is in Canada. Individual Canadian corporations, municipalities, provincial governments, hydro electric systems, and so on, might do as well as that or find that their savings run less than that.

Q. What about the exchange rate? What effect would it have?—A. It depends on the balance between all the factors representing money coming in or going out. Again, it shows up in the exchange rate, which here is a flexible rate, not a pegged rate, and which is affected by the supply and demand in the market with only a moderate official contribution provided on one side or the other. By contrast in a country with a fixed rate the authorities must put all the exchange into the market demanded at that rate, or accept all the exchange within the market offered at that rate.

The CHAIRMAN: Mr. Cameron.

By Mr. Cameron (Nanaimo):

Q. I would like to revert to the question of the effect of changes in the bank rate. I am not sure if I understood you. It seems to me you said that changes in the bank rate hitherto have been largely symbols, shall we say, or warnings to the economy, and that you felt that bank rate changes now are becoming more of an operating factor?—A. Yes.

Q. Would you mind elaborating on why this would be the case now and not before?—A. Yes. Suppose the bank rate was two per cent and treasury bills were yielding one and three-quarters per cent which might be a fairly normal differential between them, although it is not fixed. If the demand for treasury bills falls off and the yield rises, treasury bills might go to two and a quarter per cent. At that point anybody who could borrow from the central bank might say: "let us go and borrow money at two per cent from the central bank and invest it in treasury bills from which we will realize two and one quarter per cent and take one quarter per cent by way of the differential." It might even be less than that. It would be a "free ride". That is one reason why if short term interest rates are raised you would want to have the bank rate raised at the same time. But that would not be true at a time when you did not have these short term money market arrangements giving access to the central bank which began only three years ago, and at a time when the chartered banks were not of a mind to borrow from the central bank. For a long time they thought it was rather indecent and they did not do it. You did not then have the connection between the chartered banks and the short-term money market. But beginning in July 1954 the chartered banks agreed to put out money to the market at "call". It is "called" every day. They will lend to specialized dealers at a rate somewhat below the treasury bill yield or the yield on other short-term securities, but they may need the money tomorrow and they will "call" it back again, whereupon the dealer will have to find his money somewhere else, either from another bank, in the last resort from the central bank.

Q. Would you say, Mr. Coyne, that that makes the power to alter the bank rate a weapon for the control of inflation, or the reverse?—A. It is a useful instrument among the various operations which the central bank can take to exert influence on inflation, or the reverse, yes.

Q. Would you think it would be very decisive by itself?—A. I do not think any one thing is decisive by itself, no.

Q. In tying on to that, I would like to deal with the other weapons you have of controlling things you deal with in your report, to some extent. I notice that you have laid great stress on the convention that you have come to with the chartered banks with regard to the ratio of liquid assets. Am I right in thinking that you consider those of great importance because the other weapon, the traditional one, of control of the cash reserves, has not been too effective?—A. No, that is putting it too baldly. This will make it easier, I think, for central bank action to be felt, and to create its effect without very violent central bank action having to be taken. Let us suppose that there was a time when central bank action would reduce bank cash by $10 million in the banking system as a whole, or for any one bank, for that matter. If that bank felt, "Well, we will just not renew treasury bills to that extent, we will get our cash back again in a few days time," that is all right if it is going to be a very temporary situation. But, if it is at a time of expanding loans and continuing need for cash on the part of the banking system it is undesirable that they should sell treasury bills, or let them drop for more than a few days at a time. They should restore them, and in order to do that they will have to sell something

longer than a treasury bill, and something which will have some influence on the whole market, the whole capital market, by the fact that there is a selling pressure there.

Q. Would you agree, Mr. Coyne, that the measures we took two years ago, really to give legislative authority to the statutory requiremnets for cash reserves, because that is what it actually was?—A. Yes.

Q. The disparity was so great before; would you agree that a great part of the effectiveness of that measure was due to the flexibility that it provided? It did not merely raise the statutory requirements, it gave you a field to manoeuvre?—A. Yes. It allowed the banks to let their cash fluctuate more from day to day, provided they maintained an average every month.

Q. But did it not also, on the other hand, allow you to affect the total money supply more effectively because you had that range?—A. You mean the power that was given to the central bank to raise the cash reserve requirement?

Q. Yes, to alter it between limits.—A. No, I do not think it gave us a flexible instrument at all. I think it gave us an emergency instrument which would not very often be used. I hope the occasion to use it will never arise, but it might.

Q. With the convention that you spoke of here, supposing there was a conflict between the interests of the chartered banks, and what you, as the governor, considered to be the interest of the Canadian economy, would there be any way in which you could enforce this convention with regard to the liquidity of assets?—A. There is no legal basis for it, no law on it, no. I do not think there would ever be any real conflict between the interests of the chartered banks, properly considered, and the interests of the Canadian economy.

Q. Properly considered, yes; but of course, it depends on who does the considering.

By Mr. Macdonnell (Greenwood):

Q. You mean considering it according to the views of the Bank of Canada?—A. No, I mean considering it after discussion from all points of view.

By Mr. Cameron (Nanaimo):

Q. You do not consider you would be in a better position to carry out the job that was given to you when you became the governor, to regulate currency and credit, that you would be able to do that better if that convention were placed on the same statutory basis as the cash reserve provision?—A. I am confident it will work the way it is. I may be proved to be wrong, but I do not think so.

By Mr. Quelch:

Q. Just following that point, in order to enforce the action, you could always warn the banks that if they did not maintain that liquid position you might find it necessary to increase the cash reserve requirement, and in that way you would have the power?—A. Yes. I mean you could make a threat, but I do not think that is a very good way to go about things.

Q. Hardly a threat, it is a stating of fact that it would be necessary.—A. No. You would have the additional disadvantage that it leaves it to them to make the choice. There might be very good reason from our point of view why we would not want to raise the statutory cash minimum but would want to see the conventional liquid asset minimum ratio adhered to.

Q. What are the main reasons for the big difference in the cash requirements in Britain and Canada? I think you said 30 per cent of—A. Liquid assets, not cash. It has grown up there as a matter of practice.

Q. What is the cash reserve required there?—A. 8 per cent.

Mr. MACDONNELL (*Greenwood*): Could I be allowed, before we leave this to ask a question relevant to what has been going on, or would you rather I wait?

The CHAIRMAN: I would rather you wait, because one question leads to another, Mr. Macdonnell.

Mr. MACEACHEN: Mr. Chairman, I was interested in some of the comments that the governor made about monetary action. I have the opinion that whatever value monetary action has in this field, it is principally confined to combating inflation. There are no real positive measures you can take to combat deflation, are there?

The CHAIRMAN: It is hard to hear you, Mr MacEachen. Would you speak louder, please?

By Mr. MacEachen:

Q. I was expressing the view—A. I got the question. I am not sure whether the reporter did.

Q. I want to know, first, whether you agree with that view and secondly if you do not agree with that view, would you illustrate the type of action you did take in the beginning of 1955, and if you did not take any action, what action you considered and rejected?—A. You want to go back really to 1953 and 1954, I think. I think you would want to go back earlier than the first part of 1955, because the condition you speak of began in late 1953. Now, first on your general theoretical point, I do not know what the answer is, whether the powers of the central bank are more effective as against inflation than against deflation. That may be true. Of course, inflation is popular in many quarters, or the conditions that breed inflation are popular in many quarters; and the central bank, in some ways, is the only body which is specifically charged with the duty of fighting against it. Therefore, we have to take that responsibility very seriously. We take equally seriously our responsibilities in the other directions. When you get into a condition of depression or recession with less than adequate monetary demand for goods and services to be produced in the country, there are any number of different measures that can be taken by different people both in the federal government's sphere and outside it. It may be that merely providing an adequate, or more than adequate supply of money and availability of credit is enough, but there are often too many influences affecting people's minds so that they do not take advantage of the credit which is available.

By Mr. Macdonnell (Greenwood):

Q. Perhaps you need a psychologist and not a banker.—A. Yes, a banker has to be quite a psychologist too, but he knows there are limits to the influence that he can exert in his own proper sphere on the psychology of people. Now, in fact, beginning in 1953, and certainly throughout 1954, plenty of money was available, interest rates were falling, and banks had more cash available than they needed for loans. As I said earlier, in order to employ that cash, they went around buying securities, government securities, on the market, and in that way put much more money in the hands of the people who previously had those securities. That is about all, in the proper sphere of monetary policy, that can be done. The business of urging people to spend, and to undertake investment, or doing it instead yourself as a government can do, that is outside the hands of the central bank.

By Mr. MacEachen:

Q. From your remarks, Mr. Coyne, it seems that once the central bank has made credit available, the money may just sit there and nothing happens. That is not useful action. If that is the conclusion, I think that it is about time we realized in Canada and in the House of Commons that monetary action is very limited, and hardly a useful instrument to overcome a real deflation.—A. I do not think anybody ever said it could overcome a real deflation. It is absolutely essential, of course. You cannot overcome it without appropriate monetary action. On the other hand, monetary action may not be sufficient by itself. It depends so much on the circumstances.

Q. I cannot conceive of a situation where monetary action would be, by itself, helpful. It would be helpful, but not decisive.—A. It was helpful in 1954, I am sure, both here and in the United States. I will not say it was decisive, but there were various factors. For example, there were cut-backs in defence spending in the United States, very large reductions in the placing of orders quite apart from the deduction in the spending of money after those orders were made, which affected the minds of businessmen all over the country. People had been accumulating inventories thinking business was going to be good. They decided in many cases that their inventories were large enough, or too large, and started to reduce them. That sort of thing goes on until something happens to make people change their minds again. One of the things that helps in that direction, undoubledly, is an adequate supply of money and credit to finance inventories, and to finance new programs for the future, and so on.

Perhaps there is still a lot to be learned, I am sure there is in the administration of monetary policy, as to how big an effort you have to make and how long a time you must wait before you see the results of it. I do not claim that a monetary policy can work wonders. I think it has an essential and very useful job to perform.

By Mr. Enfield:

Q. Following along that same line of thought, Mr. Chairman, the thought strikes me that the bank's action on the other side of the page, in regard to inflation, is certainly very decisive; and I rather thought that when Mr. Coyne was remarking that no credit restriction, or certainly no strong credit restrictions, had been imposed, he might have had his tongue in his cheek a little bit, because we still realize when you get down to the practical level of trying to get a loan from the bank, here is the story you get from the local bank manager, that no new line of credit is to be established; because he has been told that the banks have entered into some sort of an informal agreement not to extend any new line of credit. I have checked this with several of the local bank managers in my area, and this is exactly the story one receives. In addition, in the metropolitan Toronto area I do not think there has been any activity, or certainly very little in the field of mortgage loans under the National Housing Act in 1956. So that it would seem to me that your view that no credit restrictions have been imposed would need some modifying, or some further explanation.—A. Of course, when more people want money than there is money available, and more people want goods and services to erect buildings than other people are willing to give up for that purpose, when the demand exceeds the supply in that physical sense, somebody and some individuals are going to find they miss out. Any monetary policy, of course, is designed to prevent there being too much money which would lead to money being used as an instrument of competition to bid up the prices of all goods and services.

We must have some limit on the supply of money, obviously; and some people, therefore, are going to find that it is the money they cannot get. They do not have it themselves and they cannot borrow it. But, other people are borrowing it. Business has not come to a stop. Bank loans are going up, new commitments are being made for housing mortgages all the time. Some banks are perhaps finding they have less desire to make loans of that sort than other banks; but even those that have said that they will not take on large projects are making loans to indiviual applicants who want to buy a new house, or are making mortgage loans. Every bank in the country, I am told, is doing that; and even those who say they are not now taking on projects have in fact taken on a great number of projects this year, and the figures bear this out. I am sure there are some people who have been disappointed and who have either not got a loan at all, or have not got as much as they wanted. But, the total of bank loans is very large, and it is increasing.

Q. Is it not a fact that normally you use the price levels so far as inflation is concerned?—A. It is a symptom of trouble when it finally occurs, yes.

Q. In your report on page 4 you make the statement that during 1955 prices remained relatively stable. How do you equate that with the obvious concern regarding influences that your report expresses?—A. There were very strong expansionary influences, shall we say, rather than inflationary influences. Prices outside the field of agriculture were rising. Agriculture prices, as we all know, were falling.

Q. Yes.—A. I do not believe there is any connection between the two. I think it was just a fortunate accident, fortunate for the economy as a whole, and unfortunate for the farmer. Agricultural prices were declining at the time, but other prices were going up. If it were not for this world situation respecting agricultural prices we would have had an over-all rise in prices in North America last year, with exactly the same degree of pressure as we did in fact have. Now, agricultural prices are not going to go on falling indefinitely. They seem to have turned now, as a matter of fact. If the same pressures affecting non-agricultural prices continue we will have a rise in the price level in 1956.

Q. Can you say this, that the inflationary tendencies are in particular fields, in particular lines of activity such as perhaps construction, that are facing the inflationary tendencies, rather than general?—A. It is hard to say. There were a number of inflationary tendencies, and there was only one opposite tendency. Construction was certainly very strong and looks as though it will be even stronger this year than it was last year. Consumer spending was stronger and yet quite a fair degree of saving was being carried out. If you mean that there was some particular trouble-spot which somebody should do something about, that is outside my field.

Q. The Department of Labour this winter sparked a nation-wide program to modify the effects of seasonal unemployment. At the same time, your department adopted this anti-inflationary program starting about January; I believe that was when the banks really started to put on pressure. Do you see any sort of inconsistency there in government policy? I know you are aware of this because on page 11 of your report it says:

> Seasonal influences, which usually cause a decline in the volume of loans outstanding after mid-November, this year slowed down the rate of increase.

Now, do you not think that your policy, instituted at that particular time, was in conflict with some other policy that tried to modify it?—A. I do not think there was any conflict at all. In the first place our policy started early in 1955; interest rates started to rise early in 1955 and went on rising through-

out 1955. The particular impact on the chartered banks may have been more pronounced in January 1956. If you tell me so I am prepared to believe it. In any event, I do not think that monetary policies have any influence on seasonal unemployment. You will find we can have rises in unemployment at one season and declines at another season with any level of over-all activity. I doubt if monetary policy can be helpful in overcoming specifically winter unemployment.

Q. You do not consider that a big factor?—A. When I spoke of seasonal influences as affecting bank loans, that is another thing. That arises out of the fact that at Christmas everybody buys a lot and the merchants' shelves are bare, and they are able to pay off their bank loans; but it has nothing to do with the state of unemployment.

By Mr. Benidickson:

Q. Mr. Chairman, Mr. Coyne did make one quotation from his report which I think has a relation to the question asked by Mr. Enfield. When the governor says that at a November meeting with the banks he expressed the view of a very rapid increase in the use of bank credit to finance business and personal expenditures, it seems to me it is a natural thing for this committee to look to the next quarter to see if we could get any figures as to what results have come from the meetings with the banks in September and November, or whether there is anything notable yet. I think that we have to look at the table on page 6 of the report. Would Mr. Coyne project that report on bank lending to give us some figures for the first quarter of 1956?—A. Yes, I can do that. Looking specifically at the category of general loans, there has not been any slowing up in the first quarter of 1956 in the rate of increase. The increase was $255 million.

Q. That is still a bigger increase than in the fourth quarter of 1955?—A. A little bigger than in any quarter of 1955. The banks believe that this resulted from customers making use of credits which had been authorized in 1955. If things had really got out of control and it was necssary to apply a real restriction, I would have had to ask the banks to reduce their authorized credits. That would upset people's programs built up on the assumption they could use their lines of credit. We did not think that the situation required that action, and I do not think it will. From the feel of things we are told by the banks that they think the rate of increase is tapering off and will level off quite a bit; but no one can say for sure whether there should be some further increase or no further increase. Again, we all hope to see some expansion in our total economy every year. It is particularly difficult merely to look at the quantity of money or volume of bank deposits and say that figure is too high, or too low, or just right. Even if we could by some miracle figure out what amount is just right for the situation today it would be different tomorrow and next week. The volume of money in active use, including that which is in active bank deposits, is going up and down from day to day. You also have a considerable volume of savings deposits which are dormant. In some circumstances people who have been content for years to leave their money lying idle in the bank may decide they are going to spend it and any theories you had regarding the appropriate quantity of money are quickly upset. You have to look beyond the mere quantity of money to the volume of spending of all kinds that is going on.

Q. The question was raised on insured mortgages. I was going to ask a similar question in respect to the first quarter of 1956 as to what lending has been done by banks on insured mortgages?—A. Again, it would be really because of commitments they entered into long ago. The net outlay on insured mortgages by banks in the first quarter of 1956 was $51 million; the gross was considerably larger. The banks found that they could sell some of those mort-

gages to other investors and raise money in that way. So the net increase in their mortgage loans is not nearly as big as the total amount of new lending would indicate. That is a very interesting and useful development. Under the National Housing Act there are only certain types of approved lenders. They must administer the loans they have made, do the collections and so on, and see that the taxes are paid; but they can sell the loans as such to other approved lenders or to people who are not approved lenders such as pension funds and private individuals. We are hoping to see the development of a secondary mortgage market, in insured loans especially in which savings accumulating in some form other than bank deposits can be used to buy mortgages from the banks and life insurance companies.

By Mr. Cameron (Nanaimo):

Q. Has there been a noticeable market developing?—A. I would not say there was an organized market, but there has been a demand.

Q. Mr. Towers expressed the same hope in 1954, that there would be a development of the mortgage market.—A. One hears about efforts being made to organize specific institutions for that purpose and we will give them help in any way we can although it is not directly in our sphere of operations.

By Mr. Benidickson:

Q. When Mr. Coyne was describing the changes in the bank rates taking place in Canada in 1955, he also mentioned 1956 and at the same time made some reference to the rates in the United States. Could he give us some recent bank rates for the United Kingdom?—A. I do not have the exact dates handy, but in 1955 the United Kingdom increased the rate from 3 to 3½ per cent, and then later to 4½ per cent, and early in 1956 increased it to 5½ per cent.

By Mr. Hollingworth:

Q. I was interested, Mr. Coyne, in your observation about inflationary tendencies in this country, and I presume that the raising of the interest rate is a real deflationary step. Have agricultural prices risen in 1956, and is that the reason, along with the continued expansion in this country, that you feel there is an inflationary tendency at the present?—A. I would not say there is an inflationary tendency, but there are strong forces of demand which some people think are excessive. People looking at these figures for investment say it is not physically possible for that to be done and, therefore, the attempt to do it as evidenced by the continuing rise in the demand for money, would indicate strong pressures. I hope that those pressures will be moderated. They express themselves, quite apart from any action of the central bank, in the rising interest rates as a symptom that the demand for money is greater than the supply of savings. That will have some influence simply by itself. The rise in interest rates will encourage savings and discourage borrowing to some degree. In addition—again quite apart from the central bank—a feeling develops when the demand for money is very large which tends to make lenders more cautious and more choosey. Some borrowers find that they cannot borrow at 4 per cent and shy away from borrowing at 5 per cent. Others say, "we do not care what the rate of interest is which we pay", but they may find that the lender will not lend even at 5 per cent or 6 per cent. The lender might simply say, "we do not think we want to lend to you at that rate of interest" or "we do not think your enterprise would support that rate of interest". There are all sorts of reasons why a rise in the rate of interest will encourage savings and, to some extent, discourage borrowing.

I am not upset by the rise which has been taking place in agricultural prices. I only pointed out that they were falling in 1955 and that they were the only sector in which prices were falling significantly. They are not falling now; they are rising a bit.

Q. I thought the interest rate was rather too drastic because the information I have regarding what the chartered banks are doing now is that it is rather unfortunate. I have had the same experience which Mr. Enfield has had in Toronto that it is quite difficult for a person to get a loan from the banks and that builders are going to the insurance companies rather than to banks to get loans. It is my experience that practically the whole source of mortgage loans from banks has dried up this year.—A. I do not think that will be general or that it will be permanent. It is possible that the total volume of money made available for housing mortgages will be smaller this year than last year. It is possible that there might be more of it done outside the National Housing Act this year and less done inside. I can quite see the possibility, either because of the other demands for money or for other reasons which are also operating in the housing market, that you might have some decline in the volume of housing loans this year over last year, which was quite a big year.

Q. I read in the New York *Times,* I believe, that industry in the United States is cutting down in the number of hours being put in by the workers. For example, I believe the automobile industry is working one day less. Would you say that is a possible harbinger situation peculiar to the United States or do you think it is anything to worry about?—A. I think it is too soon to say. Most indications in the United States are that automobiles, farm implements and one or two other things have slumped a bit but they have had very little impact in this country. I do not believe there can be any permanent decline in the demand for automobiles. I think people on this continent will go on having one, two or three cars, as many as they feel they need, and, taking a longer view, there will be a very large production of automobiles in the future in the United States.

Q. One often hears it stated that if there is a recession in the United States we would probably feel the effects of it about six months later. Do you consider that would be true, and if so can we do anything in respect to our fiscal or monetary policy to prevent a recurrence of the conditions in 1954?—A. No one can tell at any given moment whether the development in the United States is going to be transitory or not. It might go on, and it might change. No one, I believe, has ever been able to figure out how much that development will affect Canada, if at all. While we are subject, certainly, to major movements elsewhere, we can also be disturbed by upsets in our own economy.

Perhaps I had better leave the second part of the question.

Q. First of all, does the Bank of Canada have any control over fiscal as well as monetary policy?—A. We have no control at all over fiscal policy.

Q. What steps would you outline to prevent a recurrence of what happened in 1954?

Some Hon. MEMBERS: It is one o'clock.

The WITNESS: That gives me a day to think about it.

The CHAIRMAN: If I can get a committee room we will meet again at 11 a.m. on Thursday. Otherwise, we shall next meet on Tuesday, May 22nd.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 10

The report of the Bank of Canada for the year ended December 31, 1955

TUESDAY, MAY 22, 1956

WITNESS:

Mr. J. E. Coyne, Governor, Bank of Canada

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

74832—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue
Ashbourne
Bell
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fraser (*Peterborough*)
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Fulton
Gour (*Russell*)
Hanna
Henderson
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Huffman
Low
Lusby
Macdonnell (*Greenwood*)
MacEachen
Macnaughton
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Nickle
Pallett
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Power (*Quebec South*)
Quelch
Regier
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Stewart (*Winnipeg North*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, May 15, 1956.

Ordered,—That the name of Mr. Bell be substituted for that of Mr. Charlton on the said Committee.

Attest.

LÉON J. RAYMOND,
Clerk of the House.

74832—1½

MINUTES OF PROCEEDINGS

TUESDAY, May 22, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Ashbourne, Bell, Blackmore, Cameron (*Nanaimo*), Carrick, Deslieres, Enfield, Fairey, Follwell, Fraser (*Peterborough*), Hanna, Henderson, Huffman, Hunter, Macdonnell (*Greenwood*), MacEachen, Matheson, Philpott, Power (*Quebec South*), Quelch, Regier, Richardson, Viau and Weaver.

In attendance: Mr. J. E. Coyne, Governor; and Mr. R. W. Lawson, Deputy Chief, Research Department; both of the Bank of Canada.

The Committee continued its consideration of the report of the Bank of Canada for the year ended December 31, 1955.

Mr. Coyne was further questioned, in the main on the principles, techniques and practices of central banking.

At 1.00 o'clock p.m., the Committee adjourned until 11.00 o'clock a.m. on Tuesday, May 29, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

MAY 22, 1956,
11.00 A.M.

The CHAIRMAN: Order, gentlemen, I see a quorum. Would those who wish to continue with questions please do so?

Mr. J. E. COYNE, Governor, Bank of Canada, called:

By Mr. Macdonnell (Greenwood):

Q. I would like to ask some questions about the relationship between the bank and the Department of Finance, questions of responsibility and authority. You will recall I think that two years ago when Mr. Towers was before the committee at the time of the revision of the Bank Act, those questions arose. I do not remember the exact words he used but I believe I would be correct in saying that when he was asked about the relationship he said in effect that if there was any difference on which he felt it necessary to take a stand, the only recourse for him would be to resign; in other words, that he was the servant of the Department of Finance. Is that a fair summary of your opinion of what he said?—A. No, Mr. Chairman, I do not think he said that he was the servant of the Department of Finance.

Q. You will correct me to whatever extent is necessary. I would suggest that you should make whatever correction is necessary in my phrasing. Mr. Abbott expressed the same view. I had hoped to have the quotation before me this moring but I have not got it?—A. Would it not be more correct and nearer to what they said, to say that both Mr. Towers and Mr. Abbott pointed out the responsibility resting upon the management of the bank; and Mr. Towers, perhaps more than Mr. Abbott, emphasized that nothing could relieve the management of that responsibility? They are responsible for what they do and they cannot escape that responsibility by saying that they took a particular action because that was what the government wanted. The only action the management of the bank can take is that which they themselves believe is the proper action for them to take on their own responsibility. Mr. Towers did point out, of course, as anyone must, that if the government of the day were sufficiently displeased with the bank or the management of the bank, they could put in motion steps which would bring about a change in the management. At some stage in that process, if the government were so determined as to make a real issue of it, a public issue presumably, the governor would have to resign.

I do not think it follows from that,—I am sure Mr. Towers did not mean it to follow from that,—that because the government can bring about the removal of the governor of the bank, therefore, the governor of the bank must do whatever the government wants him to do. Nor does it follow in fact that the government expresses views of a kind that would require action by the bank contrary to its own views of what should be the appropriate monetary policy at that time. Certainly parliament is supreme, and the government, having a majority in parliament, is in a position, if it thinks strongly enough about a matter, to bring about a change in the management of the bank. I feel that that is a very proper safeguard of the public interest. However, I think Mr. Abbott pointed out that there never had been any serious difference of

opinion between the government and the bank. This safeguard does not relieve the bank of its responsibility, and it does not alter the fact that normally I think you would expect the bank to take the initiative in matters which properly fall within its own sphere. The bank is not in the position of daily receiving instructions—or indeed receiving instructions at all—from the government in those matters which by statute are assigned to the responsibility of the management of the bank.

There are other matters where the bank acts purely as agent for the Minister of Finance, as fiscal agent, in the management of the public debt, and, under another statute, in the management of the exchange fund account There, of course, the bank carries out whatever policy may be laid down from time to time by the Minister of Finance. There are still other matters in the general sphere of economic policy and exchange of information, where the bank and the Department of Finance are in close contact all the time, because they find it of mutual advantage. That is on a purely cooperative basis, not involving questions of the responsibility of management for the actual operations of the bank.

Mr. MACDONNELL (*Greenwood*): I do find something now, and perhaps there is a little light on the questions I am trying to have answered. I am reading now from page 872, volume 2, of the minutes of this committee for 1954. I am reading from my own evidence. I was raising the question as to what means there was of imposing a check on the amount of credit. I read this from my evidence:

> ... the other day when the Governor of the Bank was perhaps a little more communicative than he is today, he suggested that as means for checking that would be quite an important item, that is to offer his own resignation.

That is to say, if there were a difference of opinion. He threw that up and I told him that was not the kind of check I wanted. In other words, I think it is fair to say that at the time the governor did make it clear, when we were talking about this matter of curbing the amount of credit available, that if his view was not accepted, he had to fall in with the government view or resign. That was somewhat of a surprise to me and somewhat of a shock to me because I had hoped that in a very real sense the Bank of Canada had taken that important question out of the direct range of politics. Now, the governor has pointed out, Mr. Chairman, that naturally in the long run the government could have its way because in the long run the government could get rid of the governor of the bank. But Mr. Towers, if I understood him correctly, went much further than that, and certainly left in my mind the impression that if there were a difference of opinion he had no course except to give way. It is easier for me to believe, having regard to what we all know about Mr. Towers, that he was most influential and seldom or never did he have the situation where his view did not prevail. Nevertheless that question of right still remains and I would like to have a clearer statement from the governor as to just what he thinks the constitutional position is; that is to say, to put it bluntly, if there is a difference between the governor of the bank and the Minister of Finance, what happens? However highly we may regard those who are subject to the acid test of getting re-elected, it does have certain effects on their mentality; but they are definitely in a different position from a man like the governor of the bank who is there permanently and, almost like a senator, does not have to have regard to anyone else when he makes up his mind.

The CHAIRMAN: When you say "what happens", surely all Mr. Coyne can do is give his opinion as to what might happen? It never has happened.

By Mr. Macdonnell (Greenwood):

Q. I am asking about the legal position, the legal rights of the governor of the bank. Is he subject to be overruled by the Department of Finance? Surely that is a question which should be answered?—A. Could I refer, first of all, to the kind of context in which Mr. Towers' remarks were made? From my recollection of the report, the first time this question came up I think that it came up in this way: supposing the government wanted to spend a lot of money and for that purpose wanted to borrow a lot of money from the Bank of Canada and more or less demanded that the Bank of Canada should expand the money supply for that purpose, could the Bank of Canada refuse to do so? Mr. Towers did not stress the legal position at that time. He said that, of course, if the government were determined enough, if there were a serious difference of opinion, the government could get rid of the governor and of the directors, but I do not think he meant to imply that the only thing the governor of the bank himself could do in any other kind of situation was resign. Normally, the operations of the bank are carried on by the management of the bank without any such questions arising. The initiative normally comes from the bank itself; it has to, if it is to perform its duties.

If you still have reference to the particular type of situation I think Mr. Towers was talking about, namely, an attempt by the government to force the central bank to make a very large quantity of money available to the government, could the central bank resist that pressure from the government? If that is the question, it is a very unlikely occurrence, I must say. It never has happened. The government, of course, would need to have an act of parliament authorizing them to spend the money and they would need another act of parliament authorizing them to borrow the money. The only question remaining would be the source from which the money was to be borrowed. If the government said: "We demand that the Bank of Canada lend us this money", the first duty of the Bank of Canada would be to say "Why? What useful purpose is to be served by having your borrowing carried on in that particular manner?" It would not be because the government could not raise the money in some other manner—since the national government in fact can always borrow the money from other sources.

Q. Without your narrowing the problem by confining it merely to a case where the government wants to spend, is it not a much broader case where it is an expansion of credit and not just a question of the government wanting to spend?—A. Then it is a question of how the bank should conduct its operations in the field of money and credit, going right to the heart of monetary policy in those matters which are laid down by statute, as the responsibility of the management of the bank. Again it is very hypothetical: I really cannot conceive of a serious difference of opinion arising. I cannot conceive of it, and I hope I shall never have to conceive of such a situation, where the government comes to the bank and says: "We have been observing your operations and we think that you are all wrong, that you should pursue an entirely different course, and if you do not do so we intend to set certain steps in motion which will bring about your retirement". As I said earlier, if the government were determined that a different course should be followed, and were sufficiently convinced that it was necessary in the public interest, and defensible before public opinion, then a strong, determined government could have its way. However, the governor could not and would not react to this difference in view simply by saying: "Oh, very well, if that is what you want we will do it." I think there would be a long period of discussion before such a serious difference of opinion would arise, and still further discussion before it would come to a head.

Mr. CARRICK: On a point of order, I know this committee has very wide rules, but I am wondering whether Mr. Macdonnell is proceeding in the proper

way to put his question. You can see the embarrassment caused to Mr. Coyne. He is trying to ask Mr. Coyne, in essence, what he thinks about the statement made by Mr. Towers but he does not quote Mr. Towers' statement, but Mr. Macdonnell's interpretation of what Mr. Towers has said. I am wondering, if Mr. Macdonnell wants to know Mr. Coyne's views of Mr. Towers' statement, whether he should not quote what Mr. Towers said, or, if he wants to know Mr. Towers' views on the situation, whether he should not ask him his own views.

Mr. MACDONNELL (*Greenwood*): If I may comment on that, I think it is fair comment, and I regret not having Mr. Towers' words here. I have not been able to run them down. If this committee sits again I will come in with Mr. Towers' own words.

By Mr. Quelch:

Q. If legislation were passed authorizing the government to borrow from the Bank of Canada, I take it there would be no hesitation in the Bank of Canada advancing money to the government.—A. If it merely authorized the government to borrow from the Bank of Canada, that would leave it still open to the decision as to whether the authority should be used. Of course, if legislation were passed directing the Bank of Canada to lend money to the government, then the bank would have no option but to obey the act of parliament.

The CHAIRMAN: Mr. Carrick, I think you are right in what you said in regard to the other question asked and answered; and I hope in future Mr. Macdonnell will stick more closely to the actual statements.

Mr. MACDONNELL (*Greenwood*): I would like to qualify what I said. While I regret not having Mr. Towers' words, at any rate those were the words used at that time in that question by myself.

The CHAIRMAN: Have you finished your question?

By Mr. Macdonnell (Greenwood):

Q. No. I would like to go on and ask some questions about the reserves. My understanding is that, first of all, the statutory rate set up before the 1954 amendment was 5 per cent, but 10 per cent had come to be more or less the working rate. Am I correct?—A. Yes.

Q. Then the 5 per cent was changed to 8 per cent but by reason of the average which was applied the 8 per cent almost in effect became, if I understand it, easier than the 10. Is that correct?—A. eYs.

Q. Then, by discussions and arrangements last autumn, would it be correct to say that that 8 per cent has in a very real measure been raised to 15 per cent? Or will the governor explain exactly what validity there is in 15 per cent rate now, to what extent is it merely an arrangement, what the nature of the arrangement is, is it fixed or is it a rough understanding and what are the penalties, if any, for falling below that 15 per cent?—A. There is one important difference. The 8 per cent by statute refers to the cash reserves of the chartered banks, and "cash" is defined to be only Bank of Canada notes which the chartered banks have in their tills and the deposits of the chartered banks with the Bank of Canada.

Q. How did that differ from the previous arrangement?—A. The definition is the same as it was previously. The 8 per cent, as you pointed out, was different from the previous minimum legal requirement of 5 per cent each day; it was changed to a minimum legal requirement of 8 per cent on the average each month. In addition to cash which the banks have to hold in order to carry on business, whether there is any law on the subject or not, banks also have to hold some very liquid assets. They could hold nothing but cash but they find from experience that a certain amount of cash is enough, if, in

addition they have some very liquid assets which can be converted into cash at short notice, and they can earn an interest return on those liquid assets—which is certainly better from their point of view than holding money uninvested in the form of cash. Customs have varied from time to time and from country to country as to how much of these very liquid assets the banks hold. In the United Kingdom, as I pointed out, they have in practice held 30 per cent in a combined form of cash and liquid assets. In the United States, while there is no precise convention on the subject, the banking system almost invariably holds 15 per cent or better in the form of cash, money market loans and treasury bills.

Q. Is that a requirement or a practice?—A. It is not a requirement. I do not even know if it is a figure to which they consciously work but it turns out that way in the result. It has been higher than 15 per cent. Throughout last year I do not think it fell below 15 per cent. In Canada different banks have at times followed different practices. It has not been too much of a conscious objective but from time to time banks have been known to say that they like to hold 15 per cent, and from time to time they have in fact been holding 15 per cent, or a bit more sometimes, of their deposits in the form of cash, call loans and treasury bills. We found that last year, under the stress of a very rapid and continued increase in bank loans, the chartered banks let the ratio of their liquid assets to deposits drop off from month to month. This drop was the result of a rise in deposits and in later months was accentuated by some fall in the quantities of these liquid assets in the hands of the chartered banks. As I outlined in my remarks the other day, monetary policy was not having a direct impact on the whole field of credit in Canada, being insulated by the action of the banks in letting their liquid assets fall. I have no doubt they thought they were doing a perfectly proper thing. They may well have thought, when first they let the liquid assets fall, "We will get them back next month". They may not have felt that the increase in bank loans would continue in the way it did. I do not think anyone foresaw that. I did not and as far as I know the chartered banks did not. However, it went on and on and, as I say, it had the effect of hampering the usefulness of monetary policy. Without getting into the technical intricacies, that is why we proposed to the chartered banks last November that it would be helpful all round if they would adopt a liquid asset ratio of 15 per cent as a working policy.

Q. May I ask a question? You spoke about letting the liquid assets fall. Could you give a figure as to how low they dropped?—A. Yes. First of all, I would refer to my report. On page 10 of the report of the Bank of Canada for 1955 there is a chart showing the liquid asset ratio, which in the latter part of 1954 was over 14—it hit 15 per cent at one time—and then fell off in late 1954, recovering to 14 or so in early 1955, and then declining with increasing rapidity throughout 1955 to about 11 per cent in November.

Q. There is another question. That 11 per cent would be 1 per cent above the 10 which had been agreed on?—A. No. The old figure of 10 per cent was purely cash. At the time when they had 10 per cent cash they also had treasury bills and sometimes were at this figure of 15 per cent over-all for liquid assets.

Q. You say "sometimes"?—A. Yes.

Q. At their own option?—A. Yes. We felt it was desirable there should be a uniform practice in this regard and the banks, after talking the matter over very fully with us, agreed to that. That involved them in two things—first, raising their liquid asset provision from the level to which it had dropped in November to the level chosen as the standard for the future; and, secondly, agreeing to keep it from dropping below that standard after it had been achieved.

Q. Does that mean that that 15 per cent became a mandatory reserve? You say "agreeing".—A. No. It has been accepted by each bank with the other

banks and with the Bank of Canada as a working principle. If they wanted to say, "We desire not to observe that any longer," there is no legal power to compel them to do so.

Q. You use the words "legal power" advisedly, but nevertheless would it be true to say that you have got to a position where 15 per cent has become a very real figure and was regarded by you as such?—A. Yes.

Q. Would it be correct to say that, having regard to what has taken place, the Bank of Canada would consider itself quite entitled to take monetary steps, let us say, in respect of any bank which fell below the 15 per cent?—A. No, there is no threat or authority. There have been many such matters on which the chartered banks have adopted a standard practice from time to time—frequently in the last ten years—at the suggestion or as the result of discussion with the Bank of Canada.

Q. I would not use the word "threat": it is an ugly word—but I wonder in practice how near does it come to this, that that 15 per cent of assets is sterilized except in so far as the interest part of it goes I remember hearing once of a case in a French hospital where a man who was terribly injured was brought in and people asked if he could have a bed and the hospital authorities said, "No, there is a bed there but by law that bed has to be kept in reserve." He could not get into that bed. To what extent is this 15 per cent sterile?—A. That is a question of degree. I do not think it is sterilized at all. The working principle which has been agreed to is that the average for all the days of the month will come out at 15 per cent but on any day or series of days it could drop considerably below that.

Q. Yes, but in the event of any emergency arising during the month, your view is that that 15 per cent is there for use?—A. It is there for use, not just for emergencies but for ordinary ups and downs of the bank clearings throughout the month. There are occasions when there are fairly wide swings, one bank having cheques of another bank to present, and banks use their cash position and if necessary their day-to-day loan and treasury bill positions to meet these calls on them, and expecting that within a few days or probably within the month, they will get that money back again by a reverse swing in the clearing. However, if it is going to go on longer than that, it would be better for them to sell some other asset to replenish the liquid position. After all, they have to have a liquid asset position to carry on and it has to be restored. If the drain on a particular bank is to go on for a considerable period, it would be better advised to sell some government bonds which it holds, for example, or some other investments, and so restore the level of its treasury bills.

Q. However tactfully or politely the matter has been done, have you not in effect statutorily altered the legislation from 8 to 15?—A. No, sir. The legislation provided a minimum of 8 and also gave power to the Bank of Canada to raise that 8 per cent cash to 12 per cent by stages. That referred only to cash, primary reserves so to speak, of the chartered banks. That power has to be used I think, very sparingly indeed. Mr. Towers mentioned a case where there might be some sudden or very large inflow of funds from abroad that would suddenly have the effect of giving the banks a lot of cash which it would be desired to sterilize, if you like, by raising their cash reserve requirements. There might be some sudden inflationary development where very sharp action by the central bank would be desired—very striking and public action. I do not think that raising the cash requirement will be done very often, nor do I think that under ordinary circumstances the other requirement would be raised. The purpose of the latter requirement was to get a standard practice adopted, not one which would be varied from time to time.

Q. As the matter stands now, does it mean that you still have what you say, so to speak, that spread from 8 to 12?—A. It has not been used. That power exists.

Q. What has taken place has taken place quite apart from that requirement?—A. Yes.

Q. You have not availed yourself of that?—A. No.

By Mr. Cameron (Nanaimo):

Q. Following somewhat on the same lines as Mr. Macdonnell, I think I am correct in my memory of what you told us the other day, when the question was being discussed of the relationship between the Bank of Canada and the chartered banks. As I recall it, at that time you pointed out that you had no legal powers—as you have done again this morning—and I believe you went further than that and suggested there had been no request on the part of the Bank of Canada to the chartered banks to curtail credit, or something of that sort, I believe?—A. Yes.

Q. What I had in mind was this—I have had reports about this. It may be that the local bank managers have been mistaken, but I have had reports of applicants for loans from chartered banks having the applications rejected on the grounds that it was not possible for the bank to accord the loans because of a directive from the Bank of Canada. Would that be a case where they misunderstood?—A. Well, of course, while we did not ask them to restrict credit, we did ask them to refrain from making one particular kind of loan, a "term" loan as I described it the other day, but that has nothing to do with what the customer wants the money for; it is only a particular method of making loans. So far as credit in general is concerned our main endeavour was to point out to the chartered banks and talk over with them the fact that there had been a very large increase in bank credit already, and that one could not expect it to go on increasing at that rate for very much longer. Moreover it was becoming apparent to the chartered banks at that time, if it had not been so before, that it was becoming more expensive for them to increase their loans because they had to sell government bonds, usually at a loss, in order to get funds to extend their bank loans. We said in effect that the central bank was not going to shovel out new money in large quantities under those circumstances. As time went on, the banks came to realize that there was quite a difference in the situation from that of a while earlier. Under conditions of easy money any bank manager or loan supervisor will make a loan to any one who comes along and seems a worthwhile risk. Under other circumstances there are too many worthwhile risks appearing and the total demand for money seems to be too great and the bank has to ration, if you like, its loans; or at any rate it has to alter its standards—perhaps raising the standard of creditworthiness it has in mind, to distinguish between cases where it will make a loan and cases where it will turn it down. Bank managers, being human like all of us, sometimes find it convenient, in their discussions with customers, to suggest that some mysterious body at Ottawa is responsible for all this.

Q. That is what I was wondering, that that might be the case.—A. It might be the case more literally if the central bank were actually reducing the volume of money, but we were not and we have not. There may have been temporary ups and downs, but by and large the volume of money has recently been expanding a bit. I do not think it is correct to say that we have curtailed credit: it is just that continuing the increase in credit becomes more difficult as time goes on.

Q. Would you not agree that your agreement with the chartered banks with regard to the ratio of liquid assets was in effect a method of controlling the basis for bank loans?—A. You mean, at the time? It was not intended that way. It was intended that banks should restore their liquid assets by reducing their longer term assets, their government bonds, and in so doing put themselves into a position which might have obtained all the time, if they had been selling their government bonds earlier. It is of course open to a

bank to improve its liquid asset position by reducing some other assets than government bonds, even by reducing its loans In practice, no bank has reduced its loans below the level of last November, and the total of bank loans has increased month after month.

Q. Has it not had the effect, if they abide by this convention, of actually shrinking the base on which a lot of the loans can be made?—A. No, it provides a base, or makes the base more effective. If there comes a time when an increased volume of loans, even bigger than they are now getting, would be desirable, then it would be the duty of the central bank to see there was an addition to the base such that this could be achieved while the banks continued to observe an 8 per cent cash ratio and a 15 per cent liquid asset ratio. That is where the job of the central bank comes in.

Q. How important do you consider open market operations as the weapon for controlling the issuance of credit? Would you say that is your most important method? If, in the opinion of the bank, it was necessary to cause a contraction of the base, would you consider that was your most important means?—A. Yes.

Q. I was interested in that, as it seems to me there is a possibility—in fact, I would suggest it—that in the period about 1950-51 the case actually was in existence where there was a conflict between, shall we say, the two functions of the central bank—that of controlling the money supply and that of acting as the government's agent, shall we say, in the handling of government bonds. Would you agree that that was the case?—A. Not quite on those terms. It was not a conflict betwen the central bank on the one hand and the government on the other hand.

Q. No, a conflict between two functions?—A. According to our way of looking at things, in this country, the central bank must take into consideration the condition of the government bond market—not in the interest of the government but in the interest of the central bank and of the general public. We wish to see a good market and a large volume of transactions, where people who want to buy or sell government bonds any day of the week can do so and not just find a void or a drastic movement of price in any one day. That was an important consideration in the post-war period. There were great fears expressed in some quarters as to what would happen to the government bond market after the war. References were made to what had happened after the first world war and so on. In point of fact, the policy, whether you regard it as desirable or not, was successful in that respect during the first five years after the war. The government bond market functioned satisfactorily and in fact the prices of victory bonds from the autumn of 1945 to early 1951 were never below par. They could be sold above par. The question of seeing the government bonds go below par—this is ancient history—was a difficult one, particularly so long as in the United States they had an avowed policy of not letting their bonds going below par. We never had a specific pegging policy here and we tried to keep our policy flexible but in our own minds we had a bias against seeing government bonds go below par unless and until the selling pressure became very heavy. However, things came to a head in March of 1951—the selling pressure did become very heavy, and American policy was changed and they fell below par—and at that point we went below par also.

Q. Would you not agree that the price of that policy—I am not saying it was right or that it was not inevitable—was the inflationary spiral of that time?—A. No, I do not think so. I leave the immediate post-war inflation aside—let us not argue about that. The significant new development was the outbreak of the war in Korea in June of 1950 and the great world-wide scramble for commodities in consequence of that war, which sent commodity prices sky-high for a time. In Canada, we had a further problem, a quite unexpected one. After the outbreak of war in Korea, foreign money, to a

large extent American, started to pour into Canada in huge quantities, such as to make any open market policy difficult to carry out. It also made the maintenance of a fixed exchange rate practically impossible, and a fixed exchange rate was therefore abandoned. It took time to make those adjustments. Finally, in the face of this almost involuntary rise in prices as far as Canada was concerned, we, together with the banks, came to the conclusion that special controls on credit were necessary. The government brought in legislation in the autumn of 1950, and amended it in the spring of 1951, imposing restrictions on consumer credit. There were a great many factors operating.

Q. I believe two-thirds of the post-war expansion in total money supply took place in 1950-51?—A. Taking as a crude definition of the money supply the holdings of currency and bank deposits by the general public, which excludes bank deposits held by the Government of Canada, the total held at the end of the year 1945 was $5,905 million. The annual increases in millions of dollars in the years 1946 to 1955, respectively, were as follows: 947, 235, 656, 430, 539 in 1950, then 25, 565, 43, 823 and 745.

Q. Was it not possible for the Bank of Canada in 1950-51 to use what you have told us was the most effective weapon?—A. We did use it on a large scale, but notwithstanding that this development took place. It was a most important one, where a large amount of money was needed by the government to pay for the foreign exchange being accumulated by the government in the exchange fund at that time. The government used up its deposits in the banks paying for exchange the Bank of Canada took on paying for additional foreign exchange and tried to offset the effect on the money supply, by selling its holdings of government securities in the open market.

Q. We were riding quite a lot of different horses?—A. We had to ride them, and we had no choice but to try to achieve, as good a result as possible for the team as a whole rather than let one horse run away ahead of the others.

Q. I come back again to the point that in an inflationary situation, in actual fact your most powerful weapon is one which you have to use with a great deal of discretion. In fact, it may largely become ineffective—in fact, it was ineffective in 1950-51.—A. That is a question of opinion. It was used on a substantial scale and was effective in so far as it was used. However, things have changed. We have a much better open market, for one thing. We have got over the last evidence of the post-war inflation, I trust. There has not been in fact any increase in prices, any large or substantial increase in prices, since 1951. The whole monetary mechanism is working more smoothly now. It is not something that one uses only when serious trouble has developed, it is something which is used from day to day and we try to keep it moving, at any given time, in the right direction. The most important thing about open market operations is that they take place on practically every business day of the year.

Mr. CAMERON (*Nanaimo*): Thank you.

By Mr. Blackmore:

Q. I was interested in the question which Mr. Macdonnell asked Mr. Coyne the other day, in reference to the Finance Act of 1914, and the answer which Mr. Coyne gave. I wonder if it would not be well to probe into that matter further?—A. I should remind you that I am not an expert on the Finance Act of 1914. I think I gave a rather sketchy answer to Mr. Macdonnell's question.

Q. Yes, I took it that you thought you had reasons.—A. Reasons of ignorance, probably the most compelling reasons there are.

Q. You have not indicated much ignorance since you came before this committee. I would like to have you define a little more specifically just what you mean by the expression "need for more money." I think you used that expression once or twice; I think it comes up once or twice. What is meant by the phrase "need for more money"? To help you extricate yourself in answering that question, may I read to the committee a communication which I have received from my constituency which you will readily recognize. It is dated the 15th of May, 1956, and is a telegram to the Governor of the Bank of Canada, which reads as follows:

> Recent increase in Bank of Canada rediscount rates have resulted in increased rates to all borrowers and restricted credit. Lethbridge Chamber of Commerce represents community of small businesses based on predominantly agricultural economy which shows no indication of inflation but rather is in depressed condition due to inability to market agricultural products. Increased interest rates and restrictions in credit are worsening already bad condition. We protest increased interest rates and general policy of credit restriction and request reconsideration in light of adverse effect of these regulations on large segment of Canadian economy.
>
> G. Lomas, President,
> Lethbridge Chamber of Commerce.

Evidently in that area there is a need for more money.—A. There is demand for it, apparently.

Q. Apparently the method which you have been adopting, in your wisdom, for rendering the money supply not too much over-all, has not obtained your objective at all in this area. Now, in the light of that situation, what elaboration could you give upon the meaning of "need for more money" in a community?—A. The major point is that our activities must be directed with a view to the national situation as a whole. I do not think it would be possible, and I certainly do not think it would be desirable, for a central bank to try to influence the credit situation in some particular region.

Q. But still, that leaves the definition of the expression "need for more money" in the air. As far as I can see, there is no way of getting at it.—A. If we are through with Lethbridge—it is a special situation—

Q. I used it as an illustration there.—A. Yes, but it can hardly be an illustration of the overall position in Canada today because as we know credit is expanding in the total national economy, and not contracting.

Q. The important question is: is credit expanding as rapidly as the industrial development of the nation would justify it, and if so, how can we prove it, and if not, how can we discover the deficiency?—A. Quite so. I do not think there is any mechanical or mathematical way of resolving that question. In so far as it is the job of the central bank to influence the total supply of money and credit I should perhaps first emphasize that the central bank can only influence, not determine, the total supply. People can grant credit to each other without asking for the say-so of the central bank, and within considerable limits the commercial banks can increase or decrease the amount of credit they are extending. Even with no change in the cash reserve base they can substitute one form of credit for another. For example, they can find one customer to buy a government bond and extend a loan to another customer. So there can be a very considerable change in the volume and kind of credit, arising from many causes other than central bank action.

So far as the central bank is concerned, it can influence the situation. It can add to the basic money supply, to the cash in commercial banks, and it can take action to reduce the cash reserves of the commercial banks. But to decide how to do that, and how far to go, is something which is

occupying our attention every day, and there is no formula or rule we can take off the shelf and say: this is how we measure it, and this is what we are going to do today.

We have to take into account all the evidence that we can find as to the state of the economy, we have to consider the demand for and the supply of credit, and the changes that are taking place in the use made of the existing money supply. People who had money lying idle for years may suddenly decide to spend it or lend it to somebody else. Then there is the state of unemployment; if it is not purely seasonal, it obviously is something which we must take into consideration. There is also the state of foreign trade, and the state of capital movements into and out of the country.

I cannot be more precise than to say that under normal circumstances when we feel through the market that the total demand for credit is rising or falling, we yield somewhat to that demand. If the total demand for credit is rising, we provide for some of that demand by buying government bonds. Under those circumstances people are trying to sell government bonds but we do not necessarily stand there and buy them at a fixed price. If people continue to sell government bonds, we normally back away and buy tomorrow at a lower price than we did today. But we do, to some extent, meet the demand for more credit.

As changes take place in the price level of the merchandise in which we deal, government bonds, there are corresponding changes in the rate of interest which cause changes to take place in both the supply and the demand for credit. Thus the situation changes from day to day, and the change can be clearly observed over a period of time.

Generally speaking, then, when the demand for credit is growing, it is the job of the central bank, as I see it, to meet that demand to some extent against the check of rising interest rates. But if it seems to be growing very fast, and if there are other indications that the whole economy is trying to do too much and if it looks as if the situation is going to be overly tight for the next several months, we try—and it is the policy and I think the obligation of the central bank—to reduce the scale on which we are supplying additional money or credit to the economy.

Q. I appreciate that answer. It is very good. It constitutes in my mind an admission of the inadequacy of the instruments which are at your disposal in your efforts to achieve the whole overall objective, in that you have only open market operations on which to rely. That is what your answer stresses.—A. They have a very persuasive effect.

Q. That is true; but inevitably there are instances in which they do not achieve that result. But how can you judge when there is not plenty of money, and when there is plenty of money, regardless of your policy under the limitations which surround you, to cope with the situation? What ultimate criterion do you use to determine whether there is more money than there should be, or less?—A. The ultimate criterion only becomes known after the damage is done. The ultimate criterion of too much money is inflation and of too little money, depression. So far as we are concerned in Canada there is the important qualification that either inflation or depression may hit us from abroad rather than through anything we have done.

Q. Just as it did in the last great depression —A. Yes, from the world at large, yes.

Q. Maybe I could take your criterion and go on to what is the ultimate sign?—A. I would have to give the same answer, that the ultimate sign or indication that the monetary policy has been successful is the result, and I do not believe that the result can be absolute. I do not think you could expect monetary policy by itself to bring about a condition of permanent and full employment without any change whatsoever up or down, or of permanent

stability of prices without any change whatever up or down. Somebody, in some other sphere of action, might be able to do that, but we in the central bank could not do it alone.

Q. Evidently, the meaning of the expression "need for money" is very very vague and indeterminate. In Lethbridge, we have one of the finest constituencies in Canada and it is one of the wealthiest.

The CHAIRMAN: No bragging, please!

By Mr. Blackmore:

Q. With due allowance, may I put it that way? But the thing I want to emphasize in this connection is that we have a variety of resources; we have three sugar factories, for example, and a number of other things which help to balance out our economy.

The CHAIRMAN: You mean to sweeten it a little bit!

By Mr. Blackmore:

Q. The question simply arises: why should this one area, constituting practically the whole vicinity of Lethbridge, which, from the standpoint of Canada, is small, but from the standpoint of other areas is pretty large —why should it be in a state of depression with no chance of giving it the money it needs. Evidently it is not having its "need for money" met.—A. I could not accept that statement. I dare say, there are some people who are not getting all the money they want to borrow. There are bound to be cases of that sort all across the country. But I would doubt very much if the Lethbridge area as a whole was suffering from a shortage of credit. If it is it must be because for some reason they need more money relatively than the rest of the country. They need to go into debt more than other people, and they cannot find people to lend money to them; not just the banks, but people of any kind, because there are all sorts of people whose activities overlap with those of the chartered banks, such as insurance companies, all sorts of investment companies, and anybody who has got savings in the Lethbridge area. I imagine that there are many who have substantial savings in the banks in that area.

Q. They are keeping them there.—A. They may be keeping them there, or they may be lending them to their fellow citizens in Lethbridge or elsewhere.

Q. The important consideration is that this letter is coming from the Lethbridge Chamber of Commerce which is a body of about 600 solid citizens whose contacts will reach into every industry in the whole country.—A. It is also an agricultural area.

Q. Yes, it is.—A. And there may be people in that area who have less income this year than in others. I do not know, but I doubt if it is a shortage of credit which is causing that situation.

Q. They mention that, and they say that credit is being restricted, and that interest rates are being increased.—A. Interest rates have increased over the past year, yes. But as I have said, our problem cannot be approached from a local standpoint, because there are many people in Canada, and the country as a whole seems to have plenty of credit.

Q. Probably I would be justified in saying that we are not meeting their need of money at the present time.—A. I would have to beg off from that argument on the ground that my job has to do with the national credit situation as a whole.

Q. I do not want to monopolize all the time, and if someone else would like to take over, I should be glad to yield.

The CHAIRMAN: Perhaps we may come back to you later, Mr. Blackmore. Now, Mr. Richardson.

By Mr. Richardson:

Q. Arising out of some of the questions put by Mr. Blackmore, might I ask Mr. Coyne if, in making his precise estimates having to do with the general situation and information, what percentage of his estimates are based upon precise areas of information, and what remain in the free field or area of experience?

The CHAIRMAN: That sounds like a $64 question.

The WITNESS: That question, by its nature, is not capable of a precise answer, but I think it is correct to say that in many businesses the people concerned have certain processes going on in their minds, although they may really be unconscious of them, and I dare say that at times their decisions are based upon all sort of experiences which they have had. It is very difficult to set it up on the basis of a mathematical formula. It just cannot be done, I think.

By Mr. Richardson:

Q. On balance then, would the precise factors be on the plus side and the unknown factors of experience be relatively minor?—A. Yes, in a way, because all decisions must be based upon the information at your disposal. It is a question of what weight you give to it, and how it contributes to the total impression that you get.

The CHAIRMAN: Now, Mr. MacEachen.

By Mr. MacEachen:

Q. May I turn for a moment to the capital account of the balance of payments? I wonder if you can tell us what effect capital inflows have on the expansion of credit in Canada, and on the relative interest rates in Canada and the United States?—A. The two things interact. If interest rates were rising here faster than in the United States, at some point there would be a counteracting tendency arising from the inflow of capital from the United States. You may also have capital coming in which is not interested in interest, but which has other plans, such as the development of resources and things of that sort. But many capital movements are affected by interest rate differentials, an obvious example being that if a large Canadian borrower such as a province, a corporation, or a municipality, should find that it could borrow sufficiently cheaper in the United States than in Canada to affect the exchange rate risk, it may borrow in the United States and bring money into Canada. Actually, with the large program of expansion in this country which has been evident for several years we have received a substantial net inflow of actual goods otherwise we could not have had expansion at the same rate that we have had it and that physical inflow has been pretty well matched by the net financial or capital inflow. The difference, if any, would show up in the reserves of the exchange fund, but they have not been in fact altered very much over the last five or six years.

Q. How does that financial inflow make itself felt through the banking system? What is the process?—A. Let us suppose that a Canadian borrower goes to New York and borrows United States funds. He wants to bring that money back to Canada where he can spend it, but he has to sell the United States funds to somebody who has Canadian dollars and who wants to buy United States funds. That transaction would be carried out in the exchange market. The other party who has given up Canadian funds for United States funds may want them to pay for goods brought into Canada.

Q. Well, once those funds are brought into Canada, the Canadian presumably deposits his funds in some bank in Canada?—A. Somebody else, the buyer of the United States funds, had to give up bank deposits in Canada.

If it is all done by the general public without the central bank or exchange fund account having to do with it, it all balances off. For every person who increases his bank deposit in Canada there will be somebody else who decreases his bank deposit in Canada, by having to pay for those funds.

Q. Therefore there is no net effect?—A. No, not in the case mentioned. But if there was a tendency for more United States funds to be offered for sale for Canadian funds than there was demand for United States funds the exchange rate would move in favour of the Canadian dollar. This would tend to discourage those who were bringing United States funds into Canada and would encourage others to find a use for United States funds, and a new balance would be achieved but at a different exchange rate. There are minor fluctuations in the exchange rate every day, but in these circumstances there might over a period of days be a substantial movement of the exchange rate.

Q. There is one other feature of our economic relations I would like to ask about and that is the cost of capital in Canada and in the United States. At the present time Canada has not a sufficiently great volume of domestic savings to finance her development, and we are a debtor in that respect.—A. Yes.

Q. And the United States is the creditor.—A. Yes.

Q. The savings in capital are more plentiful in the United States, and they are less plentiful in Canada; there is a difference, and this difference in the supply of savings and capital—is it reflected in real differences in the cost of capital for development in each country?—A. Yes. It is not so much that there is a difference in the rate of the savings. I have not got the exact figure in mind but we can assume that the rate of saving is not greatly different in the two countries. It is the demand for those savings to finance expansion projects which is proportionately greater in Canada than in the United States.

The United States provides capital for many countries in the world, partly because of the voluntary decisions of various investors and savers in the United States, partly because their government syphons off some of the savings of the American people to use for foreign programs. But this latter does not affect us in Canada. In Canada we have a much larger proportionate need for money for physical expansion than they have in the United States or in much of the rest of the world, and it is only as long as we can take advantage of the savings of other people that we can continue at that level. There may be an argument whether you want to do it in this way, but in overall terms I think that is the situation.

Q. You said, when I asked you the first part of my question, whatever the way that you described it, that the demand or supply of savings is reflected in the cost of money.—A. Yes. In a country where the demand tends to exceed the supply of savings, you have a higher interest rate than in a country where the reverse situation exists. You have to have some differential to encourage the international movement of capital.

Q. Suppose you take one of the countries of the world where capital is hard to secure, and where it is very expensive in relation to some of the other factors of production. Could you indicate in general terms what the effect would be if the capacity of Canada to import capital was affected adversely by the price of capital or the interest rates?—A. Many things could be affected. For example, some projects might not be proceeded with this year, and they might have to wait till next year or perhaps for several years. There are many other factors which influence international capital movements, for example, whether or not savings are available in foreign countries regardless of the rate of interest, whether the owners will invest their money in Canada even if there seems to be a monetary incentive for them to do so. Moreover, a lot of the projects which are going ahead in Canada and which need capital are themselves started by non-residents, because they want to get raw materials from Canada. Therefore they themselves provide the capital necessary for those

particular developments, and the capital goods which are necessary for those developments will, to a degree, have to come from the different countries too.

Q. Would you agree with me that the availability of this inflow—that the state of the inflow of capital in Canada would for that reason make the cost of capital less expensive than it otherwise would be, and that it would at the same time increase the proportionate share of the wage income than it would otherwise?—A. It is very hard to say. Theoretically we should be able to maintain full employment in this country with a balanced current account, without this large import surplus. I think it depends a good deal on the kind and quantity of development you want, whether you would regard the importation of capital as a desirable thing or not. I do not want to get into any arguments on matters which are likely to be the subject of public debate in this connection, because it is not exactly my own field.

Q. I think I have kept the matter away from that. I believe that in Canada we have a very plentiful supply of capital available to us. In Canada capital is inexpensive and labour is relatively expensive, which is the best of all possible worlds, as compared with another country, such as India or Pakistan, where capital is extremely expensive and labour relatively cheap.—A. It really comes down to the standard of living. If you have more capital per person employed, you probably have a higher standard of living. That still leaves open the question how rapidly you want your standard of living to advance, and how much you are prepared to pay for it.

By Mr. Quelch:

Q. Are we not actually meeting a deficit on the current account by capital? —A. Yes, by importing capital.

By Mr. Carrick:

Q. Would you say it is a good or a bad thing for Canada to have these large imports of capital which we have had in these last years from the United States?—A. That is a very broad question and I should like to keep off it. There are so many non-economic and so many non-monetary judgments which have to be made in answering that question.

Q. I do not think you have to worry about that, as all politicians have agreed it is good for Canada.—A. I shall limit myself to my earlier statement, that it is a question of how fast a rate of growth you want in your physical capital assets. If you think it desirable to have as large an expansion as we have had, then it was necessary to have the imported capital, because quite obviously the Canadian people could not or would not save on such an extraordinary scale. On the other hand, if you approach it from the other aspect you might find some people who would say: "I would have been happy to see only half that amount of expansion in the last ten years". I do not want to get into that argument.

Mr. CARRICK: I think this is a good time to leave Mr. Coyne out of these political discussions, as they might be pursued further.

Mr. MACDONNELL (*Greenwood*): I was interested in the question from a purely technical point of view. I quite agree Mr. Coyne should not be asked to deal with it from any other point of view. However, from the purely technical aspect, I should like to hear more about it.

Mr. BLACKMORE: Before one could answer such questions satisfactorily, one should single out an industry. One could take the oil industry or the gas industry. One could discuss that. One could discuss the development of industry in other parts of the country. What might be in excess in the case of one might be inadequate in the case of another.

The CHAIRMAN: It always will be a question of opinion as to how rapidly industry should develop.

By Mr. Philpott:

Q. I want to ask Mr. Coyne a few questions along another line. Am I right in saying that the very great development of installment buying in North America in the past generation or so has presented people in your profession,—that is, central banking,—with an entirely new problem in history, namely, inflation? I do not refer to inflation of the runaway type which occurred in Germany and Russia right after the first world war and which was almost entirely due to government policy, through the government debasing the currency and so on. Is it true now that in North America there is danger of inflation or of too rapid expansion of installment buying? In other words, does any possible rapid inflation arise from the people themselves wanting to buy on credit or does it arise from ordinary channels of business people making commercial loans?—A. There has been a great development in the field of consumer credit, including installment finance, charge accounts, and other methods of consumer credit. There can be considerable fluctuations in consumer credit, which means that it can be an element in a change in the over-all monetary situation. The most important factor in installment finance has been automobile financing. It is almost as if installment finance has been tailored to the automobile industry, and the automobile buying habits of the American people. Consumer credit in the field of automobile sales and in other sales fields can now be used as a selling technique. There are even people who have money in the bank who will sometimes buy a consumer product on the installment system. I do not want to make any general statement adverse to consumer credit. I think it is a desirable feature in a modern financial system but, like anything else, it can go to extremes.

By Mr. Quelch:

Q. What would be the danger point?—A. When it accompanies a very aggressive selling campaign in some particular field, it might go to extremes and it might induce too large a production of those goods in one year, with a consequent falling off in production in another year.

By Mr. Phillpott:

Q. When you put in special measures at the time the Korean war had closed in credit and you cut down on mortgage loans and so on, did you put in anything against installment purchasing?—A. Yes. The goverment introduced legislation in the autumn of 1950. Both the government by that action and ourselves in our field were trying to deal with various symptoms of the inflationary situation which might get worse. The basic rise in world commodity prices and the positive scramble for commodities was, as I have said before, completely outside the control of Canada. But our own domestic situation would have been worse if measures had not been taken to limit the expansion of credit.

Q. As I recall it, they raised the down payment on all these things to one third down?—A. Yes. I forget the exact regulations.

Q. In the recent raise of the bank rate, which was, as you point out, to check inflationary pressures, there has been no consideration given to raising the down payment on installment purchases?—A. For one thing, there is no legislative authority now in existence. That act passed out of existence.

Q. In other words, the country applied it at that time by reason of the fact that there was a war on and it was a war measure?—A. My history is not good enough. I am not sure if the first regulations were made under the Emergency Powers Act. I think that there was special legislation. At any rate, the power no longer exists.

Q. As the law stands now, your bank has no constitutional power to alter the level of consumer credit?—A. That is right. The chartered banks lend

money to the installment finance companies and they sometimes change their ideas as to how much money they will lend to them. That means that the installment finance companies have to go into the market to sell their short term notes or their bonds or to sell capital stock. I am not sure that there is anything specific there which causes any restraint on the amount of consumer credit being made available—I rather doubt it—but the general atmosphere might have some effect on the minds of the installment finance companies. If they saw general monetary action being taken or interest rates rising over a considerable period, they might well decide they were going to be a little more conservative in their attitude to the loans they were making in case there should be a reaction and some of the loans should turn out to be bad.

By Mr. Follwell:

Q. I think the chartered banks would decide on how much money they would lend to finance companies, but would they make that decision based on a directive of the central bank?—A. No. We have not made any directive. I do not like the word "directive", anyhow.

Q. Would they make any decision in curtailing credit to the finance companies after a conference with the central bank?—A. That might be the case or it might be done without any such discussion.

By Mr. Quelch:

Q. On page 11 of your report, you refer to

> A substantial growth in consumer credit...This growth was reflected in a 64 per cent increase in bank loans.....

Apparently the banks take quite a lot of responsibility as regards consumer credit today. I understand the consumer credit is around $2,212,000,000—I understand those were the last figures. How high would that have to go before you consider it would be dangerous?—A. I cannot answer that question.

Q. What do you consider a dangerous point?—A. I would be more interested in the rate of advance at any given moment or the rate of increase over the last 6 or 12 months—rather than the absolute level, because I do not know what the absolute level should be.

Q. Actually, these loans have a slight inflationary character at the present time and when they are repaid the opposite will occur and it will be deflationary; so it will depend on policy in the future. If we continue to expand consumer credit at a similar rate, there will be inflation; on the other hand, if a decision is reached to curtail these consumer loans, it might be quite deflationary?—A. That is one factor, but the man who has savings deposits is another factor. He may be saving one year and spending everything the next year. There are many other channels by which spending rises or falls, each of which theoretically has that same kind of influence which you mentioned.

Q. The chartered banks could in part control it by curtailing these loans to these installment finance companies?—A. I am not sure that it would curtail consumer credit as such. It might make it more expensive. The fact of doing that at a time when other things are happening might bear on the general psychological atmosphere and lead to more conservative lending practices.

By Mr. Follwell:

Q. I should like to ask Mr. Coyne if the central bank is responsible for putting into the flow of currency any currency such as notes and coins?—A. The notes are our own responsibility. In the case of coins, we merely act as a channel between the banks and the mint. We get the coins from the mint and distribute them to our agencies and so they are distributed to the banks.

Q. How do you know how many coins to put in?—A. It is quite a problem. We have to try to assess what the public wants and we receive evidence in the form of calls from the banks that their customers need more coins. We try to foresee it throughout the country, but we are not always too successful. We pass that information on to the mint and they adjust production accordingly.

Q. There must have been over the years an increase in the number of coins and notes in circulation?—A. Yes.

Q. How do you figure out the percentage by which to increase the number of coins going into the currency stream?—A. We do not exercise any influence on that one way or another. Either in the case of coins or notes, we simply put into circulation as much as the people want, because the people could only get notes or coins by giving up another form of currency in exchange, namely a bank deposit. If someone decides that instead of keeping $300 in the bank and $100 in his pocket, he will keep $200 in the bank and $200 in his pocket, we do not try to influence that decision in any way.

Q. There is no limit to the amount of currency, coins or notes, going into the currency stream?—A. Not in so far as we are concerned, and I do not see how we could limit it.

Q. What total could you put in?—A. We could not double the note issue overnight, because we would not have notes in existence. We would have to go to the printers and get them to increase the production schedule. It is going up every year, of course. The fact that each year the general public need more currency for carrying on business is, we take it, a completely objective and unbiased indication of the rising level of economic activity. Again, there could be non-economic factors entering into that. People might get scared by the threat of war or might decide that it was silly to carry so much cash in their pockets or tills instead of investing it at some rate of interest.

By Mr. Cameron (Nanaimo):

Q. Do these changes bear a constant ratio to the total money supply?—A. No.

Q. It goes up and down?—A. Yes. In recent years the rate of note issue has shown a steady increase.

Q. In ratio?—A. No, in itself. It has been more steady than the total money supply.

By Mr. Quelch:

Q. It is not seasonal?—A. Yes, it goes down sharply in January, it goes up for most of the year, with a hump at Easter and Thanksgiving and a peak at Christmas.

By Mr. Follwell:

Q. Are there more coins or notes at any time of the year?—A. They come into us particularly in January. More notes come back to us then than we are asked to send out. This is quite apart from the destruction of old notes—as the banks find notes in their possession which are disreputable in appearance and they do not want to send them back into circulation, they send them to us and we pay in whatever way they wish, either by issuing new notes to them or by crediting their accounts.

Q. Do I understand there is absolutely no limit on the number of coins or notes you can put into circulation? At this present minute, if you had the physical plant and equipment, you could immediately start processing and putting them out?—A. We could not take the initiative. We could not put them into circulation. All we could do would be to respond to the demand. There is no way in which we could put them into circulation—nor could the

government do so. I suppose the government could pay its bills in notes, but people who got them would promptly turn them in to the banks to the extent that they were surplus to their holding of money in that form.

Q. Others might understand this, but I do not. On page 6 of your report you have a reference to deposits "less float". What does that term "float" mean. I asked someone but he did not know.—A. I am probably not the best person to answer that, but I can give a general answer. Float consists mainly of cheques in the possession of one bank and drawn on another bank, which the first bank has received and has not had time to clear to the second bank. These cheques are payments from a customer of one bank to a customer of another bank. The receiving customer who deposited the cheque has already received credit, but the bank that accepted it has not had time yet to claim the corresponding amount of money from the bank on which the cheque was drawn, and the deposit account of the customer who drew the cheque in the first place has not therefore yet been debited.

Q. In that case, you have to subtract the particular amount?—A. That amount could fluctuate quite rapidly. You might find a holiday coming towards the end of the month giving rise to a considerable increase in the volume of payments by cheque and therefore in float. The amount of the float may be $200,000,000 greater in one month than in another month; in consequence the deposits will be $200 million greater because they have not yet had debit entries made against them. If you want a more accurate view of the volume of bank deposits, you subtract the float to get a more comparable figure. It is a refinement in the statistics.

Q. It is a cancelling item?—A. Yes.

By the Chairman:

Q. Are gold coins forbidden by law today or what is the situation in regard to gold coins?—A. Gold coins are not legal tender in Canada, under the Currency, Mint and Exchange Fund Act. No new ones have been minted for many years and those that were minted earlier do not circulate since the rate for gold at the time of minting was $20.67 an ounce and the current market price of gold is $35 U.S. an ounce. Naturally those coins do not show up, because the people who have got them would keep them or would have them melted down and sold. Therefore, there is not much reason to expect circulation of existing gold coins in Canada.

Q. Is it considered that the notes are a more convenient form, or has anyone ever raised the question?—A. I do not think there is any evidence of a demand for gold coins, any more than a demand for silver dollars. Silver dollars are minted and if people tried to pay bills with them they would probably find it somewhat inconvenient, and the silver dollars would be shipped back to Ottawa for redemption in some other form.

Q. You say that the Canadian public has become used to notes, instead of gold coins?—A. There may be some people interested in gold coins. If so, they can make arrangements to buy gold coins from some other part of the world or have a search made for Canadian coins. The supply is small and they are collector's items.

By Mr. Bell:

Q. You spoke earlier as if you might have some knowledge of special sections of Canada. I think you said that in southern Alberta they are a saving people. We all know we are having trouble with the economy of the maritime provinces and I wonder if you have any general information about the people there—are they a saving people and to what extent are the bank clearance figures increasing? To what extent are their general monetary problems out of line with the rest of the country? Do you have any thoughts

about education in this respect or what could be done, without getting into the general economic picture? I wonder if you would have any knowledge which would help us there, applied to the habits of the people themselves.—A. I had no exact knowledge—, I took it to be a fairly general condition. I understand that the area we were discussing is pretty prosperous, but I should not like to make positive assertions that there is a high level of savings there.

By Mr. Blackmore:

Q. Some of the income tax inspectors may know?—A. Income tax might give some indication.

By Mr. Bell:

Q. Have you any figures which would give that information?—A. There is very inadequate and scrappy information on the geographical distribution of money or savings. There are regional statistics on the level of activity, on employment, production and retail sales, and so on. You could get a fair impression from those figures.

Q. How about bank clearances, say in regard to St. John? Has the increase in their figures in recent years been comparable with other major clearing houses?—A. I am sorry, I do not know.

By Mr. Quelch:

Q. I noticed a statement by, I think, the Royal Bank, that the policy in future might be one under which people might be required to make their savings deposits actually time deposits. Several years ago, I think the bank reports showed that approximately 1/6 of savings deposits were in reality demand deposits.—A. I know what you mean. The amount on which the chartered bank pays interest is the minimum quarterly balance in a savings account. Apparently that was only 85 per cent, let us say, of the total balances in those savings accounts. Therefore, the remaining 15 per cent must have had cheques drawn against it or been new deposits. In addition to that, there has been a constant tendency towards growth and the increase would not be eligible for interest until the following period.

Q. Is it generally considered that savings deposits should be time deposits and that notice of withdrawal should be given?—A. There is a good deal of discussion and consideration going on—that could be one of the features. Another could be that checking accounts would be treated differently from savings accounts that did not have cheques drawn on them, without actually making them time deposits. I think that is under consideration.

By Mr. MacEachen:

Q. May I refer to a question by Mr. Bell? Did you say you had no statistics deposits by provinces available yourself at the moment or that there are none in existence?—A. I do not think there are any in existence.

Q. Of provincial deposits?—A. No figures of bank deposits by provinces are available.

By Mr. Bell:

Q. In instalment buying, you would not have any figures?—A. No, I do not think so, not by provinces.

By Mr. MacEachen:

Q. A well known consultative firm in Biston, Arthur D. Little, is making a survey of economy in Nova Scotia and they have had at their disposal

comparative information on saving in that part of Canada and in various parts of the United States.

The CHAIRMAN: They would get that from the chartered banks, would they not?

By Mr. MacEachen:

Q. The reason I say that is that I have made some statements regarding savings, in the House of Commons, and I wanted it to be known I was not speaking without foundation.—A. I have not seen those figures.

By Mr. Richardson:

Q. Would they not be in the table on page 15?—A. Not by provinces. I have never seen anything by provinces.

By Mr. Bell:

Q. I appreciate you would not want to break things down into provinces and it would not be desirable in your own case, but do you not think direction would be necessary to certain sections of our economy that would be in need of extra encouragement, to save and not to go for installment buying in the same way? Where do you think that should come from or do you not think it is necessary?—A. We are a country of a number of different regions. Each region has institutions of its own dealing particularly with regional problems and local matters. It might be of interest in any one region to engage in a study of that, but I do not think it would be our job.

By Mr. Quelch:

Q. Do you consider that a matter for government action rather than banking action?—A. It is not a statutory responsibility of the Bank of Canada.

By Mr. Bell:

Q. In regard to advertising, the chartered banks themselves are advertising on a national scale in regard to savings and bank accounts and related subjects. They do not take into consideration the various problems of the region. There might be some areas, where, with a little bit of proper education in the right way they could solve a lot of their problems?—A. That might be so. It is always difficult to say that someone should go in from outside and do that. Sometimes you come to an unhappy fate by doing that sort of thing.

By Mr. Blackmore:

Q. I should like to pursue a little further this question of the need for more money. I think the expression was used originally by the Rt. Hon. William Lyon Mackenzie King around about 1935 when he said: "We want currency and credit in terms of public need." That has been as for as that hon. gentleman ever went in respect of elucidating the meaning of "terms of public need" or elaborating it. I was probing that with Mr. Dunning at one time around 1938 on the floor of the house and, as I recall it, the progress he helped me to make was this: "It was the needs of business". Would Mr. Coyne feel I would be safe in assuming that would be a satisfactory definition?—A. I do not know. If you are drawing a distinction between business and the rest of the community, I could not agree with that.

Mr. BLACKMORE: I am still groping around to get something to which I can tie. Supposing we took it as being what Mr. Dunning said quite confidently when he said "It was the needs of business", we would have something we could take hold of.

Mr. MACDONNELL (*Greenwood*): Might I ask Mr. Blackmore a question? Do you not think it would mean the real needs of economic activity, or business as distinct from profession?

Mr. BLACKMORE: Yes, he meant economic activity of the producers and salesmen and all the rest.

The WITNESS: It seems to me one has an interest in money not as something in itself, but as something which has a role to play. It is a useful commodity. You could have an economic system run without money, at least without a circulating medium; but you can probably run it easier and have a higher standard of living by having a monetary system. The test seems to me to be, as regards whether you have enough money, whether your economic system is functioning satisfactorily. If it is, it would be pretty hard to say you did not have enough money. If it did not function satisfactorily, it may be that the money supply would be one cause but it would not necessarily be the only cause of the trouble. The cause might be somewhere else. Therefore, when you say "what does it mean when there is a need for more money, or how do you tell?" I can only look at the signs of various kinds of the state of the economy. The fact that some person or customer may say he has too little money does not mean there is too little money for the country as a whole. The central bank is a single national institution for the whole country.

The CHAIRMAN: Are you not trying to sink your teeth into something that is not solid, Mr. Blackmore?

By Mr. Blackmore:

Q. From the way we have gone, I have found it difficult to advance it, but I imagine it is something which is solid but not very real. It is something we cannot conceive of, because we use it quite unconsciously as part of the stock and trade.—A. I used it in connection with the situation where business is expanding and the economy as a whole is expanding, where capital investment is going on at a high rate, where the gross national product is rising, where the total volume of sales is rising. That will give rise to a need for more money and that need would manifest itself.

Q. In terms of borrowing?—A. Yes. First of all, in a larger circulation of notes which would show up if people took money out of the banks because there was a need for more notes. Then perhaps the total volume of money would go up by at least the increase in the note issue, and it would be conceivable under certain circumstances that the total volume of money should go up even more. If the increase in demand were greater than in supply, it would show itself in higher interest rates.

Q. So in order to narrow the matter down and make progress, I would probably be justified in saying it is the amount of money which producers or potential producers wish to borrow?—A. That is only one side of the picture.

Q. I want to talk about the other the next time.—A. They want to borrow because they want to carry on various projects.

Q. To produce?—A. A lot of them may want to compete with the next fellow as to who is going to do the producing and the volume of production may not be affected at all. In those circumstanecs the demand for money would be excessive.

Q. In either case, it is more money they want to borrow, to produce, whether it is necessary or competitive?—A. Greater production may be impossible and the only question at issue may be whether Smith or Jones will do the producing. It would be undesirable to give both of them all the money they wanted, as they would just be competing for the supply of goods and production facilities which was insufficient to satisfy them both.

Mr. BLACKMORE: I agree, but in any case the main thing is that Smith and Jones want more money in order to produce.

The CHAIRMAN: Have you further questions?

Mr. BLACKMORE: I wish to ask a good many questions.

The CHAIRMAN: I realize that, but it is up to the committee to decide.

Mr. MACDONNELL (*Greenwood*): I would like to ask a few more questions also.

Mr. BLACKMORE: We are only beginning to get into the whole problem. The thing I want to know in respect of this report of Mr. Coyne's is whether all is well in the Canadian economy as far as the Bank of Canada can see it.

The CHAIRMAN: Very well. Subject to the pipeline debate, we will have another meeting a week from today.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 11

The report of the Bank of Canada for the year ended December 31, 1955

TUESDAY, MAY 29, 1956

WITNESS:

Mr. J. E. Coyne, Governor, Bank of Canada

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
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MacEachen
Macnaughton
Matheson
Michener
Mitchell (*London*)
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Quelch
Regier
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Stewart (*Winnipeg North*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, May 29, 1956

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Bell, Benidickson, Blackmore, Cameron (*Nanaimo*), Carrick, Deslières, Fairey, Follwell, Fraser (*St. John's East*), Gour (*Russell*), Hanna, Hollingworth, Hunter, Matheson, Michener, Pallett, Philpott, Quelch, Richardson, Robichaud and White (*Waterloo South*).

In attendance: Mr. J. E. Coyne, Governor; and Mr. R. W. Lawson, Deputy Chief, Research Department; both of the Bank of Canada.

(*Note: The Committee first dealt with two Private Bills, in respect of which verbatim evidence was not recorded.*)

At 12.00 o'clock noon, the Committee continued its consideration of the report of the Bank of Canada for the year ended December 31, 1955.

Mr. Coyne requested authority to record certain revisions to the printed record of his and Mr. Marble's evidence before the Committee on Bill 165, An Act to amend the Industrial Development Bank Act, on May 1, 1956, being Issue No. 7 of the Committee's proceedings, namely:

on page 250, line 27, to delete the words "let us say, up to $4 million dollars per year,";

on page 252, line 22, to delete the word "borrowing" and to substitute therefor "operating";

on page 253, line 17, to delete the word "lives" and to substitute therefor "loans";

on page 253, lines 33 and 34, to delete the words "but purely as a monetary operation on our ressources, I mean those of the Industrial Development Bank";

on page 259, line 3, to insert a period after the phrase "That is one factor";

on page 259, line 20, to delete the word "item" and to substitute therefor "term";

on page 259, line 22, to delete the words "and did make them on demand"; and

on page 269, line 19, to delete the word "over" and to substitute therefore "under".

On motion of Mr. Gour (*Russell*),

Resolved,—That the recording of the above-mentioned revisions be authorized.

Further, Mr. Coyne explained his answer to Mr. Regier's question on page 265, lines 48 and 49, of Issue No. 7 of the Committee's proceedings on May 1, 1956, on Bill 165. (*See this day's Minutes of Evidence.*)

Also, Mr. Coyne requested authority to clarify and elaborate his answer to a certain question by Mr. Cameron (*Nanaimo*) during the proceedings of the

Committee on May 22, 1956, on the report of the Bank of Canada, which proceedings had not yet been printed. (*For details, see this day's Minutes of Evidence.*) The Committee agreed to Mr. Coyne's request that that proceedings be printed as revised.

Continuing the questioning of Mr. Coyne on matters arising from consideration of the report of the Bank of Canada, Mr. Blackmore distributed to the Committee copies of a set of 42 questions which he proposed to ask Mr. Coyne. Mr. Blackmore requested that his set of questions be printed in this day's proceedings with a view to their being answered by Mr. Coyne during this and subsequent sittings. Following debate as to the relevancy of certain of Mr. Blackmore's questions to the Order of Reference, the Committee did not concur in Mr. Blackmore's request. Thereupon Mr. Blackmore proceeded to put his questions seriatim, Mr. Coyne replying briefly to them.

At 1.00 o'clock p.m., the Committee adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

May 29, 1956,
12.00 noon.

The CHAIRMAN: Gentlemen, we will resume consideration of the annual report of the Bank of Canada.

Before we do so, I wish to state that, in regard to the proceedings and evidence, Issue No. 7, relating to Bill No. 5, to amend the Industrial Development Bank Act, Mr. Coyne has pointed out certain items which he considers to be incorrectly recorded in the printed proceedings. Some of these may be just typographical errors; others may be errors in not getting it down correctly. I have a list of them which Mr. Coyne has given to me, and if members have Issue No. 7 before them, I will read the list: In regard to page 250, line 27, he suggests to delete the words "let us say, up to $4 million per year". He stated to me that if he said that he did not mean it. On page 252, line 22, he suggests to delete the word "borrowing" and to substitute therefor "operating". On page 253, line 17, to delete the words "lives" and to substitute therefor "loans". Further down on page 253, lines 33 and 34, he suggests to delete the words "but purely as a monetary operation on our resources, I mean of the Industrial Development Bank". Perhaps Mr. Coyne you could explain what has happened there.

Mr. Coyne, Governor, Bank of Canada, called:

The WITNESS: In regard to what I am reported to have said in those proceedings, Mr. Chairman, I do not know what these phrases mean. I may well have mixed things up when I was speaking in the first place, or perhaps something has happened in the transcription. In any event I do not think the words as they are written have any intelligible meaning, and if it is all right with Mr. Quelch the first four or five words answer his question without the additional ones.

Mr. QUELCH: Yes.

The CHAIRMAN: Mr. Coyne also suggests on page 259, line 3, to insert a period after the phrase "That is one factor"; that is a separate sentence. On the same page, line 20, he suggests to delete the word "item" and substitute therefor "term". It was obviously meant to be a term loan. Also on page 259, in line 22, he suggests to delete the words "and did make them on demand". Obviously a term loan cannot be a demand loan. On page 269, line 19, he suggests to delete the word "over" and to substitute therefor "under" to make the phrase read: "I would say none under a year." Not all, but some of those changes, change the meaning of the evidence, and therefore I bring them to the attention of the committee. Would someone move that these amendments be made?

Moved by Mr. Gour (*Russell*) that the revisions requested by Mr. Coyne be recorded.

Agreed.

The WITNESS: There is one more point. At the bottom of page 265 of Issue No. 7 of the Committee, lines 48 and 49 Mr. Regier's question entirely. He was asking questions, I think, designed to ascertain what would be done

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by the Industrial Development Bank in the event of monetary policy, or financial policy generally, changing in one direction or another. I thought that particular question was: "Supposing the Bank of Canada or the Finance Department on its own, in the public interest, at a certain time thought there ought to be a restriction of industrial development?" I answered: "I cannot imagine such a decision being made by anybody." In the record, M. Regier is recorded as having spoken of an "expansion" of industrial development. Of course, I would not have said I could not imagine anyone desiring an expansion of industrial development. There is a further aspect of this given on the following page, 266, and there I think this point becomes clear, because Mr. Regier talked about the depression when he said he felt there were restrictions and not enough industrial development, and he went on: "Now, you are saying in effect that the Industrial Development Bank is being guided by the financial policy of the government." The answer was: Well, it is guided as an Industrial Development Bank by the policy laid down in the act which is to encourage the expansion of industry and to help and assist it. I do not see how it could operate under any other basis. I am sure the members of the committee know I did not say that I did not desire people to expand industry, but the record reads that way, so I would like to have at least this chance to correct it.

The CHAIRMAN: Mr. Regier is not here, so we cannot really ask to have the word "expansion" changed to "restriction". However, I think with that explanation that is sufficient in the minutes. We are prepared now to go on with the annual report of the Bank of Canada.

The WITNESS: At the last meeting, of the Committee, on May 22nd, when talking about the period 1950-51, Mr. Cameron said: "I believe two-thirds of the post war expansion in total money supply took place in 1950-51?" and I replied: "Yes, I dare say."

Well, I was quite mistaken. I must have been thinking of the big inflow of money from the United States, or something else. So far as the money supply is concerned, I proposed giving the committee the figures in the post-war period.

Mr. BENIDICKSON: Mr. Cameron spoke to me about this, and I wonder if it could be deferred until he comes back?

The WITNESS: Perhaps I may just give the figures. Taking as a crude definition of money supply the holdings of currency and bank deposits by the general public, which excludes bank deposits held by the Government of Canada, the total held at the end of the year 1945 was $5,905 million. The annual increases in millions of dollars in the years 1946 to 1955, respectively, were as follows: 947, 235, 656, 430; 539 in 1950; then 25, 565, 43, 823 and 745.

The CHAIRMAN: Gentlemen, I do not think the minutes proceedings of evidence of our meeting on May 22nd have yet been printed. Would it be desirable to insert this information in the relevant position in the minutes?

Mr. MICHENER: I suggest that the information and figures which Mr. Coyne has given us be inserted and printed.

Agreed.

The CHAIRMAN: We will now continue with Mr. Coyne under our order of Reference of the report of the Bank of Canada. Would those who wish to ask questions so indicate, so that we may have them in proper order? Mr. Blackmore has a few questions to ask.

Mr. BLACKMORE: Just before I start asking questions, may I tell the committee I thought that probably they would like to have before them the questions which I will ask, so that they would not have to rely so much on memory. Therefore, I have made copies of the questions and I propose to have the messenger distribute a copy to each of the members so far as copies are available. I aim at getting a copy within the reach of every member of the committee, but as there are more members than copies, some will have to read them together.

Before we commence asking these questions, I may say I do this with abject humility. These are not put with the thought that I know any more than anyone else. It happens that in the past 23 or 24 years it has been my business to study the matter of money, and form some ideas as to what money is, and how it could be managed; and the questions which I have drafted are what I thought would bring out the information which I think is lacking in the minds of many people in respect of money. There is a lot of confusion as to what constitutes inflation, so I have asked some questions about that. I will read these questions, and you can let me know if I am not reading loudly enough. The questions are:

1. What is the actual meaning of the expression "The country needs more money" as that expression would normally be used by the Governor of the Bank of Canada?

1-A. Would that expression mean that without more money in circulation there is a threatening danger of depression, that is, a fall of prices through having too few dollars chasing too many goods? That is, having what might be called overproduction or being in a surplus supply position?

You remember that during the great depression it was commonly said we were in the midst of overproduction.

1-B. Does the expression mean that productive enterprise throughout the country needs to be able to borrow more money, and, or cheaper money, or both, in order to produce more of foods, of clothing, of shelter, of services, or of the implements required in producing these or any other of the needs of life, etc?

Or

1-C Does the expression mean that producers as a whole need more money in the hands of consumers in order that producers might be able to sell their products?

1-C(A). Does not the $2½ billion of 1955 borrowing for consumption indicate producers need far more purchasing power in consumers hands?

1-C(B). Does not the almost fantastic terms of sale being offered by certain classes of producers indicate also the great need of producers for more money in consumers' hands, such offers as $1 down and $2 a week on Frigidaires, television sets, deep-freeze equipment?

1-D Does the real meaning of "need for more money" actually happen to be the need of money-lenders in the money market to keep money relatively scarce and relatively costly in point of interest rates so as to enable those money-lenders to loan their money profitably?

I think this question should be probed into with the utmost care, because if the meaning is the last one that I have given it is an exceedingly serious matter indeed. The next question is:

2. Bearing in mind the two aforementioned evidences of needs of business to have in circulation more money with which potential consumers might buy products of manufacturing, would we not be justified in assuming positively that there exists throughout the Canadian

economy, generally, a definite shortage of purchasing power in the hands of consumers, from which shortage many producers are suffering by reason of inability to sell their products?

Mr. CARRICK: I do not see what good it is going to do to ask all these questions and to put them on the record, if we have no answers to them.

Mr. BLACKMORE: I will put the questions on the record. If we do not have time for Mr. Coyne to give answers to the questions now, or if he wishes to take more time to consider them further, we will go on and finish in the next sitting of the committee. I presume that to do otherwise would be to put Mr. Coyne in a set of circumstances to which no man should be subject, to answer questions like this without very careful thought.

Mr. CARRICK: Would it not be better to give Mr. Coyne a copy of the questions and to let him study them?

Mr. BLACKMORE: He has a copy now. My purpose is to finish putting the questions and then to let him answer them so far as time permits.

Mr. CARRICK: It would be impossible to get satisfactory answers to these questions in that way. If you want to get an answer to a particular question, surely the only way is to give Mr. Coyne an opportunity to answer question No. 1 and so on.

Mr. BLACKMORE: I do not think it will take time.

Mr. CARRICK: I am not objecting if Mr. Blackmore wants them on the record, but I think it is a useless procedure so far as getting information from Mr. Coyne is concerned.

The CHAIRMAN: It strikes me, Mr. Blackmore, that these questions have one facet to them which is almost an argument; and that you are developing the thing from question to question as you go on, and, if you put them all at once, you may end up with conclusions which may or may not be correct, depending on the correctness of the inferences.

Mr. BENIDICKSON: Question 2 seems to presuppose an answer from question 1, before Mr. Coyne has given an answer.

The CHAIRMAN: In question 2 it seems to me, Mr. Blackmore, that you may be drawing inferences or conclusions which are not necessarily correct from question 1 and its subparagraphs. Therefore, if you have drawn an erroneous conclusion or inference at that stage, the rest of your assumptions may not be correct.

Mr. BLACKMORE: Would it not be wise to get them all on the record, so that Mr. Coyne could single out those where there may be a wrong conclusion, or so that members of the committee could single them out? I thought that in order that Mr. Coyne might have a fair chance to answer the questions, he should have them all, so that he can relate the answer to one question to another question.

Mr. CARRICK: I would be opposed to following that procedure. I do not think it a proper course or one that would be helpful to us. Mr. Coyne has been supplied with a copy of the questions. If Mr. Blackmore had a particular question, and if Mr. Coyne were given the opportunity, he could answer each one as he came to it, and that would make the question and answer intelligible.

The CHAIRMAN: It seems to me that if this is within the realm of Mr. Coyne—it covers the whole field of economics, or certainly the theory of money and currency, and other facets also—therefore he should start answering, question by question.

Mr. CARRICK: And if he is not prepared now, as he has only now got the list of questions, he should be given an opportunity of studying it.

The CHAIRMAN: Perhaps we should ask Mr. Coyne whether he is prepared to start answering, question by question.

Mr. BLACKMORE: I said, I think, at the close of my remarks at the last meeting, that I was particularly interested, and I think the people of Canada are particularly interested, in the Bank of Canada doing a good job which the people of Canada want done; and Mr. Coyne has a right to say whether he thinks it is doing the job. We know that something is radically wrong with the economy under present conditions, and, if the Bank of Canada is not responsible, we want to know who is.

The CHAIRMAN: Mr. Blackmore, when you say: "We know there is something radically wrong", why not speak in the first person? You cannot speak for everyone here.

Mr. BLACKMORE: I am glad to change it to "I". When the old age pensioner is asked to exist on $40 a month, I think there is no doubt in the minds of the committee that there is something radically wrong in Canada.

Mr. HANNA: This is a deliberative committee. Surely it is reasonable to ask Mr. Blackmore to ask questions one by one, so that we may follow question and answer.

The CHAIRMAN: I quite agree, but it is a matter for the committee. In what form does the committee desire the questions put?

Mr. QUELCH: If it is intended to ask them one by one, I think it is only fair to Mr. Coyne that he should have a chance to read them through in advance, in order to have the answers, and to have an opportunity to deal more adequately with the subject.

Mr. FOLLWELL: Perhaps Mr. Coyne would indicate whether he is prepared to go ahead now. If he indicates he is prepared to answer questions, let us have them.

Mr. BLACKMORE: My object is to be fair to everybody so that this committee may study the whole situation in the light of the circumstances. I believe everyone on the committee wants to do that.

Mr. HOLLINGWORTH: I am very happy that Mr. Blackmore has some questions, and I think they are of great importance to the committee and to the country, but I am inclined to agree with Mr. Hanna that we should have them one at a time. I think it is important that we discuss these questions, even if perhaps they are a bit broader than the usual questions. It is a very important subject, as Mr. Blackmore says; and I think Mr. Coyne would be very happy to deal with them, but I think the questions should be put one at a time.

Mr. BLACKMORE: I am a little under pressure. I am appointed to go to New Brunswick, so that I will not be here for the next two weeks. If I do not put the questions now, I will not have an opportunity of doing so. If I put them now, Mr. Coyne will have an opportunity of answering them at a succeeding meeting.

The WITNESS: I am here to meet the convenience of the committee and to be helpful in every way I possibly can, particularly in answering questions on matters dealt with in my annual report for 1955, and more or less the current events over the last year or two. It would be quite a different job for me to be expected to engage in a very long discussion on the whole field of economics, or even monetary theory. That would take an awful lot of time, both of the committee and of myself. So far as this particular set of prepared questions is concerned, which I have seen just now for the first time, I am inclined to think they cannot be dealt with as a whole, because the answer to the first question might require a rephrasing of all the remaining questions.

Mr. FAIREY: Would it be in order to suggest that these questions might be published, if you like, as an appendix to the proceedings, and left for discussion at a future time? I do not think it is fair to ask Mr. Coyne to start answering prepared questions which take up nine typewritten pages.

The CHAIRMAN: It would be quite a bit of homework!

Mr. BENIDICKSON: I do not think that would quite cover it. The question of relevancy comes up, question by question. That is a matter for the committee to decide upon. If the questions are really not within the purview of the terms of reference of the committee, I do not think it is proper to put them. Each question has to be looked at in turn.

The CHAIRMAN: I quite agree. I cannot see making these questions an appendix to the proceedings. Some of the inferences which are drawn from some of these questions, and which lead on to the next question, may be erroneous, which means the next question has to be rephrased. In addition, some of these may be extremely irrelevant to the Bank of Canada whose report we are considering. I do not know—some of them may be. I suggest that Mr. Coyne take these questions away, read them, and come back prepared to take them step by step, and then, if we wish to broaden the scope of them and ask questions ourselves, we are in a position then to do so.

Mr. FAIREY: I am in a little doubt as to whether, as Mr. Benidickson said, the committee is empowered to deal with questions as broad as these.

The CHAIRMAN: Some of these questions could be within our purview and have to deal with central banking; others may not be. That will be for the committee to decide.

Mr. HANNA: I think we are interested in these questions, but they should be taken one by one. Mr. Blackmore says he cannot be here in the next couple of weeks. Might I suggest that one of his colleagues take over the job if he cannot be here, and that the questions be put one by one? I think we can best follow the matter if we deal with them one at a time.

Mr. BLACKMORE: Might I say another word? Members will remember that, either at the last meeting or the meeting before, I quoted a wire which had been sent by my constituency to Mr. Coyne, protesting against the measure of increasing the bank rate because of its affecting them adversely. Before I can tell to what extent they are justified, or the Bank of Canada is justified, in putting them "through the wringer", in order to assess the general situation in Canada, I pretty well have to have all these questions answered, and I believe pretty nearly every one has to have the answer.

The CHAIRMAN: Mr. Blackmore, our terms of reference are "That the report of the Bank of Canada for the year ended December 31, 1955, tabled March 1, 1956, be referred to the said committee". Surely it is up to the committee at all times to determine the relevancy of the questions you are asking with respect to the terms of reference of the Bank of Canada annual report. I do not think anybody here wishes to be technical and to say someone cannot ask a certain question, because there is not a certain word in the report. I think everyone here is interested in central banking and what it can accomplish, and its value, and things of that nature, but there may be many thing in these questions that are outside the field of banking.

Mr. BLACKMORE: There are, I promise you that.

The CHAIRMAN: That is a question for the committee to decide, not for you. I think Mr. Coyne should have a chance to read these questions, and then we should go back and ask them, question by question. The committee can decide in each case whether or not the question is relevant, whether Mr. Coyne needs to answer, and whether there are other questions in respect of each question to which we want an answer. I think that is the only fair

way. Otherwise, it would be bound to become a monologue, and almost a lecture. I do not think that is the purpose of the committee under its terms of reference. If that is agreeable to the committee, I would recommend that that be done.

Mr. BLACKMORE: May I say a word to the committee before you make that recommendation? I do not wish to be an annoyance to the committee but I should like to do a good job. Mr. Macdonnell asked Mr. Coyne in regard to the Finance Act of 1914, and Mr. Coyne said he had not time to acquire the familiarity with that act which would enable him to answer Mr. Macdonnell as he would like. He did not use those words, but that was the meaning. It seems to me that we ourselves ought to go into the Finance Act of 1914, and the act of 1923—and certainly that has to do with the Bank of Canada—because the Bank of Canada replaces the situation under the acts of 1914 and 1923. I do not think you can make it out any other way, but I may be all wrong.

The CHAIRMAN: It is just possible.

Mr. BLACKMORE: It is just possible. That is the case for many of these questions, as I assert that these questions have a positive bearing on the Finance Acts of 1914 and 1923, on the report given by the Royal Commission on Banking and Currency for Canada, 1933, which is the report on which the founding of the Bank of Canada was based. The next thing which I think it is important to bear in mind is that in the report which Mr. Coyne issued—and it is a good report—he tells us in effect that the banks have reached an agreement under which the chartered banks will maintain a 15% liquid reserve. Now, the justification for that should be probed, it seems to me. Certainly we should inquire into what the Governor has told us, as to how and why they have raised the bank discount rate of the Bank of Canada. It seems to me, if I understand and appreciate that, that the brief requires more study than anything we have done thus far.

Mr. BENIDICKSON: I understand Mr. Blackmore has intimated to the committee that he wanted to pursue matters of this kind, and if they seem to be related to the report of the governor it would likely take two or three meetings of the committee. I would look forward to these discussions and think they would be profitable, but still that does not get away from the procedure we must follow in committee to deal with this type of matter in a reasonable way. I still think we have to deal with questions seriatim, whether we make a start this morning on question 1, and put it to the witness, or whether the committee may feel they would prefer Mr. Coyne to take the questions away and that we should have another sitting on them. I sympathize with Mr. Blackmore's desire to present these questions in an unusual way, because of some personal obligation he has in the near future. I hope he will cancel that obligation, because I think everyone will recognize that as questions are presented to a witness it is frequently necessary for the witness to say to the questioner: "What do you mean by your words so and so?" I think it would be impossible for Mr. Coyne to answer some of these questions without having Mr. Blackmore here to interpret the words he uses in his questions.

Mr. BLACKMORE: I greatly appreciate all that, and if you will bear with me I will say one word more. Mr. Coyne said, according to my note, that he would be glad to answer any questions or participate in any discussion. I thought that a most co-operative attitude on Mr. Coyne's part, and I commend him for it. I think that certainly opens the ground for all the discussion which will arise as a result of the asking of these questions. I may say these questions are all my own: they are not a set someone sent me to ask; they are my own, and I propose to follow them.

The CHAIRMAN: I think Mr. Coyne's statement must be taken with some limitations. He is not proposing to discuss questions of geography or mathematics, only those in connection with the Bank of Canada.

Mr. BLACKMORE: We will not be asking anything like that; it will be all financial.

The WITNESS: I must put in a bit of a disclaimer. I hope I always will be forthcoming and co-operative with the committee, but I can only talk out of my own experience, and particularly with reference to the Bank of Canada, and how it has operated in the last few years. Indeed, it is only the operations of the bank in the last year—or two years, because the report covers a little more in fact—that I understand is before the committee. I told the committee the other day that I could not answer questions about the Finance Act of 1914, because I know very little about it and really I do not think it is part of my business to go and study it. I have got plenty on my plate right at the moment in connection with the affairs of 1956, and of central banking as it is carried on nowadays, in accordance with my ideas of central banking as I have acquired them. Therefore, I am afraid there would be a good deal of these background questions and theoretical questions with which I just would not be competent to deal. I take it that parliament settled this question of the Finance Act away back in 1935 when it set up the Bank of Canada, and I would not want to have to get into a long study of that question myself.

Mr. BLACKMORE: I think the Bank of Canada is on trial. I am not saying that Mr. Coyne has not administered the Bank of Canada with all the skill and sincerity that a man should exercise, and I am quite sure he has done so. But, at the same time, is it not about time to have a general review of the whole situation to see whether that bank is doing the job which it was set up to do and, if it is not, to suggest changes which are necessary in order to enable it to do the job; or to find out who is supposed to do the things which are beyond the purview of the Bank of Canada's responsibilities?

Now, I am entirely in your hands. I will put the questions in Mr. Coyne's hands to study, and in your hands, Mr. Chairman, and in the hands of the committee. I will be in New Brunswick in the next two weeks, and after that I will be available, if it is the desire or the will of the committee, or the indulgence of the committee, to put off further meetings on this report until I return. Then I will be happy to take up the matter again.

The CHAIRMAN: Mr. Blackmore, I do not think you, as a reasonable man, could expect the committee to put off meetings because you desire to go to New Brunswick. Let us be fair. If you wish to ask questions on these matters, I think you should be here at the committee meetings as they are called. If you are not prepared to be here, we can only deal with questions as they come up, and perhaps you would have a colleague here to deal with them.

Mr. CARRICK: I am opposed to that. I do not think it is a proper way for the committee to proceed. I think that if any member of this committee wants a question asked he should be here to ask it. I do not think it is a proper procedure, to prepare a list of questions, and then not to be here to put the questions; it leads to an impossible situation.

The CHAIRMAN: I must say it does not seem to me to be the proper way to conduct a committee, to have a set of questions submitted and not to have the member asking them here when they are answered. I have never before heard of such a thing. I am not saying it could not be done, but I feel that it is only common courtesy that, if you wish answers to questions, you should be here to explain them and ask them.

Mr. BLACKMORE: Then I will be prepared to start with question 1 and to go as far as I can today.

Mr. CARRICK: Why not put questions—whether he wants to put these or others?

Mr. FOLLWELL: That is what I suggested 15 minutes ago.

Mr. CARRICK: We will soon see whether the questions can be answered or not.

Mr. FAIREY: Before we start, have we not some unfinished business, the adopting of this report?

The CHAIRMAN: Our terms of reference do not instruct us to adopt the report.

Mr. FAIREY: We have concluded, we are finished with it?

The CHAIRMAN: No, we are not through with it by any means; and it is up to the committee to determine the relevancy of these questions in relation to the terms of reference. Are you prepared, Mr. Coyne, to start dealing with these questions, one by one?

The WITNESS: I will deal with questions asked of me, as well as I can.

The CHAIRMAN: Will you start, Mr. Blackmore?

Mr. BLACKMORE: Thank you very much. I appreciate the indulgence of the committee. This is the first question—perhaps I may recall that as regards the meaning of the words "need for more money", we roamed all round, back and forth, in previous committee meetings, and I am not sure that Mr. Coyne would have anything to say additional to what he said before—as to what is the actual meaning of the expression "need for more money"? I think from what Mr. Coyne said we are very much in the air as to the meaning of the statement. What do we mean by saying "the country needs more money"?

The CHAIRMAN: How about letting the witness answer?

Mr. BLACKMORE: Oh no. I just want to clarify it.

The WITNESS: That question was asked on a previous occasion, and I answered at some length; and I think I would like to let that answer rest.

By Mr. Blackmore:

Q. The reason why I find this so important can be illustrated by the example of a case where the wife goes away and has to leave the husband to bathe the baby. She tells him that when the room is "warm" enough, he is to bathe the baby, but she does not tell him the meaning of the word "warm". The husband is completely at a loss to know at what temperature he should start. It is very much the same way with the phrase "the need for more money". If the only person in the country who is qualified to tell by the feel of the atmosphere, or by some other means, perhaps, some occult or mystic sign, the need for more money is the Governor of the Bank of Canada, then it is next to impossible for any member of parliament to make an intelligent appraisal of Mr. Coyne's decision or action.—A. Is this a question?

Q. No, I am clarifying it. I go on to the next question:

> Would that expression mean that without more money in circulation there is a threatening danger of depression, that is, a fall of prices through having too few dollars chasing too many goods? That is, having what might be called over-production or being in a surplus supply position?

If the answer could be given there "yes" that would be something. Is that what you mean by the country "needing more money"?—A. I think the answer was included within the answer I gave on a previous occasion.

Q. Is that to be the meaning of "need more money"?—A. I think I should stand by what I have said already.

Q. We are under this difficulty—that there is no printed record yet of previous replies. Of course, it is just as difficult for me to remember what Mr. Coyne has said as it is for himself, and consequently we have nothing to guide us. As far as I can recall, Mr. Coyne did not answer that particular aspect of the question specifically. His answer did not give us a chance to know whether that would be one of the signs as to the country needing more money.—A. My answer mentioned quite a lot of signs. You will find it all in the record, I trust, but no doubt you made notes of your own as I answered your questions on previous occasions.

Q. I went through very carefully what Mr. Coyne said, because I had the transcript to examine, and he has checked it, but I do not wish to go into too many details. In the United States, when the great depression was on, certainly anyone would say they needed more money in circulation—just as we did here in Canada; we also needed more money in circulation, yet the minute anyone suggested putting more money into circulation in Canada certain people rose up to object.—A. That is not the kind of question I can answer. I can only deal with my own experience and the operations of the Bank of Canada during the period in which I have held a senior position there.

Mr. BLACKMORE: I was only introducing that as an illustration so that the people here could follow. In the United States, according to Professor Irving Fisher, in his "100 Per Cent Money," there were $23 billion in circulation at the time when the depression struck. By the time the depression got to its depth, $8 billion of that $23 billion had been taken out of circulation. Hon. C. H. Cahan said in 1933 in Toronto that in Canada during the depression $932 million had been withdrawn from circulation. That was the position we were in at the trough of the depression. Any one would say certainly that that money ought to go back into circulation, if the country was to become normal, but the main question was how to get that money back into circulation.

The CHAIRMAN: Mr. Blackmore, I think that at this point you are almost orating. Have you questions to ask. That is what the witness is here to answer, if he is able.

Mr. BLACKMORE: I want to know specifically—

Mr. BENIDICKSON: Mr. Chairman, I want to be helpful to Mr. Blackmore. He gave two instances which I think are irrelevant. He said some of his constituents felt adversely affected by certain operations of the bank within the past year. I assume that was based on either too much money in circulation or too little. If Mr. Blackmore could confine his questioning of the governor to a subject which is pretty closely related to that, and something not already answered, I think everyone on the committee would like to co-operate.

Mr. BLACKMORE: I appreciate that, but I presume I cannot have an answer to that particular question, which is, at the time in which we live now, one of the most important.

The CHAIRMAN: Which particular question?

Mr. BLACKMORE: Suppose there were to develop over-production, and we were to fall into a depression, what would the country need? Would not it need more money then? Then if it did so need, the question would be how to put that money into circulation.

The CHAIRMAN: Let us take them question by question.

Mr. BLACKMORE: I am doing that.

The CHAIRMAN: You are saying that if such and such is the answer, then things are so and so. Why not wait until you get the answer?

Mr. BLACKMORE: Would the answer not be to question 1-A and 1-B "Yes" to the question "Do we need more money?" Would not the answer be "Yes"?

The CHAIRMAN: I doubt very much whether we could get an unequivocal answer to question 1-A. It covers a broad field and surely requires many qualifications in any answer. It may be part of the truth, but it may be only one facet. I do not think economic laws are that simple—or everyone would understand them, and all economic problems would be solved.

Mr. BLACKMORE: We all appreciate they are not simple by any means, but if in a general way the question could be answered, with reservations, then in getting the answer we would be attaining something.

The CHAIRMAN: You have already asked this question and the witness has said he feels he answered it at the previous meeting and that he is prepared to stand by the previous answers.

Mr. BLACKMORE: Maybe the witness has his words from the previous meeting and would not mind repeating them.

The CHAIRMAN: I do not know whether he could repeat them verbatim. Probably he could give a summary.

Mr. BLACKMORE: He has a manuscript, has he not?

The WITNESS: I would have to read a good many pages, because there are long passages and quite a number of questions, all relating to the same matter. I do not know what further good it would do to read them out again at this meeting, any more than to have done it on the previous occasion. They would just go into another transcript a second time and we would not be any further ahead than we were.

Mr. BLACKMORE: Supposing we go to question 1-D and leave the others. Let us assume they have been covered in a very vague manner by the Governor of the Bank of Canada. I will not say he could have been, in his position, more specific.

The CHAIRMAN: I think it would be fair to the witness to say "What you believe to be vague".

Mr. BLACKMORE: That is my opinion.

The CHAIRMAN: I think you should make it your opinion rather than a definite statement, because it may not be others' opinion.

By Mr. Blackmore:

Q. I would be glad to make it my opinion, Mr. Chairman. Now, coming to 1-D, it is:

> Does the real meaning of "need for more money" actually happen to be the need of money-lenders in the money-market to keep money relatively scarce and relatively costly in point of interest rates so as to enable those money-lenders to loan their money profitably?

The governor of the bank, in dealing with his whole report, talked about the money market, and talked, I would say, with a great deal of tenderness and a good deal of appreciation of the needs of money-lenders. He said he would prefer, if I recall it, to have them lend the money rather than have the money come from certain other sources. That would give an indication that he was conscious of their particular needs and might be running the economy in their particular interest?—A. I can answer that very easily. I could almost get you to answer it yourself, because you do not believe it yourself, that I am trying to run the economy of the country in the interest of money-lenders. You do not believe that?

Q. No, no, I do not, but I am only—A. So the answer to 1-D is that I do not understand that phrase "need for more money" as having any such meaning as is implied in the question. I do not know what is meant by "money-lenders". Anything I have said about the operations of the money market has been based, not on the needs of persons who are in the business

of lending money, but on the valuable services they can perform. In my opinion, it is a useful function to have intermediaries who are able to assist in the steps by which people who save money are able to make it available in the end to people who need that money to carry on useful capital development. Since it is difficult for the individual saver to know just where to find the person with a worth-while project of that character, most individual savers entrust their money to banks, to trust companies, to loan companies, to insurance companies, to investment dealers and advisors and trustees, and so on, and those are the people who act as intermediaries. Although they have some money of their own invested in their particular enterprise, by far the greater part of their business is to receive money from others and see that it is put to a useful purpose in the hands of still another group of persons.

Mr. CARRICK: I notice that that question 1-D which has been put, is based upon question 1, which says:

> What is the actual meaning of the expression "The country needs more money" as that expression would normally be used by the Governor of the Bank of Canada.

In order to bring this question down to earth, should we not first know from Mr. Coyne whether he has made the statement that the country needs more money? If he has made that statement, then we can know what he means by that. If he has not made it, should we go on to deal with hypothetical questions based on statements which Mr. Coyne has not made?

The WITNESS: In my opening statement and perhaps in answering questions since then, I tried to explain the operations of the Bank of Canada and how the bank would at times exert its influence to expand money and credit and at other times might have to exert itself to restrain the supply of money or credit or restrain the rate of increase of money or credit. I may have used some general non-technical expression that if the country seemed to need more money our influence would be in a certain direction.

By Mr. Carrick:

Q. But you did not say there was need for more money now?—A. No. no. I said that under the conditions we have had in the last six to nine months it seemed appropriate to restrain the rate of increase in the money supply.

Mr. CARRICK: May I point out that question 1-D is completely misleading, because it assumes there is a need for money. It says:

"Does the real meaning of "need for more money"—It is completely misleading in that it assumes that there is a need for money now.

The CHAIRMAN: It is only fair, Mr. Blackmore, for me to make the comment that a lot of these questions seem to be, perhaps not intentionally, loaded, in that they are asking something that is based on a premise that may not be true at all.

Mr. BLACKMORE: In that case, may it not be the privilege of the Governor of the Bank of Canada to straighten me out in these matters?

The CHAIRMAN: I think that is what he is trying to do.

Mr. PHILPOTT: I do not think it is the function of this committee to take up time entering into a long and highly involved question to try to answer all the points raised by Mr. Blackmore in his nine-page brief. It seems to me that this particular type of argument he is trying to raise is exactly the same type of argument which was presented very competently by his own colleague, the Attorney General of Alberta, who appeared before the Banking and Commerce Committee two years ago on the occasion of the renewing of the charters of the banks and gave an official brief for the Social Credit organization at

that time. It seems to me quite out of order, and the only way possible to get an answer to the questions presented by Mr. Blackmore would be for someone to undertake to read a brief in answer to his, point by point. It having been presented in manuscript form it never could be answered in the proper way, because it is all based on an hypothesis in the first line which is the hypothesis of Mr. Blackmore and has nothing to do with the committee.

Mr. BLACKMORE: I submit that Mr. Philpott is not fair, because this is not a brief. I prepared these questions, as I said at the beginning, so that hon. members might be able to have the questions before them, reading them and understanding exactly what is there. To say I was writing a brief is, I think, not quite worthy of the hon. member, Mr. Philpott. Naturally these questions probe for information, and very valuable information, and they are all related. There is nothing of the kind he mentioned, the writing of a brief.

Mr. HOLLINGWORTH: My objection to that question is that it implies the governor of the bank used the words "we need more money." I would ask Mr. Blackmore if those are not his own words? Has he any quotation? Is he saying the Governor of the Bank of Canada said the other day that we need more money?

Mr. BLACKMORE: He used the words in just the way he said here in his talk.

Mr. HOLLINGWORTH: I submit those words are, unintentionally, misleading.

Mr. BLACKMORE: He said "we had to determine, as the Bank of Canada, when the country needs more money". Surely the expression "needs more money" is vitally important.

The CHAIRMAN: I do not mean to interrupt, but I would point out that in question 2 Mr. Blackmore says:

> Bearing in mind the two aforementioned evidences of needs of business to have in circulation more money...

I do not think you have proven at this point that there are evidences of needs of business to have in circulation more money. What Mr. Coyne says is that he was trying to stop, or rather retard, the rather rapid expansion. I think you are basing the question on things which have nothing to do with the evidence of Mr. Coyne.

Mr. BLACKMORE: I submit, in all deference, that Mr. Coyne did say things which would justify this question. I will not put words in his mouth and, speaking entirely from memory, did he not express approval in a general way, at least by implication, of the fact that there had been so much borrowing, in the case of something like $2½ billion borrowed by people to consume things, to buy cars and other things?

The WITNESS: No, sir. I said I would not wish to say anything adverse to the use of consumer credit in general but that, like anything else, it could at times go to extremes. That is what I said.

The CHAIRMAN: It is one o'clock now and, as chairman, I have to rule that at our next meeting unless you have a colleague attend and ask your questions, if you are not here, Mr. Blackmore, we are not going to put them.

Mr. BLACKMORE: I am not asking you to put them. I appreciate very much the attitude of the committee. I aim simply at the truth.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 12

The Report of the Bank of Canada for the year ended December 31, 1956
Including Eighth Report to the House

TUESDAY, JUNE 12, 1956

WITNESS:

Mr. J. E. Coyne, Governor, Bank of Canada

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

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ON

BANKING AND COMMERCE

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Stewart (*Winnipeg North*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

CORRECTIONS

Minutes of Proceedings and Evidence No. 9—May 15, 1956

Page 349, line 6: The word "item" should read "time".
Page 349, line 17: Insert after the words "the general public" the word "or".
Page 357, line 21: The word "factor" should read "feature".
Page 363, line 16: The word "deduction" should read "reduction".

Minutes of Proceedings and Evidence No. 10—May 22, 1956

Page 381, line 23: Insert the word "After" before the words "the government".
Page 383, line 38: The word "persuasive" should read "pervasive".
Page 385, line 34: The word "affect" should read "offset".

REPORT OF THE HOUSE

WEDNESDAY, June 13, 1956

The Standing Committee on Banking and Commerce begs leave to present the following as its

EIGHTH REPORT

On May 4, 1956, the House referred to the Committee the report of the Bank of Canada for the year ended December 31, 1955, tabled Thursday, March 1, 1956.

Your Committee held four sittings on that reference, during which it heard Mr. J. E. Coyne, Governor, Bank of Canada. During its deliberations your Committee heard a statement from Mr. Coyne on the said report and elicited information from Mr. Coyne on the following matters, namely:

(*a*) Recent changes in the Bank Rate.
(*b*) Various aspects of the operation and effects of monetary policy.
(*c*) The principles, techniques and practices of central banking.

Your Committee records its appreciation of the assistance and information which it has received from Mr. Coyne during its deliberations.

A copy of the Minutes of Proceedings and Evidence of the Committee relating to the said report of the Bank of Canada is appended hereto.

John W. G. Hunter,
Chairman.

75493—2

MINUTES OF PROCEEDINGS

TUESDAY, June 12, 1956.

The Standing Committee on Banking and Commerce met at 11:15 a.m. this day. The Chairman, Mr. John W. G. Hunter, presided.

Members present: Messrs. Ashbourne, Benidickson, Cameron (*Nanaimo*), Carrick, Deslieres, Fleming, Fraser (*St. John's East*), Gour (*Russell*), Huffman, Hunter, Macnaughton, Michener, Monteith, Pallett, Philpott, Quelch, Richardson, Viau, White (*Waterloo South*).

In attendance: Mr. J. E. Coyne, Governor, and Mr. R. W. Lawson, Deputy Chief, Research Department, both of the Bank of Canada.

(*Note*: The Committee, in accordance with its Orders of The Day, first dealt with a Private Bill, in respect of which verbatim evidence was not recorded).

At 11:50 o'clock a.m. the Committee resumed its consideration of the Annual Report of the Bank of Canada for the year ended December 31, 1955.

Mr. Coyne was further questioned on the operations of the Bank of Canada.

The examination of the witness having been concluded, he was thanked and permitted to withdraw.

The Committee, *in camera*, considered a draft "Report to the House". The said draft Report was adopted without amendment.

On motion of Mr. Philpott, seconded by Mr. Macnaughton, the Chairman was instructed to present the said Report to the House.

Agreed: That the Committee's next order of business be the consideration of Bill No. 51, An Act to amend the Small Loans Act; and that the Committee meet again on June 19th, if possible, to consider the above-mentioned Bill.

At 12:45 o'clock p.m. the Committee adjourned until 11:00 o'clock a.m. Tuesday, June 19, 1956.

E. W. Innes,
Acting Clerk of the Committee.

75493—2½

EVIDENCE

JUNE 12, 1956.
11.00 A.M.

The CHAIRMAN: We are back to the consideration of the report of the Bank of Canada for the year ending December 31, 1955.

As far as I am concerned this meeting should complete the examination of this report, unless you have many more questions than I anticipate. In order that we have some regularity in the questioning perhaps you would be kind enough to let me know.

Mr. MICHENER: Mr. Chairman, I would like to ask Mr. Coyne a few questions about the relationship of the present interest rate policy with the supply of funds for housing and the government's housing program. I am not sure how much of this may have been covered, but I hope Mr. Coyne will indicate if I am covering ground that is already covered, because I have not been here during the entire proceedings.

The first question is a general one. What has been the effect of allowing the chartered banks to lend funds on government guaranteed housing mortgages with respect to the other business of the banks? What is their capacity to do the business they did exclusively before this new power was given to them?

Mr. J. E. Coyne, Governor, Bank of Canada, called:

The WITNESS: I do not know if anyone can say what the effect would be, or may have been, on their other business any more than you can say what the effect of one part of that other business is on any other part of that other business.

By Mr. Michener:

Q. Do you have a record of the volume and the amount of money that has been lent by the chartered banks under the amendment to the Central Mortgage and Housing Corporation Act of last year?—A. Yes, the amount outstanding as of the end of April in respect of insured mortgage loans made by the chartered banks was $361 million.

Q. Would it be fair to say that that $361 million, except for the change in the act, would have been available for the short-term credit business that the banks do otherwise?—A. No, I do not think you can say that. I do not see how you can arrive at any conclusion on that matter. The banks have various opportunities to make loans and invest their depositors' money. They have a growing volume of savings deposits, at any rate from year to year. Their total volume of deposits is subject to influence by central bank action, among other factors, and it may rise or it may fall. I myself would not think you could say that any one aspect of investment by the banks comes out of money that would otherwise be available for some other field.

Q. But it strikes me that this is entirely new business as far as the chartered banks are concerned. They have not lent this type of money before,

and here we have $361 million tied up in term loans of a number of years. I would think that, other things being equal, the amount of money available for the ordinary commercial credit business of the banks would be reduced by that amount.—A. I do not think you can follow that through. If they had not had this particular field of lending to do, maybe they would not have had as much money at their disposal to make loans with.

Q. In other words their capacity to lend may be larger by reason of their doing this business?—A. It might be.

Q. Can you explain how that might be?—A. No, I could not follow it through for you from point to point. But, I find that in this field it is very difficult to say what would have happened, other things being equal, because if one thing changed, I do not think you can assume that other things would be equal.

Q. Can you tell me the proportion of the banks available funds which this $361 million represents?—A. Yes.

Q. The proportion of their loans as at that time?—A. In the first place it is about 3 per cent of their total assets.

Q. Yes. Now, on that same aspect of money lending, have the banks developed any means of passing on these guaranteed mortgage loans to other holders?—A. To a limited extent, yes. They have in fact sold some of these insured mortgages to other holders. A good example of that would be the pension funds with money to invest. This is a feature that was made possible by an amendment to the National Housing Act in 1954. It brought in these insured mortgages and made it possible for banks to lend money in that way. It was also provided that as long as the bank, or whoever was the approved lender, continued to service the mortgage, collect the installments and so on, the ownership of the mortgage could be passed on to anybody, whether he himself were an approved lender in the first place or not. I think there is room for a great deal more development along that line, and I hope to see it come about before too long. I think progress is being made from time to time.

Q. One other question on a little different aspect of this same matter. Has the restrictive policy of the Bank of Canada that has developed through the rising interest rates in the last year had any appreciable effect on operations under the housing act, and has it had a restrictive effect on the operations under the housing act. I think that I might bring to your attention a complaint which I have received by telegram. I will read this to you before you answer the question, and you might deal with them both together. This telegram is from the Toronto Metropolitan Home Builders' Association. It bears yesterday's date and is addressed to me. I daresay it was sent to other members as well.

The CHAIRMAN: I can assure you it was.

Mr. MICHENER: It reads:

> Desperate situation confronting house building industry through lack of mortgage funds. Tight money policy strangling National Housing Act and throwing builders into idleness. House building is biggest Canadian industry and forced inactivity constitute a major threat to overall prosperity. Affects thousands in related industries supplying materials, equipment and furnishings as well as on site labour. Demand for houses still strong and reduction of supply will force prices still higher. Immediate government action urgently needed to end apparent cross purpose policies of Bank of Canada and Central Mortgage and Housing Corporation.

It is that last part that I would appreciate Mr. Coyne dealing with.

The WITNESS: You started your question, Mr. Michener, by asking whether the restrictive action by the Bank of Canada in raising the interest rates had had a restrictive effect on money available for housing. Although I have said this before, I think I should say it again; I would not understand by the word "restrictive", the kind of policy which the Bank of Canada has followed up to date. There has not been a restriction of credit in the sense of reducing the total amount of credit, or of money for that matter, available. It has gone on increasing. There has not been action initiated by the Bank of Canada to raise interest rates beyond what they otherwise would have been. What has happened, as I see it, is a very rapid increase in the latter part of last year and the early part of this year, in the demand for credit. That demand has been met in part, but was not met fully at the existing level of interest rates. The pressure of that demand and the competition amongst borrowers and would-be borrowers has caused interest rates to rise. The Bank of Canada, it is true, could have prevented that rise in interest rates by creating an unlimited quantity of money, or all that was demanded at a fixed level of interest rates. But, without going into that argument, I will assume for the moment that nobody thinks we should have done that. We did in fact allow some increase in the supply of money by allowing some over-all increase in bank assets. We raised our own interest rate, that is the bank rate, because otherwise it would have been the cheapest interest rate on the market, and everybody wanting money would have been coming through the appropriate machinery to the Bank of Canada for additional supplies of money at that cheapest fixed interest rate. That would have frustrated the general policy we were pursuing in providing some increase, but only a limited increase at any given level of interest rate. So, as other interest rates rose, as this demand for money continued to grow, we raised our interest rates from time to time also.

By Mr. Michener:

Q. Was that the sequence? Was it not rather the other way around? —A. No, sir, that was the sequence. It may well be true,—and it is usually though not necessarily true—that a rise in the bank rate is followed by some still further movement of market rates in the same direction as the rise in the bank rate. It does not always happen. There can be differences of opinion as to the timing of rises in the bank rate, as to how far it should be permitted to get out of line with treasury bill rates, or some other short-term interest rate on the market. I would not want to say there was a fixed relationship, or that there should be a fixed relationship, but certainly the public would conclude from the act of the central bank in raising the bank rate that the central bank must have formed the opinion that the demand for money was greater than could prudently be provided in full, confirming, in a sense, the movement of interest rates in the market.

Now, if at a time when not only is there a rapid physical growth going on, as fast as the country can accommodate, there is still further growth in the demand for money, excessive growth, competition for that money will not only cause a rise in the interest rates, but will also mean that some would be borrowers do not get all they want. This can also happen at a time when there is not any over-all surplus of demand, but simply a change in the situation and a charge in the views of lenders as to the fields of investment in which they feel it best to make money available in large quantities. You

might have very easily, therefore, a change in the supply of money available for housing, just as you most certainly do have changes from time to time in the demands for money for housing. I do not think that you can attribute a change in the supply of money in any one industry whether it be housing, textile production, newsprint, or anything else you can think of, to any specific overall action of the central bank.

Q. I am concerned about housing alone in this question and it seems to me that the banks as one source of money for housing building under the Housing Act has definitely reversed their policies in the last while, and what I am trying to discover is whether there is any relationship between that action and action taken by the central bank?—A. If we made unlimited quantities of money available, then the banks would have great difficulty in providing sufficient outlets for it, and we would have inflation in this country.

Q. If the bank discount rate had not been raised the last half per cent? —A. Yes.

Q. You would expect the banks to be drawing more on the central bank and to have more money available for all their purposes including guaranteed building loans?—A. That is right. If we had kept the bank rate down instead of making the last quarter per cent move in April, then you would have to provide sufficient increases for the cash reserves of the banking system, more money, so that all interest rates would be lower than they are now.

Q. But you raised the rate for some other purpose?—A. We raised the rate because we followed the policy of exercising some limit on the increase in the money supply.

Q. The indirect effect of that, or the undesirable effect of that, was to restrict to some extent or to limit to some extent the amount of money available for housing loans?—A. I do not know if it had that effect or not; but it is a fact that in respect of the chartered banks' activities in the field of mortgage lending, some of them quite clearly decided that they are going to lend less money this year than they did last year, but that is not true of all of them.

Q. No; it varies with some of them.—A. I can think of at least one bank which is lending more money this year than it lent last year. Some of them are continuing to lend to private home owners, to people who want to build a new house, but they are rather less anxious to make loans to builders for large speculative projects, for unsold houses. If a builder has a project for which he has a buyer in advance, that no doubt qualifies him for an owner loan, and he would be able to get finances from the banks. And it may well turn out to be the case that the banks as a whole will make a smaller quantity in loans this year than last year. I do not know what the position will be when the year is over.

As far as the total mortgage market is concerned, the amount of money being put up is still running at a fair rate, influenced by various things, including the interest rates available on other kinds of loans. The banks are of course only one element in the total supply of mortgage money. The life insurance companies, if anything, are lending more money this year than last year for mortgages of all kinds.

Q. On account of the higher rate?—A. I do not know why, but they are active lenders on housing mortgages this year. Each year the life insurance companies have more money at their disposal to lend; and outside the field of the National Housing Act there may well be a revival of interest on the part of these and other lenders in the field of conventional mortgages.

Q. So that looking at the broad field of credit available for housing, it is your conclusion that the policy followed by the Bank of Canada is not likely to curtail the amount of house building?—A. No, I cannot say that. I do not know what, in fact, will happen, what will be the exact division among the borrowers, among all industry, of funds that are available from all sources in the course of the year. I do not think that the policy of the central bank should be directed towards any particular allocation of financial resources. I think that it is the obligation of the central bank to confine its activities to the over-all situation.

Q. So if a curtailment of housing were the necessary consequence of the policy followed by the bank, your position would be that the bank policy has to be concerned with the development of the whole economic situation?—A. If curtailment of house building came about from any cause whatever it would be a matter of concern to the building industry and perhaps to other authorities; but it would not be something affecting the central bank, or over which it could exercise any direct influence.

Q. According to the minister's statement in the house it is anticipated that housing and construction will proceed at the very high rate which was obtained last year; but this communication from people in the business would indicate that it is not taking place, and that the lack of credit for that kind of building is the problem.—A. That may be the case.

By Mr. Quelch:

Q. Before hearing that question, and with respect to the discussion we had on the agreement between the Bank of Canada and the chartered banks to limit term loans, has this agreement had a tendency to curtail loans for buildings?—A. No, I do not think so. If I could agree that making more money available in one area necessarily makes less in another—to which I do not agree—then I would say that the restriction on term loans to industry would make more money available for housing and for other purposes, but I would not want to make that connection.

Q. The policy of the Bank of Canada will influence foreign investments, will it not, to some degree? I was wondering; what you consider to be the desirable level of foreign investments in Canada? What yardstick do you use in considering whether foreign investment should be increased or decreased. You must have some yardstick you can judge it by.—A. Not directly; we do not say that increasing or decreasing foreign investments is our business. If we find that the demand for money in Canada is greater than the savings that the Canadian community can provide, then interest rates will undoubtedly rise in Canada and that will tend to attract foreign money, and to encourage Canadians to go abroad to borrow money, and it will tend to encourage foreigners to take the initiative in looking for investments in Canada, or increasing investments which they already have here. But I do not think that the central bank considers it within its sphere of operations to encourage or discourage foreign investment as such. What we want to encourage under our statute is the maintenance of the health of the overall economy, the maximum rate of economic growth that can be sustained without inflation or periods of recession. That is the direction in which we are working now, and we do everything we can to bring it about.

Q. On the other hand, you can and you do influence the interest rate; and if the interest rate rises there is a tendency to have more foreign investment in Canada?—A. We could prevent a rise in interest rates by increasing

the supply of money in Canada and this could lead us into domestic inflation in Canada, a rise in imports, a falling off in exports, and a depreciation of the Canadian dollar. These things might encourage or discourage foreign investments; I do not know just how it would work out.

Q. Having that point in mind, when the interest rate rises and there is an increase in foreign investments, the premium on the Canadian dollar goes up, it makes it much harder for an exporter to compete with other countries.—A. The fact that there is a very strong demand for goods as well as money in Canada means that you have rising imports. You also have rising interest rates and an inflow of money from abroad, and the money flowing in is used to pay for these rising imports. This is what has been happening. The movement in the interest rate has been gradual, and I do not know whether it will continue or not.

Q. Foreign investments in Canada to a large extent are a counterpart of your imbalance of trade, is it not true?—A. Yes.

Q. We hear a lot about it. —A. It is not true in all countries, however. Some countries have an imbalance of trade which is not matched by foreign investment, and they have to use their own reserves or other foreign assets in order to continue to pay for those imports.

Q. We hear a lot of talk about non-residential control in Canada and in the Canadian international investment position. In 1954 non-residential control of industry was—in manufacturing, 47 per cent; in mining 75 per cent; and so on. Does that not give you some concern?—A. It does not offer any field in which I can take monetary action to have any influence on that situation.

Q. In regard to agriculture it has been often said that we have an agricultural depression in the midst of an industrial boom which I think to a certain extent is true, at least in regard to the wheat farmer. We have in recent years lost agricultural markets in Europe and at the present time we are largely using our favourable balance of trade in Europe for the purpose of financing our deficit with the United States; that has made it much harder to sell agricultural products in Europe. Instead of making dollars available to Europe with which to buy agricultural goods, we have used those dollars to pay our deficits with the United States.—A. I do not think the supply of dollars in European hands has been any impediment to their buying agricultural goods from Canada, at any rate in recent years. I say that on two grounds: first, they are buying agricultural goods from Canada in considerable volume, and secondly, their supply of dollars has been rising for several years with one or two exceptions.

Q. Mr. Towers always said that; but on the other hand, we are continually having British officials come over here and say that if Canada would buy more from Britain, then Britain would buy more from us.

Mr. James S. Duncan, president of Massey-Harris-Ferguson Limited, and chairman of the Dollar-Sterling Trade Council had this to say:

> Basically the reason our exports to the United Kingdom have not grown is that Britain's ability to purchase from us has been limited by her dollar shortage. Since the end of the war, Britain has been unable to earn a sufficient amount of dollars, directly or indirectly, to pay for

imports from dollar countries up to the limit of her domestic demand. Therefore she has applied various import prohibitions quotas and other restrictions on dollar imports in order to maintain external solvency. While many of these restrictions, especially on primary products, have been removed as the sterling dollar situation has improved, we are very far, even ten years after the war, from having free access to the British market or other sterling markets.

It is important to recognize that British restrictions on imports from Canada have arisen from the limitations on Britain's dollar resources and not from any desire to discriminate against Canadian goods.

And he points out that there are many British goods which we need in this country that we could purchase from Britain.—A. I am very surprised that Canadian businessmen and consumers are not purchasing these goods, if they are available at reasonable prices, and I am surprised that the British producers of those goods are not pushing their sales actively in Canada. I think you will find that in general there has been full employment in all of western Europe for years, and in fact that they have had a certain amount of inflation in most of those countries. Their domestic consumption has gone up a great deal and their exports have tended to go to soft currency countries who were also suffering from domestic inflation and were willing to pay almost any price for goods from Europe. To a very large extent it is because of these conditions that European exports to North America, and particularly to Canada, have not grown as people would like to see them grow.

There is a difference between the sale of goods in Canada and the sale of goods in the United States. To get into the United States they have to surmount the American tariffs which makes it very difficult for them to compete with American goods in the United States. In connection with Canada it is true they encounter the Canadian tariff and to that extent they are handicapped in selling their goods in competition with Canadian goods, but they are not handicapped in competing with United States businessmen in selling their goods in Canada. In spite of this fact the sale of American goods in Canada has grown much faster than the sale of British and European goods in Canada.

By Mr. Cameron (Nanaimo):

Q. That would be accounted for by the fact that a great many of our distributing firms in Canada are connected with American firms.—A. That could account for it, and there is also a psychological reason in that people get used to a certain type of goods, and that means there is a selling job to be done before they will try something different.

By Mr. Quelch:

Q. We used to look upon our tourist trade as a source of dollars, but today it seems to be working the other way and we are losing dollars on it; in other words, Canadians who go to the United States spend more money on goods there than do the Americans who come to Canada. The Americans tend to spend more money on hotels and food. Is not the reason that our price level is higher than that of the United States?—A. I think the main reason for it is that they are more of a develop country, a manufacturing country, while we are more of a primary industry country, including secondary industries which are only one stage removed from primary, such as the production of pulp and paper, the production of metals but not the fabrication of those metals, and so on. Thus Canadians buy many manufactured goods from abroad, either when travelling abroad or when staying at home in Canada.

Q. I have been told by people who sell to the tourist trade that up until quite recently we had a good sale for English china and woollens to Americans, but that is no longer true because today Americans are able to buy British china and woollens in the United States cheaper than they can buy them here. —A. I have not heard that. It used to be the other way around because in the United States they had to pay the American tariff but if they came to Canada, the tourist could take back a certain amount of goods without having to pay the American tariff, and the fact that the Canadian tariff was lower than the American tariff.

Q. If we could cut down on the sales tax, would it not help?—A. If we could find a way in which goods could come in from abroad and then be re-exported and would not have to pay the sales tax, that would help, such as having goods from abroad go into a customs warehouse in bond to be sent out again.

Mr. CAMERON *(Nanaimo)*: They do that in Britain I believe. If you purchase goods in British which are to be shipped abroad, you do not have to pay the purchase tax if they are to be taken out of the country.

The WITNESS: But in the case of our own products, the sales tax applies at an earlier stage.

The CHAIRMAN: Are you through, Mr. Quelch?

Mr. QUELCH: Yes.

By Mr. Monteith:

Q. Mr. Coyne said that if they had allowed all the money that was desired, we would have roaring inflation. Could I ask him this question: who makes the decision as to how much money is allowed? Is it you or the board, or is it done by consultation with the Department of Finance, or how is the decision made as to when there is sufficient?—A. As I explained in earlier sessions of this committee in every operation where we undertake to buy and sell bonds or treasury bills in the market we have an influence one way or the other on the money supply. We have to be governed by many considerations from day to day as to how we operate. You cannot arrive at some abstract formula or mathematical formula to suggest how much money there should be in any given situation with any particular definition of money. We have to take into account the general state of the economy, whether there is unemployment or relatively full employment, or whether things seem to be expanding or contracting, and what is happening in the foreign exchange market in so far as that is a symptom of the general state of the economy. We also have to take very much into account the supply and demand for credit as we see it reflected in the market in the operations which take place in all fields of finance, and the movements of interest rates. At some point when demand for money is growing under conditions of already full employment, people will find that they cannot borrow money elsewhere at existing rates of interest and those who have access to the central bank will see if they can borrow it from us. If they come to us for money it means that they are coming to us as a place of last resort and cannot get it elsewhere, but they can get it elsewhere if there is a rise in interest rates. An increase in the supply of bank cash, cash reserves in the chartered banks, may or may not be necessary in order that the availability of money may be increased because there may be

large quantities of deposits in a very inactive condition which would be rendered active if the owners of those deposits can be induced to lend them, as they will be if interest rates rise. The kind of decisions which we have to make vary with the circumstances, and they really have to be taken every day although the attitudes which we have do not vary quite as frequently as that. These matters do come up for discussion at our board meetings, but our board only meets four or five times a year and would not normally expect to be in a position to deal with the intricacies of daily operations of monetary policy. Under the statute the governor is the man who really has to accept full responsibility. He is described as the chief executive officer, and is responsible for the management of the bank except in so far as matters are reserved to the board of directors. I have of course very highly qualified assistance without whom I could not operate.

Q. I was wondering if there was continuous or periodic consultation with the Department of Finance in some of these decisions at which you arrive?—A. Yes, consultation and discussion, certainly. The Deputy Minister of Finance is a member of the board of directors and a member of the executive committee which meets once a week although he does not have a vote. That provision was put in the statute to emphasize that the responsibility is on the bank itself for what it does within its proper sphere of operations. Both in our own technical sphere and in considering all manner of economic questions, the officers of the bank are in close touch with the officers of the Department of Finance at very frequent intervals. We try to keep ourselves as fully informed as we can. No amount of consultation, discussion, and exchange of views, alters the fact that the bank is responsible for what it does in the fields where the statute says it is responsible.

Q. I can appreciate that but did you consult with the Department of Finance before this recent increase of half a per cent in the discount rate?—A. I am not quite sure that consultation is the right word, but if it is I did consult with the Department of Finance on all occasions when the bank rate was to be changed. Occasions may arise when there may not be time, when immediate action has to be taken, and when easy consultation with the Department of Finance would mean consultation with the deputy minister or somebody else in the department other than the minister of finance.

Q. You mentioned a moment ago about investments. The statistics suggest that if the percentage of cash reserves is greater, then there is less money to loan. Is that correct?—A. Any individual bank making a loan knows that it is going to lose cash when that loan is spent by the borrower.

Q. Would you say that again?—A. Any individual bank considering whether to make a loan knows that it is going to lose cash. It knows that it is going to lose cash. It knows that it is going to have cash withdrawn from it when that money is spent because the borrower will spend it in various places. A few of the people who receive the money may bank with the lending bank but the majority will bank with other banks and that will cause the deposits of the lending bank to decline. As far as any individual bank is concerned, its lending power is determined by the state of its cash at any given moment. But, within its total, it can reduce one loan and increase another. It can sell government bonds and make a loan or it can sell some other investment which it has and make a loan.

Q. As I understand it, the statute had called for a rate of 5 per cent reserve.—A. Before 1954, yes.

Q. And it was raised to 8 at that time?—A. Yes.

Q. In actual practice it was usual for the banks to have around 10 per cent.—A. They had to have by statute 5 per cent every day—not to go below it.

That 5 per cent was frozen and could never be used. In practice they kept a further 5 per cent which was available and in the average it worked out at 10 per cent over-all. The change in the act was to say that there will not be an absolute minimum any more but instead an average minimum which will be 8 per cent. That 8 per cent applies to the average of all the banking days in the month and a bank could, theoretically, allow its cash to go to zero for a few days in a month but in practice it would never do that. I do not think that any bank has gone below 6 per cent. For all the days of the month the average must be not less than 8 per cent.

By Mr. Quelch:

Q. That made it possible for them to expand their loans?—A. Yes. They found they had more cash under the old system than was needed under the new system and they chose to invest it. Different banks operated differently.

Q. Was that largely the basis for the financing under the National Housing Act?—A. I would not say that. It played its part in the total expansion of bank loans and investments of all kinds that went on from July of 1954 to June of 1955 or a little later.

Q. At that time I think Mr. Atkinson suggested that it might be impossible for banks to loan very much on housing; but apparently they did not have any great difficulty.—A. It came at a time when other opportunities for loans were not very great. There was a very great demand for housing loans and apparently they found it possible to go in for them on quite a large scale.

By Mr. Monteith:

Q. Since 1954 that average of 10 per cent has been more or less an adopted figure? Following the 1954 revision of the Bank Act that 10 per cent average has been the average?—A. No, 8 per cent.

Q. 8 per cent was required.—A. After the change in the act, over a period of about 12 months banks brought their cash reserve ratio down to close to 8 per cent from the previous level of 10 per cent or more. Some banks got there very quickly and others took a longer time to reach it.

Q. As of last autumn, was there another change in the rate—not according to the act but according to practice?—A. No. This was something which we went into at some length earlier.

Q. I am sorry. I will check on the previous evidence.

By Mr. Michener:

Q. Looking at page 14 of the report, I suppose the item which represents the housing loans is construction $278 million?—A. No. Those are bank loans to contractors which are going on right now in the ordinary way.

Q. Where do the ones for housing appear?—A. They do not appear there in that table at all but on another table, Mr. Michener, on page 6 where all kinds of bank assets are set forth. You will find that all insured mortgages at the end of 1954 amounted to $74 million, and it shows the increase every quarter until there was $294 million outstanding at the end of 1955. As I said earlier, there was $361 million outstanding at the end of April of 1956.

Q. Does the Bank of Canada exercise any supervision over the chartered banks with respect to the proportion of the funds they have in the different categories?—A. No.

Q. Or even make suggestions from time to time?—A. No.

Q. It is a matter of their own concern?—A. With the exception of the matter of term loans in large amounts which was dealt with in my annual report.

By Mr. Pallett:

Q. It has come to my attention recently that the municipal corporations have been able to find a more satisfactory market for their bonds in the United States than here at a lower rate of interest. Is there any explanation for that?—A. Yes. It is that in Canada they are part of an environment in which a great many people want to borrow money and interest rates here are higher than in the United States. In the latter part of 1955 and the early part of 1956 more and more Canadian debtors were seeing whether they could borrow in the United States or in some other country and there has been some of that done by municipalities. It is a question of the interest rate really. They have to decide whether the advantage in the interest rate outweighs the risk they take in taking on United States dollar obligations instead of Canadian dollar obligations.

Q. At the present time with the deficit trade balance, is there any risk that the gamble that they take may be fairly high?—A. There is always a risk. I do not think that I had better say anything more than that.

By Mr. Michener:

Q. This is quite unrelated. I notice the exchange rate dropped yesterday. It dropped $\frac{5}{16}$. At the same time the short-term movement in the exchange rate, like that one, is quite substantial. To what would you attribute that? —A. First of all, that degree of movement which you mentioned was spread over a period of some days. It is the inter-play of all the figures of supply and demand in a very large market. There is all the money coming in from exports and all the money being spent to pay for imports, and also, of course, very large capital movements. I think the rate has really been remarkably stable and that we have an effective market. There must be some very substantial capital movements, when you consider the adverse balance of trade with the United States and the demand for money on the part of Canadians, to put the Canadian dollar at a premium for the last few weeks. The capital movement in the last few months has been at least equal to or at times greater than the deficit in the trade balance. The deficit in the trade balance precedes a bit the demand for foreign funds because there may be a rise in imports in one month which may not have to be paid for for a few months.

Q. Our supply of gold and dollars has been depleted during the past year?—A. Not so much. It did go down last year while the Canadian dollar was depreciating and then there was the retirement of a Government of Canada U.S. pay issue in January of this year. But on the whole there has been very little fluctuation in our exchange reserves for the last three or four years.

Q. There has been an increase in the amount of gold held in the reserves? —A. No. I think the percentage held in gold is roughly the same as it has been for some time.

Q. I do not know whether anyone asked Mr. Coyne about gold?—A. There were some questions on that subject.

Q. I will not open it at this late date.

The CHAIRMAN: If there are no further questions we will now meet to consider our report.

I would like to thank Mr. Coyne very much for his courtesy in appearing here and clarity in the answers to the questions.

The committee proceeded to consider its report.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 13

Bill 51

An Act to amend the Small Loan Act

THURSDAY, JUNE 28, 1956

WITNESS:

Mr. K. R. MacGregor, Superintendent of Insurance

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

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Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, June 28, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day, Mr. John W. G. Hunter, the Chairman, presiding.

Members present: Messrs. Ashbourne, Bell, Benidickson, Cameron (*Nanaimo*), Carrick, Crestohl, Deslieres, Fairey, Fleming, Fraser (*St. John's East*), Fulton, Hanna, Hollingworth, Huffman, Hunter, Low, Michener, Monteith, Pallett, Rouleau, Thatcher and Weaver.

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance; and representatives of certain Small Loan Companies and interested organizations.

The Committee reverted to Bill 51, An Act to amend the Small Loans Act.

Mr. MacGregor was called; he read a statement on the Small Loans Act, copies of which were distributed to the Committee, and answered questions thereon. He tabled nine statistical tables which the Committee agreed be printed as Appendices "A" to "I" to this day's Minutes of Proceedings and Evidence.

The Committee agreed that, following the hearing of Mr. MacGregor, it would next hear Mr. F. P. Varcoe, Deputy Minister of Justice, on the constitutional aspects of the legislation, and, thereafter, hear representations from and ask questions of officials of interested companies and organizations.

At 1.00 o'clock p.m., the Committee adjourned until 11.00 o'clock a.m. on Tuesday, July 3, 1956.

Eric H. Jones,
Clerk of the Committee.

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EVIDENCE

Thursday,
JUNE 28, 1956
11 A.M.

The CHAIRMAN: Gentlemen, we have a quorum. We have under consideration today Bill 51, to amend the Small Loans Act. The first witness, proposed by the steering committee and approved by the committee, is Mr. K. R. MacGregor.

Mr. K. R. MacGregor, Superintendent of Insurance, called.

The CHAIRMAN: As you all know, Mr. MacGregor is Superintendent of Insurance and also has under his control the administration of the Small Loans Act and the loan companies registered under it.

The WITNESS: Mr. Chairman and hon. members: I thought that the best way I could assist the committee in studying the subject of small loans—at least at the outset—would be by giving a brief synopsis of the history of the Small Loans Act and of the experience under it since it was passed in 1939.

As a good many figures are involved I have therefore prepared some notes and some tables which the clerk has placed in your hands. If it is the wish of the committee I shall now proceed to outline the story.

Mr. FLEMING: Mr. Chairman, is it going to be feasible to put these tables on our record?

The CHAIRMAN: I think everything produced will go on the record. Gentlemen, I think we are going to have to adopt a different procedure here than we normally have. It is normal to allow a witness to complete his presentation and then to question him. But this is obviously going to be a very long presentation and I think it would be better for members to clear up any misunderstandings or doubts as we go along, provided that we stick to the question and not get off on a thousand byways. So if you have any questions to ask, you may ask them as we go along.

Mr. MICHENER: That will not prejudice our asking questions at the end, will it, Mr. Chairman?

The CHAIRMAN: No. That will not prejudice your asking questions at the end.

The WITNESS: The practice of money-lending on personal security is of such long standing that one might suppose that all problems and questions concerning it would have long since been settled. However, its social and economic aspects are so broad that complete settlement will probably never be reached. This practice, which had its origin centuries ago in simple and diverse ways, has now grown into a well-organized and well-established industry. But changing times bring changed conditions and the principal change recently has been the increasing number of borrowers seeking ever larger loans. At the same time, there has been an obvious reluctance on the part of lenders to reduce the scale of charges for the larger loans. The small loans business is, in fact, no longer small—it has become a multi-million dollar business with some lenders having branches spread across the country comparable in number with

the chartered banks and large chain stores. Experience has demonstrated that some persons must borrow sometimes, that other persons will borrow whether necessary or not, that other credit facilities have not been sufficiently broad to meet the borrowing desires of society, and that a regulated small loans industry is far preferable to unregulated lending on personal security.

It may not be necessary but it may nevertheless be of some value to review briefly the background of this particular kind of business in Canada before dealing with the present situation and the bill now before the committee.

In Canada, the earliest legislation relating to interest, usury and money-lending was the Act 17 Geo. III, 1777, Cap. III, being an Ordinance for ascertaining damages on protested Bills of Exchange and fixing the rate of interest in the province of Quebec. Section V of this act fixed the maximum rate at 6 per cent per annum for all contracts, the imposition of a higher rate resulting in voidance of the contract as well as other severe penalties.

A similar provision was included in an act passed in Upper Canada in 1811, 51 Geo. III, Cap. IX.

In 1853, both of the foregoing provisions were repealed by the Act 16 Vict. c. LXXX of the legislature of the former province of Canada. This act, although less severe in some respects, contained a provision that every contract

> shall be void so far, and so far only, as relates to any excess of interest thereby made payable above the rate of six pounds for the forbearance of one hundred pounds for a year, and the said rate of six per cent interest, or such lower rate of interest as may have been agreed upon, shall be allowed and recovered in all cases where it is the agreement of the parties that interest shall be paid.

A later act in 1858, 22 Vict. c. LXXXV, authorized the contracting parties to agree upon any rate of interest but fixed 6 per cent as the interest payable where no rate was stipulated by the parties or by the law. This was the origin of present sections 2 and 3 of the Interest Act.

By section 92 of the B.N.A. Act, the subject of interest was specifically allocated to the dominion. Several acts were consequently passed by parliament in 1873 (chapter 70, relating to interest in the provinces of Ontario and Quebec and chapter 71 relating to Nova Scotia), 1875 (chapter 18, relating to New Brunswick), 1880 (chapter 42, relating to interest on mortgages), and 1886 (chapter 44, relating to British Columbia), which, together with certain provisions of the acts of Prince Edward Island of 1869, were consolidated in chapter 127 of the Revised Statutes of 1886, an act respecting interest.

In 1897, a bill was introduced by Sir Oliver Mowat providing that where the rate of interest under any contract exceeded 8 per cent per annum the court should have discretion to declare the contract unenforceable. The bill was designed to prevent abuses such as a case cited where interest at 5 per cent per day had been provided for and judgment for recovery obtained. The bill was drastically revised in committee and emerged as chapter 8 of the statutes of 1897, which contains the originals of sections 4 and 5 of the present Interest Act, namely, a provision that only 5 per cent per annum can be recovered under a contract providing for interest at shorter intervals than yearly unless the contract expressly states the yearly equivalent of the periodical rate, and a provision for the recovery of any excess interest paid.

Up to this point, the legislation was not specifically framed for the protection of small borrowers on personal security and was inadequate for this purpose. Nevertheless it was known that unduly high rates were being charged on personal loans and the situation was generally unsatisfactory. At the session of parliament in 1899 Senator Dandurand introduced a bill entitled an act respecting usury, which fixed a limit of 20 per cent per annum on any

loan. In discussion in committee, the bill was amended to apply only to loans of $500 or less. Its application was also limited to loans by a "money lender", who was defined as one

> Who carries on the business of money lending or advertises or announces himself, or holds himself out in any way, as carrying on that business and makes a practice of lending money at a higher rate than ten per centum per annum, but does not include a pawn broker as such.

This definition may be regarded as the original of the definition of "money lender" in section 2 of the present Money-Lenders Act. This bill was not enacted in 1899 but was revived and passed, with certain amendments, as the Money-Lenders Act in 1906, the maximum of 20 per cent per annum being unfortunately replaced by the rather ambiguous and uncertain references to 12 per cent found in sections 6 and 7.

It might be interesting to observe here that the Money-Lenders Act in Great Britain came into existence in 1900 following intensive study in the immediately preceding years and the credit union movement on this continent also had its birth during this period. The first Caisse Populaire was founded by Alphonse Desjardins at Levis, Quebec, in 1900, partly because of the high interest rates then prevailing on small loans and partly because of the lack of facilities for obtaining them at any price. Mr. Desjardins was at one time a parliamentary reporter and his brother was for several years Deputy Minister of Public Works.

The Money-Lenders Act was conceived in good intentions but over the years proved to be quite ineffective. Its main defect lay in the fact that "interest" was not defined and could not be held to include ancillary expenses, especially in view of the conflicting references to 12 per cent for interest alone in section 6 and to 12 per cent for both interest and expenses in section 7. Other reasons for its ineffectiveness were that no licensing or supervision of money-lenders was required, no one was charged with the responsibility of enforcing its terms, and borrowers were reluctant to incur the publicity and expenses of taking remedial action themselves.

The result was that even though the Interest Act had been on the statute books in one form or another since before confederation and the Money-Lenders Act since 1906, the business of money-lending in Canada was for all practical purposes unregulated during the first quarter, or more, of the present century. Sporadic evidence of exorbitant charges began to appear more frequently and complaints multiplied. Much began to be heard of the "loan shark" in the daily press, magazines, moving pictures, etc. One or two dominion companies incorporated under the Companies Act were in the field but the great bulk of the business was carried on by provincially-incorporated companies, partnerships and individuals. Annual statements were not generally required to be published or filed; hence it was practically impossible to determine how many lenders were operating or the extent or nature of their operations.

Conditions in the personal loan field in the U.S.A. had likewise been unsatisfactory during the early part of this century but even before the first great war the Russell Sage Foundation had begun its work in an effort to find a solution to the problem of the necessitous borrower lacking the customary forms of security acceptable to banks, etc. The earliest attempts to solve the problem through loans made available by philanthropic agencies and the remedial loan societies proved inadequate and the conclusion was soon reached that the best solution would be by way of legislation specifically designed for this particular kind of business, legislation that would authorize adequate

charges to assure the necessary facilities yet be the fairest possible to borrowers. This conclusion led to the drafting of a model bill in 1916 that subsequently became known as the Uniform Small Loan Law, including the requirement that interest and charges should be expressed as an all-inclusive rate per month not exceeding a stipulated maximum percentage of the balance of the loan outstanding from time to time, provision for licensing and supervision of lenders by the state and for severe penalties for infractions of the law. This Uniform Law was enacted in substantially the same form, but with various maximum rates, by one state after another so that at the present time such laws are in force in nearly every state.

In Canada, it may be said that regulation began in a limited way in 1928 with the incorporation of the first so-called small loans company, the Central Finance Corporation (now the Household Finance Corporation of Canada), by a special act of parliament (chapter 77). This Act authorized the company to lend on personal security, subject to maximum charges as follows:

Interest—

(i) Loans up to $500, 6 per cent per annum in advance
(ii) Loans over $500, 7 per cent per annum in advance

Expenses—

(i) Loans up to $100, 1 per cent per annum in advance
(ii) Loans of $100 to $300, 1½ per cent per annum in advance
(iii) Loans over $300, 2 per cent per annum in advance

Since all of these charges could be deducted in advance, the actual nominal annual rate was about double the apparent rate, being roughly 14 per cent for a loan of $100 and 16 per cent for a loan of $500. As there was no general act in force at that time providing for supervision of companies of this kind, the Central Finance Corporation was made subject to the Loan Companies Act, with certain exceptions, and the power to take money from the public either on deposit or by the sale of debentures was withheld.

By Mr. Fleming:

Q. I should like to ask Mr. MacGregor about the figures at the bottom of page 5, indicating that the expense allowance increased with the size of the loan. What was the theory back of the increase in the percentage with the size of the loan? Our ideas usually go the other way, do they not?—A. I think that is quite right. The principle generally recognized today is that the relative burden of charges should decrease as the size of the loan increases. The theory must have been that it took more time and trouble to investigate the larger loans, but I cannot be sure.

Within the year following incorporation, the company claimed that it could not operate on the scale of charges in its act and in 1929 sought and obtained amendments authorizing charges of 7 per cent and 2 per cent in advance for interest and expenses, respectively, on all loans plus, in the case of a loan secured by a chattel mortgage, "an additional sum equal to the legal and other actual expenses disbursed by the company in connection with such loan but not exceeding the sum of ten dollars". Obviously, the allowance of $10 for chattel mortgages provided a very much larger percentage margin on the smaller loans and when the maximum permissible charges of all kinds were levied, the equivalent effective monthly rate varied from 5·71 per cent for a $50 loan repayable in twelve equal monthly instalments to 1·84 per cent for a similar $500 loan. This scale of charges is of special interest because it formed the basis of the general pattern followed by this and other similar companies for the next ten years, and also because it pointed up some of the difficulties of enforcing limitations expressed in this way.

In 1930, the second small loans company was incorporated by parliament (chapter 68), being the Industrial Loan and Finance Corporation (now the Community Finance Corporation), with essentially the same powers as contained in the act of Central Finance as amended in 1929. In 1932, control of the Central Finance Corporation was acquired by U.S. interests. This was followed by the incorporation of a third small loans company in 1933 (chapter 63), the Discount and Loan Corporation of Canada (now the Personal Finance Company of Canada), which was also backed by U.S. interests. The following additional small loans companies have been incorporated by special acts of parliament but none except the Canadian Acceptance Company ever organized or commenced business:

	Chapter No.	Year
The People's Thrift Corporation	80	1928—Expired
Personal Finance Corporation	69	1934—Expired

That company, of course, had no connection whatever with the present company known as "Personal Finance Company of Canada".

The Small Loan Company of Canada	72	1934—Expired
Canadian Acceptance Company	82	1946
Rinker Finance Corporation	89	1948—Expired

The complicated scale of maximum charges in the special acts of the three companies transacting business in the early thirties made it very difficult, if not impossible, for borrowers to understand the effective rate involved and it bore with undue severity on the very small borrower. Another difficulty arose through the tendency to charge borrowers the maximum $10 fee for chattel mortgages whether disbursements were actually made or not; in one case, a sister company was incorporated to which was paid as a "disbursement" the entire chattel mortgage fee and expense charge received from the borrower. Experience pointed to the desirability of a flat percentage charge monthly on the balance of principal outstanding, in place of the complicated scale authorized, and the first step in this direction was taken in 1934 when, by an amendment to the Loan Companies Act (chapter 56) and overriding ceiling of 2½ per cent per month was placed on all charges by companies "incorporated or authorized by or under any act of the parliament of Canada and having power by virtue of any such act to make loans of any nature or kind". The amendment thus applied not only to the three special act companies but also to the few other dominion companies incorporated by letters patent under the Companies Act that were engaged in the small loans business.

The effect of the latter amendment, so far as dominion companies incorporated by letters patent were concerned, was to reduce the maximum charges to 2½ per cent per month on all loans; and the effect, so far as small loans companies were concerned, was to reduce the maximum charges to 2½ per cent per month on all loans up to $181.20, repayable in twelve equal monthly instalments, the effective rate for larger loans decreasing gradually to 1·84 per cent at $500, as follows:

Amount	Monthly Rate for Interest and Expense	Additional Chattel Mortgage Fee	Equivalent total Monthly Rate
$ 50.00	1·48%	$ 2.76	2·50%
100.00	1·48	5.52	2·50
150.00	1·48	8.28	2·50
181.20	1·48	10.00	2·50
200.00	1·48	10.00	2·40
300.00	1·48	10.00	2·09
400.00	1·48	10.00	1·93
500.00	1·48	10.00	1·84

It will be seen that the effect of the amendment to the Loans Act in 1934 was primarily to reduce the maximum charge for the smaller loans.

The situation in the early thirties, therefore, was that dominion companies were limited in their charges whereas other lenders were not. Moreover, the chattel mortgage fee was authorized only for disbursements actually made and one of the three dominion small loans companies was operating mainly in the province of Quebec where lending on the security of a chattel mortgage was impracticable since the civil code of that province required physical possession of the chattels to be taken by the creditor in order that the pledge be effective. As a consequence, this company was limited to a charge of 7 per cent for interest and 2 per cent for expenses, both in advance, as respects most of its business, such charge being equivalent to a monthly rate of only 1·48 per cent. This company felt that its position was unfavorable in comparison with the other two companies operating mainly in the province of Ontario, but it supplemented its revenue by requiring borrowers to insure their lives to the extent of their loans through the agency of the company, the premiums and the commissions being established at relatively high levels. Further questions arose concerning the propriety of charging chattel mortgage fees to borrowers again when loans were refinanced, and there were complications involving refunds when loans were refinanced or prepaid by reason of the fact that charges were all deducted in advance. The entire situation continued to be unsatisfactory from almost every point of view.

By 1934, representatives of the small loans companies agreed at a meeting in the department that the practice of deducting charges in advance should be abandoned in favor of a simple monthly percentage applied to the amount of the loan actually made and remaining outstanding from time to time; by this time, too, the need for more effective general legislation governing the small loans business was becoming more and more apparent.

The whole subject engaged the attention of parliament practically every year during the thirties and was dealt with at each session from 1936 to 1939.

In 1936, bills to incorporate three new small loans companies (the Domestic Finance Corporation, the United Credit Association and the Atlantic Loan and Finance Corporation) were introduced but were not proceeded with pending further consideration of general legislation. In that year, a special subcommittee of the Banking and Commerce Committee of the Senate, to which the three private bills had been referred, gave much attention to the whole problem and recommended general legislation based on the principle of a flat monthly rate on outstanding monthly balances but left the rate to be determined by the full committee. That is, the full Banking and Commerce Committee of the Senate. The first decision of the latter established the rate of 2½ per cent per month for loans up to $100 and 2 per cent per month for larger loans. However, representatives of certain provincially-incorporated companies contended that such rates would be insufficient to permit them to continue in business. The committee then decided upon a rate of 2½ per cent per month on loan balances of $300 or less and 1 per cent per month on loan balances above $300, payments to be applied first to the repayment of the element bearing 2½ per cent. The following summary compares the rates then permitted by the special acts of the three small loans companies with the rates established by the committee:

Amount of Loan	Effective Monthly Rate Permitted by Special Acts	First Decision	Second Decision
$100	2·50%	2·50%	2·50%
200	2·40	2·00	2·50
300	2·09	2·00	2·50
400	1·93	2·00	1·87
500	1·84	2·00	1·57

The draft bill with the final rates shown above was recommended to the government as a basis for general legislation but no action was taken, one of the main reasons being that the proposed rates exceeded the rates then being charged for the bulk of the loans made by the three small loans companies.

Upon reference to the table hon. members will see that the rates finally recommended in the right hand column were 2½ per cent for loans up to $300, in which area most of the loans fell, and by comparison with the rates in the second column under the heading "Special Acts" it will be seen that the effective maximum rates which might be charged by the three small loan companies were considerably lower, being only 2·09 per cent for a $300 loan.

Perhaps I might mention here that it was at this time, 1936, that the Canadian Bank of Commerce inaugurated its personal loan department.

In 1937, two of the three small loans companies introduced bills mainly for the purpose of substituting a more satisfactory scale of charges than they had in their special acts. On one bill, a flat rate of 2¼ per cent per month was proposed and, in the other, 2 per cent; later in the same session, the 2¼ per cent rate in the former was voluntarily reduced to 2 per cent also. The view of the department was that a rate of 2 per cent was appropriate as an upper limit for all lenders but this was opposed by the third small loans company and by some provincially-incorporated lenders who claimed that they could not operate at that level; rates of 3 per cent per month and even 3½ per cent, at least for the smaller loans, were said to be essential. Both of these bills were reported favorably by the Banking and Commerce Committee of the house but no further action was taken. The committee gave lengthy consideration to the whole problem and the prevailing thought was that the question of appropriate general legislation was of paramount importance.

In 1938, the same two bills were re-introduced but were not dealt with. Instead, attention was focussed on the need of general legislation. The Banking and Commerce Committee of the house studied the problem for months and heard witnesses from all over Canada and several authorities from the U.S.A. The committee's final report No. 14, dated June 1, 1938, was accompanied by a draft bill entitled "An act respecting interest on small loans". A flat, all-inclusive, monthly rate of 2 per cent on outstanding balances was recommended and the scope of the bill was limited to loans of $500 or less. The committee's final report compressed in a few pages an excellent summary of the important aspects of the entire problem, together with the reasons underlying the rate recommended. I respectfully suggest the reading of this report by everyone studying the subject of small loans. I would draw attention particularly to the stated objective of the committee throughout its deliberations and which was emphasized in its report, namely, "to secure the best procurable rate for the borrower".

Opposition to the bill (mainly to the maximum monthly charge of 2 per cent on the part of certain lenders delayed its passage but it was finally enacted in substantially the same form in 1939 as "The Small Loans Act, 1939", with effect from January 1, 1940, and has stood unchanged up to date. It is probably unnecessary to refer now to many of its provisions but perhaps attention might be directed to a few main ones.

By Mr. Fleming:

Q. May I ask one question: in the final paragraph you refer to the opposition of certain lenders mainly to the maximum monthly charge of 2 per cent. Was it your contention that it was too high or too low?—A. Too low! They wanted a higher permissible rate.

Mr. BENIDICKSON: Mr. Chairman, may we have a ruling from you on whether or not questions would be welcomed when the brief is being read, or whether or not we should wait until the witness has finished reading his brief and then ask our questions?

The CHAIRMAN: I have already made a ruling that in view of the length of the brief we could have questions as we went along.

The WITNESS: (1) A "small loans company" is defined to mean a company incorporated by special act of parliament and authorized to lend money on promissory notes or other personal security and on chattel mortgages. In 1939 there were three such companies and there are now four.

(2) A "money-lender" is defined to mean any person other than a chartered bank who carries on the business of money-lending or advertises himself, or holds himself or itself out in any way, as carrying on that business, but does not include a registered pawnbroker. Apart from the few small loans companies, all other licensees under the act fall in this category, which mainly includes provincially-incorporated companies, although there are still a few partnerships and individuals who were in business before the act came into force. Since then, all new licensees have been companies incorporated either by the dominion or a province. If the former, that is, by the dominion, it is by way of a special act of parliament; if the latter, that is, by the province, it is usually by way of letters patent but at least one province also requires a special act of the legislature.

By Mr. Low:

Q. Which province requires it?—A. Manitoba.

The distinction between a "small loans company" and a "money-lender" is thus the method of incorporation, i.e., whether by a special act of parliament or otherwise. This distinction is carried through all reports and other data published by the department.

(3) The act requires a lender to be licensed by the minister if it wishes to charge more than 12 per cent per annum (equivalent to ·95 of 1 per cent per month) on a loan of $500 or less. A "loan" is defined as one in this area but the designation "small loan" is more usual. If licensed, the maximum charge on such a loan is 2 per cent per month for terms up to 15 months; for longer terms, the maximum gradually decreases according to the formula

$$1 \text{ per cent} + \frac{15}{n} \text{ of 1 per cent,}$$

where "n" is the term in months. This formula permits a maximum monthly charge of 1 15/18ths per cent or 1·83 per cent for a term of 18 months, 1·625 per cent for 24 months, 1·50 per cent for 30 months, and so on, but in practice few, if any, loans of $500 or less are made for more than 15 months. In fact, when the act was passed, the usual term was 12 months and although the act permitted the full 2 per cent to be charged on loans up to 15 months, it was not envisaged that the latter would become the standard term for loans of $500 or less. One of the main justifications for a relatively high rate on small loans is their relatively short term; a rate that is appropriate for a short-term loan becomes excessive if continued over an unduly long term. After expiry of the term of the loan, the act provides

for a maximum charge of 12 per cent per annum on any instalments unpaid. All loans are required to be repaid in approximately equal instalments at intervals of not more than one month each.

(4) One of the basic and most important principles in the act is that the stipulated maximum charge includes all expenses and applies to the principal amount of the loan outstanding from time to time. Moreover, charges may not be compounded or deducted in advance. In other words, borrowers sign a note only for the amount of the loan actually received in cash and pay interest precisely on that amount for the actual time they have it, thus avoiding all of the problems that arise if charges are imposed when the loan is made and a refund of the unearned part is properly due the borrower in the event of refinancing or prepayment of the loan before the normal expiry date.

(5) The Superintendent of Insurance is required to inspect, at least once each year, the chief place of business of every licensee, and financial statements in prescribed form are required to be filed annually.

(6) The special acts of the three small loans companies existing in 1939 were amended and consolidated in a schedule to the Small Loans Act so as to conform to the provisions of that act.

Licensees under the act may, and most of them do, make loans over $500 and also engage in other branches of the finance business as, for example, the purchase of conditional sale agreements from dealers, etc. These other activities are not presently regulated as to charges or otherwise by the act.

The experience of licensees under the act has been given in the successive annual reports of the department but I thought it might be helpful for present purposes to summarize the results in some respects and to analyze certain features such as expenses and earnings in greater detail than is customary. I have, therefore, prepared this special series of tables covering the more important items:

By Mr. Pallett:

Q. You mentioned conditional sale agreements being not controlled. Does that mean that effectively, if a company is engaged largely in the purchase of conditional sale agreements, the charges may be over 2 per cent a month?—A. That is quite correct.

By Mr. Hollingsworth:

Q. Is that not governed by provincial legislation?—A. These other activities are not presently regulated as to charges or otherwise by the Small Loans Act. Alberta, Quebec, and New Brunswick have legislation relating to conditional sale agreements, but in only one or two of those three cases are the rates and the down payments dealt with.

In answer to your question I might say that licensees under the Small Loans Act who also purchase conditional sale agreements do so without restriction or regulation of any kind as to charges or otherwise.

By Mr. Pallett:

Q. Does that include the purchase of chattel mortgages?—A. That business is not generally carried on by any of the licensees. They purchase conditional sale agreements.

Q. But suppose they purchase chattel mortgages; there would be no restriction on them at all?—A. I am not aware of any.

Q. Do you know if an intermediate might be set up in order to circumvent this act?—A. That difficulty has not arisen.

By Mr. Fleming:

Q. You are exercising no functions with respect to companies in the area of loans above $500 at the present time?—A. That is correct.

Q. But you present reports of loans in that area?—A. The annual statement that each licensee files naturally reflects the entire operations of the licensee; but that statement deals in much greater detail with loans of $500 or less. Naturally, in order to give a balanced statement, other financial operations of the company are included but in rather abbreviated form.

By Mr. Crestohl:

Q. Suppose a lender lends $500 and not over; would he be required to have a licence?—A. If the lender makes a loan of $500 exactly, or under, he would be required to have a licence.

Q. If his business is that of money lending in excess of $500?—A. Then, in that case, no licence is required. The act applies to loans of $500 and under.

By Mr. Michener:

Q. That means the amount of the loan at the time it was made?—A. The amount of cash received.

Q. And if the original loan is in excess of $500, and it is brought down to $400?—A. The act would not apply to that loan at all.

By Mr. Fraser (St. Johns East):

Q. What would the effect be on the amount of the charge in the case of a conditional sale agreement?—A. Those figures are reflected in the tables, if we might deal with them later. On the average they are substantially less than the rates for a loan.

(See Tables A to I)

Before directing attention to certain trends and results portrayed by these tables, it might be well to comment briefly upon a few policies and practices that had a bearing on them; also, to refer to the only amendments heretofore proposed since the act was passed.

During the war and for a short time after, the granting of new licences was discontinued as a part of the plan to conserve manpower and to control credit. This accounts for the decline in the number of licensees to a minimum of 53 in 1944, at which it remained through 1946.

Those figures will be found opposite item No. 1 of table No. 1.

Concerning charges on loans, the uniform practice after the new act came into force was to charge the maximum permissible rate of 2 per cent per month and it is rather interesting that notwithstanding the previous protests of some lenders that they would have to discontinue business at that rate the great majority were earning a satisfactory return—so much so, in fact, that significant reductions began to be made by the larger lenders late in 1943. At that time, several of them adopted a graduated rate of 2 per cent on the first $300 of any loan plus 1 per cent on the excess, if any, over $300—the element carrying the lower rate to be repaid first. For loans up to $300, the effective monthly rate remained as before at 2 per cent but for a $400 loan the rate became 1.92 per cent and, for $500, 1.81 per cent. Perhaps it might also be pointed out that this is the main part of the new formula proposed in the present bill. By early 1945, further reductions were made. Two of the small loans companies adopted a flat rate of 1½ per cent per month on all loans while the third such company did the same for all loans over $300, retaining 2 per cent for loans up to $300. The largest money-lender adopted a flat rate of 1¾ per cent on all loans. Later in 1945 one of the two small loans companies that had adopted the flat rate of 1½ per cent on all loans raised the rate to 2 per cent on loans up to $300 but the largest small loans company continued for some time further to charge only 1½ per cent on all loans.

In the light of this experience, the department recommended in 1946 that the maximum rate in the act be reduced from 2 per cent per month to 1½ per cent. Bill 140 was introduced for this purpose at the 1946 session and was given lengthy consideration by the Banking and Commerce Committee of the house of commons.

By Mr. Fleming:

Q. I was on the committee at the time. Have you got the number of sittings which the committee had on that bill? My recollection is that it was very brief.—A. I recall that it went on into August. When it started, I have forgotten, but my impression is that it was sometime in June.

Q. The whole session was late that year, but it could be looked up. My recollection is that we did not have very many meetings on that bill. Mr. Finlayson was here then, and I do not recall that the industry had gone very far before the committee at that time.

The CHAIRMAN: We shall get it and clear it up for you, Mr. Fleming.

The WITNESS: However, representatives of the industry strongly opposed the measure mainly on the grounds that the great majority of lenders, more particularly the smaller ones, could not continue to operate under the lower rate and, besides, that it was uncertain with the prospect of higher expenses how long the larger ones could do so. The session ended without the bill being reported and it was not subsequently introduced again. By 1948, most lenders that had been charging less than 1¾ per cent per month had raised their rates to that level and by 1950 back again to 2 per cent. The reduced income and reduced earnings reflected in Table 1 for the period 1944 to 1950 are of course, accounted for by the reduced rates then in effect.

Concerning expenses, it should be explained that many licensees have associated companies operating jointly or in close association with them, such companies confining their business to loans over $500 or to the purchase of conditional sale agreements, etc., or both, thus not requiring to be licensed under the act. The results of the operations of all such associated companies are naturally not included with the data for licensees but the expenses and earnings of licensees are nevertheless affected by the accuracy with which many expenses are apportioned between the licensee on the one hand and the associated company or companies on the other. The same comment applies to the allocation of expenses within a licensee as between its small loans business and other business it may be conducting. The accurate apportionment of expenses against different classes of business is always a difficult problem and each case has to be considered individually. To a large extent, the best method in any particular case is a matter of opinion. Certain expenses can readily be allocated specifically; some can reasonably be considered to be proportionate to the amount of the loan while others are more appropriately regarded practically as a constant per account. Some licensees consider that the best method is to apportion 50 per cent on the basis of amounts and 50 per cent on the basis of the number of accounts which, in many cases, brings out results very close to those produced by a much more detailed analysis.. Most licensees have endeavored to make a reasonable allocation wherever necessary but there have been a few notable exceptions which in the view of the department tend to distort the results. On the whole, if any company or class of business has received less favourable treatment in the apportionment of expenses, our view is that it has been the licensee rather than the associated company, or the small loans business of a licensee rather than its other business.

By Mr. Michener:

Q. May I ask if most of the companies which are engaged in the small loan business are also engaged in other business?—A. Yes, sir.

Q. Are some of them only engaged in making small loans?—A. Yes, and the largest of them which comes to mind is Household Finance Corporation of Canada which does nothing but a lending business of $500 or less.

By Mr. Fleming:

Q. Has any study been made by your department of the matter of apportionment of expenses?—A. As I have mentioned, I think it was generally considered that the apportionment of expenses between the offices of a company, or between the branches of a company, while governed by certain broad principles is, in the final analysis, mainly a matter of opinion because situations vary enormously amongst the several companies.

Where a licensee has seemingly been at sea in not having any particular formula in mind we have suggested a formula at least as a starting point. I might say, however, that the analysis of expenses is continually under consideration in a great many cases.

Q. I was wondering if your department had undertaken at any time a detailed and comprehensive study of the apportionment of expenses overall in business which might avail you in particular conclusions?—A. We have, naturally, studied expenses not only of each licensee, but of the licensees as a whole as reflected in the tables which I have presented today, but I do not think it is practicable to suggest or to recommend a formula that could or should be used universally by licensees.

By Mr. Michener:

Q. Do you mean that in this last sentence of the paragraph which you have just completed where you say:

> On the whole, if any company or class of business has received less favourable treatment in the apportionment of expenses,...

in the apportionment of expenses by the companies themselves, do you mean?—A. I have referred really to two kinds of cases: first, the case where there is more than one company operating in the office.

Q. You mean one company operating under the Small Loans Act and one above that?—A. Yes, or in the conditional sale agreement field. The question of expense analysis arises as between a licensee on the one hand and the other companies on the other hand; and the second case which I had in mind was simply the allocation of expenses within the licensee, between its small loan business and its other busines, where other business is carried on by the same licensee. Our annual statement attempts to keep a subdivision between the small loan business of the licensee and its other business so that one may form an opinion whether the small loan business is proving profitable or otherwise.

By Mr. Fulton:

Q. I take it that it is your view that companies tend to charge a rather high proportion of their expenses against their small loan business? Is that the meaning of that sentence?—A. My thought is, Mr. Fulton, that licensees have in general taken reasonable care to subdivide their expenses as accurately as possible. Naturally, differences of opinion arise as between the department and the licensee. In some cases we feel that the licensee is apportioning more, either to the small loans branch of its business or to a company that is licensed, than to other branches or associated companies; but I do not make an issue of it. We do feel, however, that if the pendulum swings in one direction it is towards a heavier apportionment of expenses towards the small loans business of the licensee.

The CHAIRMAN: That last sentence is rather ambiguous in its phrasing.

Mr. FLEMING: There is an ellipsis there—something omitted in the latter part of the sentence.

Mr. FULTON: I think that Mr. MacGregor cleared it up.

The WITNESS: I would be glad to clarify that sentence if it would be helpful.

The CHAIRMAN: For your information, I have just received a report on the 1946 sittings. They had four meetings.

Mr. FLEMING: Were any persons heard, apart from Mr. Finlayson?

The CHAIRMAN: Yes.

The WITNESS: Concerning earnings, it cannot be overlooked that in many cases, especially amongst the smaller lenders or those closely owned and operated by a few individuals, profits are effectively withdrawn as salaries or other rather personal expenses, thus tending to depress their apparent earnings. Also, expenses are naturally increased and earnings are correspondingly reduced in times of expansion when new or additional lending offices are being opened. This has been an important aspect in recent years and especially so in 1955. Some comment also seems desirable in explanation of the apparent discontinuity in the data for small loans in 1948, more particularly as between small loans companies and money-lenders; also in explanation of the apparent absence of any loans made above $500 by the largest small loans company, Household Finance Corporation of Canada.

By Mr. Monteith:

Q. May I refer to the last paragraph at the bottom of page 16, Mr. MacGregor, where you mention that earnings are taken out in salaries and expenses. Are expenses not naturally somewhat higher when new offices are opening and that sort of thing? Would that not just be a general situation?—A. That is true.

Q. In any business?—A. That is quite right.

In 1946, the largest operator in the money-lenders group was the Campbell Finance Corporation, a provincially-incorporated company that was owned by a large Canadian acceptance company. In that year, Campbell Finance was sold to a large U.S. finance company which was not then operating in Canada. About one year later, in 1947, the latter U.S. company in turn sold Campbell Finance to the Household Finance Corporation of the U.S.A., which already owned the Household Finance Corporation of Canada. In the same year, 1947, the name of Campbell Finance was changed to Household Finance Corporation Limited. In 1948, the small loans business of Household Finance Corporation Limited, licensed as a money-lender, was transferred to Household Finance Corporation of Canada, licensed as a small loans company; and at the same time, the loans over $500 in Household Finance Corporation of Canada were transferred to Household Finance Corporation Limited. The result at the end of 1948 was that a large volume of small loans in the money-lenders group was transferred to the small loans companies group and the loans over $500 in both companies disappeared from the data completely. The small loans company, Household Finance Corporation of Canada, thereafter confined its business to loans of $500 or less and the sister company, Household Finance Corporation Limited, confined its business to loans over $500 so that it no longer required a licence under the act. The latter unlicensed company is the largest operator at the present time in the field of loans over $500, its volume of such loans being almost exactly equal

to the total loans over $500 made by all licensed lenders combined. Incidentally, the large Canadian acceptance company that sold Campbell Finance in 1946 almost immediately purchased what was then a very small but is now a very large licensed money-lender; and the large U.S. finance company that purchased Campbell Finance but sold it so soon, re-entered the Canadian field in 1955 through a new provincially-incorporated company bearing a name similar to its own.

By Mr. Low:

Q. Would the witness please name that company?—A. The large Canadian acceptance company that owned and sold Campbell Finance was the Industrial Acceptance Corporation. The United States company, not then doing business in Canada, that bought Campbell Finance was the Seaboard Finance Company which obtained a licence and is operating in Canada now under the name Seaboard Finance Company of Canada Limited.

By Mr. Hollingworth:

Q. You said that the Household Finance Corporation confined its business to loans over $500, so that it no longer required a licence under the act. I thought that it would still require a licence under the Money-Lenders Act? —A. No. There was never any licensing provided for under the Money-Lenders Act, and that act applied only to loans under $500.

Q. Why do you have all the statistics in your annual report of many companies that lend money over $500? Is it only for the companies lending money under $500 that you have a report?—A. Only those operating in the field of $500 or less.

Q. You have no report for those operating in loans over $500?—A. We get no returns from the largest firm, namely, Household Finance Corporation or any other lenders operating exclusively in the field above $500.

Q. Then how can you tell how much money is loaned over $500?—A. We only get it incidentally. Household Finance Corporation has very courteously furnished us with copies of their recent annual financial statements.

Q. Thank you.—A. Turning now to table 1, which covers only small loans, i.e., loans of $500 or less, the increase in the number of licensees from 62 at the end of 1953 to 70 at the end of 1955 should be noted. The number at the present time is 73 and there are about a dozen applications on hand or pending, including some backed by U.S. operators as well as substantial British interests.

Q. Have many applications come in since the other bill was introduced? —A. A great number. Hardly a week goes by that we do not receive some inquiry about the possibility of obtaining a licence, but when I mention a dozen, I have in mind enquiries or applications that we feel are *bona fide* cases which the applicants intend to pursue.

Paradoxical as it may seem, interest in obtaining a licence seems to have increased rather than diminished since the introduction of the present bill. But the increase in the number of licensees reflects only a fraction of the expansion in lending facilities: the number of branch offices is increasing at a tremendous rate. The number at the end of 1954 was 540, apart from the main office in each case, and during 1955 the number increased to 702, accounted for as follows:

Company	No. of Branches Dec. 31 1954	1955	Increase during 1955
Canadian Acceptance	35	43	8
Community Finance	23	25	2
Household Finance	169	209	40
Personal Finance	133	171	38
Associates Budget Plan	—	4	4
Atlas Thrift	1	1	—
Bellvue Finance	5	9	4
Canadian Personal Loan	1	1	—
Citizens Finance	1	12	11
Commercial Credit Plan	17	19	2
Consolidated Finance	4	4	—
Crescent Finance	9	9	—
Danforth Finance	1	1	—
Equitable Finance	—	2	2
Fairway Finance	2	2	—
Independent Finance	—	1	1
Lucerne Finance	—	2	2
Merit Finance	1	1	—
National Plan	1	1	—
Niagara Finance	87	106	19
P. F. Credit	1	22	21
Public Finance	1	1	—
Service Finance	1	1	—
Superior Finance	—	5	5
Trans-Canada Credit	40	42	2
Union Finance	7	8	1
Totals	540	702	162

The table shows where these increases have occurred. In the case of the Canadian Acceptance, an increase of 8; Community Finance, 2; Household Finance, 40; Personal Finance, 38; and so on. I might comment on the increase with reference to Citizens Finance since it appears so large relatively, namely from 1 to 12. For years there was a licensee, Blake-Pierce Limited, with its head office in Windsor. Certain United States lending interests desired to extend their activities to Canada and they purchased Blake-Pierce Limited. They then changed its name to Citizens Finance, so that the increase of 11 is explained by reason of the acquisition of Blake-Pierce Limited by these United States interests and a much more aggressive policy of expansion.

By Mr. Michener:

Q. Do your tables differentiate between the companies on the basis of whether they are Canadian or foreign-owned?—A. No, sir; but we have the information.

Q. I notice that you make that distinction from time to time, and I wondered what was the difference between a Canadian-owned small loans company and an American or foreign-owned one?—A. Simply where financial control of the company lies.

Q. Have you any information on that?—A. We have a list of shareholders of every licensee.

Q. So you can tell the residence of the shareholders?—A. Yes.

Q. Can you tell me how the companies now doing business under legislation or under licences divide, as between Canadian-owned and foreign-owned?—A. There are 10 that are foreign-owned, all being owned in the United States of America.

Q. How do they compare in volume of business?—A. Oh, they are doing now perhaps 85 to 90 per cent of the total small loans business in Canada.

Q. They are foreign-owned?—A. Yes.

Q. Do the foreign-owned companies have Canadian shareholders? If they have, how do they classify them?—A. I do not recall any instance where they are ordinary shareholders, so to speak, that is, shareholders other than principal shareholders or directors.

Q. Mr. Chairman, would you ask Mr. MacGregor to give the information I have been asking in the form of a table dividing the companies on the basis of where their ownership is?

By Mr. Fulton:

Q. Before we leave the table, there is one other company which shows a remarkable increase, P. F. Credit. Would you also comment on that?—A. That is a subsidiary of Pacific Finance in the U.S.A. It incorporated a Canadian subsidiary in 1954, I think it was, with the name P. F. Credit. So it is a relatively new licensee and has been actively opening new offices in Canada.

By Mr. Fleming:

Q. In the case of those 10 American-controlled companies, are they companies in which the stock is almost completely owned by a U.S. corporation and for which the stock is more widely held than by individual investors in the United States?—A. I think in every instance it is held by a United States corporation. I shall name the 10 companies if you like. These are the 10 licensees that are owned, directly or indirectly, by a United States parent company: Canadian Acceptance Company, Household Finance Corporation of Canada, Personal Finance, Associates Budget Plan, Citizens Finance, Commercial Credit Plan, Custom Finance.

Q. Custom Finance is not in there?—A. Custom Finance is shown on table 4. After Custom Finance, P. F. Credit, then next Seaboard Finance, and finally Civic Finance.

By Mr. Monteith:

Q. Where do they appear?—A. Civic Finance is not in the list. It was just licensed in 1956; it is a new company. I think that I should clarify the ownership of these companies. I have mentioned that these 10 are owned directly or indirectly by a United States parent company. Canadian Acceptance is owned by Canadian Acceptance Corporation Limited which is a Canadian company but which in turn is owned by C.I.T. Financial Corporation, the United States parent company. So also, in the case of Household Finance Corporation of Canada, which is owned by Household Securities Limited, which is a Canadian holding company and it, in turn, is owned by Household Finance Coproration of the United States of America. Personal Finance is owned directly by Beneficial Finance Corporation, a United States corporation. Associates Budget Plan is owned by Associates Discount Canada Limited which is a Canadian company and in turn it is owned by Associates Investment Company, an Indiana company. Citizens Finance, formerly Blake-Pierce, is owned by the Equitable Credit Corporation of Albany, New York, directly. Commercial Credit Plan is owned by the Continental Guarantee Corporation of Canada Limited and the United States parent is the Commercial Credit Company, a Delaware company. Custom Finance is owned by two brothers in the state of Washington. P. F. Credit is

owned by P. F. Acceptance Limited, a Canadian company, the U.S. parent of which is Pacific Finance Corporation, a Delaware company. Seaboard Finance is owned by Seaboard Finance Company directly, a Delaware corporation. Civic Finance is owned by the Capital Finance Company of Columbus, Ohio.

By Mr. Michener:

Q. Your tables show the capital stock, I suppose, of all the companies, the investment in them by way of capital stock. Do those give the proportion of capital stock in the companies which are non-Canadian as against those which are Canadian—the amount of share capital investment by non-Canadian-owned companies as compared to the investment of Canadians?—A. I would have to add it up. I am sure though, if I do so, that some of the companies concerned would immediately say that I am not being fair to them, that while some of the largest have a very small capital as such, they have large amounts of effective capital in the form of borrowed money from the parent. I can readily add up the amount of capital.

Q. Perhaps then the amount of money employed by the two classes of companies would be a better comparison. I have in mind arriving at a percentage. We have been hearing about the percentage of investment in certain industries and fields which come from abroad, as compared to Canadian investment. I wondered what the percentage would work out to in the small loans field?—A. Well, in the past the large United States operators here have obtained their funds through their parent in the main, both in Canada and in the United States of America. That is, the parent has borrowed from sources in Canada and the U.S.A. and the parent has in turn loaned the money to the Canadian subsidiary. I would say, at the present time, that there is a greater tendency for the United States owned licensees to get all, or nearly all, of their funds from the U.S.A. They can borrow more favourably there at the present time.

Q. I understand that some of our loan companies are not permitted to raise capital by bond or debenture issues?—A. That is quite correct.

Q. Is that statutory?—A. Yes. It is in the Small Loans Act. Of course it applies only to small loans companies, being companies incorporated by parliament; but, as a matter of fact, we have always ensured that other licensees do not borrow on debenture from the public because we think it would be unfair if those licensees followed practices that the small loans companies are prohibited from following.

Q. I am interested in your opinion as to whether there is any reason for prohibition against raising money by bond or debenture.—A. There are a good many reasons, Mr. Michener.

The CHAIRMAN: Possibly since that is getting a little aside from where we are in the brief you might bring it up later, Mr. MacGregor.

The WITNESS: I will take it as notice of the question and answer it later, Mr. Chairman.

By Mr. Fleming:

Q. If Mr. MacGregor is going to follow up that question on some future occasion might I suggest that he include in his answer information which will give us the total employed capital borrowed as well as equity capital, so that we will have the complete picture?

I have one other question on an earlier point: with respect to these ten corporations all of which are owned directly or indirectly outside Canada—nine by corporations and one by two individuals. Is the stock of these companies sold anywhere on any public exchange, or are these corporations of a private nature with no possibility of anyone buying into the stock of those companies?—A. I think the answer to that is that some are closely held and some are

widely held. Whether or not those which are widely held are available on the United States exchanges I do not know. Some are closely held, but I think that the stock of the largest United States parent company is quite widely held. However I cannot say whether it is listed or not. Perhaps the company concerned might be able to give you an answer.

By Mr. Pallett:

Q. Is there any interlocking between those companies in any way?—A. I am not aware of any interconnection between the companies that I have mentioned.

By Mr. Michener:

Q. You mentioned British interests which have applied for a licence. Are there any non-Canadian licensees other than American?—A. Not at the present time.

Q. And that is the only application which is pending?—A. It has been in for some time and it looks like a serious desire to obtain a licence.

Q. Has the small loan business developed in the United Kingdom in recent years along similar lines as in Canada or the United States?—A. I could not say whether their volume of loans has increased the same way or not.

By Mr. Crestohl:

Q. Would it also be possible for you to place on record additional items as follows: one: how much income tax these American companies have paid in Canada during the past fiscal year; and two: how many people they employ in Canada, and what is the volume of salaries which they pay to Canadians working for them?

Mr. MICHENER: Would you not like to have the profits paid?

Mr. CRESTOHL: Very well, let us have them too and let us get the whole picture.

The WITNESS: Do you mean that you would like to obtain the salary scales or the total salary bill?

By Mr. Crestohl:

Q. The total quantum of salaries paid to Canadian employees of these companies in Canada.—A. The tables I have presented will show the totals for the largest operators but not for all.

By Mr. Cameron (Nanaimo):

Q. I wonder if Mr. MacGregor would be able to give us any information with regard to the matter he mentioned just now? I gathered he said that he understood that in the main at the present time these American owned companies are using American funds in making these loans in Canada. Would it be possible for him to find out for us what proportion of loans are based on borrowings from the Canadian chartered banks? I have in mind the evidence of two years ago when one bank official said that loans from the chartered banks to the small loan companies were a very important part of their business. —A. That information is given in table 5, Mr. Cameron.

Q. Oh, I was looking for it and I could not find it. —A. In table 5 the borrowings of the principal licensees are given and are sub-divided by source, first, from banks; second, from parent companies and affiliates; and third, from other sources.

Q. I am sorry that I had not been able to find it.

The CHAIRMAN: Mr. Fleming, I am sorry that I was not able to follow the relativity of your question as to whether any of the shares of these companies were sold on the American stock exchanges. What was the point?

Mr. FLEMING: I did not use the words "American stock exchanges"; I wondered whether they were available for public purchase, or held and not available for purchase.

The CHAIRMAN: It was not a question of their being listed on the American stock exchanges?

By Mr. Fleming:

Q. I did not say "American stock exchange"; I was dealing with the possibility of any person being able to purchase the stock of these companies and whether they were available for sale.—A. I would say there was no possibility of purchasing the stock in most cases because where the licensee is owned by a Canadian holding company, that holding company is in turn owned by a United States parent. One might buy into the United States parent, but I do not thing there would be any likelihood of being able to buy into the Canadian holding company.

Q. I follow that, but I thought that to complete the picture in this case we should know whether it was possible for the ordinary investor, including the Canadian investor, to purchase stock in the Canadian holding company.—A. I will get the answer to that question.

By Mr. Michener:

Q. And whether any of the Canadian companies are—whether their shares are distributed?—A. The Canadian-owned companies?

Q. Yes, whether any of them have been publicly financed through a great number of shareholders or whether they are closely held like the American ones?

By Mr. Monteith:

Q. Will this only apply to those licensees making loans of $500 or less?—A. That is right.

By Mr. Pallett:

Q. Could you give us any indication of the amount of increase in the branches of other lending institutions in Canada? Have you the figures available of the number of branch banks, and credit unions and the like?

The CHAIRMAN: You would have to include insurance companies as well because they are lending institutions too.

The WITNESS: I am sorry. We have no consolidated data either for the banks or for the credit unions. But statistics are available for each and I think they could be readily obtained.

By Mr. Pallett:

Q. I thought it might be interesting to compare those three.

The CHAIRMAN: I think it would show the general economic expansion. Could you get that, Mr. MacGregor?

The WITNESS: I shall do my best. Now referring to this table showing increases in the number of branches, Niagara Finance has increased by 19, and P.F. Credit has increased by 21. In addition to these branch offices, there were 65 main offices at the end of 1954 and 70 at the end of 1955. The total number of head offices and branch offices has increased from 384 at the end of 1950 to 772 at the end of 1955, i.e., by a little over 100%. It seems clear that the lending field under present conditions is exceedingly attractive.

By Mr. Fleming:

Q. Was there not one branch closed?—A. One licence was not renewed this spring; it was the Family Loan Corporation in Halifax which has been in a moribund state for some time and its licence was not renewed as from June 1st of this year. Actually there have been four new licences granted since the end of 1955, but there was one terminated, so this accounts for the increase of only three from 70 at the end of 1955 to 73 at the present time.

By Mr. Michener:

Q. Would the conclusion not be that there are a great many more customers, that is, more Canadians wanting to borrow money?—A. I am sure that is correct!

Items 2, 3, 5 and 6 of Table 1 show that the number and volume of loans of $500 or less made each year are still increasing, although at a somewhat diminished pace, but the balances outstanding show a tendency to flatten out. These trends are attributable to a rapid shifting toward loans of a larger amount nowadays, as reflected in table 2, involving also the refinancing of smaller loans when partly repaid in order to obtain larger loans. Reference to page 59 of the department's annual report for 1954 will show that of the total small loans made in that year about two-thirds, by amount, were made to "current" borrowers who nearly doubled the balances remaining unpaid on their previous loans, while nearly 80% of the total loans made were to the "current" borrowers or to "repeat" borrowers, the latter being previous customers who managed to repay their loans in full.

I may say that the data for 1955 show a very similar result.

Amongst the older lenders the proportion of "current" and "repeat" borrowers is generally higher than amongst the relatively newer licensees. The evidence is mounting that borrowers are getting deeper and deeper into debt rather than attaining solvency through loans. No doubt the current trend is part of the ever-growing practice, even in good economic times, of buying on the instalment plan or spending against the future beyond prudent limits. In other words, mismanagement of personal finances rather than misfortune would seem to underly a great proportion of the loans made.

By Mr. Fleming:

Q. I have one question on item 2; there is a big drop from 1947 to 1948 in the number of small loans made by many lenders; in fact they dropped to less than one-half between 1947 and 1948. What is the explanation?—A. The discontinuity there is explained by the change in the status of Household Finance Corporation Limited, (formerly Campbell Finance.) Until 1948 it was licenced as a money lender, but at the beginning of that year it transferred its small loans business to Household Finance Corporation of Canada. That was the point I dealt with a little earlier.

Q. It simply moves it up to the next line in 1948?—A. That is right.

By Mr. Hollingworth:

Q. In the money lenders statement are the loans of the Household Finance Corporation included there or not?—A. They are not.

Q. I notice that Personal Finance is a licensee, and that all loans up to $500 would be included, yet they are not included for Household Finance.—A. That is because loans made above $500 are made by Household Finance Corporation Limited and are no longer being made by Household Finance Corporation of Canada.

Q. I submit that it does not give you a proper picture.—A. I thought it better to confine the tables to the licensees, being organizaitons with which we are officially connected, and in these notes I have done my best to provide the full picture.

By Mr. Michener:

Q. Mr. MacGregor makes some reflection here on the times which I am sure we all make. I wonder if he made any comparison in the tables, or could give us any comparison between this great expansion of the personal loan business in Canada and the great expansion in instalment buying which we read about as characteristic of these last few years. They seem to be two aspects of the same thing, and I wondered whether he has any figures which would draw a parallel?—A. I think they are roughly comparable; they are all part and parcel of the same thing, buying on time.

Q. You mean spending future income for present enjoyment?—A. Certainly there are many loans made to ease the financial situation of a family which has over-extended itself in buying goods on time.

Q. My other question is: we are dealing of course with proposed amendments to the act; are these amendments, if they are accepted, going to change the habits of people in any respect on which Mr. MacGregor comments in this paragraph?—A. I do not think the amendments would change the habits of people directly; but if the lending business becomes somewhat less tttractive than it is now, then there will not continue to be the same infllux either of new licensees, new lenders, or the same expansion in lending facilities.

Q. Is it your thesis that this great expansion in borrowing is taking place because more money is being offered, or because people want to borrow more? —A. I think it is both.

Q. That is really the answer that I wanted to get to my question in the discussion of this paragraph, because there is a view that we have to try to relate the amendments to the problem, and I think it is suggested that it is a problem, and there is so much of it which is a political problem, and there is so much comparison with other classes of business.—A. I think that too many offices tend to encourage borrowing.

Q. I notice your opinion expressed earlier—I have forgotten your exact words, but I think you said there was not only borrowing for need but needless borrowing; and I think that is a question we will want to review later.

The CHAIRMAN: I was wondering about the last sentence there, whether that was your own conclusion, or whether it was founded upon actual investigation of the loan business, where it says:

> In other words, mismanagement of personal finances rather than misfortune would seem to underly a great proportion of the loans made.

I wondered whether that was your personal conclusion, or whether it was based on a study of individual loans.

The WITNESS: I was prompted to make that remark for two reasons; one is the reason mentioned just a moment ago namely that about 80 per cent of the loans made are to people, either current or repeat borrowers, who remain continually in debt. The second reason stems from the complaints and inquiries we have received in the department from people who have started, let us say, with a loan of $100 and after it was repaid in part, apparently went back and got a loan for $200 or $300. We have seen a series of loans up to 6, 7 or 8, in which they keep on borrowing until they reach an indebtedness of perhaps, $3,000.

The CHAIRMAN: My experience with people in business is that they are constantly borrowing from the banks back and forth, and because that is done,

nobody regards that borrowing or questions it as mismanagement; it is regarded as normal practice and I wondered whether this conclusion was correct.

Mr. HOLLINGWORTH: You are talking about a lawyer's overdraft overtime!

The CHAIRMAN: And many other things!

By Mr. Cameron (Nanaimo):

Q. Perhaps you might be able to persuade the Minister of Finance to extend the 20 per cent tax on advertising to all advertising.—A. I was brought up to believe that one should borrow only if in need, but he should try to repay it and get out of debt and not remain in debt. However, the evidence is that more and more people are not only remaining in debt but are getting more deeply in debt.

Mr. FLEMING: Some of us were brought up under the same rules, and we sometimes wonder, when we look at the example of the government today.

The CHAIRMAN: I think we are getting a little aside!

Mr. MICHENER: If you can borrow enough, it is called high finance; but if you cannot, it is called mismanagement.

The CHAIRMAN: Would someone move that the statistical tables be printed as appendices to today's proceedings?

It has been so moved.

Carried.

(*See Appendix "A" to "I".*)

Some people have asked for the order of business. Our order of business as laid down and approved by the committee—that is, recommended by the agenda committee and approved by the committee, is to hear Mr. MacGregor, first, of course, and then to hear representations from or ask questions of officials from the following: Canadian Consumer Loan Association; Canadian Bankers Association; Canadian Bank of Commerce; Personal Finance Company of Canada; Niagara Finance Company Limited; La Fédération des Caisses Populaires of the Province of Quebec; the Credit Union National Association, Inc. In addition I have taken it upon myself—perhaps contrary to the wishes of the committee—that we call Mr. Varcoe, Deputy Minister of Justice, to give us the constitutional aspects of the legislation. I was proposing to bring Mr. Varcoe in immediately following Mr. MacGregor. Is that satisfactory?

It is agreed. Agreed.

Mr. MICHENER: Might that not inconvenience the great number of people gathered here who would have to sit here while we heard Mr. Varcoe, who could come at any time?

The CHAIRMAN: Some people have raised the complaint with me as to the question of advertising and whether the field should not be extended to cover acceptance corporations and that sort of thing, and I thought if Mr. Varcoe could give us his views, it would save us from going into questions which might involve a great loss of time and over which we had no jurisdiction.

Mr. FLEMING: There might be some advantage not only to the committee but to those who are to be heard later if they could hear Mr. Varcoe's statement earlier.

The CHAIRMAN: I do not think it would be a very long statement, but I thought at that stage it would probably be the best spot for it.

Mr. MICHENER: Could we have some indication of the time of sittings?

The CHAIRMAN: The committee agreed at the last meeting that we would sit twice a week, Tuesdays and Thursdays; and in view of the heavy house

work that we would not want to sit twice a day. That arrangement could be continued and I think we should try it out and see how it works. Our next sitting would be next Tuesday.

Mr. FLEMING: I did not hear any reference to the Association of Canadian Small Loan Companies. I was looking at the 1946 proceedings this morning and I saw that the committee that year did hear from Mr. Louis Blake Duff president of the Association of Canadian Small Loan Companies. Is that association no longer in existence?

Mr. C. M. CAWKER (*President, Canadian Consumers Loan Association*): Mr. Chairman, the association referred to has undergone a change of name.

Mr. FLEMING: We will hear from them?

The CHAIRMAN: It is now called the Canadian Consumer Loan Association.

Mr. CRESTOHL: Is it agreed that we hear from Mr. Varcoe next?

The CHAIRMAN: Is it agreeable?

Mr. CRESTOHL: I so move.

The CHAIRMAN: You have heard the motion?

Carried.

I am sorry to have interrupted. Please carry on Mr. MacGregor.

The WITNESS: Item 4 of table 1 indicates that the average small loan is no longer increasing but it must be remembered that this is the average only for loans made in amounts not exceeding $500. If loans over $500 were also included, the over-all average would show a rapid increase. Unfortunately, accurate data in consolidated form are not presently available showing the size of loans made above $500.

Items 7 and 8 show the income earned on small loans and I have already explained the reason for the reduced income between 1944 and 1950.

I have already explained the reason for the reduced income between 1944 and 1950.

Items 9, 10 and 11 show the net amounts written off loans and the net amounts transferred to reserves for bad debts expressed as percentages of the balances of loans outstanding. If the basis were the amounts of loans made, the percentages would be reduced by approximately one-half. The record indicates that Canadian borrowers are very reliable and that losses are slight. The net amounts written off annually have averaged about ½ of 1 per cent of outstanding loan balances, or ¼ of 1 per cent of the amount of loans made. Reserves for bad debts are maintained at about 3 per cent of outstanding loan balances, and since the growth of small loan balances has tended to slow up, the annual transfers for this purpose are now quite small. The record in the table extends back only to 1940 when the act came into force and it may be thought that losses during less favorable economic times might be much heavier. If the depression years in the thirties are any guide, there would seem to be little to fear since the experience of the three small loans companies during that period was equally good. For example, for the years 1934-1937, the net amounts written off were only about ¼ of 1 per cent of outstanding balances. On the other hand, write-offs in one state of the U.S.A. were reported to be as high as 11 per cent of loan balances in 1933 and about 5 per cent in 1938. Losses in the U.S.A. have generally been higher than in Canada.

By Mr. Pallett:

Q. What state was that?—A. Iowa.

By Mr. Michener:

Q. Have you the figures back to 1931-32 for the American districts?—A. Not readily. The figures I have stated for Iowa were given by their supervisor who testified before this committee in 1937 or 1938.

Item 12 of table 1 is intended to show the trend of expenses per small loan account per month. The average cost has been computed in the manner indicated mainly to facilitate comparison with the U.S.A. where the published figures are generally computed in this manner.

If the hon. members will look at item 12; it is designated "average cost per outstanding account per month including income tax, net write-offs, net transfers to reserves for bad debts but excluding interest on borrowed money."

As might be expected, the average showed a tendency to decline during the war when costs were stable and volume was increasing; thereafter, the average increased steadily as the price level rose but the greatly increased volume has done much to offset rising prices so that the average cost now, $2.19 per account per month, is only about 50 per cent more than the average during the war. However, this cost is inflated to some extent by current expansion costs and, furthermore, the average size of loan has increased greatly. The relationship between the average size of loan and average cost per account per month is approximately the same now as during the war. In the U.S.A., the average cost in many states is of the order of $4.00 per account, or nearly double that in Canada.

By the Chairman:

Q. Is there some reason you know of for that?—A. Higher salaries, higher rent and higher losses, are some of the reasons.

By Mr. Michener:

Q. Losses are included in the average cost per month?—A. Yes.
Q. And they are higher?—A. Yes.

By Mr. Fleming:

Q. And they still are?—A. That is right.
Q. Do you attribute that to any difference in the habits of the people as between Canada and the United States? Are we more cautious as a people and less disposed to go into debt?—A. I think that the lenders themselves may be in a better position to answer that question because they are in closer contact with the people who borrow than we are.

Mr. CRESTOHL: Let us take the statement for granted! Let us take it for granted, that the borrowers in Canada are perhaps of a better character!

Mr. FLEMING: I was thinking about the habits and the Scottish instincts in the Canadian population!

By Mr. Michener:

Q. Perhaps it is a compliment to the people who are lending money.—A. Canadian borrowers do not seem to say "n" to lenders as readily as they do in the United States.

The CHAIRMAN: It is a very flattering conclusion but I do not think you can draw it.

The WITNESS: Items 13 and 14 relate to earnings. Lenders operate in varying degrees and frequently to a large extent on money that they themselves have borrowed. Information concerning the extent of borrowed money compared with lender's own funds will be found in table 5. Interest paid on borrowed money is, of course, deductible from taxable income so that both the weight of income tax and profits vary according to the proportion of borrowed money in the total funds employed. The profit on a lender's own dollar is obviously greater than on a borrowed dollar since interest must be paid on the latter, but so long as some profit can be made on a borrowed dollar the total profits will be increased by borrowing. Assume, for example, that a lender's gross rate earned

is 8 per cent of loan balances or funds employed, measured before paying interest at 5 per cent on borrowed money and income tax at 50 per cent. On a lender's own dollar, the profit after tax would be 4 per cent.

The 8 per cent would be cut in two. It might therefore appear that since this rate is less than the rate payable on borrowed money, it would be uneconomic to borrow; that the gross rate earned is too low to permit operations to continue on a practicable basis. But such a conclusion would be incorrect since it is based on adjusting for income tax before interest on borrowed money whereas in practice interest on borrowed money is deducted from taxable income before income tax is calculated. Thus, on every dollar borrowed under the foregoing assumptions, 3 per cent would remain after paying interest and 1½ per cent after paying income tax.

The CHAIRMAN: That would be where the interest was 5 per cent.

The WITNESS: That is correct.

If for every dollar of a lender's own funds one dollar can be borrowed, the total profit in relation to each of his own dollars would be 4 per cent plus 1·5 per cent or 5·5 per cent; or, if three dollars can be borrowed, the total profit would be 4 per cent plus 4·5 per cent or 8·5 per cent.

By Mr. Michener:

Q. I do not follow the computation of the income tax on the lender's dollar. The statement says "that a lender's gross rate earned is 8 per cent of loan balances".—A. After all expenses except two things; interest on borrowed money and income tax.

Q. It is really not profit before taxes?—A. It is profit before paying interest on borrowed money and taxes.

Q. I am speaking of the lender's own dollar.—A. Before income tax.

Q. Is that what it is on, the lender's dollar at 8 per cent?—A. That is hypothetical.

Q. Oh, I see.—A. The point I wish to make is that even if the return on the lender's own dollar is less than the rate he must pay on a borrowed dollar, he may still carry on business profitably.

Q. These are just hypothetical figures. I was questioning if there was a gross net profit of 8 per cent before tax?

The CHAIRMAN: I think the figures will be here to show us later on.

By Mr. Fleming:

Q. To complete it, when you arrive at a figure of 8·5 per cent, again that is before income tax.—A. No, that is after income tax.

Q. You say it is after income tax?—A. Yes, 8·5 per cent is in relation to the borrower's own dollar but where he also borrowed three other dollars.

Q. That is an illustration of the advantage of high equity capitalization. —A. The advantage of borrowing.

Q. That is the advantage of borrowed capital rather than a high degree of equity capital.—A. My main point was the one I mentioned, that even though the net rate earned after income tax on a lender's own dollar is less than the rate he must pay to borrow a dollar, he may still make a profit on borrowed dollars, and the more he can borrow, the more is his profit.

By Mr. Michener:

Q. This is well proven too by way of illustration.—A. It is hypothetical only.

The CHAIRMAN: Since it is now one o'clock I suggest that we adjourn and reconvene on Tuesday next at 11 a.m.

Mono tables A to I follows:

APPENDIX "A"

LICENSEES UNDER THE SMALL LOANS ACT

TABLE 1

Abstract of Small Loans Experience 1940 to 1955

			1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954	1955	
1	Number of licensees Dec. 31	Small Loans Companies	3	3	3	3	3	3	3	4	4	4	4	4	4	4	4	4	1
		Money-lenders	65	66	66	59	50	50	50	55	57	55	56	57	59	58	61	66	
		Totals	68	69	69	62	53	53	53	59	61	59	60	61	63	62	65	70	
2	Number of small loans made during year	Small Loans Companies	101,614	113,556	126,970	144,521	162,242	180,781	245,887	294,602	376,456	434,710	521,701	606,468	668,893	684,418	733,236	735,253	2
		Money-lenders	48,023	50,438	57,272	66,005	71,369	84,149	105,991	128,286	61,999	63,434	64,971	73,706	86,613	86,031	98,485	124,882	
		Totals	149,637	163,994	184,242	210,526	233,611	264,930	351,878	422,888	438,455	498,144	586,672	680,174	755,506	770,449	831,721	860,135	
3	Amount of small loans made during year	Small Loans Companies	$ 13,423,217	$ 15,011,690	$ 16,797,124	$ 19,328,551	$ 23,684,406	$ 27,767,766	$ 40,188,730	$ 50,761,348	$ 69,912,461	$ 86,303,395	$105,746,067	$127,072,745	$147,674,785	$154,802,042	$163,680,051	$162,708,429	3
		Money-lenders	6,991,009	8,026,867	8,798,006	10,377,014	11,590,943	14,122,754	18,193,481	23,282,833	12,131,871	12,963,686	13,549,304	15,866,101	19,486,663	19,701,513	23,016,848	28,539,770	
		Totals	$ 20,414,226	$ 23,038,557	$ 25,595,130	$ 29,705,565	$ 35,275,349	$ 41,890,520	$ 58,382,211	$ 74,044,181	$ 82,044,332	$ 99,267,081	$119,295,371	$142,938,846	$167,161,448	$174,503,555	$186,696,899	$191,248,199	
4	Average small loan made during year	Small Loans Companies	$ 132	$ 132	$ 132	$ 134	$ 146	$ 154	$ 163	$ 172	$ 186	$ 199	$ 203	$ 210	$ 221	$ 226	$ 223	$ 221	4
		Money-lenders	146	159	154	157	162	168	172	181	196	204	209	215	225	229	234	229	
		All Licensees	$ 136	$ 140	$ 139	$ 141	$ 151	$ 158	$ 166	$ 175	$ 187	$ 199	$ 203	$ 210	$ 221	$ 226	$ 224	$ 222	
5	Number of small loan accounts outstanding Dec. 31	Small Loans Companies	66,553	81,378	90,349	99,522	107,732	117,144	159,651	190,068	259,184	289,164	339,020	389,630	408,514	422,215	454,067	444,177	5
		Money-lenders	32,686	37,800	44,371	48,783	51,591	58,563	73,345	92,304	43,961	45,448	46,328	53,329	59,080	60,761	69,561	85,379	
		Totals	99,239	119,178	134,720	148,305	159,323	175,707	232,996	282,372	303,145	334,612	385,348	442,959	467,594	482,976	523,628	529,556	
6	Amount of small loans balances outstanding Dec. 31	Small Loans Companies	$ 6,266,336	$ 7,557,414	$ 8,485,590	$ 9,768,506	$ 11,548,308	$ 13,354,915	$ 20,307,530	$ 24,425,312	$ 36,533,501	$ 43,718,071	$ 51,864,421	$ 61,133,863	$ 67,611,502	$ 71,830,008	$ 76,948,705	$ 74,500,235	6
		Money-lenders	3,585,149	4,187,319	4,696,545	5,231,360	5,785,003	7,020,509	9,309,370	12,411,187	6,115,156	6,545,429	6,742,511	8,126,043	9,378,835	10,010,407	11,874,186	14,324,224	
		Totals	$ 9,851,485	$ 11,744,733	$ 13,182,135	$ 14,999,866	$ 17,333,311	$ 20,375,424	$ 29,616,900	$ 36,836,499	$ 42,648,657	$ 50,263,500	$ 58,606,932	$ 69,259,906	$ 76,990,337	$ 81,840,415	$ 88,822,891	$ 88,824,459	
7	Income earned on small loans during year	Small Loans Companies	$ 1,006,728	$ 1,642,825	$ 1,891,706	$ 2,047,076	$ 2,439,447	$ 2,430,645	$ 2,926,851	$ 4,389,823	$ 6,428,170	$ 8,173,861	$ 10,118,911	$ 12,863,924	$ 15,078,330	$ 16,099,761	$ 17,205,242	$ 17,275,304	7
		Money-lenders	508,535	911,087	1,021,144	1,152,637	1,237,549	1,400,994	1,692,217	2,027,080	1,282,496	1,377,646	1,480,403	1,682,502	2,079,260	2,193,696	2,465,461	2,949,820	
		Totals	$ 1,515,263	$ 2,553,912	$ 2,912,850	$ 3,199,713	$ 3,676,996	$ 3,831,639	$ 4,619,068	$ 6,416,903	$ 7,710,666	$ 9,551,507	$ 11,599,314	$ 14,546,426	$ 17,157,590	$ 18,293,457	$ 19,670,703	$ 20,225,124	
8	Ratio of income earned to average balances outstanding during year (%)	Small Loans Companies	—	23·8%	23·6%	22·4%	22·9%	19·5%	17·4%	19·6%	21·1%	20·4%	21·2%	22·8%	23·4%	23·1%	23·1%	22·8%	8
		Money-lenders	—	23·4	23·0	23·2	22·5	21·9	20·7	18·7	13·8	21·8	22·3	22·6	23·8	22·6	22·5	22·5	
		All Licensees	—	23·7%	23·4%	22·7%	22·7%	20·3%	18·5%	19·3%	19·4%	20·6%	21·3%	22·8%	23·5%	23·0%	23·1%	22·8%	
9	Ratio of net amount written off to average balances outstanding during year (%)	Small Loans Companies	—	0·1%	0·1%	0·1%	0·2%	0·4%	0·3%	0·7%	0·3%	0·2%	0·3%	0·2%	0·2%	0·3%	0·4%	0·5%	9
		Money-lenders	—	0·8	0·9	0·9	0·7	1·4	0·9	1·1	0·7	1·2	1·3	1·1	0·7	0·9	0·9	1·0	
		All Licensees	—	0·3%	0·4%	0·4%	0·4%	0·7%	0·5%	0·8%	0·4%	0·3%	0·4%	0·3%	0·2%	0·4%	0·5%	0·6%	
10	Ratio of net increase in reserves for bad debts to average balances outstanding during year (%)	Small Loans Companies	—	2·7%	0·8%	(−)0·1%	0·1%	(−)0·3%	1·4%	0·5%	0·5%	0·4%	0·6%	0·2%	0·1%	0·2%	0·2%	(−)0·1%	10
		Money-lenders	—	1·0	1·7	1·5	0·4	0·9	0·3	(−)0·1	0·3	0·3	0·4	0·6	0·9	(−)0·3	0·4	0·5	
		All Licensees	—	2·1%	1·1%	0·5%	0·2%	0·1%	1·1%	0·3%	0·5%	0·4%	0·6%	0·3%	0·2%	0·1%	0·2%	0·0%	
11	Ratio of net amount written off plus net increase in reserves for bad debts to average balances outstanding during year (%)	Small Loans Companies	—	2·8%	0·8%	0·0%	0·4%	0·0%	1·7%	1·2%	0·8%	0·6%	0·9%	0·4%	0·3%	0·5%	0·6%	0·4%	11
		Money-lenders	—	1·8	2·6	2·4	1·1	2·3	1·1	0·9	1·1	1·5	1·6	1·7	1·6	0·6	1·4	1·5	
		All Licensees	—	2·4%	1·4%	0·8%	0·6%	0·8%	1·5%	1·1%	0·9%	0·8%	1·0%	0·6%	0·4%	0·5%	0·7%	0·6%	
12	Average cost per outstanding account per month (*including* income tax, net write-offs, net transfers to reserves for bad debts but *excluding* interest on borrowed money)	Small Loans Companies	—	$ 1.44	$ 1.29	$ 1.27	$ 1.39	$ .96	$ 1.33	$ 1.47	$ 1.62	$ 1.64	$ 1.75	$ 2.02	$ 2.14	$ 2.18	$ 2.12	$ 2.08	12
		Money-lenders	—	1.60	1.65	1.62	1.54	1.68	1.57	1.46	1.13	1.82	1.97	2.20	2.35	2.36	2.54	2.82	
		All Licensees	—	$ 1.47	$ 1.41	$ 1.39	$ 1.44	$ 1.20	$ 1.41	$ 1.47	$ 1.51	$ 1.67	$ 1.77	$ 2.04	$ 2.17	$ 2.20	$ 2.17	$ 2.19	
13	Gross earnings on small loans business (*before* paying income taxes and interest on borrowed money but *after* net write-offs and net transfers to reserves for bad debts)	Small Loans Companies	$ 107,293	$ 688,790	$ 992,746	$ 1,152,742	$ 1,407,012	$ 1,247,391	$ 1,148,232	$ 1,901,407	$ 3,039,664	$ 4,184,771	$ 5,271,665	$ 6,970,080	$ 8,123,755	$ 8,497,697	$ 9,332,283	$ 8,944,752	13
		Money-lenders	50,836	270,761	239,958	316,716	402,785	360,086	574,300	800,344	433,305	488,191	516,496	482,579	663,844	627,248	569,474	408,448	
		Totals	$ 158,129	$ 959,551	$ 1,232,704	$ 1,469,458	$ 1,809,797	$ 1,607,477	$ 1,722,532	$ 2,701,751	$ 3,472,969	$ 4,672,962	$ 5,788,161	$ 7,452,659	$ 8,787,599	$ 9,124,945	$ 9,901,757	$ 9,353,200	
14	Ratio of gross earnings to average balances outstanding during year (%)	Small Loans Companies	—	10·0%	12·4%	12·6%	13·2%	10·0%	6·8%	8·5%	10·0%	10·4%	11·0%	12·3%	12·6%	12·2%	12·5%	11·8%	14
		Money-lenders	—	7·0	5·4	6·4	7·3	5·6	7·0	7·4	4·7	7·7	7·7	6·5	7·6	6·5	5·2	3·1	
		All Licensees	—	8·9%	9·9%	10·4%	11·2%	8·5%	6·9%	8·1%	8·7%	10·1%	10·6%	11·7%	12·0%	11·5%	11·6%	10·5%	
15	Net Profit (*after* income tax, interest on borrowed money, net write-offs and net transfers to reserves for bad debts)	Small Loans Companies	(−)$ 68,992	$ 219,881	$ 430,589	$ 526,116	$ 631,057	$ 1,049,455	$ 508,963	$ 860,840	$ 1,295,931	$ 1,819,650	$ 2,167,297	$ 2,460,423	$ 2,861,597	$ 3,232,980	$ 3,512,625	$ 3,245,455	15
		Money-lenders	(−) 40,249	101,190	58,316	73,677	135,538	91,059	183,742	283,798	140,807	180,269	164,387	94,067	189,264	163,092	101,919	(−)120,252	
		Totals	(−)$ 109,241	$ 321,071	$ 488,905	$ 599,793	$ 766,595	$ 1,140,514	$ 692,705	$ 1,144,638	$ 1,436,738	$ 1,999,919	$ 2,331,684	$ $2,554,490	$ 3,050,861	$ 3,396,072	$ 3,614,544	$ 3,125,203	

NOTE 1.—In 1945, items 12 and 15 were distorted by a refund of income tax to a small loans company in the amount of $336,667.
NOTE 2.—In 1948, the division of business between small loans companies and money-lenders was substantially altered by the withdrawal of the largest money-lender from the small loans field and the transfer of its entire small loans business to an associated small loans company.
NOTE 3.—The reduction in the rates of income and earnings between 1944 and 1950 was attributable mainly to reductions in the monthly rates charged by most of the largest lenders, the monthly rate in some cases being 1½% between 1945 and 1948 and 1¼% until 1950.
NOTE 4.—All figures for 1955 are subject to correction.

APPENDIX "B"

LICENSEES UNDER THE SMALL LOANS ACT

TABLE 2

Abstract of Experience—Business other than small loans—1950 to 1955.
(Loans over $500, conditional sale agreements, etc.)

	—	—	1950	1951	1952	1953	1954	1955
1	Amount of balances—other than small loans—outstanding Dec. 31.	Small Loans Companies.....	$ 5,156,705	$ 8,933,116	$14,617,740	$23,105,616	$29,394,323	$44,411,633
		Money-lenders.....	19,091,024	20,980,983	34,966,393	42,952,312	46,430,349	65,112,098
		Totals.....	$24,247,729	$29,914,099	$49,584,133	$66,057,928	$75,824,672	$109,523,731
2	Income earned on business other than small loans.	Small Loans Companies..,.....	$ 769,483	$ 1,715,570	$ 2,564,108	$ 4,380,802	$ 5,990,320	$ 8,064,371
		Money-lenders.....	2,912,533	3,580,061	5,329,560	6,811,744	7,916,962	10,290,455
		Totals.....	$ 3,682,016	$ 5,295,631	$ 7,893,668	$11,192,546	$13,907,282	$ 18,354,826
3	Ratio of income earned to average balances outstanding during year (%).	Small Loans Companies.....	19·8%	24·3%	21·8%	23·2%	22·8%	21·9%
		Money-lenders.....	16·7	17·9	19·0	17·5	17·7	18·5
		All Licensees.....	17·2%	19·6%	19·9%	19·4%	19·6%	19·8%
4	Ratio of net amounts written off to average balances outstanding during year (%).	Small Loans Companies.....	0·5%	0·2%	0·2%	0·2%	0·2%	0·2%
		Money-lenders.....	0·7	1·0	0·6	0·5	0·5	0·5
		All Licensees.....	0·7%	0·8%	0·5%	0·4%	0·4%	0·4%
5	Ratio of net increase in reserves for bad debts to average balances outstanding during year (%).	Small Loans Companies.....	4·3%	0·3%	0·7%	1·2%	0·6%	1·2%
		Money-lenders.....	0·6	0·4	0·8	0·5	0·5	0·6
		All Licensees.....	1·3%	0·4%	0·8%	0·7%	0·5%	0·8%
6	Ratio of net amounts written off plus net increase in reserves for bad debts to average balances outstanding during year (%).	Small Loans Companies.....	4·7%	0·5%	0·8%	1·3%	0·8%	1·4%
		Money-lenders.....	1·3	1·4	1·4	1·0	1·0	1·1
		All Licensees.....	2·0%	1·2%	1·3%	1·1%	0·9%	1·2%
7	Gross earnings on business other than small loans (*before* paying income taxes and interest on borrowed money but *after* net write-offs and net transfer to reserves for bad debts).	Small Loans Companies.....	$ 400,258	$ 1,220,986	$ 1,764,517	$ 2,384,680	$ 3,561,251	$ 4,561,333
		Money-lenders.....	1,321,236	1,612,415	2,556,992	3,507,334	4,264,784	5,079,385
		Totals.....	$ 1,721,494	$ 2,833,401	$ 4,321,509	$ 5,892,014	$ 7,826,035	$ 9,640,718
8	Ratio of gross earnings to average balances outstanding during year (%).	Small Loans Companies.....	10·3%	17·3%	15·0%	12·6%	13·6%	12·4%
		Money-lenders.....	7·6	8·0	8·5	9·0	9·5	9·1
		All Licensees.....	8·1%	10·5%	10·9%	10·2%	11·0%	10·4%
9	Net Profit (*after* income tax, interest on borrowed money, net write-offs and net transfers to reserves for bad debts.)	Small Loans Companies.....	$ 166,721	$ 374,276	$ 572,931	$ 602,743	$ 1,240,179	$ 1,538,540
		Money-lenders.....	454,886	473,421	785,590	1,175,227	1,500,763	1,678,755
		Totals.....	$ 621,607	$ 847,697	$ 1,358,521	$ 1,777,970	$ 2,740,942	$ 3,217,295

APPENDIX "C"

TABLE 3

Total Net Profits*—Small Loans Business and Other Business—1950 to 1955

—	1950	1951	1952	1953	1954	1955
	$	$	$	$	$	$
Small Loans Companies.....	2,334,018	2,834,699	3,434,528	3,835,723	4,752,804	4,783,995
Money-lenders.....	619,273	567,488	974,854	1,338,319	1,602,682	1,558,503
Totals.....	2,953,291	3,402,187	4,409,382	5,174,042	6,355,486	6,342,498

* After income tax, interest on borrowed money, net write-offs and net transfers to reserves for bad debts.

APPENDIX "D"

LICENSEES UNDER THE SMALL LOANS ACT

TABLE 4

Total Profits, Paid Capital, Surplus Paid In, General Reserves and Balance of Profit and Loss Account
Experience 1952 to 1955

Name	Total Profits Before Income Tax				Total Net Profits After Income Tax				**Average Paid Capital				**Average Surplus Paid In				**Average Paid Capital, Surplus Paid In, General Reserves and Balance of P & L Account			
	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955
SMALL LOANS COMPANIES	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$	$
Canadian Acceptance	70,939	73,211	60,773	44,570	33,081	34,677	31,004	23,444	250,000	250,000	250,000	250,000					381,674	415,553	448,393	475,617
Community Finance	153,034	157,851	166,912	137,977	77,396	87,526	90,192	88,952	1,000,000	1,000,000	1,000,000	1,000,000					1,267,451	1,319,911	1,378,770	1,438,342
Household Finance	5,942,511	5,974,907	5,937,260	5,061,394	2,777,511	3,029,907	3,124,260	2,654,758	3,070,000	3,070,000	3,070,000	3,071,250	12,570	12,570	12,570	13,975	6,240,158	7,198,255	8,751,083	8,554,420
Personal Finance	1,354,286	1,798,913	3,185,712	4,052,241	546,540	683,613	1,507,348	2,016,841	250,000	250,000	625,000	1,000,000		5,000,000	9,675,000	9,350,000	1,233,219	6,837,577	13,056,359	14,926,756
Totals, Small Loans Companies	**7,520,770**	**8,004,882**	**9,350,657**	**9,296,182**	**3,434,528**	**3,835,723**	**4,752,804**	**4,783,995**	**4,570,000**	**4,570,000**	**4,945,000**	**5,321,250**	**12,570**	**5,012,570**	**9,687,570**	**9,363,975**	**9,122,502**	**15,771,296**	**23,634,605**	**25,395,135**
MONEY-LENDERS																				
Atlas Thrift	12,483	12,436	21,849	20,903	8,648	9,918	16,943	16,479	77,370	80,420	83,170	83,370					119,607	126,456	137,026	148,182
Bellvue Finance	13,131	20,235	30,274	26,175	9,350	18,798	23,774	19,903	49,400	54,475	56,100	56,100		1,625	3,250	3,250	60,774	74,235	94,508	111,494
†Blake Pierce	102,835	133,625	137,768	113,255	51,804	73,625	76,376	76,597	145,040	112,000	112,000	112,000					202,543	200,657	259,933	326,371
Bradley Finance	−4,457	−9,949	13,811	13,350	−4,571	−9,949	13,027	10,659	29,004	42,002	60,000	65,000					23,327	32,954	56,380	71,325
Budget Financing	3,476	2,787	2,413	2,985	1,669	2,230	1,931	2,388	15,991	15,991	15,991	15,991					24,920	26,863	28,943	31,102
Canadian Personal	21,513	15,548	519	19,009	9,896	4,493	−534	9,835	49,000	49,000	49,000	49,000					141,254	145,932	147,911	152,562
Capital Finance	52,556	111,528	113,934	83,403	23,227	53,849	59,518	49,604	240,000	240,000	240,000	240,000					290,556	314,976	361,539	382,570
Century Credit	−4,365	−21	1,545	1,838	−4,365	−21	1,434	1,710	39,500	39,500	39,500	39,500					24,783	22,057	22,157	23,122
City Loan and Finance	3,230	8,202	8,562	16,290	2,454	6,545	6,826	13,227	55,000	55,000	55,000	55,000					57,201	61,060	67,744	73,898
Cobourg Acceptance	466	451			363	347			25,800	25,800							26,368	27,085		
Commercial Acceptance	9,847	38,502			−7,205	24,930			100,000	106,000							170,289	191,847		
Commercial Credit Plan	166,609	165,119	120,049	191,041	68,414	76,558	59,217	101,141	50,000	50,000	50,000	50,000	10,000	10,000	10,000	10,000	215,763	288,249	356,136	436,315
Commercial Finance	6,305	7,319	5,151	5,869	4,537	5,869	4,101	4,695	40,850	41,100	41,325	41,550					59,496	63,183	65,920	68,055
Consolidated Finance	29,781	18,719	20,272	19,620	15,549	12,058	15,836	15,697	85,050	102,900	46,800	57,900					110,414	128,743	52,820	73,936
Coupland Finance	19,058	5,718	18,852	6,011	12,201	4,520	13,524	3,184	100,000	100,000	100,000	100,000					129,162	137,522	153,108	166,015
Crescent Finance	22,011	25,834	35,446	47,022	13,478	18,975	23,908	30,322	233,865	234,280	234,855	235,430					262,228	267,213	281,733	296,503
Danforth Finance	28,291	16,158	22,373	23,761	28,291	16,158	22,373	23,761	*126,354	*132,579	*135,849	*142,912					126,354	132,579	135,844	142,912
Dollar Finance	8,104	7,082	12,805	9,822	6,621	5,666	10,245	7,858	25,000	25,000	26,000	28,000					32,176	31,549	35,608	40,408
Eastern Finance	1,432	469	174	1,937	1,432	469	174	1,937	*5,566	*6,027	*7,231	*6,306					5,566	6,027	7,231	6,307
Excel Finance	9,139	6,521	5,677	4,926	6,941	5,205	4,551	3,946	93,400	93,400	93,400	96,700					106,628	110,531	113,238	119,526
Fairway Finance	−1,210	16,475	13,060	12,262	−1,210	13,728	10,438	9,809	10,000	10,000	10,000	10,000					6,742	13,001	25,084	35,207
Family Loan	2,958	1,124	1,200		2,368	918	968		32,921	32,921	32,921						33,710	33,977	24,351	
General Finance, Kentville	3,417	5,466	5,100	6,716	2,640	4,349	4,057	5,335	20,193	20,193	20,193	20,193					36,630	39,358	42,961	47,064
General Finance, Toronto	11,150	13,786	16,000	15,279	9,106	11,000	12,797	12,223	36,171	40,000	40,000	40,000					37,081	48,134	60,031	72,541
General Finance, Winnipeg	8,989	4,720	5,196	4,190	7,011	3,735	4,157	3,412	65,000	65,000	65,000	65,000					79,957	85,625	89,661	93,534
Globe Mortgage	9,174	17,219	11,031	9,016	7,073	13,763	8,825	7,197	20,000	20,000	20,000	20,000					58,758	69,375	80,668	88,479
Home Finance	−1,409	3,674	−3,522		−1,409	3,408	−3,255		66,600	73,850	81,100						57,177	65,426	72,753	
Independent Finance	966	19,046	25,054	20,810	754	15,236	18,577	16,429	25,000	56,500	63,900	82,400					25,122	62,713	83,730	117,854
Insurance and Discount	33,191	30,954	33,849	26,850	18,681	21,454	23,063	18,850	98,755	147,505	147,505	147,505					179,360	199,059	221,319	242,275
Maritime Finance	21,310	26,058	26,872	24,849	13,271	21,229	21,638	20,972	363,900	363,900	363,900	363,900					406,508	407,429	412,557	418,128
Merchants Finance	23,227	38,921	46,895	68,711	14,140	23,670	30,408	41,651	38,100	38,100	38,100	38,100					111,006	129,910	154,220	187,520
Merit Finance	6,138	2,584	4,711	3,433	4,779	1,614	2,451	1,833	10,300	10,350	10,400	10,400					12,067	16,618	20,003	22,146
Montreal Acceptance	18,226	38,145	22,828	42,532	2,976	25,183	15,596	27,905	93,220	93,220	93,220	93,220					156,535	175,627	197,910	221,287
National Finance	19,836	8,857	7,195	5,665	19,836	8,857	7,195	5,665	*7,642	*7,642	*7,642	*7,642					61,902	69,806	73,831	76,262
National Plan	35,796	34,739	28,866	28,960	17,181	24,199	20,531	20,621	13,300	13,300	13,300	13,300					220,501	241,209	263,575	284,150
Niagara Finance	651,414	951,114	1,329,852	1,589,540	310,414	482,614	677,852	827,668	850,000	1,050,000	1,100,000	1,100,000	1,025,000	1,975,000	2,200,000	2,200,000	2,205,226	3,751,740	4,606,973	5,359,733
North West Mortgage	1,727	9,696	10,298	2,549	829	7,757	8,243	2,038	68,650	68,650	68,650	68,650					92,999	97,349	105,349	110,489
O'Neill Finance	−662	1,838	2,012	−431	−662	1,838	2,012	−431	*8,972	*13,369	*19,299	*20,795					8,972	13,369	19,298	20,795
Peoples Finance	6,034	6,563	10,717	9,887	6,034	5,385	8,564	7,917	15,750	15,750	15,750	15,750					17,943	20,666	27,510	35,751
Preferred Credit	−31				87				23,859								22,466			
Public Finance	82,691	71,757	48,027	44,198	42,591	39,767	30,203	32,605	104,919	107,724	110,424	113,174					336,327	380,984	419,990	451,122
Regal Finance	1,920				1,920				50,000								43,988			
Reliance Finance	2,574	2,358	3,137	3,283	2,008	1,886	2,510	2,608	30,900	30,900	30,900	30,900					35,438	37,425	39,623	42,182
Schioler and Company	2,087	4,257	7,796	6,565	2,087	4,257	6,925	4,473	*10,354	*11,929	*11,929	*11,929					24,263	29,010	34,602	40,632
Security Loan	10,652	1,571	1,547	564	10,652	1,571	1,547	564	*16,217	*16,217	*16,217	*16,217					60,306	41,710	18,561	19,617
Service Finance	12,963	10,447	23,682	19,619	9,010	4,778	18,325	13,803	30,400	30,400	30,400	54,100					61,053	67,948	71,420	93,783
Standard Credit	10,282	18,435			7,632	14,635			30,000	30,000							86,969	98,103		
Standard Finance	−1,314	−3,221			−1,314	−3,221			185,732	185,732							20,447	18,180		
Sterling Finance	13,285	19,555	19,962	5,621	9,377	15,644	15,969	4,497	62,400	62,400	62,400	62,400					71,573	82,573	85,054	73,517
Strand Finance	7,057	14,842	9,835	5,896	7,057	14,842	9,582	4,665	*95,608	*95,608	99,420	79,850					105,117	105,936	77,243	53,219
Superior Finance	205	383	4,304	8,208	86	110	2,018	4,350	50,000	50,000	50,000	50,000					48,079	49,645	50,709	53,893
Toro Finance	11,652	16,496	16,238	17,991	8,658	13,221	12,985	14,365	10,300	10,300	10,300	10,300					14,102	22,982	31,964	41,520
Trans Canada Credit	409,597	431,747	481,203	730,603	196,597	219,047	245,703	387,103	10,000	10,000	10,000	10,000					264,083	469,315	699,098	1,015,501
Trenton Finance	99				70				40,000								43,373			
Union Finance	−7,443	−9,101	37,323	97,308	−7,443	−9,101	27,123	51,508	25,700	150,700	250,000	250,000					21,081	136,910	245,221	284,538
Victory Finance	1,750	3,852	8,939	10,360	1,363	3,082	7,146	8,288	40,000	40,000	40,000	40,000					45,545	47,769	52,883	60,600
Walker, D.A.	2,070	1,857	1,450	1,596	1,870	1,657	1,450	1,596	*9,679	*9,372	*8,953	*9,706					9,679	9,372	8,953	9,706
District Finance		149	5,136	10,608		116	4,099	8,480		27,500	55,000	55,000						27,434	56,552	62,108
Mercury Finance		3,000	17,368	12,843		2,350	12,668	9,843		15,000	15,000	30,000						15,974	38,282	52,538
Rideau Finance		2,797	9,458	11,943		2,237	7,567	9,554		16,150	32,300	32,300						16,443	35,523	42,745
Saguenay Finance		−8,739	7,851	10,910		−8,739	7,851	10,360		27,500	55,000	55,000						23,007	49,939	59,045
Associates Budget Plan			−698	−95,225			−698	−95,225			50,000	100,000							49,651	51,689
H. Bell Finance			1,205	1,108			964	887			17,500	35,000							17,877	36,197
Empire Finance			−6,617	5,250			−6,617	5,250			20,000	40,000							15,733	34,076
Equitable Finance			−20,572	−20,053			−20,572	−20,053			25,000	50,000							14,714	19,157
Lucerne Finance			18,847	9,721			9,447	5,386			27,500	55,000							31,657	66,008
††P F Credit			−21,200	−316,662			−21,200	−316,662			71,250	821,250							58,783	637,416
Power City Finance			433	17,028			346	13,622			25,000	50,000							23,916	54,643
Astre Finance				−4,186				−4,186				25,125								22,559
Baker Finance				−186				−186				25,250								24,900
Custom Finance				−14,336				−14,336				50,000								42,091
Kent Finance				38,217				23,209				25,200								82,037
Regal Loan				−14,795				−14,795				25,000								17,553
Seaboard Finance				−15,107				−15,107				125,050								117,497
Totals, Money-lenders	**1,911,813**	**2,399,704**	**2,843,342**	**3,066,925**	**974,854**	**1,338,319**	**1,602,682**	**1,558,503**	**4,256,732**	**4,673,156**	**4,781,594**	**5,929,365**	**1,035,000**	**1,986,625**	**2,213,250**	**2,213,250**	**7,311,494**	**9,610,829**	**11,187,511**	**13,765,907**
Grand Totals, All Licensees	**9,432,583**	**10,404,586**	**12,193,999**	**12,363,107**	**4,409,382**	**5,174,042**	**6,355,486**	**6,342,498**	**8,826,732**	**9,243,156**	**9,726,594**	**11,250,615**	**1,047,570**	**6,999,195**	**11,900,820**	**11,577,225**	**16,433,996**	**25,382,125**	**34,822,116**	**39,161 042**

† Now Citizens Finance.

†† Now Pacific Finance Credit.

*Partnership or individual capital.

** The amounts in these columns are the average of the amounts as at January 1 and December 31.

APPENDIX "E"

LICENSEES UNDER THE SMALL LOANS ACT

TABLE 5

Paid Capital, Surplus Paid In, General Reserves and Balance of Profit and Loss Account compared with Borrowed Money.

	1955						
	Average Paid Capital, Surplus Paid In, General Reserves and Balance of P&L Account	Average Amount of Borrowed Money				Interest on Borrowed Money	Average Annual Rate Paid on Borrowed Money
		Banks	Parent Companies and Affiliates	Other Sources	Total		
Small Loans Companies	$	$	$	$	$	$	%
Canadian Acceptance	475,617	—	48,088	—	48,088	—	—
Community Finance	1,438,342	31,962	3,190,372	—	3,222,334	176,475	5·48
Household Finance	8,554,420	—	45,406,905	—	45,406,905	2,024,017	4·46
Personal Finance	14,926,756	4,832,500	32,224,030	—	37,056,530	2,009,411	5·42
Totals, Small Loans Companies	**25,395,135**	**4,864,462**	**80,869,395**	—	**85,733,857**	**4,209,903**	**4·91**
Money-lenders							
Commercial Credit Plan	436,315	—	2,112,500	—	2,112,500	92,250	4·37
Niagara Finance	5,359,733	14,875,000	3,000,000	—	17,875,000	784,199	4·39
Trans Canada Credit	1,015,501	—	9,500,000	—	9,500,000	543,699	5·72
Union Finance	284,538	70,967	1,862,500	—	1,933,467	88,982	4·60
All Others	6,669,820	10,240,774	4,941,309	4,036,217	19,218,300	911,778	4·74
Totals, Money-lenders	**13,765,907**	**25,186,741**	**21,416,309**	**4,036,217**	**50,639,267**	**2,420,908**	**4·78**
Grand Totals, All Licensees 1955	**39,161,042**	**30,051,203**	**102,285,704**	**4,036,217**	**136,373,124**	**6,630,811**	**4·86**
1954	**34,822,116**	**25,801,735**	**85,616,472**	**3,890,587**	**115,308,794**	**5,533,795**	**4·80**
1953	**25,382,125**	**29,947,384**	**73,439,379**	**3,876,956**	**107,263,719**	**4,612,379**	**4·30**
1952	**16,433,996**	**23,183,238**	**67,104,125**	**3,276,030**	**93,563,393**	**3,676,525**	**3·93**

APPENDIX "F"

TABLE 6

Annual Rate of Income Earned on Average Balances Outstanding
(Each class of business separately)

	Small Loans			Loans over $500			Conditional Sale Agreements, etc.		
	1953	1954	1955	1953	1954	1955	1953	1954	1955
Small Loans Companies	%	%	%	%	%	%	%	%	%
Canadian Acceptance	19·1	24·4	23·6	16·8	17·5	17·8	—	—	—
Community Finance	22·7	22·5	22·3	23·9	23·5	23·5	—	—	7·3
Household Finance	23·2	23·2	22·9	—	—	—	—	—	—
Personal Finance	22·7	23·1	22·5	23·6	23·0	22·6	23·7	23·7	21·1
All Small Loans Companies	**23·1**	**23·1**	**22·8**	**23·4**	**22·9**	**22·6**	**23·7**	**23·7**	**18·0**
Money-lenders									
Commercial Credit Plan	23·5	22·7	23·1	21·4	19·9	20·7	—	—	—
Niagara Finance	23·1	23·1	23·5	20·9	22·2	21·9	19·9	21·1	18·9
Trans Canada Credit	22·7	22·1	23·0	23·1	22·0	24·6	15·9	15·9	20·5
Union Finance	19·7	20·2	21·5	18·4	20·7	21·8	—	—	—
All Others	22·1	23·0	21·4	19·3	21·0	20·6	15·5	13·9	12·6
All Money-Lenders	**22·6**	**22·7**	**22·5**	**20·9**	**21·7**	**22·0**	**15·7**	**14·5**	**14·0**
All Licensees	**23·0**	**23·1**	**22·8**	**22·0**	**22·3**	**22·3**	**16·3**	**15·2**	**14·3**

APPENDIX "G"

LICENSEES UNDER THE SMALL LOANS ACT

TABLE 7

Ratios (%) of Losses and Expenses to Income 1952 to 1955

—	Net Amount Written Off plus Net Transfer to Reserve for Bad Debts												Advertising												Salaries and Directors' Fees												Other Expenses Except Income Tax and Interest on Borrowed Money												Total Losses and Expenses Except Income Tax and Interest on Borrowed Money											
	Small Loans				Other Business				Total Business				Small Loans				Other Business				Total Business				Small Loans				Other Business				Total Business				Small Loans				Other Business				Total Business				Small Loans				Other Business				Total Business			
	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955	1952	1953	1954	1955
Small Loans Companies	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
Canadian Acceptance	3·7	−1·1	3·3	3·2	2·4	−·5	2·4	−4·7	2·7	−·6	2·6	−2·7	—	—	—	—	—	—	—	—	—	—	—	—	23·2	22·4	18·4	18·8	10·8	10·8	10·1	10·4	13·6	13·3	12·1	12·5	16·8	17·1	12·0	15·7	7·8	8·2	7·6	10·5	9·8	10·2	8·7	11·8	43·7	38·4	33·7	37·7	21·0	18·5	20·1	16·2	26·1	22·9	23·4	21·6
Community Finance	3·6	6·2	6·1	−3·4	·3	—	2·5	20·0	3·4	5·2	5·2	4·6	2·9	4·2	3·9	3·6	·8	1·2	·9	3·6	2·8	3·7	3·2	3·6	38·2	40·4	44·7	48·0	8·3	8·5	10·3	20·5	36·0	35·4	36·4	38·7	24·4	24·3	25·5	26·9	5·4	5·3	5·9	14·4	23·0	21·3	20·8	22·7	69·1	75·1	80·2	75·1	14·8	15·0	19·6	58·5	65·2	65·6	65·6	69·6
Household Finance	·6	1·3	1·7	2·0	—	—	—	—	·6	1·3	1·7	2·0	4·0	4·1	3·9	3·6	—	—	—	—	4·0	4·1	3·9	3·6	21·7	23·0	20·7	22·6	—	—	—	—	21·7	23·0	20·7	22·6	12·9	13·8	13·0	14·8	—	—	—	—	12·9	13·8	13·0	14·8	39·2	42·2	39·3	43·0	—	—	—	—	39·2	42·2	39·3	43·0
Personal Finance	3·1	5·3	5·0	1·7	4·0	5·9	3·5	5·7	3·6	5·7	4·1	4·3	12·1	4·7	5·0	4·7	3·2	4·8	5·0	4·8	7·2	4·7	5·0	4·7	35·4	28·2	29·6	30·6	14·2	18·4	18·6	18·4	23·7	22·4	22·9	22·7	29·9	25·2	21·9	22·3	10·5	17·9	14·4	14·0	19·2	20·8	17·4	16·9	80·5	63·4	61·5	59·3	31·9	47·0	41·5	42·9	53·7	53·6	49·4	48·6
All Small Loans Companies	**1·1**	**2·2**	**2·7**	**1·8**	**3·9**	**5·7**	**3·5**	**6·3**	**1·5**	**2·9**	**2·9**	**3·2**	**5·1**	**4·2**	**4·1**	**3·8**	**3·1**	**4·6**	**4·8**	**4·7**	**4·8**	**4·3**	**4·3**	**4·1**	**24·3**	**24·7**	**23·6**	**25·5**	**14·0**	**18·0**	**18·2**	**18·5**	**22·8**	**23·2**	**22·2**	**23·3**	**15·7**	**16·2**	**15·4**	**17·1**	**10·3**	**17·3**	**14·0**	**14·0**	**14·9**	**16·5**	**15·1**	**16·1**	**46·2**	**47·3**	**45·8**	**48·2**	**31·3**	**45·6**	**40·5**	**43·5**	**44·0**	**46·9**	**44·5**	**46·7**
Money-lenders											

APPENDIX "H"

LICENSEES UNDER THE SMALL LOANS ACT

TABLE 8

Ratios (%) of Income, Losses, Expenses and Gross Earnings to Average Assets.

	Year	Average Assets (Less Reserves for Bad Debts and Unearned Charges)		Income		Net Amount Written Off plus Net Transfer to Reserve for Bad Debts		Advertising		Salaries and Directors' Fees		Other Expenses Except Income Tax and Interest on Borrowed Money		Total Losses and Expenses Except Income Tax and Interest on Borrowed Money		Gross Earnings Before Income Tax and Interest on Borrowed Money	
		Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Small Loans Companies		$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Canadian Acceptance	1952	705,273	100·0	100,295	14·2	2,718	·4	—	—	13,591	1·9	9,844	1·4	26,153	3·7	74,142	10·5
	1953	715,181	100·0	96,174	13·5	−587	−·1	—	—	12,790	1·8	9,767	1·4	21,970	3·1	74,204	10·4
	1954	631,771	100·0	79,360	12·5	2,083	·3	—	—	9,620	1·5	6,884	1·1	18,587	2·9	60,773	9·6
	1955	541,729	100·0	56,875	10·5	−1,541	−·3	—	—	7,128	1·3	6,718	1·3	12,305	2·3	44,570	8·2
Community Finance	1952	3,018,164	100·0	716,247	23·7	24,031	·8	19,956	·7	257,957	8·5	164,969	5·4	466,913	15·4	249,334	8·3
	1953	3,396,346	100·0	791,143	23·3	41,459	1·2	29,447	·9	279,721	8·2	168,257	5·0	518,884	15·3	272,259	8·0
	1954	3,785,496	100·0	867,911	22·9	45,069	1·2	27,592	·7	316,120	8·3	180,582	4·8	569,363	15·0	298,548	7·9
	1955	4,704,545	100·0	1,031,422	21·9	47,100	1·0	37,176	·8	399,003	8·5	233,691	4·9	716,970	15·2	314,452	6·7
Household Finance	1952	53,026,356	100·0	12,395,224	23·4	80,076	·2	501,832	·9	2,693,712	5·1	1,603,643	3·0	4,879,263	9·2	7,515,961	14·2
	1953	55,021,200	100·0	12,617,929	22·9	153,138	·3	520,747	·9	2,906,591	5·3	1,741,756	3·1	5,322,232	9·6	7,295,697	13·3
	1954	55,801,723	100·0	12,759,707	22·9	224,245	·4	498,373	·9	2,643,428	4·7	1,657,186	3·0	5,023,232	9·0	7,736,475	13·9
	1955	55,365,364	100·0	12,447,495	22·5	254,436	·5	447,419	·8	2,809,418	5·1	1,850,811	3·3	5,362,084	9·7	7,085,411	12·8
Personal Finance	1952	21,787,946	100·0	4,437,801	20·4	158,800	·7	321,330	1·5	1,054,890	4·8	853,946	4·0	2,388,966	11·0	2,048,835	9·4
	1953	31,978,611	100·0	6,977,429	21·8	395,843	1·2	330,168	1·0	1,560,309	4·9	1,450,892	4·6	3,737,212	11·7	3,240,217	10·1
	1954	42,489,346	100·0	9,490,136	22·3	391,074	·9	473,911	1·1	2,177,913	5·1	1,649,500	3·9	4,692,398	11·0	4,797,738	11·3
	1955	53,518,761	100·0	11,805,371	22·0	509,811	1·0	560,719	1·0	2,679,196	5·0	1,993,993	3·7	5,743,719	10·7	6,061,652	11·3
Totals, Small Loans Companies	**1952**	**78,537,739**	**100·0**	**17,649,567**	**22·5**	**265,625**	**·3**	**843,118**	**1·1**	**4,020,150**	**5·1**	**2,632,402**	**3·4**	**7,761,295**	**9·9**	**9,888,272**	**12·6**
	1953	**91,111,338**	**100·0**	**20,482,675**	**22·4**	**589,853**	**·6**	**880,362**	**1·0**	**4,759,411**	**5·2**	**3,370,672**	**3·7**	**9,600,298**	**10·5**	**10,882,377**	**11·9**
	1954	**102,708,336**	**100·0**	**23,197,114**	**22·6**	**662,471**	**·6**	**999,876**	**1·0**	**5,147,081**	**5·0**	**3,494,152**	**3·4**	**10,303,580**	**10·0**	**12,893,534**	**12·6**
	1955	**114,130,399**	**100·0**	**25,341,163**	**22·2**	**809,806**	**·7**	**1,045,314**	**·9**	**5,894,745**	**5·2**	**4,085,213**	**3·6**	**11,835,078**	**10·4**	**13,506,085**	**11·8**
Money-lenders																	
Commercial Credit Plan	1952	1,748,624	100·0	383,865	22·0	12,397	·7	23,906	1·4	105,797	6·1	27,752	1·6	169,852	9·8	214,013	12·2
	1953	1,862,542	100·0	405,197	21·8	7,089	·4	25,249	1·4	116,055	6·2	26,534	1·4	174,927	9·4	230,270	12·4
	1954	1,929,092	100·0	400,188	20·7	18,109	·9	32,393	1·7	131,338	6·8	32,055	1·6	213,895	11·0	186,293	9·7
	1955	2,595,536	100·0	559,990	21·6	38,781	1·5	30,059	1·2	160,755	6·2	47,104	1·8	276,699	10·7	283,291	10·9
Niagara Finance	1952	10,614,070	100·0	2,554,719	24·0	228,110	2·1	120,459	1·1	685,341	6·5	508,626	4·8	1,542,536	14·5	1,012,183	9·5
	1953	15,315,238	100·0	3,329,971	21·7	183,469	1·2	144,435	·9	835,882	5·5	706,828	4·6	1,870,614	12·2	1,459,357	9·5
	1954	19,001,357	100·0	4,292,411	22·6	251,305	1·3	174,325	·9	1,008,685	5·3	862,214	4·6	2,296,529	12·1	1,995,882	10·5
	1955	23,686,386	100·0	5,290,381	22·3	331,732	1·4	215,740	·9	1,234,808	5·2	1,134,362	4·8	2,916,642	12·3	2,373,739	10·0
Trans Canada Credit	1952	5,827,004	100·0	1,373,212	23·6	47,189	·8	53,368	·9	274,045	4·7	260,443	4·5	635,045	10·9	738,167	12·7
	1953	7,817,536	100·0	1,660,298	21·2	46,516	·6	69,919	·9	324,314	4·1	356,642	4·6	797,391	10·2	862,907	11·0
	1954	8,583,367	100·0	1,744,867	20·3	34,811	·4	96,307	1·1	366,532	4·3	329,897	3·8	827,547	9·6	917,320	10·7
	1955	10,839,368	100·0	2,504,616	23·1	95,641	·9	162,651	1·5	418,557	3·9	553,465	5·0	1,230,314	11·3	1,274,302	11·8
Union Finance	1952	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
	1953	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
	1954	1,198,729	100·0	247,219	20·6	31,276	2·6	12,982	1·1	63,073	5·3	58,984	4·9	166,315	13·9	80,904	6·7
	1955	2,234,223	100·0	489,830	21·9	32,784	1·5	27,889	1·2	138,610	6·2	104,257	4·7	303,540	13·6	186,290	8·3
All Others	1952	16,860,216	100·0	3,127,178	18·5	246,542	1·5	100,610	·6	987,033	5·9	536,520	3·1	1,870,705	11·1	1,256,473	7·4
	1953	21,179,370	100·0	3,648,874	17·2	207,232	1·0	116,797	·6	1,081,272	5·1	661,525	3·0	2,066,826	9·7	1,582,048	7·5
	1954	21,441,530	100·0	3,723,843	17·4	247,665	1·2	116,308	·5	1,090,152	5·1	615,859	2·9	2,069,984	9·7	1,653,859	7·7
	1955	26,601,265	100·0	4,444,391	16·7	309,720	1·2	239,207	·9	1,494,134	5·6	1,031,119	3·8	3,074,180	11·5	1,370,211	5·2
Totals, Money-lenders	**1952**	**35,049,914**	**100·0**	**7,438,974**	**21·2**	**534,238**	**1·5**	**298,343**	**·9**	**2,052,216**	**5·8**	**1,333,341**	**3·8**	**4,218,138**	**12·0**	**3,220,836**	**9·2**
	1953	**46,174,686**	**100·0**	**9,044,340**	**19·6**	**444,306**	**1·0**	**356,400**	**·7**	**2,357,523**	**5·1**	**1,751,529**	**3·8**	**4,909,758**	**10·6**	**4,134,582**	**9·0**
	1954	**52,154,075**	**100·0**	**10,408,528**	**20·0**	**583,166**	**1·1**	**432,315**	**·8**	**2,659,780**	**5·1**	**1,899,009**	**3·7**	**5,574,270**	**10·7**	**4,834,258**	**9·3**
	1955	**65,956,778**	**100·0**	**13,289,208**	**20·1**	**808,658**	**1·2**	**675,546**	**1·0**	**3,446,864**	**5·2**	**2,870,307**	**4·4**	**7,801,375**	**11·8**	**5,487,833**	**8·3**
Grand Totals, All Licensees	**1952**	**113,587,653**	**100·0**	**25,088,541**	**22·0**	**799,863**	**·7**	**1,141,461**	**1·0**	**6,072,366**	**5·3**	**3,965,743**	**3·5**	**11,979,433**	**10·5**	**13,109,108**	**11·5**
	1953	**137,286,024**	**100·0**	**29,527,015**	**21·5**	**1,034,159**	**·8**	**1,236,762**	**·9**	**7,116,934**	**5·2**	**5,122,201**	**3·7**	**14,510,056**	**10·6**	**15,016,959**	**10·9**
	1954	**154,862,411**	**100·0**	**33,605,642**	**21·7**	**1,245,637**	**·8**	**1,432,191**	**·9**	**7,806,861**	**5·1**	**5,393,161**	**3·5**	**15,877,850**	**10·3**	**17,727,792**	**11·4**
	1955	**180,087,177**	**100·0**	**38,630,371**	**21·4**	**1,618,464**	**·9**	**1,720,860**	**1·0**	**9,341,609**	**5·2**	**6,955,520**	**3·8**	**19,636,453**	**10·9**	**18,993,918**	**10·5**

*Included with "All Others".

APPENDIX "I"

LICENSEES UNDER THE SMALL LOANS ACT

TABLE 9

Rates of Earnings

—	1952			1953			1954		
	Average Assets (Less reserves for bad debts and unearned charges)	Gross Earnings (*Before* income tax and interest; *after* write-offs and transfers to reserves for bad debts)	Gross Rate Earned on Average Assets	Average Assets (Less reserves for bad debts and unearned charges)	Gross Earnings (*Before* income tax and interest; *after* write-offs and transfers to reserves for bad debts)	Gross Rate Earned on Average Assets	Average Assets (Less reserves for bad debts and unearned charges)	Gross Earnings (*Before* income tax and interest; *after* write-offs and transfers to reserves for bad debts)	Gross Rate Earned on Average Assets
Small Loans Companies	$	$	%	$	$	%	$	$	%
Canadian Acceptance	705,273	74,142	10·5	715,181	74,204	10·4	631,771	60,773	9·6
Community Finance	3,018,164	249,334	8·3	3,396,346	272,259	8·0	3,785,496	298,548	7·9
Household Finance	53,026,356	7,515,961	14·2	55,021,200	7,295,697	13·3	55,801,723	7,736,475	13·9
Personal Finance	21,787,946	2,048,835	9·4	31,978,611	3,240,217	10·1	42,489,346	4,797,738	11·3
Totals, Small Loans Companies	**78,537,739**	**9,888,272**	**12·6**	**91,111,338**	**10,882,377**	**11·9**	**102,708,336**	**12,893,534**	**12·6**
Money-lenders									
Commercial Credit Plan	1,748,624	214,013	12·2	1,862,542	230,270	12·4	1,929,092	186,293	9·7
Niagara Finance	10,614,070	1,012,183	9·5	15,315,238	1,459,357	9·5	19,001,357	1,995,882	10·5
Trans Canada Credit	5,827,004	738,167	12·7	7,817,536	862,907	11·0	8,583,367	917,320	10·7
Union Finance	*	*	*	*	*	*	1,198,729	80,904	6·7
All Others	16,860,216	1,256,473	7·4	21,179,370	1,582,048	7·5	21,441,530	1,653,859	7·7
Totals, Money-Lenders	**35,049,914**	**3,220,836**	**9·2**	**46,174,686**	**4,134,582**	**9·0**	**52,154,075**	**4,834,258**	**9·3**
Grand Totals, all Licensees	**113,587,653**	**13,109,108**	**11·5**	**137,286,024**	**15,016,959**	**10·9**	**154,862,411**	**17,727,792**	**11·4**

* Included with "All Others".

—	1955										
	Average Assets (Less reserves for bad debts and unearned charges)	Income Earned on			Gross Earnings (*Before* income tax and interest; *after* write-offs and transfers to reserves for bad debts)	Gross Rate Earned on Average Assets	Net Earnings (*Before* interest; *after* income tax, write-offs and transfers to reserves for bad debts)	Net Rate Earned on Average Assets	Average Paid Capital, Surplus Paid In, General Reserves and Balance of P. & L. Account	Net Profits (*After* interest, income tax, write-offs and transfers to reserves for bad debts)	Ratio of Net Profits to Paid Capital, Surplus, etc.
		Small Loans	Loans over $500	Conditional Sale Agts., etc.							
Small Loans Companies	$	$	$	$	$	%	$	%	$	$	%
Canadian Acceptance	541,729	14,215	42,660	—	44,570	8·2	23,444	4·3	475,617	23,444	4·9
Community Finance	4,704,545	680,434	334,305	16,682	314,452	6·7	265,427	5·6	1,438,342	88,952	6·2
Household Finance	55,365,364	12,446,336	—	—	7,085,411	12·8	4,678,775	8·5	8,554,420	2,654,758	31·0
Personal Finance	53,518,761	4,134,319	7,508,797	161,927	6,061,652	11·3	4,026,252	7·5	14,926,756	2,016,841	13·5
Totals, Small Loans Companies	**114,130,399**	**17,275,304**	**7,885,762**	**178,609**	**13,506,085**	**11·8**	**8,993,898**	**7·9**	**25,395,135**	**4,783,995**	**18·8**
Money-lenders											
Commercial Credit Plan	2,595,536	284,885	275,105	—	283,291	10·9	193,391	7·5	436,315	101,141	23·2
Niagara Finance	23,686,386	1,106,939	4,112,324	71,119	2,373,739	10·0	1,611,868	6·8	5,359,733	827,668	15·4
Trans Canada Credit	10,839,368	345,417	1,757,593	400,369	1,274,302	11·8	930,801	8·6	1,015,501	387,103	38·1
Union Finance	2,234,223	229,200	260,630	—	186,290	8·3	140,490	6·3	284,538	51,508	18·1
All Others	26,601,265	983,379	2,150,592	1,262,723	1,370,211	5·2	1,102,861	4·1	6,669,820	191,083	2·9
Totals, Money-Lenders	**65,956,778**	**2,949,820**	**8,556,244**	**1,734,211**	**5,487,833**	**8·3**	**3,979,411**	**6·0**	**13,765,907**	**1,558,503**	**11·3**
Grand Totals, all Licensees	**180,087,177**	**20,225,124**	**16,442,006**	**1,912,820**	**18,993,918**	**10·5**	**12,973,309**	**7·2**	**39,161,042**	**6,342,498**	**16·2**

NOTE RE 1955: The rates of earnings of "All Other" money-lenders were greatly depressed during 1955 by the negative earnings of several new lenders licensed during 1954 and 1955 (See Table 4). If these new lenders that operated at a loss were excluded, the "Gross Rate Earned on Average Assets" of "All Others" in 1955 would have been increased from 5·2% to 7·5%, the "Net Rate Earned on Average Assets" would have been increased from 4·1% to 6·4% and the "Ratio of Net Profits to Paid Capital, Surplus, etc." would have been increased from 2·9% to 11·7%.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 14

Bill 51

An Act to amend the Small Loans Act

TUESDAY, JULY 3, 1956

WITNESS:

Mr. K. R. MacGregor, Superintendent of Insurance

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Argue
Ashbourne
Bell
Benidickson
Blackmore
Cameron *(Nanaimo)*
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Fleming
Follwell
Fraser *(Peterborough)*
Fraser *(St. John's East)*
Fulton
Gour *(Russell)*
Hanna
Henderson
Hollingworth
Huffman
Low
Lusby
Macdonnell *(Greenwood)*
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Macnaughton
Matheson
Michener
Mitchell *(London)*
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Pallett
Philpott
Power *(Quebec South)*
Quelch
Regier
Richardson
Robichaud
Rouleau
St. Laurent *(Temiscouata)*
Stewart *(Winnipeg North)*
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White *(Waterloo South)*

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, July 3, 1956

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day, Mr. John W. G. Hunter, the Chairman, presiding.

Members present: Messrs. Argue, Ashbourne, Bell, Cameron *(Nanaimo)*, Crestohl, Enfield, Fairey, Fleming, Follwell, Fraser *(St. John's East)*, Gour *(Russell)*, Hanna, Hollingworth, Huffman, Hunter, Matheson, Michener and Regier.

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urqurhart, Administrative Officer; all of the Department of Insurance; and representatives of certain Small Loan Companies and interested organizations.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. MacGregor continued the reading of his statement on the Small Loans Act and was questioned at length thereon.

At 1.05 o'clock p.m., the Committee adjourned until 11.00 o'clock a.m. on Thursday, July 5, 1956.

Eric H. Jones,
Clerk of the Committee.

76342—1½

EVIDENCE

TUESDAY,
July 3rd, 1956
11 a.m.

The CHAIRMAN: Gentlemen, we have a quorum. You will recall that at the last meeting Mr. MacGregor had reached the bottom of the first paragraph on page 22 of his statement.

Mr. MacGregor would you care to proceed?

Mr. K. R. MacGregor, Superintendent of Insurance, called:

The WITNESS: Mr. Chairman and hon. members: I had begun to make a few brief comments concerning earnings when the last meeting was adjourned. If I may, I shall proceed from there.

There are several ways in which earnings or profits are measured in this business but no one method is free from question or provides a conclusive standard. If it is desired to measure the rate of return per dollar used in the business, regardless of whether that dollar comes from capital or is borrowed, then the interest paid on borrowed money should be ignored. This would be the case where earnings are expressed as a percentage of average loan balances, average assets or average total funds employed. If it is desired to measure the rate of return in relation to the lender's own funds or proprietary interest, so to speak, interest paid on borrowed money should then be treated as an expense. Sometimes earnings are quoted on the basis of the original amount of loans made rather than average loan balances and since the former are usually about twice as large as the latter, rates of earnings on this basis are about 50 per cent of the rates based on average loan balances.

In view of the many possible pitfalls, great care must be exercised in the interpretation of rates of earnings. No single method can be relied upon to prove whether the rates of earnings or profits are reasonable or unreasonable. The actual profits, rather than the rates, are probably the determining factor in attracting lenders to or discouraging them from the small loans field. The rates shown opposite item 14 of Table 1 are on the "gross" basis, i.e., before paying interest on borrowed money or income taxes. They are thus independent of the latter varying influences. These rates are put forward in this form mainly to show the trend of the inherent earning capacity of the total funds employed. Although a decline is indicated in recent years, especially in 1955, this is attributable mainly to the expansion in the industry, involving many new lending offices that take time to produce. Evidence of this strain is more apparent from an examination of the profits shown in Table 4 for new licensees during 1954 and 1955, listed towards the bottom of the table. As will be seen, most new licensees operate at a substantial loss for the first year or two until they get established.

The final item 15 in Table 1 shows the actual net profits on loans of $500 or less, after all expenses including interest on borrowed money and income taxes have been paid. The decrease in profits in 1955 is again largely the result of losses amongst new licensees, of the strain of expansion, and probably to some extent also, of somewhat higher costs generally. It is difficult to segregate

the effect of each of these influences. However, the decrease in profits should not, in my opinion, be interpreted as any indication that the rates of charges for loans in this lower area are inadequate.

Table 2 gives an abstract of the experience for business other than small loans since 1950 because it is only since then that the volume of loans over $500 has increased so rapidly. The data relate to loans over $500 and also to financed paper such as conditional sale agreements, etc., where licensees are conducting that kind of finance business as well as making loans. Although the balances of small loans outstanding only increased from $58,606,932 at the end of 1950 to $88,824,459 at the end of 1955, or by 52 per cent—see item 6 of Table 1—the balances of loans over $500 and other business increased during the same period from $24,247,729 to $109,523,731, or by 352 per cent. This clearly shows where most of the business is now done and the need for consideration of the charges being made for loans over $500. Of the total balances of $109,523,731 outstanding at the end of 1955, $93,634,713 related to loans over $500 as compared with $62,585,440 at the end of the previous year. The balances ($93,634,713) of loans over $500 made by licensees alone now exceeds the balances—$88,824,459—of loans of $500 or less and it is known from data furnished through the courtesy of Household Finance Corporation Limited that that unlicensed company has an additional volume of loans over $500 amounting to $91,000,000. These figures still leave out of consideration loans made by all other unlicensed lenders.

By Mr. Michener:

Q. Would Mr. MacGregor say how many other unlicensed lenders there are?—A. We simply do not know, Mr. Michener.

Q. Thank you.—A. I do not think anyone knows accurately.

By the Chairman:

Q. How much of that balance that you showed on the previous page of your statement, where you said: "other business increased during the same period from $24,247,729 to $109,523,731, or by 352 per cent"—how much of that $24 million odd and $109 million odd would be straight loans over $500, and how much of it would be for conditional sales agreements or that type of thing?—A. I cannot give you the division for the $24 million odd outstanding at the end of 1950 because the annual statement blank at that time did not show the two separately. I have, however, given the division of the amount of the $109 million odd.

Q. Is that in the tables?—A. No, it is in the text; and the total balance of $109 million odd outstanding at the end of 1955 includes loans over $500 amounting to $93 million.

By Mr. Regier:

Q. At the bottom of page 23 of your statement it reads: "...the balances of loans over $500 and other business increased during the same period from $24,247,729 to $109,523,731, or by 266 per cent."

Is that correct?

Mr. CAMERON (*Nanaimo*): Which is the right one? I have $24 million odd or by 352 per cent.

The WITNESS: Your's is incorrect, Mr. Regier; your's was an earlier draft, and I cannot explain how that page got into your copy.

By Mr. Cameron (Nanaimo):

Q. It should be $29 million odd?—A. The correct figures are $24,247,729 at the end of 1950 and that total increased to $109,523,731 at the end of 1955, or by 352 per cent.

Q. Then Mr. Regier's copy is wrong?—A. I recognize the percentage of 266 per cent that you mentioned, but I am sorry; that was an earlier draft which should have been replaced by a new page.

By Mr. Hollingworth:

Q. With respect to the $109 million odd, should one add to that $91 million odd from Household Finance?—A. If one is thinking of loans over $500 only, the total balance of such loans on the books of licensees at the end of 1955 was $93,634,713; to that total for licensees should be added, however, $91 million odd relating to balances of loans over $500, for H.F.C. Limited.

By Mr. Michener:

Q. Perhaps you could give us some indication of how many unlicensed lenders there are by considering who they might be. First, I would ask if Mr. MacGregor knows actually of any unlicensed lenders of that class other than Household Finance Corporation Limited?—A. We know of some, Mr. Michener, but I think it would be a broad guess at the very best if one were to estimate either the number of such lenders or the extent of their business.

Q. They would be persons or companies who are not engaged in the small loans field that you know of; therefore they must be lending exclusively in amounts of $500 or more, and would they also have to be corporations?—A. Not necessarily.

Q. Or individuals?—A. They might be either individuals or corporations.

Q. If those are corporations, would there be no record of them in the Dominion Bureau of Statistics or other return-requiring departments?

Mr. CAMERON (*Nanaimo*): Perhaps they are provincial companies?

The WITNESS: I am afraid there is no record of the total volume of personal loans of all sizes in Canada. I do not think there are any data available, that is, data sub-divided by size of the loan.

By Mr. Michener:

Q. Have you any reason to think that there is any substantial volume of this kind of lending which is neither banking nor licensed?—A. I think there is a substantial volume but really I do not know how much. I do not think the industry knows how much, and I do not think that anyone knows accurately how much.

By Mr. Regier:

Q. Wouldn't all the new automobiles be financed by such companies and make up the large amount?—A. Well, that is really a different field.

By Mr. Michener:

Q. Does Mr. MacGregor know of any individuals who are doing business in a substantial way in this field?—A. Not in a substantial way comparable to these figures of millions. In a sense we are in the same position with respect to our knowledge of loans over $500 by other than licensees as we were back in 1939 with respect to the field of loans of $500 and under. Those lenders are not required to report to anyone and there are no consolidated data available with respect to them.

By Mr. Fleming:

Q. With respect to the Dominion Bureau of Statistics lacking the power to compel any form of report, it is up to the Dominion Bureau of Statistics itself to send out a questionnaire to perhaps selected individuals or companies in this field and it would only have knowledge and base its tests or sample results on the information it got?—A. That is my understanding, Mr. Fleming,

namely, that the figures of personal loans in Canada compiled by the Dominion Bureau of Statistics relate mainly, if not exclusively, to such loans made by the chartered banks, the small loan companies licensed money lenders, and credit unions.

By Mr. Michener:

Q. Would it be a fair conclusion to say that if there were any substantial volume of business of this kind done in a systematic way through branches and advertising, that it would be known?—A. Yes, I believe so.

Q. So we can assume that the total business done by other unlicensed lenders would not approach the business done by the Household Finance Corporation?—A. I am quite certain that it does not.

Q. I suppose that we can make use of these figures or rely upon them to this extent: that these are known figures we are dealing with here, and there is an addition of an unknown amount to be made to them, and how many persons or corporations are participating in that additional unknown volume of business is, itself, unknown.—A. That is correct.

Q. May I ask one more question: have you any idea at all, or anything to guide you, as to whether the number of these so-called licensed loans is growing, or has there been a tendency here for consolidation in the hands of the larger firms such as the four small loan companies?—A. I would expect that the number is growing.

Q. You say that you expect that the number is growing?—A. I would expect so.

Q. Even with the growth in the volume of business done by the larger corporations you are of the opinion that the number of unlicensed lenders is growing too?—A. If I were asked to guess, I would guess in the affirmative.

The CHAIRMAN: He already said that he does not know. This is a matter of opinion.

By Mr. Fleming:

Q. Would that apply to his last answer?—A. We do not know the full extent of the personal loan business in the larger loan area above $500 which is presently unregulated, but we do know that there has been a terrific expansion in that field by the licensed lenders, so I would expect the trend or the increase in the case of unlicensed lenders to be somewhat similar.

Q. There is nothing more than that?—A. There is nothing more than that.

Q. To guide you in the answer which you gave me on a previous occasion?—A. Nothing more.

Q. Someone might be doing more business without an increase in the number engaged in that business?

The CHAIRMAN: This is not getting us anywhere. We are only guessing. We do not know.

Mr. FLEMING: I want to be sure that we are not drawing unwarranted conclusions.

Mr. HOLLINWORTH: We do know that more loans have been made over the last few years.

The CHAIRMAN: You do not want to make it a round figure?

Mr. CRESTOHL: Licensed lenders who lend under $500—those figures you have; and if some of those licensees lend over $500, you already have those figures?

The CHAIRMAN: That is correct.

By Mr. Crestohl:

Q. Are there licensed lenders or lenders who have licences to lend up to $500, and who lend above $500, for which they naturally require no licence?

I think you have only one such institution and that is the Household Finance Corporation; they have got a licence.—A. If I understand your question correctly, Mr. Crestohl, most licensed lenders make loans above $500 as well as below $500. Household Finance Corporation of Canada is the one notable exception, because that licensee restricts its business to loans of $500 or less. The associated company, Household Finance Corporation Limited, which is not licensed, confines its business to lending above $500.

Q. Do you have access to its records?—A. Through the courtesy of the company, they have furnished us with their financial statements in recent years and it is from such sources that I quote the figure of $91 million odd of loans above $500 for Household Finance Corporation Limited at the end of 1955.

Q. Where you have a licensed lender, do you receive from them any information on loans above $500?—A. Yes, we have in every case.

Q. Is there an obligation upon them to supply it to you?—A. Yes.

Q. Or is it done voluntarily?—A. It is an obligation. The annual statement required to be filed by each licensee shows the portion of its business in the small loan field, in the field of loans over $500, and in the field of financial paper. Unfortunately the subdivision between loans over $500 and financial paper has only been made since 1953, but we have always had their small loans business shown separately from their other business.

Q. But there is some device used by Household Finance by which they are not obligated to give you information on loans over $500?—A. They have a separate company which is unlicensed and with which we have no connection.

Q. Does it have a similar name?—A. Household Finance Corporation Limited.

Q. That is the device I referred to. But they do give you the figures as a matter of courtesy?—A. They have, sir, over the past few years.

The CHAIRMAN: It is not fair to use the word "device". They are not circumventing anything because they have given you the figures anyway, as a matter of courtesy.—A. We have them for recent years.

By Mr. Cameron (Nanaimo):

Q. Do they make available to you all the figures relating to loans—the same information that you get from the licensed companies?—A. No. It is not in the same detail. I think that if we asked them for it we would probably get it. We have their balance sheet, income, expenditure, and the volume of their loans. We have practically similar data. We sent a circular out last year asking licensees to classify their loans by size and Household Finance Limited, the unlicensed company, furnished the same information as was furnished by the licensed companies. I would not say we have the same detail but we have it substantially.

Q. Do they furnish you all the detail on the interest rates of loans over $500?—A. Yes.

By Mr. Crestohl:

Q. Would it not help matters if licences were required by all lenders regardless of the amount?—A. One of the proposals in the bill is to raise from $500 to $1500 the area of loans for which a licence would be required.

Mr. Chairman, I realize that we are dealing with intangibles here, but in the statement Mr. MacGregor makes is the following:

> These figures still leave out of consideration loans made by all unlicensed lenders.

After very searching inquiries we have not any evidence that there are any other unlicensed lenders, and I wonder if Mr. MacGregor feels that he ought to qualify that statement by adding the words "if any." Otherwise I think that we are entitled to know who are, in fact, the others doing business who are unlicensed. It leaves an impression that perhaps is not intended by Mr.

MacGregor.—A. Well, we know there are quite a few. Some of the automobile dealers alone are fairly active in that field, making actual cash loans above $500.

By Mr. Fairey:

Q. Is that not the reason for the suggested change in the act to bring these firms making loans over $500 into it and requiring them to furnish the information?—A. That was one reason.

Q. I think that that is the answer to Mr. Michener's question.—A. I do not think it would be correct to leave the impression that we think there are only a very few or perhaps no unlicensed lenders operating above $500 because the industry and we know there are quite a few; but we have no access to any of their figures and do not know what volume of business they are transacting.

Q. Your words leave the impression with me that there is quite a field here and I would think if there is any substantial business being done along these lines of operation that it should be known. This kind of lending is advertised very extensively and there is great competition for customers. I do not see how anybody could be in this field in a substantial way and not be known. —A. I think in Toronto alone there are quite a few automobile dealers who make cash loans over $500.

Q. There is a good deal of lending being done even by merchants who lend money to buy their merchandise; but here we are talking about strictly money-lending.—A. I have no objection to the deletion of the word "all".

Q. I do not want to suggest that you change it, but it gives me the impression that there are quite a few in the field and that you say that there are some, their number being unknown.

Mr. CAMERON (*Nanaimo*): Surely the department must have had some kind of inkling that there are a number of people who make loans up to $1,500, otherwise they would not be introducing this amendment to control those people. I do not suppose that they have any accurate figures, but I would expect that Mr. MacGregor has his informants who tip him off once in a while that the tremendous rise of small loans in this area does not come within the scope of the act. Mr. MacGregor must have some reason, or else this amendment would not be here.

Mr. BELL: Mr. Chairman, we will be questioning the finance companies later and they will probably be able to give us some indication of what the competition is.

The CHAIRMAN: I do not think that the Consumer Loan Association keeps a record of the amount of cash loans made by unlicensed companies.

Mr. BELL: I appreciate that, but I am saying that they are in the business and would have closer contact than Mr. MacGregor as to who is operating in the field.

The CHAIRMAN: You will have an opportunity to ask them that.

The WITNESS: Items 2 and 3 of table 2, relating to income, would indicate that the rates charged for loans over $500 are substantially less than for small loans but this is not so. The explanation will be found in table 6 where it will be seen that there is not much difference between the annual rate of income for small loans and other loans but the rates for conditional sale agreements, and so forth, are lower. The rates of income in table 2 are depressed by combining these two kinds of business but a separation was not made in the annual returns until 1953. Apart from some exceptions that I shall refer to later, most licensees are charging 2 per cent per month on loans over $500. It is this practice more than anything else that calls for study and attention now.

Items 4, 5 and 6 show that the percentages written off the larger loans are approximately the same as for small loans, being roughly ½ of 1 per cent of

outstanding balances but the percentages transferred to reserves for bad debts are somewhat higher. This may indicate a more cautious outlook concerning future losses on the larger loans but it can be explained also by the rapid growth recently in this branch of the business. At the present time the reserves for bad debts are maintained in about the same proportion for large loans as for small loans.

Items 7 and 8 show, as would be expected, a generally higher level of gross earnings for the larger loans than for small loans, especially amongst the money-lender group. The somewhat lower rate earned by all licensees combined on the so-called large loan business as compared with small loan business is accounted for by the fact that most of the small loan business is done by the small loans companies which as a whole enjoy a higher level of earnings whereas more than half of the large loan business (so far as licensees are concerned) is done by the money-lenders which, in general, are smaller and have lower rates of earnings. The rates in table 2 are, like those in table 1, depressed in recent years—especially in 1955—by the rapid expansion in new offices.

Item 9 of table 2 needs little comment except to point out that the net profits on "other business" have now overtaken the net profits on small loans business and nearly all of the profits of the money-lender group appear to come from loans over $500. These results are, nevertheless, distorted to some extent by losses of new licensees and by an undue proportion of expenses being assessed against the small loans branch by some money-lenders.

Table 3 is a consolidation of the net profits shown in the final items of tables 1 and 2. Regardless of the manner in which rates of earnings are computed, these profits represent the end result of operations from the lenders' point of view. Upon reference to table 4, it might be noted that the net profits in 1955 would have been nearly $500,000 larger had it not been for the losses of lenders that were only licensed in 1954 or 1955. Excluding these losses, the profits in 1955 were almost exactly double those in 1951.

Table 4 shows the final profits of each licensee separately and also its own funds in the business, the latter comprising the paid capital, surplus (if any) paid in by the shareholders, general reserves (only one case) that have been established through appropriations from the profit and loss account, and the surplus balance existing in the profit and loss account. In many cases, licensees are not paying dividends to shareholders but are allowing profits to accumulate in the profit and loss account to provide additional working funds. Net profits compared with lenders' own funds indicate the profitable nature of the business in most cases under present conditions. In the case Household Finance Corporation of Canada, mention should probably be made of the practice of paying a supervisory fee to the parent organization which at present is of the order of $500,000 per year and is, of course, included in the expenses. If this fee were not paid, profits would be increased by roughly half this amount, after allowing for the higher income tax that would then be payable.

Table 5 gives a comparison between the volume of lenders' own funds and borrowed money, together with the average annual rates of interest paid on the latter. The licensees shown separately were singled out because they have the largest volume of small loans. In total, borrowed money outweighs lenders' own funds by more than three to one.

It is sometimes said that U.S.-owned companies obtain their funds in the U.S.A. at a lower rate than Canadian-owned companies can arrange in Canada, thus giving the former a competitive advantage or at least accounting in part for their larger profits. There hardly seems to be justification for this view since the largest U.S.-owned company, Household Finance, has paid 4·75 per cent since 1954 on all moneys borrowed from its parent and Personal

Finance has paid its parents 6 per cent since 1953. It might also be explained that a substantial proportion of the moneys lent by the parent organization in these two cases in the past has been raised from institutional investors in Canada on which the prevailing Canadian rate has of course been paid by the parent. There would be an advantage to the parent where money is borrowed either in the U.S.A. or Canada and lent to its subsidiary at a higher rate but this practice is also followed by some Canadian-owned companies.

By Mr. Michener:

Q. Mr. Chairman, would Mr. MacGregor say what the $500,000 paid by Household Finance to its parent for service fees would amount to as a percentage of money borrowed from the parent?—A. About 1 per cent.

Q. If that were accounted for as an additional interest payment it would make it about 5½ per cent?—A. It would seem that the average amount of borrowed money from affiliates, in the case of Household Finance, was—this is in table 5—$45 million, so 1 per cent would be $450,000.

Q. There is another point which I think might be raised here while we are dealing with the matter of borrowed money. There is a point which struck me in reading this material. Canadian licensed companies—small loans companies—are not allowed to borrow money on fixed debentures or bonds. Does that apply to the licensees who are not in the small loans company category, or can they borrow money on debentures?—A. That prohibition applies by statute only to small loans companies incorporated by parliament. But in practice we endeavour to ensure that all other licensees, that is to say the money lenders otherwise incorporated, follow the same practice, namely that they do not borrow on debentures from the public.

Q. Do you make that a condition, on being licensed, that they do not borrow on debentures?—A. It is not a condition included in their licence but we always discuss that point with a prospective licensee and obtain an understanding. There are, in one or two cases, debentures outstanding in the case of lenders who were in business when the Small Loans Act was passed in 1939; but they have not, I believe, issued any new debentures since then.

Q. In effect, although these other licensees have legal authority to borrow on bonds and debentures, in practice you make sure that they do not do so by exercising the licensing authority to obtain their assurance?—A. That is right. There are many points of that kind which arise in dealing with provincially incorporated lenders as against small loans companies incorporated by parliament. In general we have always felt that where parliament has spelled out the powers of small loans companies we should, as far as practicable, in licensing other lenders, see to it that they have similar powers or carry on their business under the same prohibitions.

Q. You agree that there is no statutory authority for your requiring that condition to the other licensees?—A. That is correct.

Q. The relative position is that the subsidiary of the American company, and Canadian companies, are under this restraint in borrowing; but the American parent company is under no such restraint in the United States?—A. I believe not.

Q. So Household Finance in the United States could raise as much money as it wished by borrowing on debenture issues and could pass on whatever was economic to its Canadian subsidiary, the effect of which would be that they would be getting fixed-term money which the Canadian companies cannot get under the present practice?—A. Of course several Canadian licensees are owned by parent Canadian companies which do borrow on debentures from the public.

Q. They might resort to that device, but if they do not have a parent they are under a disadvantage as I suggest?—A. Those without a parent company would be, yes.

Q. Have you had any representations made to you to alter your departmental practice to allow these licensees to borrow money directly on fixed-term securities?—A. No substantial representation that I can recall. Most of the licensees obtain their funds from the banks; that has been the general source of funds.

By Mr. Fleming:

Q. I take it that there has not been the same consistency, in the rate of interest paid by companies that are borrowing directly from the bank, to the rate paid by Canadian subsidiaries to the American parent companies that are supplying those companies with their funds?—A. Oddly enough, I am afraid the situation is just the opposite. Prior to 1954 I think Household Finance Corporation of Canada paid about 3 per cent on its borrowed money. And I think, speaking from memory, that Personal Finance paid about 3½, and increased it to 6 per cent in 1953.

The rates paid by Canadian subsidiaries to their American parents are of course merely a matter of negotiation between themselves. Prior to 1953 I think perhaps the rates paid were unduly low but since then they have been more realistic.

Q. What has been the average rate paid to the banks in the same period? Have you any figures of those who depend on the banks for their loans?—A. I would say that it ranged from 4½ to 5½ per cent. It may be higher now. But in the last two or three years I think perhaps that would represent the main area.

By Mr. Michener:

Q. Have you any returns showing what rate of interest a licensee would have to pay for money today?—A. We do not get that information directly but I would guess that they are paying from 5½ to 6 per cent.

Q. Do you know of any company paying 8 per cent?—A. To a bank?

Q. No, not to a bank.—A. The only case I can recall is where one licensee was paying its directors 8 per cent, and we expressed the view that it ought not to pay to its directors a rate higher than it was paying to the banks for money borrowed therefrom; that was an isolated instance.

Q. You would have an accurate picture of the rates being paid, I suppose, in your returns?—A. Our examiners could get that information, and they do get it in most cases in the lender's office. The annual return does not show the nominal rate paid on borrowed money. We can compute it on the average by taking the total interest incurred during the year and the average amount of borrowed money. But of course borrowed money may come from more than one source. There might be some from the banks and some from an affiliate.

Q. In general, however, it is fair to say that the rate which the lending company pays has increased in the last few months of last year?—A. Most certainly.

Q. In line with the general restraints which the governor of the Bank of Canada does not admit are restrictive but which nevertheless have had the effect of raising its interest charges?—A. I know it has increased.
that:

By Mr. Regier:

Q. I am rather interested in the statement here where Mr. MacGregor says

> . . . Personal Finance has paid its parent 6 per cent since 1953.

I notice in table 5 that Personal Finance Company owes its parent company $32¼ million on which they pay 6 per cent, yet their average annual rate on borrowed money is only 5·42 per cent of which $32¼ million constitutes the

major portion, the principal money with which they do business. Is that not an indication that they are obtaining the Canadian money which they use, that $4,800,000 odd at a rate very much lower than 6 per cent?

Q. What would be the purpose of paying 6 per cent to the parent company when they can obviously obtain money on the Canadian market at a lower rate?—A. That has been a matter of some discussion between the department and the company. I may say that we think that 6 per cent in the past has been rather high, but we have not been able to convince the company.

Q. Have you any indication of how much of this $32¼ million that is borrowed from the parent company is actually shareholders equity over there, or is possibly most of it obtained on the American money market, let us say possibly at 3 per cent, so that would make it a mere book-keeping transaction whereby they would make 2 or 3 per cent on that vast amount of money rather than attempting to obtain that money on the Canadian market where it is available, or obtainable at a lower rate?—A. I think that most of the $32 million odd comes from debenture borrowings both in the United States and in Canada at rates probably varying, when the debentures were issued, between 3½ and 4⅝ per cent. I may be out one-eighth of a per-cent either way in those figures, but I think that would indicate substantially the range at the time the debentures were issued.

Q. Would Mr. MacGregor want to venture an opinion as to how much lower the rate on debentures would be issued by the parent companies than by Personal Finance in Canada itself? I realize that a larger company is able to borrow at a lower rate on its debentures.—A. When we observe the rate paid on new issues of debentures by Canadian acceptance companies we think that Personal Finance ought to be able to borrow, if it had the power to do so, in Canada at a rate less than 6 per cent. We have seen new issues of debentures of Canadian acceptance corporations within the last six months or thereabouts at approximately 4 and three-quarters per cent.

Q. And a year or so ago it would have been even lower?—A. We have seen some at 4½ per cent, and the rates at the present time may actually be higher than that.

The CHAIRMAN: I do not think you can assume that, because they get some money from the banks at a lower rate, they could get the whole $32 million from the banks, because the banks might not have that quantity to advance.

By Mr. Regier:

Q. I was not saying that; but it is obvious that 6 per cent is a fictitious figure which calls for a drain of money out of Canada which may be unnecessary. We do not know how much money is available on the Canadian market and we would not know until we were willing to pay up to 6 per cent.—A. I have expressed the view of the department that they could borrow at less than 6 per cent in Canada if they had the power to do so. We think so because other Canadian acceptance companies are borrowing at a lower rate, but that little difference of opinion has not been resolved.

By Mr. Michener:

Q. That may not apply to some of the recent licensees whose loan experience would not make them very good borrowers.—A. I think those losses are inherent in getting established in a substantial way.

Q. They think they will make money later on even though they may lose some at the beginning.—A. They must expect to.

Q. How many have gone out of business in the period covered by your first table?—A. I think that since the Small Loans Act was passed in 1939

about 125 licenses have actually been issued and there are presently outstanding about 73, so that roughly 50 licenses have terminated for one reason or another.

In some cases licenses were obtained even though the volume of small loans transacted was quite small. The licensee may actually have been more interested in making larger loans or in financial paper, but wanted to have a license in order to accommodate a few small borrowers who might come its way. Some of those licensees have disappeared. Some have sold their business to other licensees.

Q. It is not all a one-way-street business there have been some who went out of business, I suppose, insolvent?—A. Not many through insolvency.

Q. It would be interesting if we had that figure a little more accurately and definitely, if there is any record of it in the department.—A. I would say that very few have gone out of business through insolvency. There was the Family Loan Corporation in Halifax whose license was not renewed on June 1st of this year. That company made quite a few poor loans, and it followed a rather lackadaisical collection policy. This company also was one of our original licensees and it had some debentures outstanding. The debentures were causing some worry to the department lest the holders might lose. Consequently we watched that licensee very carefully. We felt a year ago that the time had come when it ought not to be permitted to continue as a licensee, and it wound up its business. The result was that no debenture holder lost any money, but the shareholders lost or they will lose most of their capital.

Q. I suppose, that, just like in other businesses, management is a very important factor in the success of the company?—A. It is very important, there is no question about that at all; it is a highly specialized business and it requires experience both in making loans and in collecting them.

Q. One could not imagine a quicker way to go "broke" than to lend money to anyone who wants it.—A. The lender could easily give it away. That is why we are apprehensive about licensees having the right to borrow money on debentures.

Q. The fact that you have a license is automatically a latch-key to wealth?—A. I think it would be incorrect to say that.

By Mr. Fleming:

Q. I do not know if you have an analysis made, but if possible it might be of assistance to us, because the figures you quote seem to indicate that out of 125 licensees at the orignal date, 73 are still in existence, which indicates that about 42 per cent have for one reason or another ceased to continue in business. Is it possible to analyze the reasons why 42 per cent have gone out of business?—A. We can very easily give you the history of each termination.

Q. It would be interesting to see them. I suppose in some cases it would due to consolidation; in other cases it would be due to poor management; and in other cases it would be due to insolvency; so that before we draw any conclusion we ought to know what the situation was in each case. In the case of your newer lenders in the field, has there been any pattern distinguishable as to where they are, borrowing the funds that they are using, or are they using some equity capital. Other than some of the larger operators, is there any pattern in relation to the source of their borrowed funds that they are using in the business?—A. I think most of them are getting their initial lending funds from their capital or from the banks, but I have no doubt that as their business expands, more particularly in those cases where the licensee has a United States parent, they will get substantial lending funds from their parents. I do not think it has been necessary yet. But I would expect that is where they would ultimately get the largest volume of it.

Q. From what we know of the rather restricted terms on which we can expect to get credit from the banks under present conditions I take it that those who have American parents or associates back of them would have to look more and more to that source as long as present conditions continue. Is there any pattern discernible? Are there more of those recently entering the field of lending with American parentage or American associates standing behind them as to the source of funds borrowed or otherwise?—A. Most certainly some of them, I think. In answer to your question about whether there has been any definite pattern established yet—take for example the case of Seaboard Finance. Seaboard in the United States is one of the large operators. It formed a Canadian subsidiary in 1955 but it has opened only one office up to date, that in Toronto. I have not discussed the question with the company but I have no doubt that they may be marking time to see what changes there may be in the governing legislation for one thing. In that case, there is no question at all that Seaboard is an operator of such substantial size in the United States that it could readily raise the funds and lend them to its Canadian subsidiary.

The same applies to licensees like Pacific Finance Credit, the parent of which is a very large operator in the United States. In that case the Canadian subsidiary was incorporated in 1954 but it has already established more than 20 branch offices in Canada.

By the Chairman:

Q. I was wondering, when you are getting these figures as to the 50 odd companies which have gone out of business, in addition to those which went out through insolvency which you say are very few, if you could get those which went out of business because they felt they were not getting sufficient returns on their money, to make on that type of business a satisfactory return on their money.—A. I would be very glad to prepare such a table showing the reasons, as far as we know, for the termination of each license. I would say that in many cases where the volume of small loans dwindled to a very small amount it was not worth the trouble to be licensed and to furnish the annual returns which are required and to comply with all the other requirements; in these instances the licensees have voluntarily discontinued making small loans, simply because it was not worth their while, not because they were not making enough money on the few loans they made, but perhaps because of the trouble associated with the license which did not warrant the continuation of it.

By Mr. Cameron (Nanaimo):

Q. Would Mr. MacGregor look at table 4 and the figures relating to B. Bell Finance which is the twelfth item from the bottom of the list. I think perhaps if you could explain or give us your guess as to how this very strange thing took place we would know better how other companies work.

Apparently this company was only in business for two years, or just two years now at least as a licensed lender, and you will note that it has been making less profit every year according to its own figures. It started off with a gross profit payable before income tax in 1954 of $1,205. The next year they went down to $1,108. Then as to the net profit after income tax respectively for those years, they went down to $964 and $887 respectively. But curiously enough the paid-up capital doubled in that period—according to the final column of average paid capital, surplus paid in, general reserves and so on—more than doubled in that year when they made less money than they made the year before. Can you account for that?—A. The explanation is this: in the section of the table headed "Average paid capital" you will observe that in 1954 the average was $17,500.

Q. Yes.—A. Actually the paid capital of the company from the outset was $35,000, but the figure given for 1954 is the average capital outstanding during the year. At the beginning of 1954 it was zero. The company was just licensed in 1954 and the capital at the end of 1954 was $35,000. There was no change in the actual capital in that case. The average figures given are perhaps a little confusing in that respect in the first year in which the company is licensed, because they are the average of the capital at the beginning and at the end of the year.

Q. What was the source of capital in the course of that year?—A. There was a shareholders' subscription of $35,000 fully paid.

Q. Have you got the list of shareholders and directors of that company?—A. Yes.

Q. Could you give that to us?—A. Yes, although I have not got it here; I could bring it to the next meeting.

Q. There is only one shareholder according to my information.—A. If you would note the double asterisk footnote, it reads:

> "The amounts in these columns are the average of the amounts as at January 1st and December 31."

The CHAIRMAN: I think there is even a more fascinating example immediately above it.

By Mr. Cameron (Nanaimo);

Q. I happen to know something about this one and that is why I asked about it. And while I am on it, I would like those figures of the average capital interest made in the figures given for the four small loan companies shown at the top of Table 4. We have the average paid capital for the four years covered by this table, and we have the average surplus paid in, I presume, to the capital account, the reserve account, and so on; and that is tabulated in the last column. You will note that in 1952 on an average capital of $4,570,000 the average surplus paid was only $12,570. There may be some explanation for that, but in the following year, 1953, the average surplus paid in was over $5 million; and in 1954 it was almost doubled to the sum of $9,687,570; while in the following year it dropped slightly presumably on account of the circumstances you mentioned; and if we look at the final column, we see that there on a capital of $4,570,000 in 1952, the total amount of average paid capital was almost twice that—almost exactly twice that, $9,122,502. That is, they paid in $4½ million. And the next year on a capital of $4,570,000 they paid in over $10 million, and the next year on a capital of just under $5 million they paid in a total amount of $23 million; that is, they paid in some $18 million; and the following year they paid in some $20 million.

I have been working out, sir, the net profit after taxes on paid up capital, and in 1955 the net profit for those four companies according to the figures given here amounted to nearly 90 per cent of the paid up capital. It was 89·8 per cent for the small loan companies, while for the money lenders as a whole it was a more modest amount; it was only a little over 26 per cent. Is that a correct figure? Is that 89·8 per cent a correct figure of the net profit after taxes? I presume when you say "net profit" you mean after all expenses, on the paid up capital for the year 1955?—A. It is a correct picture if profits are related to paid up capital alone. However, I shall deal later on with the various ways in which profit ratios may be computed. But I think it is fair to say that in the case of the largest lenders who derive such a large proportion of their lending funds from their parents in the form of borrowed money, they do not need a large capitalization and most of them have not increased their capital very substantially.

Household Finance still has a capital of approximately $3 million. Personal Finance had a capital of only $250,000 until recent years when it took steps—when it apparently desired to increase its capital and paid in about $10 million as capital surplus. A small fraction of it was used to pay up its remaining authorized capital which was still not paid, bringing it up to $1 million; and it left the other $9 million approximately as capital surplus.

My guess is that the money was part of a plan that included the bill the company introduced in parliament this year for the purpose of increasing its authorized capital to $10 million. I think its intention was to raise its paid up capital to $10 million.

However, for small lenders, I think it is reasonable to relate net profits to the proprietory interest in the business, represented by paid capital, the balance in the profit and loss account and any free reserves that the company may have. But for the largest lenders who derive most of their lending funds from parents in the form of borrowed money, it can become very misleading to relate profits to capital alone.

Q. On the other hand you have already told us that on all money borrowed from parents, they paid their interest; that the Canadian company paid its interest.—A. Yes.

Q. So it seems to me that you are back in the same position again. The money of the parent company has already earned its interest because it is paid and it is included in the cost.

The CHAIRMAN: In his statement Mr. MacGregor stated that he calculated the profits on the average total balance outstanding of money loaned and you did not charge up interest by working expenses?

The WITNESS: I shall deal with that question a little further on if you would care to go into it at that time. It is a most difficult one and I readily admit that it is most confusing.

By Mr. Cameron (Nanaimo):

Q. All right, but I do not find anything confusing about 90 per cent profit. I find something staggering about it, that we should be licensing these people to do this.

By Mr. Argue:

Q. With respect to the statement you made at the top of page 26, referring to net profits and showing the profitable nature of the business, you say:

> In the case of Household Finance Corporation of Canada, mention should probably be made of the practice of paying a supervisory fee to the parent organization which at present is of the order of $500,000 per year and is, of course, included in the expenses.

Would you explain to the committee what the $500,000 is for and the value that Household Finance Corporation of Canada received for having paid that sum to its supervisory company?—A. The main justification put forward by the company for the payment of that fee, as I understand it, is management, policy direction and services that are provided by the home organization in Chicago for the benefit of all its operating companies and branches spread across the United States and Canada. Some of the accounting work is also done by the head office of the parent in Chicago rather than at the head office of the Canadian company in Toronto.

Q. Is no part of that expense item, or any part of that expense item listed by this company because the company is able to use the name of the parent company?—A. Would you mind repeating that, please?

Q. Do you know—make this a general statement—do you know whether any of these companies which have been mentioned—whether any one of them pays a fee to the present company in the United States for the use of the same name or of a similar name in Canada?—A. In no case am I aware of any specific fee or payment for that purpose.

Q. In the case of this $500,000, do you feel that this company got good value for its money or do you think that it was just another way of padding the books?

Mr. CRESTOHL: Mr. Chairman, on a question of order, is Mr. MacGregor the best man to give us this information? Should we not wait until we have one of the officials of the company?

The CHAIRMAN: I do not think that is a question for Mr. MacGregor. You could ask it of Mr. McEntyre of the income tax department. Surely he is the one who would have to be convinced that it is a proper expeniditure.

Mr. ARGUE: I would like to have Mr. MacGregor's opinion so that we can go on to convince the income tax people that it should not be allowed. I do not know if we can do that. To do so might prevent this kind of practice—if Mr. MacGregor could say that if they did not pay that amount to the parent company, their profits would be increased by just that amount; in other words if the fee were not paid—if they did not have that added expenditure whatever it might be for services allegedly provided—it would result in a change in the net profit position of the company.

Mr. CRESTOHL: This is not an income tax enquiry we are conducting, Mr. Chairman.

Mr. ARGUE: If we are on a point of order, then I suggest that if those companies are using fictituous expenditures as a means of fleecing canadian consumers then it is a very pertinent matter of enquiry for this committee, and that any enquiry we might make of the Department of National Revenue is incidental to this enquiry.

The CHAIRMAN: I suggest that you are wrong.

Mr. CAMERON (*Nanaimo*): I think this is part of the practice of the small loan companies which we are now investigating and I do not see how you can personally come to any other opinion about it.

The CHAIRMAN: Mr. MacGregor's position is that he receives these sheets with the information on them; whether it is a proper charge or not is up to the Department of National Revenue and not up to this committee. I suggest you are not in order.

Mr. ARGUE: I am going to press the question because I think it is an important one. Mr. MacGregor is thoroughly informed in the business of small loan companies in this country. I feel that perhaps above all other persons in this nation he is, in this particular field, perhaps the best informed. I think that the question as to these large sums of money which he points out in this report or statement, and which were placed therein by Mr. MacGregor, should be a matter of questioning of Mr. MacGregor. He can say that he has no information about it, or if he wishes to discuss the statement, I think it is perfectly all right to ask him any questions we care to about his own statement. He can then decide whether he wishes to answer or not, or the nature of the answer he wishes to make.

The CHAIRMAN: If Mr. MacGregor were called upon to advise Mr. McEntyre as to whether he thought it was a proper expenditure, he might answer such a question; but otherwise I do not see how he can.

Mr. ARGUE: I am not asking questions in relation to the income tax. I am asking whether this is in fact a legitimate expenditure which should be placed

in the accounts of this company. That is why we have Mr. MacGregor here. And I want to know as well to what extent other companies are inflating the expenditures in their balance sheets to show a smaller profit than in fact they had made, and I suggest in fairness that Mr. MacGregor should be allowed to answer the question.

The CHAIRMAN: Can you answer it, Mr. MacGregor?

The WITNESS: Our endeavour in the administration of the act is to try, as far as possible, to see that the licensee stands on its own feet; where a licensee is owned by a United States parent there may be a disposition for the parent to want to do its accounting and keep its records in some respects at the home office in the United States. We always endeavour to ensure, as far as possible, that the licensee stands on its own feet and has its records at its Canadian office. There are many instances where a question arises concerning money flowing to or from the parent, whether it is money borrowed, or a supervisory fee as in this case; and our endeavour again is to try to see fees of this kind reduced as far as possible. We have discussed such items from time to time with company officers and I may say that some reductions have been made. But we would like to see some further reductions made if for no other reason than to see the Canadian company operate as independently as possible and pay its own way as the largest operator in Canada. It is a matter of opinion whether, and to what extent, payments by any subsidiary to its parent as a share of head office overhead are justified.

By Mr. Cameron (Nanaimo):

Q. You speak of head office overhead. As far as Canada is concerned how can any office in New York or Chicago be the head office of this company which is operating under a charter from this parliament? Is there not a legal requirement that every Canadian company keep its entire books in this country at its head office here?—A. It is not a legal requirement, but they do keep their records at their head office in Canada. We must insist upon it in order to be able to examine the financial returns submitted.

Q. Surely every Canadian company must have its full books of records in this country?—A. A great volume of statistical work may nevertheless be done, or statistics processed, where the parent company is organized for that purpose and has facilities for doing it.

By Mr. Argue:

Q. Do other finance companies which are Canadian companies owned by American companies have similar fees, or is this the only one?—A. This is the only licensee owned by a United States parent which pays such a fee; but there are Canadian licensees who pay certain fees to their Canadian parents.

Q. Could you give us an outstanding example in the sense that they pay a very substantial sum?—A. Trans-Canada Credit pays to Traders Finance, its parent, a management fee of one per cent for raising its borrowed money.

Q. For what?—A. For raising its borrowed money, for raising some of its lending funds. Trans-Canada also pays a so-called contract fee to its parent for preparing documents used in the loan business. Niagara Finance pays a service fee to Industrial Acceptance Corporation, its parent, amounting from 75 cents to 85 cents per month per $100; that fee is justified by Niagara because Niagara and I.A.C. jointly occupy a good many offices, and the fee is in reimbursement of salaries, rent, and services provided by the parent.

Q. Where Trans-Canada Credit pays to Traders Finance one per cent, for Traders Finance raising its funds, can you tell me, generally, how Traders Finance raises those funds? They go to the bank and get them, do they not?—A. By issuing debentures. You may have noticed in the press last fall a fairly substantial debenture issue floated by Traders Finance. Niagara, however, as a rule borrows from the banks.

Q. Do you feel that one per cent is unduly high or that money might be saved if this company did it directly—that it could save that amount of one per cent?

Mr. CRESTOHL: Mr. Chairman, I rise again on a point of order. I think that to ask Mr. MacGregor whether a rate is high for services rendered or for management given is putting Mr. MacGregor in a very invidious position. He reports to this committee, and I do not think he means to judge as to whether the company has made an overcharge or has managed its finances in a certain form as long as it is properly done. As to whether or not they have financed themselves in a way so as to minimize their tax liabilities, that is not Mr. MacGregor's province, and I think that to put him on the spot and question him whether he thinks it is a proper, a high, or a low charge, is not a question which he should be asked before this committee.

The CHAIRMAN: Even supposing that it is Mr. MacGregor's task to investigate these charges, I do not see that he can investigate them from the same point of view as that of the Department of National Revenue. His field of occupation is somewhat different and that is why I suggest that when you use the word legitimate or otherwise, the Department of National Revenue does not come under the field of the superintendent of insurance, and of small loans companies, and they are not looking at it from the identical points of view as to whether it is a legimate or proper charge.

Mr. ARGUE: I am not enquiring of Mr. MacGregor whether he thinks this is legal or illegal. I am not asking him that at all. But I wonder whether this may be a type of expenditure that is listed on the balance sheet and is something which it is the main purpose of this committe to enquire into, in respect to small loan companies, to see whether or not in fact savings can be brought about, and to see whether the interest rate can be reduced and a saving thereby made to the Canadian public. That is why I ask whether Mr. MacGregor, who is a recognized authority, thinks that this is a type of expenditure which might in fact be reduced, and if it can be reduced without causing undue hardship to the company and passed on to the consumer, I take it that is the purpose of the committee; but I am not enquiring whether it is legal or illegal. I merely ask whether it is a type of expenditure which might be reduced.

Mr. CRESTOHL: Would Mr. MacGregor first tell this committee whether he considers himself to be an expert, whether he is able properly to assess the value of the services which the parent company gives to one of its subsidiairies? If Mr. MacGregor tells us that he considers himself an expert and competent enough to assess the rates to be charged, then we could have his answer.

Mr. ARGUE: I do not know of any man who could have a better opinion.

Mr. CRESTOHL: I do not know.

The CHAIRMAN: Do you consider yourself qualified?

The WITNESS: I should prefer to side step that question and to correct an error I made when I mentioned that Trans-Canada Credit, the licensee, pays its parent, Traders Finance, one percent as a management fee for making its financial arrangements. I was speaking from memory and I think the rate is actually one-half of one per cent. Trans-Canada does however pay its parent, Traders Finance, six per cent on all monies borrowed on its behalf so that, taking the management fee into consideration, the total rate paid is 6½ per cent. And if I were asked for my opinion, without setting myself up as anything, I would say that 6½ per cent seems rather on the high side having regard to the rates paid by most licensees for their borrowed money.

By Mr. Argue:

Q. You mentioned a few minutes ago that Traders Finance or some other company floated debentures. Would you tell me the cost of the money to Traders Finance?

The CHAIRMAN: Do you mean the interest rate, or the net cost?

By Mr. Argue:

Q. I mean the interest rate.—A. Speaking from memory I think that the advertisement I noticed last fall in respect to the debenture issue of Traders Finance mentioned the rate of 4½ per cent.

Q. If the parent company borrowed the money at 4½ per cent, and if 1½ per cent is for the cost of obtaining that money, then what in the world is the extra 1½ per cent for, the difference between 5 and 6½ per cent? It is merely profit or a large part of it would look like profit for Traders Finance Company, so that when we look at the books of Trans-Canada Credit or the corporation, whatever it is called, and we look at them to decide whether or not this company is giving value for its services, and whether or not it is making an undue profit, we could then tell by looking at that company because it is a parent company, on the basis of providing money at an extortionate rate for its money, 6½ per cent.

Mr. CRESTOHL: I think we should be a little more cautious in the terms we use. Where is that expression used? I do not see it.

Mr. REGIER: Mr. MacGregor is reporting to us on the operations of the small loan companies and money lenders in his report to illustrate the net earnings of these companies, and Mr. MacGregor very properly points out to us and to the Canadian people that the reports are inaccurate in so far as they contain over-excessive charges in one case.

The CHAIRMAN: Just a minute now, Mr. Regier. Let us get this straight. At no time has Mr. MacGregor used the words "over-excessive charges". Those words are yours, not his.

Mr. REGIER: All right. I should then point out that he adds to that statistical table showing the net earnings—he adds this comment: that these companies are paying to their parent companies a rate of interest, and also in one case $½ million per annum supervisory fee. If there is no reason for mentioning it, I am sure he would not have mentioned it; and I think he should be commended for calling our attention to the fact that the net earnings actually should be shown higher than they are being shown. Mr. Chairman's figure of 89·8 per cent might well be considerably over 100 per cent if the interest rate to the parent company were a realistic one, and if the supervisory and other charges were realistic.

The CHAIRMAN: But if, as Mr. MacGregor stated, you can calculate the profit not on the capital invested but on the balance outstanding of money loaned and do not charge interest as an operating expense.

The WITNESS: I mentioned these things mainly because I think one should be aware of them in order to understand the full position of each licensee.

The CHAIRMAN: What you have done is quite proper; you have given us information and it is up to the committee to draw its own conclusion.

By Mr. Michener:

Q. Is there a table which shows the total of payments which pass between the small loan companies and their parents? You mentioned in the case of Household Finance the interest paid on their borrowed money from the parent company in the United States, and that they paid $500,000 as a fee; I suppose they pay a dividend on their paid up capital to the parent company? Is there

a table which shows the total payments which pass between the companies which are organized in this way?—A. No. I have not prepared a table of that type.

Q. Do you have the information in your reports which are available to the committee?—A. Yes.

Q. The committee is interested in learning actually the cost of doing business for these companies as licensees, and your tables show us the cost. If we wish to question the cost, we would have to have the details of the transactions?—A. The annual statements of course show the payments made by every licensee whether under the heading of interest on borrowed money or dividends to shareholders.

Q. Are the annual statements which are filed with your department privileged as they are in the income tax department?—A. The information is contained in a published report, and by following the reports from one year to the next, all that information is given.

Q. We can see in the published annual reports the details of the annual statements of each of your licensees?—A. Yes, with this comment: in the case of interest paid on borrowed money, the payee is not usually shown, so that if the licensee borrows from the banks as well as from its parents, we would not be able to tell from the published statement how much the parent gets for the borrowed money, and how much the banks get.

By Mr. Fleming:

Q. Would it not be prudent to ask Mr. MacGregor to prepare a table on that with the information available rather than to have the committee seeking for that information through the reports? We have had some discussion this morning which would indicate that it might be better if Mr. MacGregor prepared such a table for us.—A. I would be quite happy to prepare such a table but I am afraid we would be in the same position with respect to the point as any member of the committee would be, because the annual statement itself does not show the payee in the case of interest on borrowed money.

Q. It could not be complete in other words. I have just one more question in regard to this matter of the average paid capital. On table 4 you simply take the amount of paid capital as at January 1st and as at December 31 in the year, and add the two together and divide it by two. That is all you have done?—A. That is right.

Q. Without regard to any fluctuation in the meantime?—A. That is correct.

Q. One further question; on the supervisory fee of $500,000 in the case of Household Finance, at the top of page 26, that is a flat sum arrived at by agreement between the two companies? It is not a percentage agreed on?—A. No. It is not a round sum. I mentioned a round sum to indicate the relative magnitude of the fees actually paid year by year; but actually it is arrived at by an analysis of the expenditures of the parent company and of the Canadian company, and of other members of the organization. The amount of the fee varies every year.

Q. In the many various subsidiaries of the parent company is the amount determined on any recognized percentage basis?—A. What is the basis of determination for the allocation of that total amount of the company's—particularly the allocation to the Canadian offices?—A. The formula used by Household Finance is quite involved and includes an analysis of salaries, accounting fees and expenses, conference fees, depreciation, directors' fees and expenses, fees of registrars, transfer agents, trustees' fees, legal fees and expenses, membership fees, office expenses, supplies, postage, express charges, rent, telephone and telegraph, travel, savings and retirement contributions.

They have a formula which involves an analysis of all these items of expenditure made both by the parent organization and by the Canadian subsidiary. I can give the percentages applicable in the case of some of these items; but they vary a good deal.

Q. Does the percentage advance from year to year?—A. Not to my knowledge.

Q. We can take it then that the formula has been in effect for a few years? —A. The company has followed the practice of paying supervisory fees, so far as I can recall, ever since 1932 when it first acquired control of Central Finance.

Q. In that period, has it followed the same formula?—A. No. It revised the formula in 1954 following some discussion that the department had with the company.

Q. In which direction was it revised?—A. Downward. I may say we have been living in the hope that it will be reduced more and more.

Q. Are there any other companies involved in this adjustment on the formula basis other than the parent companies in the United States and the Canadian company? Are there any other subsidiaries which have entered into this?—A. Yes. The other subsidiaries are involved. Take, for example, H.F.C. Limited, the unlicensed company; it is involved in the same way as the licensed company H.F.C. of Canada is involved.

Q. Are there any companies in the United States subsidiaries there which enter into this distribution?—A. Yes, I believe there are.

Q. Whatever may be said about the way in which the formula works out in terms of amount, this formula is set up with a view to distributing among various subsidiaries part of the overhead cost that is attributed by the parent company to the total business of the total parent and its own affairs in relation to its subsidiaries?—A. I think that statement is correct.

By Mr. Crestohl:

Q. Do the annual payments vary in amount?—A. Yes.

By The Chairman:

Q. This, I presume, is a fee which the parent company and the subsidiary companies have agreed is the proportionate share which the subsidiary company should pay for the benefits which they receive by this service which is performed by the head office?—A. Yes.

By Mr. Cameron (Nanaimo):

Q. Do I understand from your statement that you have been hoping that these amounts would be reduced and that you would entertain some doubt as to whether the payments are justifiable at the present rate?—A. I think that payments for head office overhead are always a matter of opinion. We prefer to see them reduced or even eliminated if possible. I do not think that it is practicable, in some cases, but that is our ultimate hope.

By Mr. Gour (Russell):

Q. I want to clear up one thing for myself. Are those head offices in the United States able to say to their offices in Canada and to the Canadian people, "We have to have so much percentage for the administration of those Canadian offices." If they say it costs 6 per cent or 7 per cent, are they able to do that? I am referring to the head offices, and I may call those head offices United States office headquarters. They say to their offices in Canada here that they have to pay so much of a percentage to administer those things. Are they able to do that? Have they the right to collect $500,000 at headquarters?—A. There is nothing to prevent their doing it if they can justify it. The only question is whether it would be allowed for income tax purposes.

Q. I do not think it is fair if they want to deal in this country that they should tell the offices in Canada that they have to pay so much. They take away whatever small profit those companies do make in Canada and transfer all the profit to the United States and they are not paying tax. They say that those offices in Canada are not making money. If they want to deal in this country their head offices should be here and they should have to prove to the Canadian authorities that they have so much expense and how much they have left, for income tax purposes. As it is, they transfer all the cream of the profit from those companies in Canada back to the United States.

The CHAIRMAN: I think perhaps you might leave that for Mr. McEntyre.

Mr. BELL: Would Mr. MacGregor care to say whether, in his knowledge, he thinks that the fees charged by the finance companies for their head offices are lower compared to the similar fees which might be paid by other companies in other types of business such as the insurance business. I am speaking very generally.

By Mr. Crestohl:

Q. Would you take insurance companies as a yardstick with head offices in the United States?—A. In the first place, Household Finance is the only United States company which pays such a fee.

By Mr. Bell:

Q. In the finance field?—A. Yes. I would hesitate to offer an opinion as to what is a fair share of overhead to be borne by a subsidiary. So much would depend upon the actual services rendered by the parent and how the subsidiary is constituted. Mr. Crestohl raised the question of insurance companies. So far as the British and foreign insurance companies are concerned, they are not allowed to deduct as an expense in their Canadian statements any amount for head office overhead for income tax purposes and, consequently, no such amounts are shown in the Canadian statements at all. That is one of the elements in the tax formula applied to British and foreign insurance companies. It may seem hard on external companies to get no allowance for head office overhead but . . . .

Q. Is it statutory?—A. No. But, on the other hand, they do not pay tax on investment income, except where they may have Canadian investments over a specified limit.

Q. But are there any other fields of activity in the business world where they may be operating under the same system?—A. I think it must be admitted that it is fairly general practice because it is covered by an international trade agreement between Canada and the United States of America, and Canada, and other countries; such an allowance as head office overhead is specifically provided for.

The CHAIRMAN: I do not think that you can expect Mr. MacGregor to cover the whole gambit of trade or manufacture. The most obvious example is where the parent company centralizes scientific research and charges its subsidiaries for a share of it.

By Mr. Bell:

Q. Do you not feel, Mr. MacGregor, that there is a slight difference in principle between the fee that is paid by Household Finance to their parent United States company and these various bookkeeping or accounting entries that may be made within various head offices and branches? There would be a distinction there in that generally?—A. I really think that every case has to be studied on its own merit.

Q. May I ask if the balance sheets of the companies would give a different indication of those two examples, or would they both be not shown? Is there any difference?—A. I think it is not usual for a fee of that kind to be shown

separately in the expenditure statement. The various items of expenditure are adjusted to take the fee into account; that is the practice in H.F.C. One will not find these supervisory fees listed as such in the expenditures in the financial statement.

Q. In the American situation, and the solely-owned situation in Canada, would the effect on the shareholder be different? In other words, I am suggesting that we may be worrying very unnecessarily particularly about the situation in Canada because I feel that they may be just accounting and bookkeeping methods that are used and approved of in every day business.—A. Our main interest in the fee, of course, is to get in the position of enabling us to ascertain the profits of the company; and also, of course, to help one form an opinion as to whether the present maximum rate prescribed is too high, or much too high, or how appropriate it is.

By Mr. Fleming:

Q. I understand, Mr. MacGregor, that you have sought the income tax department, as a matter of policy, to bring about a reduction in this so-called supervisory fee?—A. I do not recall that we have ever discussed it with the income tax department. Any discussion we had with the company was on our own initiative.—A. It was done independently of the Department of National Revenue?—A. Yes.

Q. I take it then, independently of that department, that you have sought, as a matter of policy, to bring about a reduction in the supervisory fee that is paid?—A. We would like to see all Canadian licensees constituted as independently as possible and particularly the largest operator in the field.

Q. Did you answer my question "yes" in the beginning before you went on to state that objective?—A. I have forgotten your question.

Q. I was asking if, independently of the income tax authorities, you sought to bring about a reduction in the supervisory fee that is paid.—A. The answer is "yes".

Q. But, I take it from your answer, that your purpose in seeking a reduction in that tax is related to a desire to see more of that service which is now performed at the head office done in Canada—those overhead services that are now performed at the head office?—A. Partly that, Mr. Fleming. We would not want to suggest a change in practice that would lead to an increase in the burden of expense. But we would like to see the largest Canadian operator in the small loans field organized to carry on its business as completely and independently as it can in Canada.

Q. I follow you there. I just wanted to be quite sure I understood it was that objective, which is quite understandable, that has led you, as a matter of policy, to seek a reduction in the amount of the supervisory fee paid by the Canadian subsidiary to the American parent company. Do I understand that those things are related in that way?—A. Yes, I think so.

By Mr. Cameron (Nanaimo):

Q. Is that your sole reason, Mr. MacGregor?—A. We want to make sure that any such payment made is justified.

Q. Precisely. What is the interest income of Household Finance? I am thinking of the half a million dollars fee in relation to the amount of money borrowers pay into the company. In other words, the relative size of this supervisory fee.

The CHAIRMAN: It is slightly under 1 per cent.

The WITNESS: It amounts to a little less than 1 per cent of the average amount of money borrowed by Household Finance from the payment company and affiliates as shown in table 5; but I think your question is, what proportion does the supervisory fee of $500,000 bear to the interest income collected from borrowers.

Q. That is right.—A. The income of H.F.C. in 1955 is shown in table 8 as being about $12 million.

Q. On small loans?—A. Yes. So the supervisory fee would constitute about 4 per cent of income received from borrowers.

Q. If there could be any substantial reduction made in this fee it could reflect in a substantial saving to the borrowers if it were passed on because 4 per cent is a substantial interest rate?—A. Yes. Any reduction in expenses would result in an increase in the company's earnings and profits, not to the full extent but to a partial extent.

By Mr. Michener:

Q. Does Mr. MacGregor suggest that the concern about this item is the reduction in the cost of doing business or that he wants to see an independent organization in the country?—A. I think we are prompted more by a desire to see that the results of the company's operations are reflected as accurately as possible.

Q. In other words, it makes your accounting easier if everything is in one balance sheet so to speak.—A. Yes. I think that it would be easier, but I think our primary motive is accuracy.

Q. We would not want to do away with a fee and find the cost of doing business was greater here. You would not want that position?—A. No. We would not want to interfere with a company's method of operation.

Q. In a way that would increase its costs. In other words, it is a matter of which is the most effective way to do business.—A. That is for the company itself to decide.

Q. You do not want to tell this great field of licensees how they should do business?—A. It is certainly not our function, and we have no power, to tell any company how to do its business; but we must insist that the company keep records at its head office in Canada sufficient to enable us to verify the accuracy of its annual statement.

Q. I would accept that within some limits because we have already seen some instances of how you direct the method of doing business in this field in your own discretion, which you are given under the act, and not in accordance with any legal interpretation; but I take it, you would agree any matter of business judgment as to salary or what is paid for any service is not your concern?—A. That is right.

By Mr. Cameron (Nanaimo):

Q. When you speak of accuracy of accounts, I presume you have in mind the necessity of assuring that all items which are put into the column of costs are legitimately there rather than placed under profits?—A. That is correct.

Q. That is what you have in mind when you speak of accuracy?—A. Yes.

By Mr. Crestohl:

Q. How can you possibly establish what would be an appropriate charge for the services in the head office? We want to establish that. I would like you to tell us, if possible, who is the individual or who are the people, or by what method, can we possibly establish a fair charge for those services? —A. I think the explanation of any charge must come from the company officials themselves because they are most intimately familiar with the nature of the services rendered.

Q. But are we prepared to accept them as the arbiters of their charges? I do not want to be in that position.

The CHAIRMAN: It is 1 o'clock. Perhaps we could leave that question.

Mr. CRESTOHL: We will let Mr. MacGregor think about it.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 15

BILL 51

An Act to amend the Small Loans Act

THURSDAY, JULY 5, 1956

WITNESSES:

Mr. K. R. MacGregor, Superintendent of Insurance; Mr. Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.)

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

76452—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue
Ashbourne
Balcom
Bell
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fraser (*St. John's East*)
Fulton
Gour (*Russell*)
Hamilton (*York West*)
Hanna
Henderson
Hollingworth
Huffman
Low
MacEachen
Macnaughton
Matheson
Michener
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Quelch
Rea
Regier
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Stewart (*Winnipeg North*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White (*Hastings-Frontenac*)
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
WEDNESDAY, July 4, 1956.

Ordered,—That the name of Mr. Balcom be substituted for that of Mr. Lusby; and

That the name of Mr. Hamilton (*York West*) be substituted for that of Mr. Macdonnell; and

That the name of Mr. Rea be substituted for that of Mr. Fraser (*Peterborough*); and

That the name of Mr. White (*Hastings-Frontenac*) be substituted for that of Mr. Mitchell (*London*) on the said Committee.

Attest

LEON J. RAYMOND,
Clerk of the House.

76452—1½

MINUTES OF PROCEEDINGS

THURSDAY, July 5, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Ashbourne, Balcom, Bell, Benidickson, Cameron (*Nanaimo*), Enfield, Eudes, Fairey, Fleming, Follwell, Fraser (*St. John's East*), Hanna, Henderson, Hunter, Macnaughton, Michener, Pallett, Philpott, Power (*Quebec South*), Quelch, Regier, Vincent and White (*Hastings-Frontenac*).

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance; and Mr. Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.), and other representatives of certain Small Loans Companies and interested organizations.

On motion of Mr. Fleming, seconded by Mr. Michener,

Resolved,—That Mr. Monteith be substituted for Mr. Macdonnell (*Greenwood*) on the Sub-committee on Agenda and Procedure.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. MacGregor was further questioned at length on a portion of his statement on the Small Loans Act which he had presented at the preceding meeting.

Mr. MacGregor being still before the Committee, Mr. McClure was called; he made a statement in regard to a certain annual payment by the Canadian subsidiary, Household Finance Corp. of Canada, to its parent company, Household Finance Corp. (U.S.A.); he was questioned thereon.

At 1.05 o'clock p.m., the Committee adjourned until 11.00 o'clock a.m. on Tuesday, July 10, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

THURSDAY, JULY 5, 1956,
11 A.M.

The CHAIRMAN: Gentlemen, there is a quorum.

We have a motion here by Mr. Fleming, seconded by Mr. Michener, that Mr. Monteith be substituted for Mr. Macdonnell on the subcommittee on agenda and procedure.

Those in favour? Contrary, if any?

Carried.

Mr. FOLLWELL: I presume that you are going to start where Mr. MacGregor left off?

The CHAIRMAN: Yes.

Mr. FOLLWELL: I have one point which I would like to have clarified. Mr. MacGregor made some comment with respect to the $500,000 per year fee charged by the parent company of Household Finance to the Canadian company. I think it was suggested to the committee that this fee might be unnecessarily high.

Now, I was looking over the table 7 and I think that the members of the committee will recall that Mr. MacGregor suggested that the fee charged by the parent company of Household Finance might be considered unnecessarily high. In table 7, you will find, under the column "Other expenses except income tax and interest on borrowed money", that this table shows that the Household Finance Corporation has an expense ratio of 14·8 per cent against what seems to be an over-all average of 17·1 per cent—"all small loans companies, 17·1 per cent". Then also you will notice, for all the Money-lender companies, their other expenses seem to be an average of 32·8 per cent. I was just wondering if Mr. MacGregor would like to comment on that. It seems, on the basis of these figures, that he might agree that this supervisory fee permits an actual reduction in expenses rather than an increase in cost for the Canadian company. What would be your opinion on that, Mr. MacGregor?

Mr. K. R. MacGregor, Superintendent of Insurance, called:

The WITNESS: Perhaps I might make two main comments concerning the supervisory fee paid by Household Finance. The first is that the payment is not made for any specific goods or services, so to speak, for example, stationery or some particular service rendered; rather it is a payment for something of a much more indefinite and general nature. It is, in effect, a contribution toward the expenses at the upper level of the Household Finance Corporation organization as a whole, not only in the U.S.A. but in Canada also. It is the latter that interests us in the department especially because it results in the statement of the Canadian company reflecting not just the payments made by the Canadian company but rather in a sense, being a consolidated statement as a member of the H.F.C. organization as a whole since it includes a sharing of the upper expenses of the H.F.C. organization everywhere.

By Mr. Fairey:

Q. You mean by that that it could not be definitely tied to the expenses actually incurred in Canada?—A. Not actually incurred. The payment is for

something of a more indefinite nature than that; it is a contribution toward the know-how, skill, policy and direction given by the parent organization. The fact is that the Canadian company operates in a substantial way as a branch of the main organization rather than as a completely independent Canadian company. I referred at the last meeting to insurance companies; perhaps I might have amplified my comments at that meeting. We have 35 or 40 Canadian insurance companies that are wholly owned by external interests, either British or foreign. I am not aware of a single instance where any of those Canadian insurance companies pay any fee or contribute any specific amount to the parent for management, policy, know-how or anything of that kind. If, as a result, the profits of the Canadian company are a little larger then, of course, it is open to the parent to gain the advantage of those profits through dividends to the parent. This is the only case so far as companies supervised by our department are concerned where a fee is paid by a Canadian company to its parent company.

By Mr. Macnaughton:

Q. In this sort of small loans business?—A. Yes. Or in the fields of any of the companies supervised by the department.

Q. But outside of the small loans business and the insurance business, surely it is self-evident that the same practice is, generally speaking, a rather general practice which is followed by many industries; otherwise they would be duplicating in Canada the same set-up that they have at the head offices, and they would be increasing costs and expenses and decreasing profits?—A. I think there is a difference between the case of a Canadian branch of a foreign company and the case of a Canadian subsidiary of a parents company, because in most cases the subsidiary has its own top officers, board of directors, and so on, which does not obtain in the case of a branch of a foreign company.

Q. I was thinking of the installation, for example, of IBM machines. If you had to duplicate that in your Canadian branches when you have them at the head office I submit that the expenditure for this expensive equipment would be heavy?—A. That, of course, is a kind of expense which is of a more definite nature and I would see nothing wrong with any company paying for statistical service provided, whether it be by an independent company, parent company, or anyone else. This is something of a different nature.

By Mr. Follwell:

Q. Could this payment be for other than statistical services and could it be because of the fact that the parent company supplies the funds necessary, probably at a lower rate of interest than the rate at which they could borrow it elsewhere? This fee might cover definite advantages. This table would indicate that apparently for this fee Household Finance must get some very definite return, because they are able to cut their expense much lower than some of the other companies.

Mr. CAMERON (*Nanaimo*): Do you not think that one of the reasons why their expenses are lower is because Household Finance does four times as much business as its nearest competitor and that the overhead costs are thus proportionately less?

Mr. FOLLWELL: I think that my honourable friend will agree that it might be because of the increased efficiency, and the supervision and direction, which might be given for the fee to the company and that that might be one of the reasons why the expenses would be lower.

Mr. CAMERON (*Nanaimo*): I suppose that we will eventually have a witness from the Household Finance?

The CHAIRMAN: It strikes me that we are talking about a subject about which we do not know much.

Mr. Cawker, is there anybody here from Household Finance who could clear this up?

Mr. MICHENER: I think that we will get confused if we start chasing down individual points at this time. I think it would be much better to go ahead and finish with Mr. MacGregor.

The CHAIRMAN: I quite agree in principle, but there has been much made of this point and it might be better to clear it up now.

Mr. MICHENER: The whole question of cost of doing business is involved in this one point and it seems to me that we would be going into a pretty broad side issue.

The CHAIRMAN: I might agree in principle that we should go on with the main witness, but so much has been made of this one individual point that I think we should clear it up.

By Mr. Michener:

Q. Do I understand, Mr. MacGregor, that you say your opinion is that no fee should be paid? Am I right in that?—A. I might make one main comment. I should like to make it clear that this payment is involved in a pooling of the upper expenses of the Household Finance company organization rather than being a payment for some specific services rendered. It results from a pooling of the upper expenses of all of the members and subsidiaries of the H.F.C. organization. I think there are several reasons why the expense rate, as a whole, for H.F.C. is lower than for other lenders; its size is one, and experience and know-how undoubtedly are others. There is no disputing the fact, even taking this payment into account, that the expense rate for this company is lower than practically all others.

Q. I am not clear whether you are telling the committee that this payment should not be made at all or should not be as much. I would be glad if you would clear that up.

Mr. MACNAUGHTON: That is what I want to have cleared up also.

The WITNESS: I am far from enthusiastic about seeing any payment made by an independently constituted Canadian company towards something of indefinite nature resulting from a share of the expenses of the organization as a whole.

By Mr. Michener:

Q. Whatever its nature, this is a payment made and reported to you. Are you telling the committee that it should not be made or should be made in some lesser amount?—A. I would prefer that it be not made, or reduced to the very minimum, because it is payment for something of an indefinite nature involving expenses incurred by members of the parent organization wherever it operates.

Q. I take it then that your opinion is that this payment should not be made in all the circumstances as you know them?—A. I would prefer that it be not paid unless specific items can be pointed out for which it is paid.

Q. If there are, do you intend to qualify your answer by saying that some payment might be made?—A. I think that there can be no objection to any payment where one can identify the service or goods rendered. For example, it might be stationery supplied by the home office.

Q. Can you identify, in your office, the purpose of these payments?

Mr. CAMERON *(Nanaimo)*: That is the point; he cannot identify them.

The WITNESS: I mentioned at the last meeting the main items of expense that are pooled for this purpose—

By Mr. Michener:

Q. You have information as to what the payments are being made for now?—A. They are being made to assess the Canadian company for more than its actual expenses incurred; for its actual expenses at the lower level and its prorata share of the total expenses at the upper level of the organization in the U.S.A. and in Canada.

Q. Then you tell the committee, in your opinion, that that payment should not be made? Is that the substance of what you are saying?—A. I think that is right.

Q. Yes. Then it follows that you are setting up your judgment as to the business practices that should be followed by this company in its relations with its parent?—A. I do not wish to be in the position of implying that I think the company should conduct its business in any particular way. It is an accounting matter, and whether the Canadian company's financial statement should reflect an adjustment which results from sharing the expenses of an international organization, is, I think, a question.

Q. I am just trying to understand your conception of your responsibility and duty as the licensing authority, because it seems to me on the one hand you might think it is your responsibility to regulate and control the business practices of the licensees—the ordinary business practices—and on the other hand that you might say that is not your concern. I have been puzzled by your comparison of the small loans companies with the insurance companies because it seems to me that they are two entirely different kinds of business operation and have no parallel except that both happen to be licensed in your office and under your jurisdiction. In the case of the insurance companies your concern is to protect the buyer of insurance to make sure that the company has the assets to pay him if the risk becomes a claim. In this case you are not protecting the borrower because he has the company's money already The only question is whether the money will be returned. The protection which you can give is in the matter of business practices. Actually there is no risk to the borrower once he has borrowed the money.—A. No.

Q. So that your protection to him is of a different order from that given in the case of insurance companies.—A. I referred to insurance companies because we are familiar with their practices. We regard this as an accounting matter, and naturally we are familiar with the practices followed by insurance companies operating under our supervision. We have never sought to tell any company how to run its business; but if one desires to ascertain the financial results of a company's operations, whether an insurance company or a small loans company or other, I think you must have the fullest possible understanding as to whether every item of expenditure made by it is a justifiable expenditure or is made for a rather indefinite purpose. Naturally I think question will arise as to the value of services rendered for any expenditure and whether, as an accounting matter, it is properly reflected as a supervisory fee, designated as such, or as an adjustment to salaries, rents, advertising, and a dozen other items appearing in the financial statement of the Canadian company.

Q. But does it not all lead up to one result, that is rate of charge?—A. That is our main interest in this particular case; namely, to understand as best we can the profit earnings of every licensee and of course especially the largest operator.

Q. Yes. As licensing authority, your responsibility is to protect the borrowing public to make sure that they are not charged more than the law

permits and, as an incidental concern, as you are doing here in this case, to advocate a reduced rate on the basis that you consider that should be feasible and adequate having regard to the experience that these companies are having and the profits they are making. Now, I wonder if you would like to tell the committee—and I think this would be an appropriate time—whether you regard it to be your responsibility to exercise more jurisdiction over the companies than just to see that they do not make excessive charges, because it seems to me that there are two possible views of the function of the licensing authority and of this legislation. Your own view of the responsibilities, I think, is an important consideration, and the committee would like to have it fairly clear in its mind.—A. Well, I would certainly say that our main function is to ensure that borrowers are not charged rates higher than those permitted by the act; but I would also add that where a licensee is incorporated by special act of parliament and operates under the provisions of the Loan Companies Act, as well as the Small Loans Act, and where the department is publishing the full financial statement of the companies so constituted, we feel a responsibility to ensure that those financial statements reflect as accurately as possible the operations of those few Canadian companies so incorporated—there are only four of them.

Q. That is, that they must make accurate returns—and I do not disagree with that; but how much further do you think you should go? You mentioned earlier in your evidence that you felt it necessary to restrict certain licensees from borrowing by debenture which might be regarded as a responsibility of a securities commission or authority but not the responsibility of the licensing authority.—A. I think that that is not something which has been determined capriciously, so to speak, on our part; that is a prohibition included in the Small Loans Act applicable to small loans companies. We think, in administering the Small Loans Act, that it would be inconsistent if licensees otherwise incorporated followed practices, or were permitted to do things, that are specifically withheld or prohibited in the case of small loans companies, being companies incorporated by parliament. We are simply endeavouring to follow a consistent uniform policy with respect to all licensees rather than attempting to make new rules for all. We are following the policy as given us in the Small Loans Act itself but given there only in reference to companies incorporated by special act of parliament.

Q. Yes. That might be an answer; but, in any event, you do follow that policy and consider it your responsibility to do so.

There is one other question about which I would like to ask you which involves the interpretation of the authority that is given in this licensing act. Do you put on conditions? As a condition of licensing any applicant, have you prescribed conditions which are not in the act? For example, that certain loans shall not be made at more than a certain rate which is not as high as the legal rate?—A. We have, over the years, included two or three conditions in licences generally, not in reference to rates to which you refer. We have inserted conditions from the outset in reference to activities as an insurance agent, for example, prohibiting the licence from making a profit through commissions on insurance sold in connection with loans. We have inserted a condition, where it appeared likely that the licensee would operate in the province of Quebec, to the effect that if the licensee adopts the practice of using the sale and conditional resale, or sale with right of redemption technique in lieu of chattel mortgages—which are not allowed—that the rates involved in such sale and resale documents will be regarded as the charges made in the case of an ordinary loan. Another condition that we have included in licences—and it is the only other condition—relates to the charges that a licensee may make in the event of seizure of chattels. Those are the only conditions of a general nature. We have, of course, from time to time inserted

conditions in licences concerning the authority to make further loans. Sometimes the authority of a licensee is restricted to loans already on its books.

Q. Have you made it a condition that only a certain rate, being less than the legal rate, be charged in respect to any class of business?—A. Never. I would say, in this particular instance, we have never felt it open to us to strike out the item from the statement of the H.F.C. or to tell the company that they cannot make it or should not make it. We have discussed the item with them several times and I think they are aware of our view that we would like to see it reduced to the minimum.

Q. The words of the licensing provisions of the Small Loans Act give some basis to your supervision of the operations of the company because licences are granted according to section 5, subsection (2), on the basis of efficiency, honesty and fairness to borrowers. I would interpret that as efficiency in general terms for the 73 licensees here; and if they are observing the law in not charging an illegal rate, or generally carrying on their business —efficiency, and are not dishonest, and carrying on their business—which I think is of great importance—with fairness to borrowers, then it seems to me that the details of their day-to-day operations, including such things as inter-company relationships, would be beyond supervision in practice in the case of so many companies, and you would have to judge them more by their results than by the details of their operations. Am I stating the problem correctly? Perhaps you would comment on that view?—A. First, I should make it clear that the licences are granted by the minister. Where I have used the expression "we" I did not mean to imply that the department issues the licences; they are issued by the minister.

Q. I take it that he does not grant licences except on your advice.—A. Secondly, I do not think that the lenders themselves feel that we have plagued or nagged them about inconsequential things. Frankly, we have not the time to do that even if we were so disposed. But I think it is entirely reasonable, in the administration of the act, that we should at least discuss with licensees some items of relatively large magnitude, or some practice that the licensees may be following which we think is rather unusual. That is what we really have done in this instance.

Q. Would you illustrate about how frequently these discussions are held and how many licensees are involved? That would perhaps give us an idea if the supervision of the actual conditions of the business of the licensees becomes a responsibility of your office?—A. Under the act, the superintendent, or some member of the examination staff, is required to visit at least once every year the chief place of business of the licensee. In practice, our examiners, when they are in different parts of the country on other business, for example, examining insurance companies and loan and trust companies, go into the branch office of the licensees in those particular localities and check the charges and practices that the licensee is following in that locality. After every examination a report is made to the superintendent; sometimes there are no items that are worthy of discussion with the licensee at all. In most instances, however, there is some point, or there are a few points, that are taken up with the licensee—perhaps overcharges or undercharges. If I may, I would retract that statement because the overcharges are incidental and few; I would not mention them as though it is a general practice because it is not. But all through the year we may be in correspondence with the head office of a licensee about several different matters; it might be advertising or some item in their financial statement.

Q. Have you found the licensees generally cooperative with respect to the suggestions that you and your inspectors have made?—A. Yes, we have.

Q. Have you had to suspend or cancel any licensee for infringement or for practices which you felt disqualified it from holding a licence?—A. Yes, but not often. In the early days of the act some prosecutions were necessary both with respect to unlicensed lenders and, in at least one case, of a licensed lender.

Q. But they generally comply with the requirements of your office?—A. Yes. Our relations are quite harmonious and we have no complaint about their cooperation at all. I think that every licensee is almost as interested as we are in improving conditions.

Q. The reason that we are here is that some think they are doing business on the basis of a profit which would permit a reduction of the maximum rate and still leave an adequate balance?—A. More particularly in the field of loans above $500.

Q. I was interested last week to hear you say that you really had no emphatic recommendation to make with respect to the loans up to $500.—A. This bill does provide for a slight reduction in the rate applicable to loans under $500; but the main effect would be in reference to loans above $500.

Q. Thank you.

By Mr. Cameron (Nanaimo):

Q. I take it, Mr. MacGregor, that you would be consulted, and in fact your advice would be sought, by the minister if it was contemplated to make some changes in the act such as the changes which we are considering now, and that your advice as to a possible change of interest rates would be sought?—A. I think that is reasonable, Mr. Cameron.

Q. In order to give the best advice you could you would feel that you had to have a very clear picture of the actual profit situation of these companies, would you not?—A. Yes.

Q. Did I understand you correctly when you spoke of that $500,000 paid by the Household Finance to its parent company as going into a pool for, I think you said, the higher brackets?—A. Upper expenses.

Q. Some higher expenses. Would I be right in assuming by that that you meant that it went into a pool for possibly, salaries and bonuses for the higher bracket of executives in the parent company?—A. The expenses that I referred to at the last meeting, which are pooled, are salaries, accounting fees and expenses, conference fees, directors' fees and expenses, fees of registrars, postage and express, rent, telephone and telegraph, travel, and some others. The practice followed is for the expenses of this nature to be pooled by the parent, the various branches, and subsidiairies of the parent, all being included in the pool. Then a share is assessed against the Canadian subsidiaries in the proportion that the net income of the Canadian subsidiaries bears to the total net income of the organization as a whole. That effects a subdivision of these pooled expenses between Canada and the U.S.A. When the share is assessed against the Canadian subsidiaries it is subdivided again between H.F.C. of Canada, the licensee, and H.F.C. Limited, the unlicensed company, on the basis of 50 per cent in proportion to the average number of accounts outstanding during the year, and 50 per cent in proportion to the average amounts or balances outstanding during the year.

Now, having reached that point, namely, the share of these upper expenses, so to speak, that should be borne by the Canadian subsidiaries, the practice is to substract from that share the payments under these heads that were actually made by the Canadian subsidiairies and the difference represents the supervising fee which is paid over to the parent and appears in the financial statement of the Canadian subsidiary by way of adjustment to these various items of expenditure.

Q. Now, Mr. MacGregor, what is the legal position of the parent company with respect to the Canadian company? Is it any other position than that of a shareholder?—A. Legally I suppose not.

Q. It is merely a shareholder, is it not?—A. I should think so, legally.

Q. And as a shareholder it is entitled merely to the profits made by the company it owns in the same way you and I would be entitled, for instance, if the American company was one shareholder and you and I were two other shareholders, to our share of the profits made by them; but neither of us would be able to go to the company and say, "Before you liquidate your profits, allow a certain allowance for the expenses of my car and other expenses". That is what the company is in effect doing.

Mr. MACNAUGHTON: The witness said that he did not know.

By Mr. Cameron (Nanaimo):

Q. He did; he answered. You were not listening, Mr. Macnaughton; sometimes you do not, you know. Let us clear up that point. In your opinion, the position of the parent company is legally and solely that of a shareholder?—A. I am not a lawyer, but I think the main relationship between the two is that of a shareholder.

Q. Yes. Now, that being the case, then what justification can there be for paying to that shareholder anything except his share of the profits?—A. I should prefer to leave that to the lawyers.

The CHAIRMAN: As a lawyer, I am prepared to tell you that you are talking through your hat.

Mr. CAMERON (*Nanaimo*): Good. Tell me how.

The CHAIRMAN: Because any subsidiary company is entitled to make whatever payment is recognized for tax purposes by the income tax department for whatever services they feel they are paying for; it is quite legal to do it. When you speak about the illegality of it, you are talking through your hat.

Mr. CAMERON (*Nanaimo*): I was suggesting that there is only one legal position with respect to the parent company and that is of a shareholder in the wholly-owned company. I suggest that you examine the practices of such wholly-owned Canadian companies and you will find that the legal position of the parent company as a shareholder in the subsidiary company is very carefully maintained all the way through; that is its only position. I suggest that this is something which certainly should be examined. I intend to raise this when the Department of National Revenue estimates come up.

Mr. PHILPOTT: That is what we are doing.

Mr. HANNA: Mr. Chairman, we started this discussion on Tuesday and have gone into it fully today. I like your suggestion that perhaps we should hear some representative from the company, because this is an isolated case. Apparently it applies to only one company. I would hope that the committee would agree, while we are on this item, now or later, to hear a representative of this company and perhaps his explanations might help us in our understanding.

The CHAIRMAN: Mr. MacGregor has asked to be allowed to correct one point.

The WITNESS: In answer to the question which Mr. Cameron asked about the procedure followed in pooling these expenses, I mentioned various items of expenditure that are pooled. I should have made clear that the whole of each of these items is not pooled in every case; in some instances the whole is pooled, but in other cases only 50 per cent or some other percentage.

By Mr. Henderson:

Q. Mr. MacGregor, did you recognize this $500,000 paid as an expense? —A. It is reflected as an expense in the financial statement of the company.

Q. And the financial statement as far as your branch is concerned has been proved. I do not agree with our friend's suggestion that the shareholder of any company should be barred from receiving funds from another company when those funds are repayment of expenses. Is that not a correct premise? —A. That strikes at the root of the question. What kind of expenses are they? It is a sharing of the general expenses of the organization as a whole, both in Canada and in the U.S.A.

Q. Anyway they are listed as expenses and proven as expenses. Have your inspectors sufficient authority to go into these companies' books and allocate what this $500,000 is charged against? It may be an executive account or rental account all the way along. Are your inspectors able to allocate that $500,000 to different subheadings and expenses?—A. The question of whether we should allocate it really does not arise. The company itself in filing the statement allocates the payment.

Q. Undoubtedly it would cause some concern in your inspectors' minds. Have they the authority to go to see how that $500,000 is split up as to rent, advertising and so on?—A. That information is all available to our examiners when they visit the office of the company, but we have it in Ottawa anyway because the auditor's statement reflects it.

Q. Would your inspectors go and inspect what this $500,000 was allocated to in the company's books and ask them to produce it?—A. It is really not necessary for the examiner to do so because we know it is an acocunting procedure determined by formula by the parent and we can sit down in the department, or in this room and go through the arithmetic, if we are given the items of expense that are included in the pooling.

Q. What I am concerned about is that in your reply to Mr. Michener you stated that Household Finance is an independently constituted company. I would not want that to get confused with an independently constituted company in this country, and therefore we have the right to know how this $500,000 has been divided in the company's books. Since this is the only company that has been paying $500,000 to the United States, I would have thought that in your own mind, and in your inspectors' minds, you would raise the question as to just where they allocated those in the expenses of the Canadian company.—A. It is distributed amongst these dozen or twenty heads that I have mentioned—salaries, directors' fees, rent, telephone, telegraph, and so on.

Q. But your inspectors would inspect that down the line to see it was allocated to different expenses of the company's operation? Is that correct?—A. In the normal course of preparing the statement the company itself shows it.

Q. Did they do it in this case? This is the only case where money was paid to the United States, and I assume the question would be raised in your branch as to why. What I want to know, in this case, is did your inspectors satisfy themselves, on the company's books, that this $500,000 was properly allocated to different subheadings or expenses of the Household Finance company generally?—A. Yes. It has been allocated in accordance with a formula determined by the company itself. As far as the examiners are concerned, frankly I do not think that they have been worrying their heads too much about this item because it has been going on for twenty-five years and has been a matter of some discussion between the department in Ottawa and the company.

Q. As far as this $500,000 paid to the parent company in the United States is concerned, are there any other expenses that go there besides dividends?—A. To the parent?

Q. Yes.—A. Only interest on borrowed money.

Q. Interest and possibly dividends if there are any?—A. Yes.

Q. Is there some advertising expense from the American company which is charged back as an expense item to the Canadian company?—A. Advertising is one of the items that is pooled under the heading "publications and publicity", so that the expenditure reflected in the statement of the Canadian company would be its pro rata share, so to speak, of the advertising costs of the organization as a whole, both in the United States and in Canada.

Q. I mention that because, living on the border area of the United States, I know there is a lot of advertising which comes across the border and a lot of it which goes over there. I was wondering if there is any separate advertising account which the parent company is charging under another account to the Canadian company?—A. Simply as one of the ingredients in the expenses pooled.

Q. Now, there was something which you mentioned to Mr. Michener in talking about your control over the seizure of chattels. I would like to know, under that seizure, when a truck is seized under a loan and that truck is filled with goods belonging to a third party, if it is proper that those goods should be seized along with the truck, and the third party then deprived of the goods?—A. Frankly I do not know what the legal position of the licensee would be in attempting to seize both the truck, which presumably formed the security for the loan, and some goods which are being transported in the truck; but I can say this, that the number of seizure in practice is extremely small and in the case of Household Finance Corporation the largest operator, I think last year there was only one seizure of chattels.

By Mr. Henderson:

Q. Just what would happen in a case like that?—A. I do not recall that we have ever had to deal with it; I do not think we would be called upon to take any action.

The CHAIRMAN: Are you not getting astray? You are asking for a legal opinion from somebody who is not a lawyer. Would not his attitude at the time be governed by such legal advice as he obtained, probably from the Department of Justice? I think we are getting a little astray there.

By Mr. Fraser (St. John's East):

Q. I would like to ask if the formula laid down by the parent company has been changed at all in the allocation of the expenditure?—A. It was changed in 1954 after some discussion between the department and the company. The main effect of that change was to eliminate some of the intermediate salaries that were previously pooled but which since 1954 have been excluded; consequently the effect was to reduce to some extent the burden of this supervising fee. However I may say that even that question is still one which is under discussion between the department and the company because the old formula is still being followed in the sense that the extra amount or the difference in amount between the two formulae is still being reflected in the profit and loss account of the company. It is not being reflected in the regular expenditures of the Canadian company but apparently the Canadian company is still expected to pay the parent on the basis of the old formula. As I say, that matter is still under discussion.

Q. But when it is brought into effect actually it will have the result of reducing the contribution of the Canadian company?—A. That has been our understanding of the effect and the intent of the change ever since 1954.

Q. What would be the total amount of the pool?—A. I can only give you readily, Mr. Fraser, the figures for 1953 which was the last complete year prior

to the discussion I referred to; the total pool for 1953—perhaps I should give you first the amount of the pool on the basis of the formula followed prior to 1954; the pool on the old basis amounted to $4,227,000; the Canadian share—that would be not only for the licensed company but for the unlicensed company also—amounted to $1,241,000.

The Canadian companies actually paid directly the amount of $734,000 and the difference between the latter two figures, that is, the Canadian companies share and the amount actually paid by the Canadian companies was $508,000 and after adjustment for the rate of exchange prevailing at that time it was $499,678, being the supervisory fee for both companies, the licensed company and the unlicensed company.

On the basis of the new formula the total pool was $2,103,000, and the Canadian companies' share was $618,000; but the actual amount paid by the Canadian companies was $234,000, the difference representing the supervisory fee being $384,000 and after adjustment for exchange, $378,000.

Q. Thank you.

The CHAIRMAN: In view of the fact that such an issue has been made of this point I rule that we make an exception in this case and ask Mr. Cawker—or whoever is here representing Household Finance—to explain this matter and let us get through with it and then go on with Mr. MacGregor.

By Mr. Macnaughton:

Q. May I ask this question along the same line: I am trying to be as fair as possible to Mr. MacGregor, but I am disturbed by his statement on page 26 about the supervisory fee which Mr. Michener discussed at some length, because it is a matter of great principle in that it effects not only Household Finance Corporation—and I know nothing about Household Finance Corporation—but it also affects companies generally. You said that in your opinion—if I am right—Household Finance Corporation was a well run company and that its rates were fair.—A. I do not think I used the latter words "that its rates were fair".

Q. You said it was one of the large companies and that in your opinion it was well run; and then you go on to object about the supervisory fee; and on page 26 you said also, I think, that it was paid or formed part of a general sharing of general expenses, and that means that the money was paid for services rendered. If you did not object to their paying for these services—I mean, if they did not let these services for which they pay, they would have to set up means of performing those services here and it would cost money, and perhaps a great deal more in the long run.—A. That is an uncertain question.

Q. But we do not know. My question is how far should your department go into the internal operations, policy and management of business generally?—A. We simply go as far as we can to ensure that the financial statements of companies operating under our supervision accurately reflect the operations of the companies, and if we encounter an item of an indefinite nature, naturally we discuss it and try to ascertain its true nature. That is all we have done here.

Q. I agree with you; but where you are dealing with questions of management—you acknowledged that this company was being run efficiently; but you say to them "You should not do it that way." Is that the function of your department? Have you got the practical experience or have you men with practical experience to go in and tell management that they are making a mistake and that it should be done in some other way?—A. I think it is simply a question of accounting. I would not stress the idea of objecting to the payment so much as I would stress our desire to ascertain what it is for, and the fact that rightly or wrongly it results in the financial statement of

the Canadian companies reflecting not just the expenditures made by it, but results in a kind of blended or consolidated statement involving expenditures made by the organization as a whole in other countries where we know nothing whatsoever about the justification for the salaries or other items of expenditure that may be made there.

Q. I agree that you are entitled to have a reasonable explanation; but if I were operating a business; and if that business were efficiently operated, as the results would prove, I do not know if I would like it too much or would be too much in favour of governmental authority coming in and telling me that my business practice and operations were wrong and that I should change my methods of paying my executive set-up.—A. In our work the last thing we have in mind is any intention to meddle with a company's internal affairs, but I do believe I would be subject to criticism by this committee if, as a matter of general practice, every licensee were owned by a parent either in Canada or elsewhere, and with whom we have no official connection, and if in every case the licensee made a lump sum payment or a large payment ostensibly for something or other and we made no effort to ascertain what it was for. If we were in that position it would be almost impossible to determine the true profit of the licensee or to form an opinion whether the maximum rates were appropriate or not.

The CHAIRMAN: I think we may rest assured—

Mr. MACNAUGHTON: I think that is reasonable.

Mr. CAMERON (*Nanaimo*): I think we should hear someone from the company. At no time did Mr. MacGregor suggest that he wished to interfere with management, and at no time did he suggest that the company should change its practice in the way it paid its management.

Mr. MACNAUGHTON: Are you saying that, or is Mr. MacGregor saying it?

Mr. CAMERON (*Nanaimo*): Mr. MacGregor did not say it. You are putting those words into his mouth.

Mr. MACNAUGHTON: I am not putting words into Mr. MacGregor's mouth. Here we have a superintendent and a very good one, and I want to know just how far this superintendent or any superintendent can go into the internal affairs of a business, once you prove that it is successful in its operations, and providing that it conforms to the law. Where do we stop?

The CHAIRMAN: I think we may rest assured that if Mr. MacGregor did not go into the question of how this sum was made up, the Department of National Revenue would very definitely go into it. I suggest to Mr. MacGregor that he go on and clear up this point for us so that we may proceed with his statement.

By Mr. Follwell:

Q. Is this committee to assume that your entire criticism of this amount paid as a supervisory fee to the parent company is a matter of your criticism of their accounting formula?—A. We have expressed our views to the company, but we have not imposed them.

Q. No, I think that is the point, or the crux of the matter. It is a matter of the way in which this company carries out its accounting formula, and if they allocate this $500,000 to a certain item of expenditure, you would have no criticism. Am I right?

Mr. CAMERON (*Nanaimo*): Providing it was legitimate.

The WITNESS: I would have to qualify my answer because they did distribute this item to various items of expenditure.

By Mr. Follwell:

Q. You are not criticising their accounting formula?—A. No. What worries me is the fact that the statement of the Canadian company reflects a sharing of expenses, including those incurred in the United States, and whether the share is justified as an expense or not is, I think, a question.

The CHAIRMAN: Let us try to find out from an officer of the company. Have they an official here?

Mr. C. M. CAWKER (*President, Canadian Consumer Loan Association*): Mr. D. F. McClure, first vice-president of Household Finance Corporation (U.S.A.), and vice president and secretary of the Canadian licensee is here and I am quite sure he would be most happy to give evidence on this matter.

The CHAIRMAN: Very well; will Mr. McClure please come forward and explain to the committee how this sum is made up?

Mr. Donald F. McClure, (First Vice-President, Household Finance Corp. (U.S.A.),) called:

The WITNESS: Mr. Chairman, my name is Donald F. McClure and I am one of the officers of Household Finance Corporation of Chicago as well as a director of the Canadian company.

My home is in Chicago. Should I identify myself any more than that?

The CHAIRMAN: I think that is sufficient, unless any member of the committee wishes to have further identification.

The WITNESS: Having sat through the hearings for the last two sessions, and, having a very great interest in this point, I have made a few notes in an endeavour to be as helpful as I can on what, we must all agree, is not an easy concept to grasp.

In the operation of any enterprise which involves branch offices, and those branch offices straddle various jurisdictions, there are certain specialized functions which can be performed at headquarters for the benefit of the several operating units at a saving in expense as compared with duplicating those functions at the several branches, and it is this which gives rise to the need to allocate to the branches such headquarters disbursements so that the true cost of the product or the service at the branch level can be known.

This allocation must be based upon actual disbursements rather than upon estimates, and it should be arrived at on the basis of a fair method.

The company involved of course is primarily interested in the correctness of this allocation, because otherwise an inefficient operating unit might be unjustly subsidized; and the income tax authorities have an interest to make certain that the expenditures allocated are properly deductible for tax purposes; and in the case of lending organizations, the rate-making bodies have an interest to protect the borrowers against unjustified expenditures.

Now, I shall give you a little background very briefly, so you may have a proper perspective. During 1955 Household had outstanding on the average throughout the year—and I am giving you consolidated figures which include both Canada and the United States, and those figures are expressed in terms of United States dollars—Household had outstanding throughout that year $406 million of customer notes receivable on which its gross income was approximately $97 million.

Operating expenses, which excluded income tax and interest, amounted to $49,900,000 or a little more than 51 per cent of the gross income.

Of these operating expenses $42,900,000 or 86 per cent, were dispersed at the branch office level, and $6,977,000, or 14 per cent, were dispersed at the headquarters offices in Canada and the United States.

Most of these Canadian and United States headquarters expenses related directly and clearly to the operations either in Canada or the United States, and no allocation was necessary as between the two countries; but there is a residue of general management disbursements which are subject to allocation between the two companies because they are not easily tagged as solely for the one or the other country.

Now, the Canadian income tax people have very definite ideas as to how this tagging should be done. The formula which they have used for a number of years is backed by good reasoning, and the companies' book entries reflect the income tax formula. Applying the income tax formula to these general management expenses, subject to allocation, showed us early in 1956 that $725,000 of the United States disbursements of 1955 were allocatable to Household's two Canadian operating companies; they were divided between the two Canadian operating companies in this manner; $421,000 to Household Finance of Canada which was the small loan licensee, and $304,000 to Household Finance Corporation Limited, which makes a total of $725,000.

This amount allocated by the two Canadian companies in 1955 was equivalent to 6/10th of one per cent per annum on $121,957,000, the average amount of customer notes outstanding in Canada alone. Our total here, i.e., in Canada, is a combination of what the licensee has, customers receivables of about $52 million or $53 million, and what Household Finance Limited has—at the end of the year in the neighbourhood of $91 million. The average was $121,957,000 throughout the year.

If you could eliminate these disbursements of $725,000—in our judgment it could not be done, but if you could—it would reduce the rate charged to borrowers by 5/100ths of one per cent per month.

Now, the Superintendent of Insurance has different ideas as to the allocation of these expenditures, and the company finds itself in the uncomfortable position of having to serve two masters. The companies evidence that the Canadian operation was less expensive because of the functions performed for it in the United States was met with the doctrine that the need for any function to be performed for Canadian subsidiaries in the United States should disappear, to the end that the Canadian companies eventually stand on their own feet.

After discussion, no objection was offered to our using a somewhat different formula which produced a smaller sum allocated to the Canadian corporations. We know that the revised formula would understate the Canadian companies' true expenditures, and correspondingly it would overstate their real earnings, but it seemed clear that we had lost the argument in connection with our report to the Superintendent of Insurance.

Application of the revised formula to the general management expenses subject to allocation for 1955, showed that 485,000 of the United States disbursements were applicable to Household's two Canadian companies. This was divided between the two companies as follows: $281,000 to Household Finance Corp. of Canada and $204,000 to Household Finance Limited. The total is $485,000. This has been called a supervisory fee; it is not a supervisory fee in the usual acceptance of that word, but rather a reimbursement for the cost of functions performed for the subsidiary by the parent.

It was reported at the last session here that the total of approximately $500,000, which is actually $485,000, was applicable only to Household Finance of Canada, and this is of course incorrect. Only $281,000 was allocated to Household Finance of Canada. It was this sum of $281,000 which was included in the operating expenses of that company in its report to the Superintendent of Insurance. The $140,000 difference between that allocation—the $281,000

and the $421,000 which was on the books for income tax purposes—had to be recorded some place, and was recorded as a reduction after tax adjustment in the earned surplus account of Household Finance of Canada. Thus, the income statement of the licensee appeared slightly higher than it otherwise would, a fact which may give some comfort to those who are interested in a rate reduction.

So much for the facts. Now we come to the real heart of the question which is what are the services that the Canadian operation received for the allocation of $485,000 or $725,000, whichever one of those figures you prefer to discuss. The answer is it received those services which can best be performed in one place rather than in two—and let me enumerate.

We have, in Chicago, a personnel department. The hiring and the training of new personnel is a vital function, particularly for this business, as the lending business cannot operate without men or money, and sometimes I believe that the man problem is the most acute. The technique of selecting qualified employees from applicants for the job, and for training such people after they have been hired, is a professional matter. Canadian employees are hired and trained in Canada by Canadian personnel, but the techniques and the training material have been developed and are constantly being improved in Chicago where the work began. It would be an unnecessary expense to duplicate this work in Canada since a training tool, once perfected, is as effective in Ottawa as it is in Detroit.

Then there is the consumer education department. Household has been a leader, we believe, in producing pamphlets and guidance material for helping consumers budget their incomes and to become better managers of their finances. The preparation of this material requires a small staff of home economists. As the Canadian business developed, it was believed—wrongly as we later discovered—that this material should be revised by Canadians for Canadians. For a time we partially duplicated the department in Toronto. Experience showed that this duplication was unnecessary and costly. The two departments are now merged in Chicago. Minor changes in the material made the same pamphlets and material equally acceptable on both sides of the border.

We have a research department. The statistics, which compare the operating results of Household's 770 branch offices and 75 supervisory units, are prepared by a group of statisticians in Chicago. The compiling of these figures is greatly facilitated by a battery of IBM machines. It would be uneconomical to duplicate this department in Canada as its general output reaches the Canadian supervisory and general management staff as promptly as it reaches comparable staff people in the United States. This material forms the basis for intramural reports. In fact, it comes close to providing the driving power of our organization.

Do not confuse this statistical material with the books of accounting. All Canadian books of accounting and bookkeeping are in Canada.

Finally, and most important, is what we can call, for lack of a better term, the financial department, although we have no such department in the formal sense. Under this heading I will group all functions which involve the securing of funds which the company must have to operate. Now, this is a large and growing task—quite so within the United States and even more so here in Canada. Household's Canadian customer notes receivable increased $13 million in 1953, $17½ million in 1954, and $33,400,000 in 1955.

Mr. MacGregor has told you some of the difficulties which small loans companies and money lenders have in trying to raise funds in Canada. In truth it is impossible to obtain, in Canada, the amounts needed to finance such growth as Household has had in recent years. Every effort is made to enable the Canadian subsidiaries to stand on their own feet. From the point

of view of lending operations they are independent; but from the point of view of finances, the Canadian subsidiaries are dependent upon the American money market. At the present time no useful purpose whatever would be served in establishing an office of a financial vice-president in Toronto.

Now, what is the significance of the cost, the untagged aggregate cost, of these services part of which is allocated to the Canadian operation? At the end of 1955, the Canadian companies were employing $147 million in their business of which $115,800,000 was borrowed from the parent. If you relate the $485,000 allocation to the $115,800,000 total advances which the parent had made to the Canadian companies by the end of 1955, you see that it amounts to about ⅜ of 1 per cent per annum; if you relate the $725,000 allocation to the $115,800,000 advance of the parent to the Canadian subsidiaries, it amounts to slightly more than ⅝ of 1 per cent per annum. These fractions measure the Canadian companies share in 1955 of the salary, travel, telephone, postage, legal and miscellaneous expenses of the staff which performed the services enumerated, and produced $115,800,000 of borrowed money for the Canadian operation at an average interest cost of 4½ per cent per annum.

As long as the Canadian business stands in need of large amounts of capital, and as long as it is substantially less expensive to perform certain professional functions in one office rather than in two, the disbursements of the United States headquarters are bound to exceed by a substantial amount the disbursements of the Canadian headquarters for purely general management functions. This, in turn, will require a fair allocation of such disbursements between the Canadian companies and their parent.

The purpose of the division of these functions and the corollary of the necessary allocation is to provide a cash lending service at the lowest cost to the Canadian borrowers.

That statement may perhaps be more general than you wish. If you have questions which you wish to ask, I will try to answer them.

The CHAIRMAN: Before questions are put to Mr. McClure, I do not know whether he will be a witness later for the Canadian Consumer Loan Association, but I would ask you to restrict your questions, at least reasonably, to the point under discussion.

By Mr. Fleming:

Q. Mr. McClure, how many companies are there in the United States under the ownership and control of the Household Finance group?—A. If I were to say it was perhaps in the neighbourhood of 120, I do not think that would be in response to your question. We have in the United States in the neighbourhood of 575 branch offices, and I would say that of that 575 about 120 of them are separate corporations wholly-owned by the parent, and the balance are owned by the parent holding company.

Q. These corporations operate under various jurisdications?—A. Thirty-six states.

Q. And do you have the similar problem of allocation or distribution of this form of overhead costs as among the various state jurisdictions in the United States?—A. Yes, sir.

Q. Would you make your comment specifically on the point raised by Mr. MacGregor? Mr. MacGregor's point was that the Canadian corporation—and I take it this would apply to both Canadian corporations— should not be operated in the same way as branches of a proprietary company. Would you make your comment specifically on that point, please, and relate it to this matter of allocation of cost distribution?—A. There is a difference, of course, between a branch and a headquarters. The purpose of a headquarters branch is to perform centralized functions which can be more economically performed than could be done if you duplicated that process in the various branches.

When you have a large Canadian business, such as we have here, you must have a Canadian corporation, and it needs a Canadian headquarters, and it in turn has its branches.

The Canadian headquarters should be encouraged to be as independent as it economically can. And, as I have stated, we believe that our Canadian operation, which is managed from the Toronto headquarters, from a lending point of view is completely independent; but there are certain functions which for the Canadian headquarters still are either uneconomic because of the relationship between the two companies, or impossible for them to do. These are the functions which I enumerated. One reason why the cost is less is because of the historic fact that the parent already existed at the time the Canadian subsidiary was established and we continue to perform those functions in the United States and since it is a larger operation than in Canada we allowed that function to spill over to the Canadian operation.

The main thing which takes the largest bite out of this allocation is the financial one. For the Canadian operation to have assembled an aggregate of $147 million—which was the total by the end of the year—most of which has grown up since the termination of World War II, would have required the Canadian headquarters staff to spend a great deal of its time in the United States to acquire that money.

Q. On this matter of the independence of the Canadian operation, or relative independence, how do you compare the extent of the independence of the operations of the two Canadian companies on the one hand, with the extent of independence enjoyed in operation by the subsidiary companies operating in the United States, all in relation to your headquarters?—A. Well, the subsidiary companies in the United States have no economic independence, or in fact no real independence.

Q. Then I may take it that the relationship between your headquarters establishment and the Canadian operation is a quite defferent relationship from that existing between the headquarters and the various American subsidiary companies?—A. There is no question about that.

Q. What is the trend of growth at the present time as far as the Canadian operation is concerned? Is it towards an enlargement of the independence of operation?—A. Yes, it is; except that at the present time you could not believe that there is any increase in the financial independence of the Canadian company because in this past year there have been restrictions in the ability to get money in Canada, and that in the very face of a growing need. That has made the Canadian headquarters even more dependent, from the financial point of view, on the American market.

Q. I was thinking rather of the corporate relationship, and the method or the extent of the freedom exercised here in extending functions of the kind embraced in the formula, either present or previous formulae?—A. Yes. The functions are growing; the independence of the Canadian headquarters is growing and more and more money is being spent and disbursed by the Canadian headquarters itself. If they did not do as much of their own business as they do, we would have to do more in the United States and the actual allocation to Canada would be even larger.

Q. The revision of the formula made in 1954 then does represent an extension of the independent functions of the Canadian company in relation to the American headquarters?—A. No. I am afraid I cannot agree that that is true. The revision which was a result of a discussion which the company had with the Superintendent of Insurance did not alter the facts of the case. It simply altered the amount which the company charged to the income statement of the Canadian operation.

By Mr. Benidickson:

Q. Was that 1954 or 1955?—A. I think Mr. MacGregor said that he thought the revision was in 1954. I really do not remember. I know the revised formula was used in 1955 and may have been used in 1954.

By Mr. Fleming:

Q. Has the formula been approved by the Department of National Revenue of Canada?—A. Not the revised formula. We are using a formula which was laid down by the Canadian revenue people and it is that which is reflected in the books of account.

Q. Are you distinguishing between the formula that you now mention and the formula that Mr. MacGregor described?—A. Yes.

Q. Would you clarify this, because I gathered from Mr. MacGregor's statement in that respect that there had been a formula which provided for the distribution, or allocation, of a broad range of expenses that are called headquarters expenses, that there had been a revision of that formula in 1954, and that the effect of the revision had been a contraction of the headquarters expenses so far as Canada was concerned to the local operation?—A. That is correct.

Q. Are you telling me about a different formula?—A. No. I am talking about the same one.

Q. I wanted to relate the one approved by the Canadian Department of National Revenue to the formula which Mr. MacGregor described here?—A. The formula which we use in connection with the Department of National Revenue has not changed for a number of years. We are still using the same one.

Now, at the urging of the Superintendent of Insurance, in making our reports to the Department of Insurance we revised the allocation of expenses which had been disbursed in Chicago and which were chargeable to the Canadian operation; we used a formula which produced a smaller sum, and the difference between the two sums, as far as the total is concerned is that in 1955 on the income tax basis, it produced an allocation of $725,000 roughly, and in our reports to the Department of Insurance it produced an allocation of about $485,000. There is the difference.

Q. Has this question of the formula, or the difference now appearing in the formulae, used for tax purposes on the one hand and for reporting purposes to Mr. MacGregor's department on the other, come to the knowledge of the Department of National Revenue?—A. I do not know.

Q. Perhaps it would be interesting to find that out. The other point has to do with the ratio of operating expenses of your company as compared with those of the other three small loans companies. On table 7—which was referred to earlier this morning—there is a table, in the fourth column, headed "Other expenses except income tax and interest on borrowed money". May I ask here if the expense covered by the formula about which you were talking appears under this column?—A. It does.

Q. This indicates that in comparison with the three other small loans companies, in the year 1952, you have the lowest ratio of expense among the four companies; in 1953 you have the lowest ratio of expense; and in 1954 you have the second lowest ratio of expense; and in 1955 the lowest ratio of expense. So, for the four years, among the four companies, you had the lowest ratio of expense over-all. Now, a question has been raised this morning as to the extent to which the payments made under the formula, or the way in which your company carries on the sharing of certain headquarters or supervisory functions with the Canadian subsidiary companies, have entered into this result of a lower operating expense ratio. Would you enlarge on that subject to the committee and tell us to what extent you think that this form of

management has contributed to your relatively low operating ratio expense record?—A. There is no question in our mind that we believe that whatever our operating results show—and we think they are fairly good—it is due to a tight control of expenses and doing the job in the most economical way that it can be done. We firmly believe that these functions, which are done in Chicago, produce a much lower operating total expense for the Canadian operation. If we did not, we would establish a department here to do the job.

I do not want to say that the mere fact that we spent either $485,000 or $725,000—whichever figure you want; it really is $725,000—in the United States for the benefit of Canada is the only one which produced a favourable report; but that is a contributing reason and is the reason we will stubbornly defend that practice.

Q. Those are all the questions which I have if Mr. McClure could give us some further information about the relationship of the tax question to the formula, which might be helpful if he could come to us with that information.

By Mr. Henderson:

Q. I am impressed with your statement about your finance department accumulating $147 million to be invested in your Canadian subsidiaries. I listened to your remarks about the formula from the Department of National Revenue and the formula from the Superintendent of Small Loans companies branch. I would like to ask you what two tax departments you have to deal with in the United States with respect to your company in Chicago? Are there two, or only one?—A. In the United States, the tax situation is really quite complicated; but the major tax authority with which we have to deal in the United States is the Federal Income Tax Department. That is a sizeable bill. Also, in many of the states we also have income tax to pay. Not all of the states have income tax, but many of them do and, of course, they all have property taxes.

Q. What I would like to ask you is, how does the department of revenue in the United States consider this $500,000 each year? In what category do they put that?—A. The expenditures were made in the United States and we bill the amount to the Canadian companies and they pay us a supervisory fee, that is calculated according to the tax formula. So that that supervisory fee would be income on which we would have to pay tax in the United States.

Q. Could we put it this way, that the federal taxation bureau in the United States considers that $500,000 as an income on goods and services rendered to a company, or to a customer, outside of the United States?—A. Let me say this: I believe that is true, but if you will permit me I will be able to confirm that at another hearing. Your question is an intelligent one to which I should have the answer but I do not have it.

Q. I have another question. How do you dispose of the difference between the $500,000 and the $725,000? If we use your formula, it would be $725,000. How do you dispose of that difference between $500,000 and $725,000 at your main office as far as taxation is concerned?—A. As far as our position is concerned, the $725,000 one is the one on the books.

Q. What happens with reference to the United States federal authority on that?—A. If I am correct, the so-called supervisory fee was paid at the rate of $725,000 in the aggregate and that is income received as far as the federal tax people are concerned. This $485,000, so-called $500,000, is just a memo.

Q. That is considered by the American taxation people as being a loss, that difference?—A. No. The money was spent. It was disbursed. This is reimbursement for expenses of the American company.

Q. I will leave those two points with you.

By Mr. Pallett:

Q. Are you suggesting to this committee that your company, after having been requested by the Superintendent of Insurance to readjust your formula, merely readjusted it on paper for the purpose of filing with the Department of Insurance and did not in fact readjust it between the companies?—A. That is literally what I am saying.

Q. I do not think that achieves the end of the request by the Department of Insurance at all, if I may be so bold as to suggest it.

By Mr. White (Hastings-Frontenac):

Q. In your return to the American federal income tax department would you show as a deduction the disbursement of $725,000 expenses for services rendered to the Canadian corporation?—A. Would you mind repeating your question.

Q. In your return to the American federal income tax authorities would you show as a deduction for income tax purposes the item $725,000 which you say is for services rendered to the Canadian corporation?—A. Yes.

Q. You show it as a deduction for expense in the United States and you show $500,000 income from the Canadian corporation?—A. The actual income received was not $500,000 but $725,000.

Q. But do you show as a deduction for your operating expenses in the United States, $725,000?—A. I am certain that we did. If we show the $725,000 as income, we would show the other as a deduction.

Q. Then am I correct in saying that in Canada this $485,000 that is paid to you, is shown as a deduction here for income tax purposes?—A. No. It is the $725,000 which would be shown for income tax purposes.

By Mr. Fleming:

Q. I think that this will become clearer when you bring the information about which I asked in respect to the tax return, and whether it was done with the knowledge, and perhaps approval, of the Department of National Revenue. Is this a fair summary of the position now in regard to these payments, that in the United States operating statement you show the $725,000 expended on behalf of the Canadian subsidiaries as part of your total overhead expense, and on the other side of your operating statement you show a reimbursement from the Canadian companies of $725,000, so that as far as this item is concerned it is in balance; and as far as Canada is concerned in your income tax return you prepare that return precisely on the same basis showing payments of $725,000?—A. Absolutely.

Q. As payments by the two Canadian corporations to the parent company in the United States. But, in view of the position taken by Mr. MacGregor in regard to the inclusion of some of the things in your formula, you have prepared a separate statement submitted to him on the basis of the payments of $485,000 instead of $725,000, and his figures in respect to the cost of doing business in Canada for the two Canadian companies are based then on the figure of $485,000 and not on the $725,000?—A. Right.

Q. So far as your income tax returns are concerned, the officials of the Department of National Revenue will have to decide for themselves whether they consider the $725,000 is a special expense of doing business with the two Canadian companies. As far as Mr. MacGregor's office is concerned, he has a lower figure to work on, by way of expense, in tabulating your cost of doing business in Canada and in comparing it with that of other small loans companies. Is that a fair summary?—A. Yes.

Mr. CAMERON (*Nanaimo*): I wonder, Mr. McClure, if you could tell us what proportion of the $725,000 which you derive from your Canadian companies for these purposes, which you have set out, relates to the total expenditures by the parent company for these purposes in the United States?

Mr. PALLETT: We have that.

Mr. CAMERON (*Nanaimo*): Did we have that?

The CHAIRMAN: I think he said 14 per cent.

By Mr. Fairey:

Q. May I add to that that the total amount spent was $4,227,000 and Canada was allotted of that amount $1,241,000?—A. I am sorry, sir, you have lost me. Let me start again.

Q. Perhaps Mr. MacGregor might correct me if I am wrong. The total pool in 1953 was $4,227,000 and Canada was allotted of that amount $1,241,000 and Canada paid $734,000. Also, I understood him to mean this, that that $734,000 was for actual expenditures in the Canadian offices leaving a balance of nearly $500,000 which was the fee. Is that right, Mr. MacGregor?

Mr. MACGREGOR: Yes. But I made it clear, I think, that that relates to the two Canadian companies in 1953.

By Mr. Fairey:

Q. Yes. That amount of nearly $500,000 is divided between the two companies. The question which I was going to ask—and I think this bears on what Mr. Cameron said—is that of the total in the pool of $4,227,000, Canada was allotted $1,241,000 as its share, part of which was spent by the Canadian company in Canada and the balance of nearly $500,000 was the amount expended on their behalf as their share of the headquarters expenses. The question I was going to ask is, on what basis was the total Canadian share arrived at of $1,241,000?—A. Roughly, it depends upon the ratio that the total Canadian position bears to the whole. Roughly, the Canadian position today is in the ratio of 31 per cent of the consolidated total, so that you can see—and this is as good arithmetic as any—if our allocation is fairly and properly dealt with then the Canadian companies pay approximately 31 per cent of whatever the cost of the function about which we are talking is and the American companies pay 69 per cent. Now, there may have been a little different per cent in 1953 and in 1954 because these are calculated each year; but roughly that is it. You arrive at your allocation of the general amount which is applicable, then you subtract from that the amount which the Canadian headquarters account paid, and the difference is what the allocation is.

Mr. MACGREGOR: If I might supplement Mr. McClure's remarks, with his permission, I can say that the figures I gave earlier, and which are quoted, were based upon the net branch operating income in Canada as compared with the whole and the percentage, using the company's own figures, was 29·27 per cent.

By Mr. Benidickson:

Q. Can I satisfy myself that the figure of $725,000, which was the payment out of the Canadian corporation to the American headquarters, following a historic pattern up to now, has not been objected to by the Department of National Revenue. Is that correct?—A. That is right, sir.

Q. Your readjustment for the purpose of the reports to the Department of Insurance began in 1955? That is the first year that you used the new formula in so far as the figures for the Department of Insurance are concerned? —A. I would like to refer that to Mr. MacGregor.

Mr. MACGREGOR: 1954 was the first year.

The CHAIRMAN: Gentlemen, it is one o'clock. I suggest that we adjourn until Tuesday next at 11 o'clock.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 16

BILL 51

An Act to amend the Small Loans Act

TUESDAY, JULY 10, 1956

WITNESSES:

Mr. Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.) Mr. K. R. MacGregor, Superintendent of Insurance.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

76692—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Argue
Ashbourne
Balcom
Bell
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fraser (*St. John's East*)
Fulton
Gour (*Russell*)
Hamilton (*York West*)
Hanna
Henderson
Hollingworth
Huffman
Low
MacEachen
Macnaughton
Matheson
Michener
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Quelch
Rea
Regier
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Stewart (*Winnipeg North*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White (*Hastings-Frontenac*)
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

TUESDAY, July 10, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Ashbourne, Balcom, Bell, Benidickson, Blackmore, Cameron (*Nanaimo*), Deslieres, Eudes, Fairey, Fleming, Follwell, Fraser (*St. John's East*), Gour (*Russell*), Hanna, Henderson, Huffman, Hunter, Macnaughton, Monteith, Philpott, Quelch, Regier, Thatcher, Tucker, Vincent and White (*Hastings-Frontenac*).

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance and Mr. Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.), and other representatives of certain Small Loans Companies and interested organizations.

On motion of Mr. Regier, seconded by Mr. Argue,

Resolved,—That Mr. Cameron (*Nanaimo*) be substituted for Mr. Stewart (*Winnipeg North*) on the Sub-committee on Agenda and Procedure.

The Committee agreed that the Sub-committee on Agenda and Procedure should meet at 2.00 o'clock p.m. this day to consider and recommend how frequently the Committee should meet in future to consider Bill 51.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. McClure was again called; he was further questioned and was retired.

Mr. MacGregor was again called; he was further questioned on his statement and continued with his reading of it.

At 1.05 o'clock p.m., the Committee adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

76692—1½

EVIDENCE

TUESDAY, July 10, 1956
11 A.M.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. McClure was on the witness stand last week and I think his questioning had not been completed.

Mr. REGIER: Mr. Chairman, before we begin proceedings, I would like to move, seconded by Mr. Argue, that Mr. Cameron (*Nanaimo*) replace Mr. Stewart (*Winnipeg North*) on the steering committee.

The CHAIRMAN: You have heard the motion, gentlemen; all those in favour?

Contrary if any?

I declare the motion carried.

Mr. CAMERON (*Nanaimo*): Mr. Chairman, before we proceed with the witness, I wonder if I could bring up a question that has been agitating a number of the members of this committee? It has to do with the infrequency with which this committee is meeting. It does seem to me, and to the other members of the committee with whom I have discussed it, that if we are to hope to have this bill finished in time, it will be necessary to meet more frequently than we are meeting at the present time.

I imagine a motion to that effect is not in order in the whole committee, but I would like to recommend it to your attention, Mr. Chairman.

The CHAIRMAN: That thought has naturally occurred to all of us, Mr. Cameron. I would suggest that after this meeting, say at 2 o'clock, we have a meeting of the steering committee and discuss this, to see whether it is practicable to have more meetings. Because, it is just a question of whether it is possible, and whether the committee wants it. If they do, we can bring in a recommendation to the committee at the next meeting.

Mr. ARGUE: Mr. Chairman, I want to say a word on that point, since you are going to have it discussed now by the steering committee. I think it is of very great importance that this committee meet more frequently, so that this bill will be reported out of the committee. The bill was given second reading by the House of Commons on March 8 and referred to this committee. Over four months have gone by since the bill was passed. Unless we meet more frequently, the benefit from the reduction of interest rates will be denied the consumers and the borrowers of this nation.

I am hoping that the steering committee will arrange for more frequent meetings. I might say that the agricultural committee, of which the majority of the members are from eastern Canada, has been meeting twice a day, Mondays and Fridays as well as Tuesdays and Thursdays and I cannot see any reason why this committee cannot do the same.

The CHAIRMAN: I am quite sure, Mr. Argue, that what you say is true. I am only sorry that you would not be there; because you have been such an infrequent visitor here, I think you are actually the last person that should make that motion.

Mr. ARGUE: Mr. Chairman, I am not going to take that. I think I am as faithful a member of the House of Commons—

The CHAIRMAN: I am not talking about your fidelity, I am talking about your attendance.

Mr. ARGUE: That is immaterial, because an opposition member may or may not be at a committee, and that has nothing whatever to do with the responsibility that the government has in seeing that its legislation is expedited.

The members of our group have always been well represented at this committee. I have had other committees to attend. When the agricultural committee was on at the same time, I was not able to be here. But, whether I am here or not, I am hoping that this committee will look after this situation.

Mr. QUELCH: Mr. Chairman, I would like to point out that your remarks with regard to the member from Assiniboia could probably be made in respect to myself, because I am a member of this committee and I was attending the agricultural committee. But, time after time we did suggest that an attempt should be made to have those two committees meeting at different times. It just so happened that every time the agricultural committee met it seemed that the Banking and Commerce committee met as well, in the morning—of course the agricultural committee met in the afternoon as well.

But, I think, as pointed out by the member for Assiniboia, that we should try to have the meetings of this committee more often—that is, if we have any intention of getting this bill through this session.

Now, in the past, on many occasions when there was a bill that was raised that we were not very much in favour of, it seemed to others that it was desirable to push the thing through and sometimes they met three times a day. Now, there does not seem to me to be that desire in this matter at all.

The CHAIRMAN: Next week, as you know, the House will be sitting at 11 o'clock in the morning, so it is obviously not practical to have meetings of the committee then at 11 o'clock. Therefore, I have arranged, subject to the advice of the steering committee, to hold meetings at 3.30 o'clock in the afternoon. We will sit from 3.30 to 6, which gives us a longer meeting. Now, if the steering committee recommends that we sit in the evening also, that is their privilege.

Mr. CAMERON (*Nanimo*): I will point out, Mr. Chairman, that previous meetings of the Banking and Commerce committee were very frequent while the house was sitting in the mornings and afternoons when, as Mr. Quelch has pointed out, those in charge of the proceedings were anxious to push the legislation through.

The CHAIRMAN: I would point out that you are quite wrong; it is not so. When the house was sitting from 11 o'clock in the morning the Banking and Commerce committee did not meet frequently, and very often the other committees did not meet at all.

Mr. CAMERON (*Nanaimo*): Not under your chairmanship, but under the chairmanship of your predecessor, the committee, of which I was a member, did meet in the morning when the house was sitting.

The CHAIRMAN: I was a member of that committee.

Mr. CAMERON (*Nanaimo*): Probably you were not in attendance at that meeting, because I remember, Mr. Chairman, you were very infrequently in attendance until you became chairman.

The CHAIRMAN: I attended as assiduously as you.

Mr. ARGUE: On that point, I want to point out that the agricultural committee, which is probably the largest standing committee of this house, met

last Friday morning at 11.30 a.m.; there was no objection, as far as I know, from a single member of that committee. We met on Friday, which is certainly inconvenient to some members, and we met in the morning when the house was sitting.

The CHAIRMAN: Yes. I am very thankful for your advice, Mr. Argue.

I would point out to the committee that Mr. McClure's evidence is restricted to the one point under discussion at this time. If he is put forward later as a witness for the Canadian Consumer Loan Association, that is different; but, at this time he is restricted to the one subject under discussion.

Mr. Donald F. McClure, First Vice-president, Household Finance Corporation (U.S.A.) called:

Mr. FOLLWELL: Mr. Chairman, I think, if the committee will recall, there were several questions asked that I do not think were answered. Mr. Henderson asked one with regard to the tax structure in Canada, and whether or not the payment of this fee by the Canadian company to the parent company would be advantageous to the parent company, taxwise in Canada and in the United States. I think Mr. McClure had intended to answer that today.

The WITNESS: In response to your statement, the fee which is charged to the Canadian operation, in the amount of approximately—as far as our books are concerned—in the amount approximately of $725,000, is received by the U.S. parent company as income subject to taxation in the United States.

By Mr. Fleming:

Q. Where does the net advantage lie with the total interest of Household—the total interest including its tax position in the position in the United States and its tax position in Canada—with a fee payment of $725,000 by the Canadian companies to the American parent, or a fee of $485,000?—A. I am not sure that I understand exactly what your question is, because there is no advantage or disadvantage to the company, taxwise, in the payment. The fee of $725,000 is deductible for Canadian income taxes in Canada. This consolidates the fee paid by the two Canadian companies and the parent company has to pay the United States income tax on that.

Q. I think that is quite clear, Mr. McClure. My question was; where does the net advantage lie with regard to the total tax position? Obviously if the Canadian company is paying $725,000 instead of $485,000 and it is treated by the Department of National Revenue as a proper expense of doing business in Canada, the Canadian income tax is going to be somewhat less. On the other hand, if the parent company in the United States is receiving a payment of $725,000 at Chicago rather than a payment of $485,000, it is going to pay more tax to the United States. Where does the net advantage lie?—A. As between the $485,000 and the $725,000?

Q. Yes. I am speaking, now, of the total net tax position of the Household group of companies.—A. I do not know that there is any difference in the net position.

Q. There would not be any difference if the rates of taxation in each country were exactly the same, but they are not.

Q. No, the tax rate in Canada is 47 and in the United States it is 52.

By Mr. Benidickson:

Q. What about state tax? Is there an Illinois state tax?—A. No, there is no income tax in Illinois or in Delaware. This is a Delaware corporation.

By Mr. Fleming:

Q. And this $725,000, which is the actual payment transferred by the Canadian company to the parent company, goes into the operating statement of the American parent company and is reflected in a higher taxable income?—A. In the United States.

Q. And at a rate somewhat higher than the rate payable on the taxable income of the corporation in Canada?

By Mr. Fairey:

Q. Does the advantage not lie with the United States government rather than with the Canadian government with regard to this payment of $725,000 which is transferred to the United States? If the payment were to be $425,000 it would be to the advantage of the Canadian government rather than of the United States government.—A. If the amount of the fee were reduced from $725,000 to some lesser amount—$500,000, or $225,000—anything you want—we would have less of a deductible expense in Canada, and if the same amount were transferred to the United States we would have less to pay tax on in the United States. In any event, the work which is the basis for the fee and which is performed in the United States would be a deductible expense in the United States.

By Mr. Fleming:

Q. May I just complete that point, Mr. Chairman? I take it that the practice of the Household group is to transfer from Canada to the United States whatever profit may be declared from time to time in the form of dividends on the Canadian companies so that whether the payment is made in the form of larger or smaller supervision payments—we might call it that—or as headquarters' expense payments, if the payments are reduced presumably there will be more profit in the Canadian operation to declare as your dividends and payable in that form to the American parent and, correspondingly, if the service payment were higher, then the profits to be declared in the form of dividends would be smaller. Is there any difference in the rate of taxation applied under the American income tax law to corporation income derived from these dividends from wholly controlled subsidiary companies on the one hand, compared, with such payments as these supervision payments on the other?—A. No. The dividends paid by the Canadian company to the parent company are subject to federal income tax in the United States.

Q. At the same rate?—A. At the same rate.

Q. So that the net position of the American company taxwise in the United States is not affected at all, as I see it, because the American company is going to receive these payments either in the form of dividends or as supervision payments.

The CHAIRMAN: Is there any surtax on unearned income in the United States?

The WITNESS: No longer. The so-called excess profits tax, or unearned income feature of the United States Income Tax Act was done away with, I believe, in 1953.

Mr. MONTEITH: It does not apply here to corporations either, Mr. Chairman.

By Mr. Fleming:

Q. Mr. McClure, the one point which the committee was concerned about, I think, at the last meeting, was that the difference in the statements which are being sent by the two Canadian companies to the two Canadian government offices should be known to those two offices. In other words, you are making up one statement for income tax purposes—a statement which is

going to the Department of National Revenue and which reflects accurately the payment of $725,000 which was actually made by the Canadian companies to the parent companies—and, on the other hand, in view of the position taken by Mr. MacGregor that the Canadian company on that basis was being charged more than was fair for the service that was being rendered in Canada by the parent company in return, you have prepared another statement in which you have reduced the amounts so paid from $725,000 to a figure of $485,000, which is the figure that he uses in making up the tabulation of the cost of doing business by the Household companies in Canada for comparison with other companies in his detailed reports on the cost of doing business by small loan companies in Canada. I think the committee would wish to know that the Department of National Revenue is aware of the kind of statement being submitted to Mr. MacGregor's office. I think it is quite clear that Mr. MacGregor is aware of the income tax return, and the basis of your operating return being submitted to the Department of National Revenue.—A. There is no reason I know of why both departments should not be fully aware of what is going on, because the Department of Insurance has the right to inspect our books, and our books are kept on the same basis as our income tax account. So, I assume that the Department of Insurance knows exactly what is going on, in the same way as the income tax people. The Department of Insurance figures are a matter of public record, so I have no doubt that the income tax people are very careful in checking on their information. There is no question in my mind that they should know what is going on in the other department. There is nothing to hide.

Q. And you have on your part made full disclosure of these statements and of the difference in them, so it is a matter for the Department of National Revenue itself, then, to decide whether they are prepared to concede for income tax purposes that this payment of $725,000 is a proper expense of the two Canadian companies of doing business in Canada.—A. That is right.

Q. This question, probably, should not be directed to you so much as to Mr. MacGregor or to the chairman: is there in the bill before us anything that would have any bearing on that situation, anyway?

By Mr. Argue:

Q. Now you are out of order, after you have asked all those questions. I wonder if Mr. McClure could tell us the amount of the increase in the Canadian tax that would result through wiping out this $725,000 expense item? In other words, if Mr. MacGregor's hope were realized that it would not be listed at all, and then if the Department of National Revenue decided that it should not be listed, how much more money would the company pay in income tax?—A. I think the best answer would be to apply the 47 per cent tax rate to the figure—

The CHAIRMAN: I doubt whether that would be the true answer. Supposing you did not charge up this amount to the Canadian company? Would not the Washington Department of Internal Revenue question whether that was a charge properly applicable to the American company?

The WITNESS: They might, sir, certainly if the rate of expenditure continued and as long as we believe the work has to be done to provide the capital for the Canadian operations and these other departments which were outlined in some detail at the last session. If they continued, that would have the effect of inflating the American expenses for which no compensation was received in the United States subject to tax, so I fancy that in time the United States income people might question that.

Mr. ARGUE: Well, Mr. Chairman, as far as I am concerned, the man who looks at these accounts most closely and the man whose responsibility

it is to inquire into the cost of operating these firms has told the committee that not only would he like to see this figure of $485,000 reduced but that he would like to see it removed altogether. I am not so much interested in deciding whether or not—as Mr. Fleming has been—this item in Canada has a comparable item in the United States, or whether it is fair from the viewpoint of the accounting practices in the United States and of the company in Canada. All I am interested in at this point is finding out whether the Canadian treasury is getting less money than it should.

The CHAIRMAN: I think they are quite interested in that too.

Mr. ARGUE: There is another question, Mr. Chairman. It is not only a matter of whether this practice is denying the Canadian treasury a certain amount of money and thereby giving a bonus to the American treasury. The main interest I have is to see whether or not these costs can be reduced in order that the borrower in this country might receive some of the benefits. If we could get costs down, it might result in more money becoming available to the Canadian treasury; it could also lead to a reduction in the interest rates charged, and I wonder to what extent interest rates could be reduced by a reduction in this cost of $725,000.

The CHAIRMAN: Have you a question, or are you just making a speech?

Mr. ARGUE: That is the question. The chairman of this committee is the best authority on making speeches and on interrupting other people's questions.

The CHAIRMAN: I am quite an authority on speeches, and that was a speech!

Mr. ARGUE: I think Mr. Chairman I have asked my question.

The CHAIRMAN: I think you have answered it too, haven't you?

The WITNESS: I think the answer was given in my testimony last week and it is in the record. My memory is that if you take the figure of $725,000 and relate it to the $121,957,000 of average amount of notes receivable in 1955, it amounts to six-tenths of one per cent per annum, or, if you want to reduce it to a monthly rate since the small loans law permits a monthly rate of 2 per cent, it would amount to a reduction of five one-hundredths of one per cent per month.

By Mr. Argue:

Q. What is the figure of outstanding notes and accounts receivable?—A. The average amount outstanding in 1955 with regard to the two companies was $121,957,000.

Q. To what extent is this item charged to Household Finance as listed in the annual report of the Superintendent of Insurance?

Mr. BENIDICKSON: Mr. Chairman, on a point of order. This evidence was all given at the last sitting of the committee. The allocation as between the two Canadian companies was given in evidence at that time.

The CHAIRMAN: But, Mr. Benidickson, Mr. Argue was not here and he is interested.

Mr. ARGUE: I have read the evidence.

Mr. BENIDICKSON: On a point of order, I think members of the committee will agree that the attention we are giving to this particular point is rather out of proportion to the attention we must give to the bill as a whole. I know that Mr. Argue himself wants to give attention to the bill as a whole, and I am satisfied that the breakdown of these figures was provided at the last hearing. Do you agree, Mr. Chairman?

The CHAIRMAN: It was all provided. This is repetitious.

Mr. ARGUE: Mr. Chairman, I read the evidence, and this is my question —and perhaps I can be told whether the information was given in evidence or not; I doubt very much whether it was. To what extent was this item as listed in the report of the Superintendent of Insurance defrayed by the company for which the small loans income was listed as $12¾ million? That is on page 12 of the report of the Superintendent of Insurance for the year ended December 31, 1954.—A. Of the $725,298, $421,198 was charged to and paid by Household Finance of Canada as a small loans licensee.

Mr. BENIDICKSON: Could we ask whether or not that information was given previously? I think it was. I know the breakdown of the $485,000 was given.

The CHAIRMAN: I was here at the last meeting and I remember it.

By Mr. Argue:

Q. Mr. Chairman, is that not approximately 2 per cent of the interest earned on small loans as listed in this report?—A. I do not have the figures in front of me so I do not know.

Q. The income earned on small loans is listed as $12,758,000. Your item applicable to that is approximately $300,000.—A. Approximately $300,000.

Q. $298,000—A. Oh, you are referring to the fee in the report to the Insurance Department.

Q. You have broken down these figures for me and I want the figure which you can give me as a percentage of the income earned on loans; it is a little over 2 per cent.—A. I am not sure what you are talking about. Are you talking about the aggregate fee of $725,000 which was paid, or are you talking about the $485,000 which was reported to the Department of Insurance?

Q. It was reported for this company. It was not the balance that was reported for this company?—A. Which are you talking about?

Q. I would like to know what portion of the $725,000 would be allocated to the company listed as no. 3 in the report to which I referred.—A. $421,198.

Q. So, that is well over 3 per cent of the $12,758,000 which is listed in this report as earned on loans?—A. I am sure that your arithmetic is correct. I do not have the figures in front of me.

Mr. MONTEITH: Actually I think it is a little large.

The CHAIRMAN: It is all set out on page C6 of the transcript of evidence of our meeting on July 5.

Mr. ARGUE: And your memory is so good that you have looked it up!

The CHAIRMAN: My memory is so good that I knew it was there and I have checked it. Do you really want to go into it all over again?

Mr. ARGUE: Mr. Chairman, I do not think that I need to be subjected to abuse from the chair. I had finished my question, I said nothing, and then the chairman started to speak. The chairman is a most vocal member of this committee, which he should not be.

By Mr. Follwell:

Q. It was developed in last Thursday's meeting that the Household Finance Corporation of Canada pays a supervisory fee to its United States parent corporation, and this fee is considerably less in its report to the Superintendent of Insurance than the fee actually is in reality. This, therefore, shows a larger profit for this company than actually results from its operations. Is that correct? —A. That is correct.

Q. If it is, does this then not, in effect, result in a subsidy, as far as the figures in the report are concerned, since these are the ones which are

undoubtedly considered for rate making purposes?—A. In our opinion, yes. In our opinion the actual benefits which the combined Canadian operation sustained was in the neighbourhood of $725,000. Now, a reduced figure was used in the report to the Department of Insurance. The difference between the figure of $485,000 and the figure of $725,000 is a lessening of the burden of the actual cost of Canadian operation—call it subsidy if you wish.

Q. Well, Mr. McClure, would you agree then that this might prejudice the position of Canadian independents when considering over-all industry figures for rate making purposes?—A. Well, I think that the Canadian operators should perhaps speak to that point. There is no question about the fact that it makes the figures appear more attractive than they would be if the figures reflected what we regard as the true cost.

Q. Mr. Chairman, I think that Mr. McClure indicated that, for that fee, part of the duty of the parent company was to provide money to the Canadian company for financing. I think, Mr. McClure, that you cold tell us again, was it about $50 million which the parent company provided as part of their responsibility in relation to that fee?—A. The actual amount of the money provided in the way of money lent to the subsidiaries in Canada was in the neighbourhood of $115 million but that is the combined operation. You see, we have this confusing problem of the Department of Insurance figures only including the small loans licensee, the company which makes loans up to $500. My belief is that the money advanced to that company was in the neighbourhood of $45 million. Then, we have the Household Finance Limited, which does not make reports to the Department of Insurance, which is a major company now, and the advances to that company were enough larger so that the combined amount was $115 million. Is that in response to your question?

Q. Yes. May I ask one more question, Mr. Chairman. What, in your opinion, would have been the result on the Canadian economy had not the $115 million of American money been provided for use by Canadians in Canada. —A. Did you say on the Canadian economy?

Q. Yes.

Mr. REGIER: That is a tall order!

The WITNESS: This money has been built up gradually. It did not all happen last year. We have been operating here since 1933. There is no question in my mind that for this type of business—small loans business—it would have been impossible to obtain $115 million in Canada for that operation. The parent company was able to obtain it, in small part, in Canada, but in much greater part in the United States at a price which seems very reasonable in relation to the growing rate for interest elsewhere. The charge made for this $115 million by the parent was in the neighbourhood of 4½ to 4¾ per cent, depending upon whether you are talking about notes or advances to the company. The actual cost was somewhat in excess of that, and that excess cost represents the work which is required to get the money. That work is one of the chief items of the general management overhead which is reprsented by this fee.

By Mr. Regier:

Q. Mr. Chairman, I would like to pursue one point which was referred to by both Mr. McClure and Mr. MacGregor. I understand that this $725,000 is not the only money paid by the Canadian section of the company to its parent organization. Am I correct in assuming that, as a basic assumption, there was $1 million paid to the parent company, including the $725,000?—A. I know of no such figure. I have not heard it. Maybe I have forgotten something that was said.

Q. I believe my memory serves me correctly that we were told that there was a sum for services rendered almost in the neighbourhood of $1¼

million that went to the parent company, and that out of this amount there was approximately half a million dollars that was identified for purposes of payment. There were no services rendered for which this half a million dollars was paid; then there was left a balance, as I understood it, of some $725,000 which was, for the lack of a better name, labelled a supervisory fee. Am I right in that?—A. No, you are not correct, sir. No other fee was paid by the Canadian operation to the parent company.

Q. Might I ask Mr. MacGregor, Mr. Chairman, at this point, whether my statement is in error?

The CHAIRMAN: Let us finish first with Mr. McClure.

Mr. REGIER: Mr. McClure is denying that other payments were made. If no payment was made I have no other question. However, if identifiable payments were made in excess of the $175,000, then I have a very important question.

By Mr. Fairey:

Q. Mr. McClure's answer is that the total expenditure of the company was $4,227,000 odd, and the Canadian share of that total expense was $1,241,000. Of that $1,241,000, $734,000 was actually expended in Canada by the Canadian companies. That is the point which I believe Mr. Regier is getting at. The balance of that—that is the balance of the $1,241,000 and the $734,000—leaves $499,000, roughly $500,000, which is the fee.—A. I think that is true. Perhaps this may not clarify the picture, but the figure to begin with was a consolidated figure representing expenditures made in both Canada and the United States.

Q. All companies including the subsidiaries?—A. Some part of this was money spent by the Canadian headquarters for paying Canadian expenses, such as the salaries and travelling expenses of the Canadian supervisors. It was clearly connected with headquarters expense for Canadian operations. It was no payment to the parent company. What we are talking about here is a residuary amount of headquarters work which is primarily done in the United States. The problem is what is the best and most businesslike way to see that each of the operations pays its share of that.

The CHAIRMAN: Mr. Regier, I think that you were referring to some figures that were given by Mr. McClure for the year 1953. I think that Mr. Fairey is referring to figures for the year 1955. I do not really think that you are talking about the same thing.

By Mr. Regier:

Q. I think perhaps I had misunderstood Mr. MacGregor. I had understood him to say that $1 million was sent south of the border whereas now it seems that he did not say that and this half million dollars was a Canadian expenditure in Canada.

Would it not, Mr. McClure, be much more satisfactory over there if, instead of labelling a large amount of money as a blank supervisory fee, it were identified? Today you listed the various things and did identify it. Surely in your accounting department you have the breakdown, and would it not be much more satisfactory to all concerned if, in your reporting, this were not listed as a supervisory fee but was actually broken down and identified?—A. I think that it would make it easier for a deliberative body such as this to grasp the principle involved. And that is the reason some organizations do that very thing. But if you do it this way, you are put to the necessity of establishing at whichever headquarters has the major share a cost accounting system, with one or two people in charge of it, and a billing system. The superintendent referred to the fact that he liked to see bills for stationery come in to be O.K.'d. That is a mechanical allocation of expenses and it would

be posible to do it but we have not done it up to this time because it would increase the expenses. We wish the operation to be free from criticism and accepted as an honest effort to arrive at results. So far, we have taken the present simpler method; but if the general feeling is that we should go to a more elaborate system of cost accounting, we could possibly do it.

Q. As it is now the inference is plainly there that this whole sum—because it is not identified and labelled as to its particulars—is a gratuity or a tip, if you like, to the parent company. Mr. Chairman, I am entitled to express my opinion on what my reaction is to these figures.

The CHAIRMAN: You are not expressing an opinion. You are saying there is an inference. Why don't you say that in your opinion the inference is there. You are speaking as if there was a unanimous inference.

Mr. REGIER: All right, then. I will say that in my opinion the inference is there, that this money is not being accounted for in a proper businesslike manner. I am sure despite what Mr. McClure just said—and I do not think he quite realized what he was saying—I am sure that the head office of the parent company has a complete breakdown of these figures. I cannot realize such a monstrous company just more or less taking a sum total and saying, "this is it."

The CHAIRMAN: Do you mean immense or monstrous?

Mr. REGIER: And saying, "this is it"; I am sure that in the head office there must be a complete breakdown of what happened to the $725,000, and I am sure that the company must provide the American income tax department with an accounting and the details of it. Therefore I fail to see why the Canadian Superintendent of Insurance and the Canadian Revenue Department cannot also be supplied with details of it rather than to have it just labelled as a blank supervisory fee. That was my only point.

The CHAIRMAN: Is there a question there that you want the witness to answer?

Mr. REGIER: No, I think he answered it before.

The CHAIRMAN: Are there any other questions?

By Mr. Philpott:

Q. On one technical point with respect to the item mentioned in regard to the supervisory fee, you said for the preparation of pamphlets and publicity matter—isn't that stuff charged out to the various branches at certain rates? —A. No.

Q. Then how do you decide the distribution?—A. These pamphlets are designed to help people who use our services, and anybody else who is interested in budgetting their income and making themselves better managers of their finances or in buying things. We keep our branch offices supplied with a number of them, and in fact they have little racks in the offices where they are available if people wish to use them. So we do not charge the branches for the pamphlets. We could say "Now, this pamphlet is worth 5 cents, and since we are the parent and you are the subsidiary—and subsidiaries usually do what they are told to do—you have to buy so many of them." In this way it could be done on a mechanical basis, but we do not do it that way. We distribute the pamphlets in the same way to all the branches. The cost of the preparation of the pamphlets is so much; so much of our business is in Canada and so much of our business is in the United States, and thereby we determine how much is allocated to Canada in the fee. It is just what you may regard as the better of two ways, or the best of five ways of making the allocation.

Q. Very well. That is all I want to ask.

Mr. BENIDICKSON: Mr. Chairman, having regard to the important relationship of some evidence this morning to the Department of Insurance, I wondered

if the committee would permit me to make a short statement. I do not intend to say anything argumentative about the evidence we have just been listening to, but some members of the committee may have overlooked some facts, in their concern about Canada getting its proper share of income taxes. I point out the change in the reports in the Department of Insurance relating to supervision fee as compared with financial statements as submitted to National Revenue occurred for the first time in 1954. It apparently has been repeated again in 1955.

I would like to point out, first of all, that it is quite possible that Mr. McClure may not be able to tell us, but I think it is quite possible, and most probable that there has not been an assessment made yet of the taxes payable by a corporation of this kind by Canada for the year 1954, and certainly not for 1955. Indeed, the two Canadian corporations may not even have filed an income tax return respecting 1955 profits as yet. As a general rule corporation tax returns are not filed much earlier than the sixth month after the end of the calendar year. That is something which the committee should keep in mind.

Then, in the second place, the committee must not assume if this payment of $725,000 was completely disregarded as an expense of the Canadian companies by the National Revenue Department of Canada, that then Canada would get its full tax rate on this sum. We have a tax agreement with the United States, and one of the sections of that tax agreement says that the government of either country, with respect to a taxpayer of either country, has the right to advance a claim even with respect to a non-resident, if that taxpayer has a permanent establishment in the country advancing the tax claim.

In other words the United States government, if these Canadian companies have a U.S. establishment and services are rendered in the United States, by no means might it be satisfied to allow none of these expenses and services in the United States to go tax free, and to escape taxation in the United States. It would be a matter of adjustment between the two deparments where there is business establishment carried on with respect to these earnings in both countries.

By Mr. Fleming:

Q. Is there any problem with respect to the fiscal year? What is the fiscal year for the two Canadian companies?—A. December 31 in Canada, and it is the same in the United States.

Q. So they are on a uniform basis?—A. Yes.

The CHAIRMAN: Are there any further questions?

By Mr. Cameron (Nanaimo):

Q. I wonder if Mr. McClure—following up a question which Mr. Philpott was asking just now with regard to the pamphlets—have you with you, Mr. McClure, any figures as to the cost of production of those pamphlets?—A. No, I have not, sir; I have not!

Q. And another point is this: the other day you spoke of the personnel department in Chicago as I understood it; that department—or at least the activities of that department have to do in part with—and these payments are applied concerning—training by those who are hiring personnel in the different subsidiary companies. Is that correct?—A. The preparation of training techniques. This is largely in the form of instruction and pamphlets.

Q. Yes.—A. The work is sent over here and is done by the personnel people in Canada.

Q. I gathered the other day from what you said that possibly this branch, or the activities in Chicago, were concerned with the training of personnel directors for your subsidiary companies, and with taking them to Chicago for training.—A. No.

Q. That is not the thing? So even that is included in the pamphlet service? —A. Not some kind of pamphlets we were speaking about a moment ago, which were consumer education pamphlets. The personnel training techniques are inter-office communications.

Q. You have no idea of what the total cost of that particular department would be?—A. No, but let me try to give you an idea, because I think you are entitled to know. I do not remember just what I said about this the last day, but we were talking about it in terms of this $485,000 overall picture which we reported to the Department of Insurance, of which approximately $281,000 was charged to this licensee, Household Finance of Canada. I would think that perhaps the aggregate amount of each of these two items—this is a guess, because I am trying to give you an idea—would perhaps be $10,000 apiece.

Q. Have you any figures as to the total amount of moneys that are raised in the United States by your finance department? You referred the other day to that department and you said that it was taking the largest bite of this payment. Have you any idea of the size of the sum to which that applies?—A. Yes. Let us use this same illustration which again is simply an approximation for the purpose of helping you gentlemen to understand the sums which are involved.

Again, the $281,000 figure which was reported to the Department of Insurance, and wihch relates only to Household Finance of Canada—we have just said that the personnel and the consumer education departments accounted for $10,000 each. I think I mentioned other departments.

Q. You mean research?—A. The research department might come up to $50,000 or $60,000 in Canada. If you subtract those items from the $281,000 it leaves you in the neighbourhood of $200,000 as what I would regard as a businessman's estimate of the value of the purely financial end. That is why I used the phrase "the largest bite" in describing that part of the fee representing the expenses of getting money.

Q. What I wanted to get at were the sums of money for which you required the $200,000. There is a distinction between the funds of your parent company which presumably does not need the services of your finance department, and the sums raised outside, the cost of which is approximately $200,000. How large would those sums be?—A. For the parent company?

Q. No, for the money raised for lending in Canada by your finance department?—A. Well, under our formula we would expect that the amount reported would cover the cost of raising the money for lending in Canada. And my response to your question is in the neighbourhood of $200,000. That sum gives you an idea of the cost of raising money for Household of Canada.

Q. Is that $47 million entirely confined to moneys raised by your parent company, not moneys in its possession, in its own funds?—A. Sir, we do not have funds. Every dollar we advance to Canada we have to raise it somewhere.

Q. It is all raised in that way? Thank you.

The CHAIRMAN: Are there any further questions, gentlemen? Thank you Mr. McClure.

Now, we will go back to Mr. MacGregor's statement. We are on page 26 of it.

Mr. K. R. MacGregor, Superintendent of Insurance, called:

The WITNESS: Mr. Chairman, I have no desire to prolong the discussion about this item designated as a supervisory fee, but I do think that I should say a word.

I think that I should say a word in further explanation of the different reports that are being made to our department, as compared with the reports made to he Department of National Revenue. I think perhaps I can summarize the whole story, so far as our department is concerned, in a very few words.

Our files indicated an understanding on the part of my predecessors that this supervisory fee would likely decrease over the years as the Canadian company became more independently established in Canada.

In 1953, when I observed that this so-called fee, instead of deceasing was increasing every year, and had been so almost from the beginning in 1933, I raised the point with the management of the Canadian company. The company replied that any understanding on our part that the fee would decline was in error, at least so far as their views were concerned. I expressed the view, which had been previously expressed by my predecessors, that we always like to see in the financial statement of any Canadian company only expenses that are justifiable preferably those that are definitely identifiable, or at least that are justifiable on the grounds of some services actually rendered. Obviously there was room for wide differences of opinion in this instance, because it was virtually impossible to point to actual services rendered to justify the payment. However, the point was discussed.

At the last meeting of the committee, I think Mr. McClure used the word "argument". Personally, I never considered that it reached that stage. The company indicated that it was going to review—reconsider— the basis upon which this fee had been determined. The department suggested no particular change whatsoever. As a matter of fact, we had no hand in the determination of the new formula, that was very soon suggested by the company. However, the change suggested eliminated from the pool many expenses at the branch supervisory level,—leaving only expenses that were more clearly of a management nature at the upper level. Since the effect of the new formula was a reduction in the supervisory fee charged to the Canadian company, we naturally expressed no opposition to it. We were happy to see it. But, we thought that was the end of the matter. It was indicated to us that the new formula would be applied in 1954.

The 1954 annual statement was filed on the basis of the new formula. The 1955 statement was, superficially at least, filed also on the basis of the new formula. But, in the profit and loss account, or the surplus account, there appeared two new special entries designated as follows: "Supervising fee paid, but not charged to revenue account—year 1955—$140,142.45, less decrease in income taxes—$66,636.33. Net for 1955—$73,506.12." There was also a further item; year 1954—$163,696.83.

In other words, the profit and loss account in the 1955 statement indicated that although these amounts that I have just mentioned were not included in the expenditure, the Canadian company was still effectively saddled with the burden of them.

In March I wote to the company again raising the question about these special entries in the profit and loss account. I took the view that if the company was still effectively saddled with the supervisory fee on the old

basis then the amounts of the fee, determined on the old basis, should be included in the expenses. I therefore asked the company to redistribute the special items and to adjust the 1955 statement accordingly.

I should make it clear, however, that throughout the discussions, the department never changed the statement; we never imposed our view in any respect. We discussed the fee but my request in March to remove these special entries from the profit and loss account, since they seemingly are an effective expense burden on the company, is the first change that I have requested.

Mr. McClure mentioned also at the last meeting that after our discussion in 1953, seemingly the company had lost the argument. So far as I am concerned there was no argument. But, if anyone lost it, I think we have lost it. We are back in the old position that we were in in 1953.

Mr. FLEMING: Have you finished, Mr. MacGregor?

The WITNESS: Another point that I might mention is this: A good deal has been said about the services provided by the head office by way of furnishing money to the Canadian subsidiary. I have no wish to minimize the value of these services but, personally, I think the most appropriate way to compensate any lender, for money borrowed, is to pay the lender an appropriate rate of interest.

I doubt whether there is anything more that I can usefully say. Mr. Fairey, however, quoted figures concerning the pooling, being figures that I mentioned at the last meeting. I would simply remark that those figures related to the year 1953, being the last year before the nominal change in the formula, whereas, the amount of $725,000 that Mr. McClure mentioned as the aggregate fee for both companies related to the year 1955.

Another point, perhaps, that I might say a word about is the manner in which the so-called supervisory fee is reflected in the annual statement filed with the department. True, it is determined by the pooling procedure that I described at the last meeting. But, after the so-called fee is determined it is not entered as such in the expenditures of the company. The fee is broken down and distributed among the several component parts, namely, salaries, rents, and son on, with the result that the annual statement does not show, and, so far as I am aware never has shown the supervisory fee as a separate item in the expenses.

I thought I should make this comment in answer to Mr. Regier's remarks earlier that surely the head office is in a position to break down this supervisory fee. A breakdown is really inherent in the manner in which it is determined.

Mr. FLEMING: Have you finished your statement, Mr. MacGregor?

The WITNESS: I am through.

By Mr. Fleming:

Q. May I ask you a couple of questions? You spoke about what you had found on your files containing views of your predecessors to the effect that this charge—whether you call it a supervisory fee, or headquarters fee, or whatever it may be—would be reduced in the course of time. Was that intended to apply to the absolute amount or to the rate because we have to take account of the very substantial increase in the turnover of business?—A. I would say in the actual amount, not in the formula. But, I would add, in fairness to the company, that the most pointed remarks or comments in our files in that respect occurred in memoranda back about 1938, when admittedly the business of the company in Canada was very different from that of today. For one thing, it had not acquired the business of the Campbell Finance Corporation, which occurred in 1947, and which added enormously to the volume of business transacted in Canada by this organization.

Q. Has the rate in fact increased, if you apply it to the volume of business? —A. No. So far as I am aware the formula has remained the same, except that in 1954, in addition to the change in the formula that I mentioned previously and which has now seemingly been reversed, namely, the elimination of expenses at the branch office supervisory level, the company, in dividing the pooled expenses between the U.S.A. and Canada, I think changed from the net income, as the basis, to the average of two bases, the first of which was the average amount of balances outstanding during the year, and the second, the average number of accounts outstanding during the year. That latter formula has certainly been used since 1954 in dividing the fee between the licensed Canadian company and the unlicensed Canadian company. The effect of that change if anything was to reduce slightly the burden of the fee on the Canadian companies as compared with the United States companies.

Q. Are we to take it from what you said later in your evidence in regard to the difference between the two statements, that now the company will be called upon to go back to the formula that was in existence up to and including 1953, in making its return to you, so that the return to your department and the return to the Department of Internal Revenue will be uniform?—A. I expect that will be the result.

Q. Now, Mr. MacGregor, in regard to your concern in relation to your responsibilities for this, I suppose we are up against this situation, are we not, that there is question of our national concern—there is a national, or nationalist feature here? We would like to see as much as possible—and this I take to be your view—of the business of Canadian companies done in all respects in Canada rather than to have some of the services performed in the United States on their behalf?—A. Well, I would not like to take that position too firmly, Mr. Fleming. Our main concern is that the published statements of every company under our supervision should reflect accurately the expenditure and complete operations of the company.

Q. I do not wish to misinterpret what you have said, Mr. MacGregor; please correct me if I have misunderstood you. I took it from your earlier statements that there were two factors in your attitude toward this matter of the fee—call it supervisory or headquarters or whatever you like. The first was that you wished to see the services that are rendered to Canadian companies within your charge and for which they are billed, carried out as far as possible within Canada. Secondly—and I am not saying that it is second in importance—that you regard it as your responsibility to see that the statements of these companies reflect accurately and in all respects, the cost of doing business and other factors; and that in relation to the duty of ensuring accuracy, you found a difficulty in relating an arbitrary charge, such as a pool which then is broken down among different subsidiaries on a formula which necessarily must have some arbitrary features about it, to the actual cost incurred. That leaves you with some difficulty with degard to ensuring accuracy. Those, I think, were the two features with regard to you attitude toward the fee. Have I correctly interpreted your evidence?—A. I think you have, Mr. Fleming. Inherent in this pooling procedure is, of course, the fact that the Canadian company is bearing its pro rata share, so to speak, of expenses incurred by various member and subsidiary organizations in the United States where the rates of expense may be very much higher than in Canada. If we want to be in the best position to understand the earnings and profits of the Canadian company I should not like to feel that there was any doubt—or much doubt—that the Canadian company was being asked to bear any share of a relatively higher level of expenses that might be inherent in the operation of these United States companies about which we know nothing.

By Mr. Macnaughton:

Q. My question, Mr. Chairman, was on the same lines as that asked by Mr. Fleming. I was just interested in finding out, in view of the great increase in the business the company does, whether the supervisory fee has increased in the same proportion, or whether it has been over-increased, so to speak, until it is out of proportion to the increased business. Is it in the same relation? Increased business would naturally mean an increased fee inasmuch as more services are rendered.—A. I have not looked into that aspect of the matter carefully, but if I were asked to guess I would say that the proportion has not been increasing but probably has been declining somewhat and, of course, the part of the fee allocated to the licensed company is now going down simply because the volume of business in the unlicensed company is increasing at a much more rapid rate, so that the unlicensed company is rapidly assuming a larger share.

By Mr. Thatcher:

Q. You say that you would expect this supervisory fee to decrease over the years. I cannot follow your reasoning there because I would think that as the company increased the number of its branches expenses would increase, and certainly over the last few years rent and everything else has gone up substantially. Why would you think that expenses should go down instead of up?—A. The main reason for the expectation of a reduction in the fee on the part of my predecessor lay, I believe, in the expectation or understanding that as time went on the Canadian company would become more independently established in Canada. That has not been entirely the case and many services are still provided by the parent company.

Q. But if the company chooses to do that work in their American branch, surely that is their business? If it is a legitimate expense why should not they charge it up?—A. This is a Canadian company; it is not a branch of an American company. This company has its own board of directors who, of course, in part, have a close connection with the parent organization but through whom one might normally expect policy direction and so on would flow in the normal course.

Q. Certainly all expenses have been going up in the past few years—A. I quite agree.

Q. —I cannot see why this should be an exception.

Mr. GOUR (*Russell*): For my part, I think it would be desirable if the committee were given a full breakdown with respect to the sum of $725,000, giving us precise figures for each item including the cost of the money they lent to their Canadian subsidiary. I think that would only be right. We should have something in detail—something that we could understand.

The CHAIRMAN: Has not the witness stated that this has been done, and that this sum has been broken down into the various items?

By Mr. Gour (Russell):

Q. But I would like to direct this question to Mr. McClure, and ask him about it. I understood that a breakdown was given with respect to $50,000, but what you know about $50,000 does not help you very much with regard to this much greater sum. There is too large a margin and that is why we cannot understand what this money is paid for. It is important, I think, that we should have a detailed statement with regard to this amount of $725,000.—A. The company does distribute the so-called fee, Mr. Gour, among the several component items—salaries, rent and so on. The actual additional amount is also known every year. Having determined the fee *in toto* it is then distributed among the several component items of expenditure.

Q. You know what they charge for the money for finance to these companies?—A. Yes.

Q. How much interest per year, and so on?—A. Yes.

Q. You have details of all their expenses?—A. Yes.

Q. But you cannot know if the figures are exact in respect of the rent they pay so on; you are just given an amount of so much money?—A. That is true, but our examiners can get the full details at the company's headquarters in Toronto, and they do.

Q. And, further, you would be able to find out details of any service included in that figure of $725,000, or if there were to be an over-charge you could decide whether it was an over-charge or not, and if necessary you could take the matter up?—A. Perhaps I might say again that in mentioning this matter in the first place, I did so merely as a matter of information to the committee because it is a unique practice. Personally I do not think it will make any real difference in determining the rate formula because this company has a level of earnings which would enable it to "live" under rates that perhaps no other company could live under, anyhow.

By Mr. Monteith:

Q. With regard to this fee, Mr. MacGregor—this charge of $725,000—is it broken down on the basis of a monthly period which varies, or is it just an annual rate broken down and distributed among the accounts of the Canadian company once a year?—A. The company only files a statement to the department once a year. I must admit that I have not personnally inspected the books of this company at the head office, but my impression is that it is determined monthly.

By Mr. Vincent:

Q. What is the rate of interest charged by the parent company to the Canadian company.—A. For borrowed money?

Q. Yes.—A. 4¾ per cent since 1954.

Q. And these expenses are paid on the earnings of the company?—A. The payment by companies for borrowed money is reflected in the expenditure in the financial statement.

Q. Why this service charge? Instead of a fee of $725,000 could they not just charge the rate of interest that would permit the company to take care of the supervision and all expenses?—A. I think the answer is that the services of the parent organization in providing borrowed money are only one of the services that the parent organization is said to furnish. There are many others—research, the training of personnel and so on, which were mentioned at the last meeting.

By Mr. Fleming:

Q. And it would not contribute to accuracy in your statement to include charges for services of that kind in the interest being paid on borrowed money? —A. No.

Q. It would defeat your purpose of ensuring accuracy in the statement?—A. I quite agree.

By Mr. Cameron (Nanaimo):

Q. I wonder if you would turn to table 5 of your statement, Mr. MacGregor. I notice there there are two companies listed—Household Finance and Personal Finance, and figures are given relating to borrowed money. When you obtained this information, that, for instance, the Personal Finance Company borrowed from the parent company some $32 million and Household Finance borrowed

some $45,400,000, was it your understanding that that was the parent company's own funds?—A. No; the money that the licensed company—Household Finance Corporation of Canada—borrows from its parents and affiliates, comes, I believe from Household Securities Limited, which is an intermediate holding company, and from the parent company in Chicago, Household Finance Corporation. Household Finance Corporation, the parent company in Chicago, has in the past borrowed both in Canada and in the U.S.A. It has borrowed in Canada from institutional investors like insurance companies—both Canadian companies and American companies doing business in Canada—but I believe that conditions more recently have been such that the company has been borrowing exclusively in the U.S.A. Household Securities Limited also borrows from the parent and I have no doubt lends to the unlicensed Canadian company as well as to the licensed company.

Q. Well, this sum of $45 million odd would be money originating in the public market, would it?—A. Yes.

Q. Or does it represent funds already in the possession of the parent company or its affiliates?—A. I would say it is money borrowed by the parent, not merely in 1955 but over the years, and this is the present aggregate indebtedness of the licensee to the two companies—Household Securities Limited and the parent in Chicago, Household Finance Corporation.

By Mr. Argue:

Q. Mr. Chairman, I wonder if Mr. MacGregor could tell the committee why, in his opinion, the company has not followed his suggestion in reducing the amount?—A. I think there has been some misunderstanding somewhere. We thought it was to be a real reduction in the formula; but it does not seem to have turned out that way. Where the misunderstanding arose, frankly I cannot say. I do not believe that the misunderstanding was in the Department of Insurance. I think it arose somewhere within the company, but whether in Toronto, Chicago, or between the two, I cannot say. One would have to ask the company itself to answer that question.

Mr. FLEMING: I am sure it would not be in Toronto. Misunderstandings never arise in Toronto!

The CHAIRMAN: Some other peculiar things happen in Toronto.

By Mr. Argue:

Q. Might I ask whether Mr. MacGregor thinks there is any particular advantage to the company in keeping this supervisory amount relatively large?—A. Well, it is a deep-rooted accounting practice to which the parent company, and the organization as a whole, is obviously closely wedded. I do not think that the Department of Insurance will press the issue any further.

Q. From your knowledge would you have any idea whether it is to the financial advantage of the company to have this amount listed as an expense to the Canadian operations?—A. I do not think that the charging of the item itself is the important thing. So far as the efficiency of operations is concerned, it is the method of operation itself that really counts. Having regard to the fact that this company has built up its business in Canada so that it is now by far the largest operator and has relatively the best earnings, it is pretty difficult to criticize its methods of operation. We never have criticized its general methods of operation. We have regarded this fee primarily as an accounting matter. We have never suggested to the company that it should change its methods of operation; that is primarily for the company itself to decide.

Q. If this item was wiped out entirely in the company's return to the Department of National Revenue, do you think that the changed over-all result would be a cost to the whole organization?—A. Would you mind repeating that?

Q. If the company, in its income tax return to the Department of National Revenue, eliminated the $725,000 entirely, do you think that that would improve the financial position of the whole organization—Canadian and American subsidiaries and so on—or would it cost the company some money?—A. I do not think it would improve the profit position of the organization as a whole. I am not enough of a tax expert to know what advantage or disadvantage would arise taxwise by reason of this practice. Superficially at least, the more expenses put through the Canadian company, the smaller the taxes paid in Canada. But I would assume that there is a compensating increase in their tax burden in the U.S.A.

Q. You do not know how you would compare it?—A. I should not care to guess. I am not sufficiently familiar with all of the tax wrinkles, certainly not in the U.S.A.

By Mr. Monteith:

Q. The withholding tax on dividends would have an effect there, would it not?—A. Of course, any Canadian licensee may borrow from its parent—

Q. No—on dividends paid by the subsidiary company to the parent company.

The CHAIRMAN: They are only 5 per cent.

The WITNESS: The withholding tax of 15 per cent would apply to dividends and to interest paid by the Canadian company to the parent for money borrowed.

By Mr. Fleming:

Q. It depends on the currency in which the dividend is declared.—A. That is true. But this should also be considered: the Income Tax Act was amended a couple of years ago so as to waive, in effect, the withholding tax where the money is borrowed in Canada by the parent and the parent is acting as borrowing agent for the Canadian licensee.

The CHAIRMAN: That is allowed under the Canada-United States Reciprocal Tax Agreement.

By Mr. Follwell:

Q. If I understood you correctly, Mr. MacGregor, you said that you reported this particular item of the fee to this committee only as a matter of information and not particularly with a view to being critical of the company, and that you felt it was unique in the company's operation and that the committee should have the information. Am I correct?—A. That is correct.

By Mr. Thatcher:

Q. Mr. Chairman, I think there is a fairly important principle involved here, that an American company has invested a good deal of money in Canada and if they feel that a certain sum is needed for a supervisory purpose, it seems to me that that is their own business; and again there could be a danger that American investment in Canada might be hurt if any government department tried to tell them that they could not protect their investment by charging these particular fees.—A. We have never told them that they could not, and they have not changed their practice.

By Mr. Macnaughton:

Q. It comes down to this, that there is a difference of opinion between the department and the management. You think it should be one way and they think it should be the other way; that is a matter of opinion.—A. I do not look upon it as a question of management policy, but rather as a question of accounting. Certainly we have nothing to say about management policy.

Q. We could argue about accounting methods from here to doomsday.

The CHAIRMAN: Are there any further questions?

By Mr. Follwell:

Q. Mr. Chairman, I have a question arising out of what Mr. Fleming said to Mr. MacGregor and Mr. MacGregor's answer. I think Mr. MacGregor said to Mr. Fleming that the supervisory fee was proportioned on a certain formula and that it was possible that the expenses in the U.S. might be a little bit higher than in Canada and that, therefore, the Canadian company would bear a little heavier portion than they should. But, Mr. MacGregor, would you agree that, conversely, if the expenses of operation are larger they might be more efficient in the United States and that there might be an advantage to the Canadian operation on the same formula?—A. I think I would agree except that on the whole we believe that expenses generally are lower in Canada than in the U.S.A. While I am not intimately familiar with the size of the operations of the member companies of Household Finance Corporation in the U.S.A., I would be surprised if any of them are as large as the Canadian companies.

Q. But in sum total due operation in the U.S.A. is much larger?—I think about two to one in the aggregate, but they are spread amongst a far larger number of operating units over there than here. I cannot believe that the general expense level in an operating units in the U.S.A. is as low as it is in the two companies in Canada.

Q. You cannot believe that, but it might be a possibility that that is so?—A. On the average, I do not think that it can be so.

By Mr. Fleming:

Q. Mr. MacGregor, when you put this reference in on page 26 of your statement I am sure that you did not foresee that it would have the committee stalled on it for two and a half meetings.—I had no idea of that whatever.

Q. The point which I wish to have clear is this: if the bill which has been referred to this committee is enacted in its present form, is it going to have any bearing whatever on this question of the fee, whether you call it supervisory, headquarters or any thing else?—A. I do not think so, Mr. Fleming. None at all,

Mr. PHILPOTT: Then I think we should leave this and get on with the rest of it.

The CHAIRMAN: You think it is time, do you?

Mr. Philpott: Yes, well past the time.

The CHAIRMAN: If there are no further questions we will go on with Mr. MacGregor's statement at page 26.

The WITNESS: Table 6 shows the average annual rates earned on the different classes of business. For loans over $500, although the prevailing rate is 2 per cent per month, the lower annual rate shown for the Canadian Acceptance Company is explained by the fact that that company charges only 1½ per cent per month on all such loans. Personal Finance adopted a new scale late in

1955 for loans over $500 which grades down to the equivalent of 1·73 per cent per month for a $1,000 loan and 1·65 per cent for a $1,500 loan. Commercial Credit Plan and Union Finance charge 1¾ per cent per month on all loans over $500, while Niagara Finance has a graded scale running down to about 1·8 per cent for a $1,000 loan and 1·7 per cent for a $1,500 loan.

By Mr. Henderson:

Q. What percentage of the loans does that group represent?—A. I am afraid it would take a little time to give it to you accurately; perhaps 25 to 30 per cent of the loans over $500 would be made by the companies I have mentioned, that is by Personal, Commercial Credit, Union Finance, and Niagara.

Several licensees in the "All Other" group also charge somewhat less than 2 per cent on the larger loans but a few charge more. Equitable Finance charges only 1¾ per cent on small loans as well as loans over $500.

By Mr. Macnaughton:

Q. May I ask one or two questions: several firms in the other group also charge less than 2 per cent per month on the larger loans, but a few charge more than that. Would you give us the names of the companies which charge 2 per cent per month, and those which charge more than 2 per cent per month?

Mr. FLEMING: And could you tell us what the rate is that they do charge?

By Mr. Macnaughton:

Q. Yes, I was coming to that, and the types of loans, and the security. —A. Century Credit charges 2½ per cent for loans of twelve months, and 2 per cent, approximately for loans of 24 months.

Fairway Finance uses a rate scale that approximates to 2¼ per cent per month.

Merchants Finance works on the basis of a percentage added at the time the loan is made, and the so-called add-on may be as high as 20 per cent which means an effective monthly rate of about 3 per cent. But we have instances in that case where, because of the absence of an appropriate refund when the loan is refinanced during its currency, the effective rate is as high as 5 per cent per month over a series of successive loans.

By Mr. Argue:

Q. What does the 5 per cent per month work out to as an annual rate?

The CHAIRMAN: You mean on a decreasing bill?

The WITNESS: I would have to look it up. I suppose about 85 per cent.

Mr. MACNAUGHTON: Are there any others?

By Mr. Fleming:

Q. Where is that company doing business?—A. Toronto.

Q. I did not hear you give the name of the company.—A. Merchants Finance.

Q. Oh!—A. It has only one office.

The CHAIRMAN: As a counsel, Mr. Fleming you should know that you should never ask a question unless you know the answer.

Mr. FLEMING: But I did not hear him give the name of the company.

By Mr. Follwell:

Q. What type of risk would they take on that basis?—A. They justify that rate on the ground that they are lending to people on doubtful security. But

I have seen a loan secured by an endorser as well as by a chattel mortgage on furniture and on a truck that was not very old. These were all security for a single loan where the charge was about 3 per cent per month.

Mr. GOUR (*Russell*): That is a shame!

By Mr. Macnaughton:

Q. Would that be on a second mortgage loan?—A. Not necessarily; it might be, but not necessarily.

By Mr. Thatcher:

Q. Would you care to comment on how those particular rates would compare with similar rates in the United States? Would they be higher or lower? —A. Might I just finish the list first? There are not many more, perhaps no more?

Q. Yes.—A. I think those are the main instances where the rates charged on loans over $500 exceed 2 per cent per month as far as licensees are concerned.

By the Chairman:

Q. How many were there out of that total which charged more than 2 per cent?—A. Three, but I may say that these rates were given in reply to a circular sent out for this particular purpose, and not every licensee returned the circular, so that in some cases I cannot say for sure what rates are currently charged.

Q. This only applies to the licensees?—A. That is right.

Mr. ARGUE: I think the rates which have been listed are absolutely stunning! I had no idea such rates were charged.

By Mr. Macnaughton:

Q. Perhaps it would help if I were permitted to finish my questioning. How long were these loans made for, usually? Were they for three year periods, or for longer periods?—A. Probably 24 months would be the most common plan, but I have seen some instances where the first loan might be for 12 or 15 months, and then during its currency it was increased to a larger sum, and the term was likewise increased, but I would think that the maximum term would never exceed 36 months, and probably it would never exceed 30 months.

By Mr. Thatcher:

Q. Could you get to my question of how these rates would compare with American rates?—A. I am afraid I cannot give you any precise information concerning the rates charged by small loan licensees in the United States on larger loans in that country. Generally speaking the small loan legislation over there applied only to loans of $300 or less in older times, but more recently to $500 or less. More recently still, there has been a distinct tendency to increase the scope of the act in several states. The maximum now in some states is $1,000, and in others $1,500, while in still others, $2,500. In California it is $5,000. The states generally authorize a graded scale. Generally speaking, I would say that the maximum rates authorized are higher than the graded scale in the present bill.

Q. How would those rates compare to the rates we have in Canada today? Are their rates higher or lower? I mean their maximum, for instance, on these various loans; are they higher or lower than what we have in Canada today?

By Mr. Benidickson:

Q. Between now and the time of our next meeting would it be possible for Mr. MacGregor to make up a compilation for the committee of such information as he has on hand with respect to United States loans in this field?—A. I can readily give you a summary of the rates charged in the States. I have them here. I think what you are looking for is the effective rate according to the graded scale.

By Mr. Thatcher:

Q. I want to know what the British legislation provides for, and what the legislation provides for with respect to the maximum interest rate on such a loan, and on a loan, let us say, of $1000, and so on. I want to know how our rates compare with theirs at the moment.—A. I think I can give that to you at this meeting, and I shall be glad to table a summary of the maximum permissible rates in the United States.

Q. Yes.—A. It may be that there have been some changes made in 1956, but I think that this summary is accurate and generally up to date.

Q. You made a general statement, did you not, that they are higher at the moment in the States than they are in Canada, or did you?—A. Generally speaking the maximum permissible rates for loans up to, let us say, $500 are higher in the United States than in Canada, but most of the states have adopted a graded formula whereby for the larger loans a very much smaller rate applies.

There are many states which prescribe a rate of one half of 1 per cent, or five-sixths of 1 per cent, or one per cent per month on the element of a loan above $300 or $500.

Q. I think the suggestion made by Mr. Benidickson is a good one. I think the committee should have detailed information on it for those two countries so we might be able to gauge how our own rates look as compared to the others.

Mr. ARGUE: I was asking a question when I was interrupted. Might I complete it?

Mr. FLEMING: I wish to ask about the summary which Mr. MacGregor is to provide us for the next meeting.

The CHAIRMAN: I think we will have time for both.

By Mr. Fleming:

Q. The acoustics of this room being as bad as they are I could not hear whether you said you would prepare this information on several states of the Union or on the several states of the Union. I think we should have it in as complete form as the information may be available. It would be of little assistance to us if it was just for several states of the Union. Can you give us that information complete, or virtually complete, with respect to all states of the Union?—A. I think so.

By Mr. Macnaughton:

Q. And for the United Kingdom also?—A. The situation there is different.

Q. I know; and that is why I want to compare it.—A. I can tell you what the situation is in Great Britain. It is hardly a case where any table need be prepared. Under the Money-Lenders Act a rate of 4 per cent per month is mentioned.

By Mr. Thatcher:

Q. In Great Britain?—A. In Great Britain.

Q. Four per cent per month?—A. Four per cent per month is mentioned as the turning point in respect of the onus of proving whether the charge is usurious or not. If the lender charges more than 4 per cent it is presumed to be usurious, and the onus is on the lender to show that it is not. However, if the rate charged is less than 4 per cent, the borrower may still prove that the rate charged is usurious, but the onus is on the borrower in that case.

Q. Then our present rates are away under Great Britain's, are they?—A. So far as a legislative maximum is concerned, in a sense, yes. There is really no legislative maximum prescribed in Britain at all.

By Mr. Argue:

Q. Mr. Chairman, I want to ask whether the companies that Mr. MacGregor listed, that charge more than 2 per cent per month on certain loans, in fact have any large losses, or any large loss ratio? Does their loss ratio stand out in relation to the losses of the companies generally?—A. No, I would not say their losses are substantially higher; but certainly in one case, at least, their expenses are higher.

Q. So that if they had followed the general pattern as shown by the information that you have, from different sources,—not necessarily this committee—their loss ratio might be a quarter of 1 per cent?—A. It might be higher than that.

Q. It might be one-half of 1 per cent?—A. It might be 1 per cent.

Q. Or even 1 per cent?—A. I would have to look up the actual loss ratio for those cases.

Q. So that the business they are doing does in fact carry with it a little more risk than in the general small loans business? I think it is borne out——A. I would admit that in the case of the lender mentioned that charges a substantially higher rate than all others, it probably does make some loans where there is a higher degree of risk.

By Mr. Quelch:

Q. Are their profits substantially higher?—A. Profits?

Q. Yes.—A. Their apparent profits are about the same as some others. In the case of Merchants Finance Corporation the net profits, after interest and taxes, as compared with the proprietary interest, that is to say the capital, the balance of the profit and loss account and so on, probably run about 25 per cent per annum; but that is after a very heavy charge for salaries.

By Mr. Argue:

Q. On the paid up capital it is over 100 per cent—their average paid up capital, which is listed in your table as being $38,100 for the Merchants Finance Corporation and their net profit, after income taxes is $41,651.—A. That licensee is hardly typical. It does charge high rates and has high expenses.

By Mr. Regier:

Q. I wonder if it is possible for this committee to have a copy of the financial statement made to the superintendent of insurance by the Merchants Finance Corporation? Is that public property?—A. All of the important elements in that statement are included in the annual report of the Department of Insurance, Mr. Regier.

Q. What I meant—

By Mr. Fleming:

Q. In looking at this matter of the Merchants Finance Corporation how, unless it is engaged in a specialized type of business, can it carry on successfully in view of the competition of the other loan companies which are offering money at lower rates?—A. I am afraid that borrowers are not as selective or as discriminating as they might be. Once a connection has been established, I think they are prone to return to the same lender.

The CHAIRMAN: It is after 1 o'clock. The committee is adjourned to the call of the Chair.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 17

BILL 51

An Act to amend the Small Loans Act

THURSDAY, JULY 12, 1956

WITNESS:

Mr. K. R. MacGregor, Superintendent of Insurance.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

76788—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue
Ashbourne
Balcom
Bell
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fraser (*St. John's East*)
Fulton
Gour (*Russell*)
Hamilton (*York West*)
Hanna
Henderson
Hollingworth
Huffman
Low
MacEachen
Macnaughton
Matheson
Michener
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Quelch
Rea
Regier
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Stewart (*Winnipeg North*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White (*Hastings-Frontenac*)
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, July 12, 1956.

The Standing Committee on Banking and Commerce met at 11.00 o'clock a.m. this day, Mr. John W. G. Hunter, the Chairman, presiding.

Members present: Messrs. Argue, Ashbourne, Balcom, Bell, Benidickson, Blackmore, Cameron (*Nanaimo*), Enfield, Eudes, Fairey, Fleming, Follwell, Fraser (*St. John's East*), Gour (*Russell*), Hollingworth, Huffman, Hunter, Michener, Monteith, Philpott, Power (*Quebec South*), Quelch, Regier, Robichaud and Thatcher.

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance; and representatives of certain Small Loans Companies and interested organizations.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

The Chairman presented the Fourth Report of the Sub-committee on Agenda and Procedure, as follows:

> Your Sub-committee met at 2.00 o'clock p.m. on Tuesday, July 10, 1956, and agreed to recommend:
>
> That the Committee continue its consideration of Bill 51, An Act to amend the Small Loans Act, on Thursday, July 12th, at 11.00 o'clock a.m. and at 3.30 o'clock p.m., and on succeeding Tuesdays and Thursdays at 3.30 o'clock and 8.15 o'clock p.m., and
>
> That the Sub-committee meet again to review the situation after the second meeting on Tuesday next, July 17th.
>
> Respectfully submitted.

The Fourth Report of the Sub-committee was adopted unanimously.

Mr. MacGregor was again called. In response to questions which had been asked during previous meetings, he tabled certain documents which the Committee agreed be printed as appendices to this day's Minutes of Proceedings and Evidence, namely:

Appendix "A" List of Licensees Owned Directly or Indirectly by U.S. Parent Companies as at December 31, 1955.

Appendix "B" Abstract of 1955 Financial Statements of Licensees Owned Directly or Indirectly by U.S. Parent Companies.

Appendix "C" Number of Offices in Canada of Chartered Banks, Credit Unions and Licensees under Small Loans Act.

Appendix "D" Consumer Credit Outstanding in Canada.

Appendix "E" Shareholders of H. Bell Finance Limited, New Westminster, B.C.

Appendix "F" Small Loans Act—Licences Terminated and the Reasons therefor.

Appendix "G" Summary of Maximum Permissible Charges and Maximum Loan under Small Loans Laws of the Several States of the U.S.A.

76788—1½

Mr. MacGregor continued reading his statement on the Small Loans Act and was questioned thereon.

It was moved by Mr. Thatcher, seconded by Mr. Balcom,

That Merchants Finance Limited be invited to appear before the Committee to explain its operations.

Following debate, the motion was resolved in the affirmative: *Yeas*, 10; *Nays*, 9.

On motion of Mr. Regier, seconded by Mr. Argue,

Resolved,—That Mr. MacGregor be asked to supply members of the Committee with the detailed financial statement of Merchants Finance Limited.

Following debate, it was moved by Mr. Cameron (*Nanaimo*), seconded by Mr. Regier,

That Mr. MacGregor be allowed from now on to read his statement uninterrupted, and that members reserve their questions until after it is concluded.

The said motion was negatived: *Yeas*, 8; *Nays*, 10.

The Committee agreed that, as the presentation of Mr. MacGregor's statement had been interrupted by lengthy questioning during several meetings, on its completion it be printed in its entirety as an appendix to that day's Minutes of Proceedings and Evidence.

Mr. MacGregor being still before the Committee, at 1.00 o'clock p.m., it adjourned until 3.30 o'clock this day.

AFTERNOON SITTING

At 3.30 o'clock p.m., the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Ashbourne, Balcom, Benidickson, Blackmore, Cameron (*Nanaimo*), Enfield, Fairey, Fleming, Follwell, Fraser (*St. John's East*), Gour (*Russell*), Hunter, Matheson, Michener, Monteith, Philpott, Quelch, Regier and Thatcher.

In attendance: The same as at the morning sitting.

Mr. MacGregor continued reading his statement and answering questions thereon. During the course of his evidence, he tabled the annual statement of Merchants Finance Limited for the year ended December 31, 1955. The Committee agreed that the said statement be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix "H"*.)

At 5.30 o'clock p.m., the Committee adjourned until 3.30 o'clock p.m. on Tuesday, July 17, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

THURSDAY, JULY 12, 1956
11 A.M.

The CHAIRMAN: Gentlemen, we have a quorum.

The subcommittee on agenda and procedure begs leave to present its fourth report, as follows:

(For report of subcommittee see Minutes of Proceedings of this day.)

Those in favour of accepting this report? Contrary if any?

I declare the report adopted.

Mr. THATCHER: At the last meeting Mr. MacGregor agreed to table the comparative American and British rates on small loans. Do I take it that this document here is the American table?

The CHAIRMAN: That is not Mr. MacGregor's report. That was furnished by the Canadian Consumer Loan Association. However, I believe Mr. MacGregor has a similar report.

Mr. THATCHER: Would he care to comment on it at this point?

The CHAIRMAN: Perhaps we had better first of all allow Mr. MacGregor to table his reports.

Mr. THATCHER: Yes. Then I have several questions which I wish to ask.

Mr. K. R. MacGregor, Superintendent of Insurance, called:

The WITNESS: Mr. Chairman, during the previous meetings of the committee several questions were raised on which I undertook to furnish some additional information. I have been preparing this information as we have been going along and I had intended to wait until the end of my evidence to table it. However, members may wish to have some of it earlier and, with your permission, I should like to table now several exhibits in answer to the questions which have been raised at previous meetings.

First, of all, considerable interest was shown in the licensees that are owned, directly or indirectly, by U.S. parents. At the first meeting I named those licensees, but I thought that it might be more convenient for you if they were put in the form of a table. Therefore, Exhibit "A" shows the licensees owned directly or indirectly by U.S. parent companies as at December 31, 1955.

Some interest was also shown in the extent to which the parent companies in these cases are closely owned or publicly owned. Consequently, I have included in Exhibit "A" columns showing the number of common shareholders in the parent company and the exchanges on which the shares of the parent company are listed.

Secondly, some questions were raised concerning the extent of the borrowed money supplied by these U.S. parent companies to their Canadian subsidiaries, and also the extent of the paid capital put up by the U.S. parents.

Also, some questions were raised concerning the income taxes and salaries that are paid by these U.S.-owned licensees. Exhibit "B", therefore, is an

abstract of the 1955 financial statements of licensees owned, directly or indirectly by U.S. parent companies. I think that all the information which has been asked for is included in this exhibit.

Thirdly, a question was raised concerning the increase in the number of lending offices of licensees in comparison with the number of branches of the chartered banks in Canada, and in comparison with the number of credit unions in Canada, during the last few years. Exhibit "C" shows the number of offices in Canada of chartered banks, credit unions, and licensees under the Small Loans Act as at the end of 1950, 1953, 1954 and 1955. Unfortunately, the final figures for credit unions are not yet available at the end of 1955, but I have given the figures for other years.

Fourthly, a question was raised concerning the trend of personal loans in Canada, that is to say, the increase in the volumne of personal loans in Canada in recent years as compared with the trend of consumer credit generally in Canada.

Exhibit "D" shows the consumer credit outstanding in Canada from 1950 to 1955 by quarter-year, and it shows separately charge accounts, instalment credit in the form of balances outstanding on retail dealers' books, finance companies, and, finally, cash personal loans. This exhibit has been taken from the Canadian statistical summary of May, 1956, published by the Dominion Bureau of Statistics.

Fifthly, a question was raised concerning the shareholders of H. Bell Finance Limited, and Exhibit "E" gives this information.

Sixthly, some honourable members wished to know what had happened to the 51 licensees whose licences have terminated since the Small Loans Act was passed in 1939. There have been 124 licences issued; 51 have terminated and 73 are presently outstanding. Exhibit "F", therefore, shows individually the names of the licensees whose licences have terminated and the reasons therefor are indicated.

Mr. FLEMING: May I ask a question about the reasons? What is the source of this information about the reasons which you have given? Or, can you give us some examples of the types of reasons which appear in your exhibits?

The CHAIRMAN: Could we let Mr. MacGregor finish tabling these first?

The WITNESS: I can easily answer that question. I have divided the reasons into five main groups. The first group of licensees includes change of name or reorganization where, for example, partnerships became incorporated. The second includes licensees which voluntarily discontinued making new small loans, but continued to carry existing loans on the books until such were liquidated, and they continued to transact any other kind of business that they had been transacting. Third, small loans sold to another licensee. Fourth, voluntary liquidation of business of a licensee, which would mean complete liquidation. Fifth, licences terminated at the instance of the deparment. In the fourth and fifth groups I have indicated the extent of the impairment of capital and in the case of the fifth group the reason why the department took action. The table also shows, in addition to the name of the licensee, the location of the head office, the date the licence was granted and the date on which the licence terminated.

Seventhly, a question was raised at the last meeting concerning the maximum permissible charges in the several states of the U.S.A. Exhibit "G" gives a summary of the maximum permissible charges and maximum loan under the small loans laws of the several states of the U.S.A., divided into five main categories. First, the states that charge flat monthly rates; second, the states that charge graded monthly rates; third, the states that charge a combination of interest and fees; fourth, the states that have laws that are largely or wholly inoperative; and, fifth, the states that have no small loans laws at all.

I might mention that the summary covers all forty-eight states and the District of Columbia, Alaska and Hawaii. I think that it is complete and up-to-date to the extent of any information that is available at the present time.

The CHAIRMAN: Gentlemen, are we to publish these exhibits as appendices to today's proceedings?

Agreed.

(*See Exhibits "A" to "G".*)

The WITNESS: May I please make a correction? Mr. Humphrys reminds me that, in describing these several groups, I used the expression "the states that charge certain rates". Of course, I should have said "states that authorize these maximum permissible rates".

By Mr. Thatcher:

Q. Mr. Chairman, I should like to ask Mr. MacGregor for certain information on these American rates. At the last meeting he told us that the rates in Great Britain were 4 per cent; or at least that was the maximum ceiling. Is that correct?—A. No. I said there is no legislative maximum rate in the Money-Lenders Act in Great Britain; but 4 per cent per month is mentioned as the turning-point for proving whether the rate charged is usurious or not. If the rate charged is more than 4 per cent it is presumed to be usurious unless the lender can prove otherwise. If it is less than 4 per cent, then it is up to the borrower to prove that the rate is usurious.

Q. In a nutshell, does that not mean that the present small loans rates in Britain are about double what they are in Canada under the old act?—A. I could not say. I cannot speak with enough authority on the British situation. I do know this, however, that when the Money-Lenders Act was under discussion it was proposed, in the original bill, to fix a legislative maximum of 15 per cent per annum and the lenders strenuously opposed that rate, claiming that 60 per cent per annum was essential to their continuance in operation. In Britain they decided, in 1927, to continue as theretofore and to specify no maximum rate, leaving it really to the courts to get behind a contract to determine whether it was usurious or not.

Q. But actually their legislative maximum is 4 per cent as compared to 2 per cent in Canada?—A. I should not like to look upon it in that way.

Mr. MICHENER: There is no speed limit in Great Britain, but you drive at a reasonable speed. Likewise, I think, in lending there is no legislative lending limit, but if you charge more than 4% per month, you have to be able to justify the rate the same as you have to show that your speed is justifiable, in the circumstances.

By Mr. Thatcher:

Q. Nevertheless, the rate is 4 per cent. They cannot charge more than 4 per cent?—A. Yes, they may charge more than 4 per cent.

By Mr. Fleming:

Q. Is it not the difference between a fixed maximum ceiling under our law so that any charge above that rate is an offence against the law on the one hand and, on the other hand, in Great Britain the effect of exceeding the maximum, as it may be called, is simply that the onus of justifying the charge is on the lender, whereas up to that point it does not rest on the lender?—A. That is right.

By Mr. Argue:

Q. But our maximum is on loans up to $500 only?—A. The 4 per cent, I believe, is mentioned in the Money-Lenders Act in Great Britain simply as a rough guide to the courts.

By Mr. Cameron (Nanaimo):

Q. And that covers loans of any size?—A. Yes.

By Mr. Thatcher:

Q. Coming now to the U.S. rates, this pamphlet shows that the American rates are quite considerably above present Canadian rates. In five states I see the maximum is 3½ per cent; in a great many, 3 per cent; in some, 2 per cent on smaller amounts; and in the odd one 1½ per cent. But, by and large, I cannot see any cases where American rates are lower than comparable Canadian rates under the old legislation. My question is this: if the British rates are higher—and I cannot see from discussion that they are not—and in view of the fact that American rates are so much higher than our present Canadian rates, how do you arrive at your conclusion that our present rates should be further reduced at this time? Are there different economic conditions in Canada to those which exist in Britain or in the United States?—A. I should not like to discuss in detail the conditions in the United Kingdom. As far as the U.S.A. is concerned, the maximum permissible rates there have, in the past, generally been higher than in Canada. They were substantially higher in the U.S.A. in 1939 when the Small Loans Act was passed here. However, the trend in the U.S.A. has been towards lower maximum permissible rates.

Q. The trend at the moment is that they are still very much higher.—A. Most of them are higher. On the other hand, there are some states where the maximum permissible rates are comparable. Massachusetts has a 2 per cent maximum rate. I know that the lenders may say that lending conditions are perhaps unsatisfactory in Massachusetts and that it permits only marginal operations. In New York state the maximum permissible rate is not much above 2 per cent. It is 2½ per cent on the first $100 of any loan, and then it is 2 per cent on the next $200 up to $300, and then it is only ½ of 1 per cent from $300 to $500. I understand that there are about six licensees operating in the state of New York that charge less than those maximum rates now.

Q. I believe that is possible, but the legislative maximums are higher, are they not?—A. Perhaps I might finish my statement. Those six licensees, I understand, charge only 2 per cent on the first $300 and ½ of 1 per cent on any element of the loan above $300 up to $500.

By Mr. Regier:

Q. When you consider the size of the average loan made today, would you say that rates in the United States are higher than in Canada?—A. I think that that is quite a good question, because the average size of the loan and the maximum permissible loan have a very important bearing on the rates that should be charged. In general, the maximum size of loan to which the act applies in the United States has, in the past, generally been lower than in Canada. That is to say, when our act was passed fixing $500 as the limit, most states had a limit of $300. There has been a trend more recently in the U.S.A. to extend the scope of the acts.

By Mr. Thatcher:

Q. In view of the rates on this table and in view of what you told us about British rates, do you feel that there are any special circumstances in Canada which would permit Canadian companies to operate more efficiently than their counterparts in either the U.S.A. or Britain?—A. Yes, I do. In the first place, expenses have been generally less in Canada than in the U.S.A.; secondly, the rate of losses or write-off has been less in Canada than in the U.S.A.; thirdly, I think that the licensed operators in Canada as a whole are of more substantial

size than many that are licensed in the United States, and the larger they are, the more efficient their operations. Offhand, I would mention those as the three main reasons why I think the maximum rate in Canada might well be, and should be, lower than in many states of the U.S.A.

Q. There was one question following some remarks Mr. MacGregor made at the last meeting which I would like to pursue at this moment, if you have no objection, Mr. Chairman.

The CHAIRMAN: Go ahead.

By Mr. Thatcher:

Q. According to a Canadian press dispatch of the proceedings at the last meeting, Mr. MacGregor said that there was one firm which charged 85 per cent interest. I think it was the Merchants Finance Limited, of Toronto. I would have thought that such a charge was in conflict with the existing laws. How can they charge 85 per cent?—A. The report to which you refer, Mr. Thatcher, stemmed, I think, from a question that Mr. Argue asked. Some honourable member asked me to name the licensees that are charging more than 2 per cent per month for loans over $500, being loans in the unregulated area. I mentioned the names of three licensees and the one to which you referred was said to operate under a system which frequently involved a monthly rate of about 3 per cent. I did say, however, that by reason of not making appropriate refunds where loans are refinanced, we have seen instances—and we have received complaints from borrowers—which showed that, taking all factors into account, namely the amount of cash in hand, the time, the percentage originally charged and the lack of an appropriate refund, the effective rate over a series of perhaps six or seven successive loans was about 5 per cent per month. Mr. Argue asked me what this rate would be on an effective annual basis, and I said, I think, that I would have to look it up, but if I were asked to guess it might be about 85 per cent. Actually, it would be 80 per cent.

Q. If that rate is being charged I think it is scandalous. On the other hand, if the report should be incorrect, I think it is a pretty rough slur on a Canadian business company, and I would think that this particular company should have an opportunity of making a reply.—A. I certainly have no objection whatsoever.

Q. I would like to know if Mr. MacGregor can tell the committee on what do they make this charge? Would it be on second mortgages or third mortgages?—A. Those questions were all raised at the last meeting. I think they are all answered on the record. However, I would be glad to summarize what I think I said. It might be, but not necessarily, a second mortgage. One particular case which I have in mind was a case where the loan was secured by an endorser and by a chattel mortgage on the borrower's furniture, and there was a mortgage on his truck.

By Mr. Argue:

Q. And the rate was 5 per cent?—A. The effective rate over-all was about 5 per cent per month.

By Mr. Thatcher:

Q. Would that include out-of-pocket expenses, such as legal fees, searching fees, and things like that?—A. It would include everything.

Q. Is this particular case an isolated case?—A. Yes. I mentioned at the last meeting that that case was not typical of the industry.

Q. Would you care to make a rough estimate as to what percentage of the business is done by the three companies you mentioned, as compared with

the over-all business done in the small loan field?—A. Offhand, I would say it is infinitesimal.

Q. I think, Mr. Chairman, that the committee would not object to this Merchants Finance Company being brought here at one time or another. If they are charging 85 per cent we should know about it. I still cannot believe—

The CHAIRMAN: Mr. Thatcher, that can be raised at the agenda sub-committee meeting. I have had no request from the Merchants Finance Company, and until I do receive a request from them—I understand it is up to this committee to ask them to come, and unless the agenda sub-committee so decides—

Mr. FLEMING: I intended to raise this matter myself and to make a suggestion about it today, because, just at the end of the last meeting when we were reaching this subject, I asked what I think was the final question of Mr. MacGregor. I asked how a company charging rates like that, even in some cases, could stay in business in competition with other companies which are charging statutory or lower rates, unless it was in a highly specialized type of lending business; and Mr. MacGregor made his answer to that question. I would go further, I think, than Mr. Thatcher has gone in his suggestion—and I had intended to put this forward today. I think we should go beyond just affording this company the opportunity of coming here and making a statement on this subject if it chooses to do so. I think this company should be asked to come here and make a statement on the matter.

Mr. THATCHER: Absolutely!

Mr. FLEMING: It is quite possible that too much emphasis might be attached to what Mr. MacGregor has referred to as something which is infinitesimal in relation to the whole lending field. Nevertheless, in order that we may have complete accuracy and also see some of this company's operation in their true and accurate perspective, I think we should ask the company to come here. It may be, as Mr. MacGregor's statement here this morning suggests, that in these rates there are disbursements involved in relation to lending on second and third mortgages on real estate; there may be legal fees with regard to searching title and things of that kind; but the figures are so out of line with the figures we have seen with regard to other transactions of this sort that I do not think we should proceed very far without having a detailed explanation of this particular operation, even if it arises in only a few scattered cases. We want to see this matter in its correct perspective and not attach to others, perhaps, some invidious conclusions that could be certainly drawn if the facts as we have been given them are correct. Therefore, Mr. Chairman, I think that, either here or in the agenda sub-committee, this company should be asked to come before this committee and give us a complete statement on their operations.

The WITNESS: I would certainly have no objection, Mr. Fleming. It is up to the committee whether they want to hear this company or not.

By Mr. Cameron (Nanaimo):

Q. Mr. Chairman, I should like to ask whether Mr. MacGregor has on file the full financial statement of this company?—A. Yes.

Q. And that would reveal their operations effectively to the committee?—A. Yes.

By Mr. Regier:

Q. What are the wages that the company paid to the top officers and directors? I think that would supply the answer to the whole problem as to why this company is charging these fees. I think it is simply a waste of time to bring this company here. I think all we want to know is the detailed financial statement of this company; when we have that we shall have the answer.

The CHAIRMAN: All I can say is that you take a much simpler view of the balance sheet and of the financial statement than I do, if you think one little item on it shows the picture.

Mr. REGIER: I asked for this detailed financial statement last time we met, Mr. Chairman, but I think Mr. MacGregor misunderstood me slightly and said it was included in this document here, the 1954 report of his department. It is not, in fact, included; only the highlights are given there, and I think that if we had this information available there would not be a member who would want the committee to waste its time further.

Mr. THATCHER: I would like to move, Mr. Chairman, that the Merchants Finance Limited be invited to appear before the committee at an early opportunity. Mr. Balcom is willing to second the motion.

Mr. FOLLWELL: Before that motion is put—I think Mr. MacGregor gave us an instance of other companies which were charging more than the permissible rate, and if we are going to call the Merchants Finance Limited, maybe it would be well to invite all the companies. Mr. MacGregor gave us the names of three companies, I think and I believe he intimated there was one other—

The CHAIRMAN: I do not think "permissible" is the right word.

The WITNESS: That is correct, Mr. Chairman. These lenders referred to are in the unregulated field—the field of loans above $500—so there is no maximum permissible rate in the true sense of the word. The other two companies I mentioned charge very little more than 2 per cent per month.

Mr. FOLLWELL: Then Mr. MacGregor is indicating that this company is the only one he feels might be of concern to him and his department with regard to the charges?

Mr. CAMERON (*Nanaimo*): No—

The WITNESS: I would say that its practices and charges have given us a good deal more concern than those of any other licensee.

Mr. ARGUE: On the motion itself, Mr. Chairman, I would prefer to see a very thorough inquiry and everyone interviewed who might be involved, but I am afraid that if we begin at this late stage inviting a great number of additional witnesses besides those who have already been invited to appear before us, the will, as I take it, of the House of Commons when they passed the second reading of this bill, namely that this committee should complete a study of the bill itself, would be impossible to carry out effectively, and if I have adjudged the vote rightly in the house I think it was a directive to this committee to get on with its business. The association which, as I understand it, represents all these various companies—the Canadian Consumer Loan Association—represents the companies initially at any rate and could appear on behalf of all of them including this company. If there were time to hear Merchants Finance Limited during this session and still get this legislation out of the committee, I would be all in favour of it, but I do not think we should hear a whole lot of witnesses if that is going to result in the killing of this bill.

Mr. QUELCH: I think it would be better if Mr. MacGregor were, first of all, to supply us with a detailed statement with regard to the affairs of this company. Then, if we were not satisfied after studying that statement we might consider calling the company before the committee, and we would be in a much more favourable position to do so. I think it would be just a waste of time to do so at this stage.

Mr. MICHENER: I noticed in the press some comments by the president of this company on our last proceedings, and I think in fairness to him he ought to have an invitation to appear before this committee; whether he wants to or not is a matter for him to decide. I support the motion that he be invited to come.

Mr. HOLLINGWORTH: Has this gentleman got in touch with the committee at all?

The CHAIRMAN: He has not got in touch with me. I stated earlier that that was the case, but the CCF members always say we should call whomever the committee desires, whether they communicate with us or not.

Mr. CAMERON (*Nanaimo*): I would suggest you confine yourself to your business as chairman.

The CHAIRMAN: That is what I am doing.

Mr. PHILPOTT: I do not object to this company coming here to give evidence if they want to come, but I do not see why we should go out of our way to bring in more witnesses than we have already. I think this committee is not getting down to the task assigned to us by the Houe of Commons. We are wasting our time in considering a whole lot of petty details which have no bearing on the main question, which is whether the rates now authorized in Canada enable a proper small loans business for the whole of the Canadian public to be carried out at a fair rate, and at a rate which will enable not only the big American companies but also some of the smaller private companies to stay in business. I for one believe we should, with all possible speed, get down to the evidence which has a bearing on the question we have to decide. We are not a court of law set up to try some two-penny-halfpenny company which has been "gypping" someone at the rate of 80 per cent a year. We have to decide questions of principle and I am all in favour of getting down to the evidence which will help us to do our job.

Mr. CAMERON (*Nanaimo*): I would move an amendment to the motion, namely that Mr. MacGregor be asked to supply the committee with a detailed financial statement with regard to this company's operations.

The CHAIRMAN: That is hardly an amendment, is it? I do not regard that as an amendment; it is a new motion.

Mr. HOLLINGSWORTH: I do not think, Mr. Chairman, that this company should be called unless they ask to come, and I would vote against Mr. Thatcher's motion.

The CHAIRMAN: The simple way to solve this question would be to put the motion. The question is: that Merchants Finance Limited be invited to appear before this committee to explain its operations.

The CHAIRMAN: I declare the motion carried.

Mr. REGIER: I would like a recorded vote on that, Mr. Chairman.

Mr. FLEMING: It is too late. That request should have been made before the vote was taken. You cannot take the vote twice. It is too late to ask for a recorded vote at this point.

The CHAIRMAN: You are quite right, Mr. Fleming; the request should have been made earlier.

Mr. FLEMING: If there is any concern about the appearance of this witness for the company causing any delay in our proceedings, I may say I am sure we could arrange an extra meeting for the purpose of hearing him. There is no reason to expect that it need be long. I am sure that members of the committee will appreciate, in view of the publicity which this matter has received, that we cannot overlook it and let it go by without any further consideration.

Mr. BENIDICKSON: I was going to suggest this, Mr. Chairman, but I rose a little late, just as the vote was being taken: the committee has been content so far to leave decisions of this kind to the subcommittee. Nothing was contained in the motion which refers to the time of hearing a representative of this company but I assume that Mr. Thatcher would be willing to leave the appropriateness of the time of calling this witness to the subcommittee?

Mr. THATCHER: That is quite agreeable—some time this session.

Mr. REGIER: I would like to move that Mr. MacGregor be asked to supply members of the committee with the detailed financial statement of Merchants Finance Limited. Mr. Cameron (*Nanaimo*) seconds the motion.

Motion put.

The CHAIRMAN: I declare the motion carried.

Mr. FOLLWELL: Before we leave this matter I think it would be interesting to the committee if Mr. MacGregor could tell us how many complaints have been received under the act. We have heard about a company charging 80 per cent interest, but it may be we are getting exercised about something which nobody seems to care about. I would like to know how many complaints he has received from individuals, for instance, with regard to the way in which they are treated by some of these companies.

The WITNESS: We have had extremely few complaints from borrowers in the regulated field—the area of loans of $500 or less. We have had relatively few complaints even in the field above $500, but I would say that the most serious complaints have involved the licensee mentioned.

By Mr. Quelch:

Q. Actually, would many borrowers even know who would be the right person to appeal to?—A. Probably not.

By Mr. Fleming:

Q. In order that we might know what weight to put on the last answer, have you prepared a catalogue at any time listing the number of complaints you have received?—A. No, we have not.

Q. Is it fair to ask whether you could make an estimate of the number you have received in the last year or two?—A. I should hesitate to do so. I hesitate to mention Toronto here—

Q. Everybody else mentions it, so there is no reason why you should not!—A.—but our department has a branch office in Toronto and the members of our examination staff in Toronto naturally receive a good many complaints directly there from people in Toronto, and in most cases those inquiries or complaints relate to loans above $500. Of course, there is nothing we can really do in such cases, because there is no statutory maximum rate applicable. We do not make any record of those complaints unless they are serious, and then, of course, the Toronto branch relates the substance of the complaints to us. In some cases the borrower writes directly to us. I can give details of specific cases involving this licensee—

Q. I take it that some of the complaints are made orally, in the case of Toronto, and that there might or might not be a record kept of those in any form; also, that you have received some complaints in writing. Is it possible to give us with any degree of accuracy either a computation or an estimate as to the number of complaints you have received in any period of time, let us say during the last year or during the last couple of years, with respect to loans in the bracket up to $500 and again in the bracket above $500?—A. So far as loans up to $500 are concerned there have been practically none. As far as other complaints go we find, most often, that they relate to the refusal of the licensee to make an appropriate reduction where a charge has been made in advance, and that applies also in conditional sale agreements where we have no jurisdiction whatsoever. That is a common feature of complaints. An aggregate charge is made in advance and included in the note and where a borower wishes to prepay his loan the lender sometimes refuses to give him

a refund on the aggregate charge imposed at the outset. But we do not actually receive very many complaints. I think that is the fairest answer I can give to that question.

The CHAIRMAN: Do they have a tendency in the unregulated area to charge a bonus if borrowers pay in advance in the same way as mortgage companies charge a 3 per cent bonus to prevent borrowers having a period in which to invest their money?

WITNESS: Many operators in this field do not charge interest in arrears based upon the actual amount advanced and the remainder outstanding from time to time. In other words, they do not charge interest as and when it accrues having regard to the actual amount of the loan or the remainder continuing outstanding, but they impose an aggregate charge which is included in the note signed at the outset. If the loan were for $1,000 for one year they might add on a charge of $130 and the borrower would sign a note for $1,130 repayable for 12 equal monthly instalments which would, of course, include the aggregate charge for the loan for the full term. If that borrower wishes to prepay this note during its currency he ought to receive the benefit of an adjustment because of the part of the charge originally included in his note which has not been earned.

By Mr. Monteith:

Q. Is that the reason why you say that the 5 per cent per month basis aggregates an annual rate of 80 per cent?—A. That is the main reason.

Q. This does not apply, presumably, under the Small Loans Act with regard to amounts less than $500?—A. Licencees cannot operate that way in making loans of $500 or less.

By Mr. Michener:

Q. I suppose you might get an astronomical rate of interest if a borrower repaid his loan the day after receiving it?—A. That might be so.

Q. Is a licensed lender required to inform the public that he is a licensed lender, or if he is not required to do this does he, in practice, say that he is licensed by your department?—A. He is not required to do so. He may however, advertise the fact that he is licensed.

Q. There is no limitation on his advertising to the effect that he must say he is licensed?—A. Only in this respect: very soon after the act was passed in 1939 the department issued a circular to licencees governing advertising and one of the suggestions made was this—that if licencees lend in amounts over $500 and advertise such loans, no reference to the licence should appear in such advertisements, whether or not loans of $500 or less are referred to. This rule, the circular stated, would apply also to the advertising of any other portion of the company's business which is not regulated by the act. In other words a licencee may only refer to the fact that he is licensed if the advertising relates only to the regulated area of loans under $500.

Q. Do you know whether licencees make reference to the fact that they are licensed as a matter of practice?—A. I think there was a greater tendency to do so in the earlier years than there is now.

The CHAIRMAN: There is no prohibition against it?

The WITNESS: No.

The CHAIRMAN: But you do not want them to give the public an understanding that you are supervising these loans?

The WITNESS: The whole purpose of this circular was to avoid misunderstanding.

By Mr. Fleming:

Q. You referred in your earlier remarks, Mr. MacGregor to the contents of this circular being a "suggestion" but I notice that the extract which you quoted refers to itself as a "ruling".—A. The latter word was that of a predecessor of mine and it was referred to in the memorandum as such. We have regarded it as a ruling.

By Mr. Follwell:

Q. To get back to complaints and the number of complaints you have received—I think the witness indicated to the committee that one of the exhibits he was going to put before us, as an appendix, was a statement indicating that there had been certain cancellations of licences. I wonder if you could not, perhaps, anticipate that exhibit and tell us how many cancellations have been made in respect of violations of the act and also if there were any prosecutions of the licensees by the department.—A. Only in three of the 51 cases of termination were licences terminated at the instance of the department and only in one case because of a violation of the act. The Monarch Finance Company in Sudbury was charging excessive rates; it was prosecuted for doing so in 1940, and its licence was terminated. That is the only case. There have however been other prosecutions under the act. Speaking from memory, there have been about five in all, including this one. I think four were won and the fifth was lost. But the other four were against unlicensed operators. There is only one case of the prosecution of a licensed lender.

Q. And as a result the licence was cancelled?—A. Yes.

By Mr. Monteith:

Q. And two others were cancelled without prosecution?—A. Not because they were charging excessive rates but because of the financial position of the licensee—capital was seriously impaired and one case debentures were outstanding. I might say that several licenses were voluntarily terminated within a year of the company's obtaining the license in 1940 mainly because their capital was impaired.

Q. So in the 17 years of your experience you have only prosecuted four times?—A. Five times.

Q. And only once have you had to cancel a licence because a company was charging excessive rates?—A. That is correct.

Q. They must have a respect for your department.

By Mr. Hollingworth:

Q. Mr. MacGregor, can you prosecute a licensee for charging excessive rates of interest on a loan of over $500?—A. No, we cannot. We have, of course, for a long time expressed the view to licensees that they ought not to charge a higher rate of interest for loans above $500 than the maximum permissible rate under the Small Loans Act for loans of $500 or less, and in practically every case the licensees do not charge more. I have mentioned that only three in fact, charge more for a loan in the unregulated area.

By Mr. Monteith:

Q. Have you any responsibilities under the Interest Act?—A. No, we have none at all.

By Mr. Fleming:

Q. One other question before you go on. No one, I think, can fail to be impressed by what you have just said about the observance of the act. That is quite apart from the question of enlarging the scope of the act—I am expressing

no opinion on that. Have there been at any time in your experience any suggestions for the amendment of the act apart from amendments pertaining to the permissible rate of interest or the size of the loan on which the interest rate should be regulated?—A. I cannot recall any other suggestion, Mr. Fleming. The main suggestion that has been made is that the scope of the act should be extended to cover a larger sum.

Q. But leaving the framework of the act untouched—in other words, you have no suggestion apart from those pertaining to the rate of interest or the area within which regulation of the rate should be applied?—A. Perhaps I should amplify my previous answer slightly by saying we have recently received a suggestion from one lender that they should be permitted to precompute charges along the lines I have mentioned concerning the practice currently being followed by several lenders in the unregulated field, but I can only say that in my personal opinion the present rule in the act is much more satisfactory.

Q. As permitting greater clarity of understanding on the part of the borrower as to the rate of interest he is being asked to pay?—A. And as to the charge that the borrower will actually pay. Under the method prescribed at the present time in the event of prepayment of the loan, or of refinancing, a borrower pays only for the actual amount of cash in his hands from time to time.

Q. And aside from that one suggestion the framework of the act has not been the subject of any requests for change?—A. No, sir.

By Mr. Follwell:

Q. Is it a fact that the way in which the Bank of Commerce does business at the present time is to pre-compute with interest?—A. The bank you refer to deducts interest in advance at the rate of 6 per cent of the face amount of the loan.

Q. Which, of course, becomes a much higher effective rate?—A. If you were to borrow $100, for example, 6 per cent would be deducted in advance. The payments are made into a deposit account and interest is allowed at the current rate on the payments as you make them.

Q. The charge is made in advance, in that case?—A. Yes.

Q. Is it a fact, too, that insurance companies, on the basis of accepting premium contracts on a monthly rather than on a yearly basis, would reach an interest rate of about 16 per cent?—A. It is a little difficult to answer that question in a few words because something more than interest is involved. If a person is paying on a monthly basis for his life insurance—and I think this is what you are referring to—if he dies the account is cleared, so there is a mortality risk involved as well as an interest risk.

Q. But taking it purely on the basis of an annual fee rather than on a premium basis spread over the 12 month period—in some cases, of course, they have an industrial section which collects every week—I presume that on that basis you would find that the interest rate would be pretty high?—A. Some might add 6 per cent to the annual rate and divide by 12 to get the monthly premium, in which case the effective rate might be of the order that you mentioned.

By Mr. Fleming:

Q. I would like to raise one point with regard to your previous answer about the practice of the Bank of Commerce in regard to allowing interest on monthly payments that go into the account. Are you quite sure you are correct on that point? We heard evidence in this committee two years ago from the

Bank of Commerce in regard to its small loans business and, while I am speaking now only from memory, I wonder if you are right about that? Are you speaking with certainty?—A. I did not intend to describe precisely their method of operation. I had in mind giving only a general outline of it. I am not sure, frankly, in what respect you think my statement was inaccurate. Perhaps you could clarify the point.

Q. You said, with assurance, I think, to Mr. Follwell that the bank did credit interest on the monthly payments into the account.

The CHAIRMAN: I do not think he said that—

Mr. FLEMING: I may have heard you incorrectly, due, possibly, to the bad acoustics of this room to which we are all subject.

Mr. CAMERON (*Nanaimo*): Are we not having a witness from the Bank of Commerce before the committee? I would suggest that this question could be asked of him.

Mr. FLEMING: That is why I think it would have been better if this question had not been asked of Mr. MacGregor. However, I am not sure that that answer was right and I would just enter that caveat. Perhaps we had better leave the point to be cleared up by the bank later.

Mr. QUELCH: The effective rate was 10·46 per cent, I think.

By Mr. Fleming:

Q. I think they got a nominal rate of 6 per cent increasing to 10·46 per cent by two ways. One was that the interest was charged in advance; it was deducted at the time the loan was made; and second—and here is where my recollection may be at variance with that of Mr. MacGregor—that no interest was allowed on the monthly repayments that went into the account until the account was paid—A. Your question then relates simply to the time that interest is credited to the account, not to whether it is credited or not?

Q. No, I think there is a point of difference there. I am speaking only from recollection, and I do not want to prolong this, but I do not want your answer just to go down as a prepared statement of fact based on knowledge or inquiry.—A. It is not based on a specific inquiry, but it is general knowledge.

Q. Perhaps we had better leave the point.

The CHAIRMAN: Are there any further questions? Let us get on.

The WITNESS: Might I simply quote this extract which I think will clarify the last point? I quote from appendix "A" to Mr. McKinnon's statement before this committee in 1954 under the heading: Method of Operation, and the subheading: Scale of Charges.

> A scale of charges was designed which it was thought would cover operating costs with a small margin of profit provided that the utmost care was used in controlling expense. These charges were based on a discount rate of 6 per cent per annum for loans payable up to 12, 18 or 24 months. The borrower was required to undertake to make equal monthly deposits in a savings account to provide an amount sufficient to repay the loan at maturity.

He then gives an example of a loan of $240 discounted at 6 per cent. The net proceeds paid to the borrower are $225.60. Then he goes on to say:

> Deposits of $20 monthly are required in a savings account which will accumulate a balance sufficient to repay the loan at the end of one year. The total amount required to be repaid in this example is $240. Interest is paid to the borrower on the savings account at the current rate.

I would prefer to leave the details for the bank to explain, but that was my general understanding—that they credit the usual savings rate of interest to the account.

At the last meeting—and I have also done the same at this meeting—I made a few remarks concerning the rates being charged by licensees for loans in the unregulated area above $500, and I mentioned at the last meeting certain licensees who are charging less than 2 per cent per month. Five of them were named in my statement at that time. The question was asked: what proportion of the loans in the unregulated area would be made by those five licensees who are currently charging less than 2 per cent per month? I said that I could not give precise information but I might guess that the percentage would be of the order of 25 to 30 per cent. I find that the actual percentage of the loans made by the five licensees named, Personal, Commercial Credit, Canadian Acceptance, Niagara and Union, related to the total loans of over $500 made by all licencees and Household Finance Corporation Limited would be 37 per cent. However I would mention again, of course, the fact that that leaves out of account the loans made in the unregulated area by lenders who are not licensed under the act at all. I recall that at an earlier meeting the question was also raised whether there were in fact any lenders operating in the area above $500 or, if so, whether the number was very small or comparatively large. I would suggest that the number is quite substantial, and if one refers to the yellow pages of the telephone directory for such cities as Vancouver, Winnipeg, Toronto and Montreal, one will find a great many lenders listed, including advertisements relating to many that are not licensed under the Small Loans Act; and it is quite clear in some cases that that is so because the advertisements state that they lend only in the area above $500.

By Mr. Fraser (St. John's East):

Q. What proportion of the business over $500 do these people do—could the witness tell us?—A. I have no information and I do not think anybody could answer that question. Such information is not available. These unlicensed lenders do not report to anyone, and no consolidated data are available to my knowledge.

By Mr. Hollingworth:

Q. Have you any idea of the range of loans these people give? Do they go up to $1500, or $4,500?—A. I saw one advertisement—I do not know whether this will answer your question—where the lender was offering loans up to $100,000.

By Mr. Cameron (Nanaimo):

Q. Have you had any complaints from borrowers about the nature of the advertising? There are some advertisements which might confuse the borrower as to the actual rate of interest payable on these loans.—A. No, I do not recall that we have—

The CHAIRMAN: Advertising is dealt with on the next page of Mr. MacGregor's statement.

Mr. FLEMING: Mr. MacGregor, in the middle of page 27 of your statement you state:

> Service Finance charges 2 per cent per month on loans up to $200 and 1¾ per cent on loans over $200, but in one particular locality the latter rate is reduced to 1½ per cent.

What locality would that be?

The WITNESS: I do not think I have read that yet. I was just going to deal with that paragraph. I was going to mention that several licensees in the "all other" group also charge somewhat less than 2 per cent per month on the larger loans, but a few charge more. Equitable Finance charges only 1¾ per cent on small loans as well as loans over $500. Maritime Finance charges 1·8

per cent on small loans and grades this down to 1·625 per cent for loans over $500 for a term of 24 months and 1·50 per cent for a term of 30 months. Service Finance charges 2 per cent per month on loans up to $200 and 1¾ per cent on loans over $200; in one particular locality the latter rate is reduced to 1½ per cent. That locality is the Kitchener-Waterloo area.

By Mr. Fleming:

Q. What is the reason?—A. I think one reason is that the operator is experimenting.

Q. Where is the head office of that company?—A. Weston, Ontario.

Q. There is not any question of more competition in that particular area dictating the policy of a local reduction in the interest?—A. No, I do not think so.

Q. On that point, is the competition among these various companies fairly well distributed across Canada? I am thinking now of the principal cities and urban areas.—A. I think that in the urban areas competition is pretty concentrated. All one need do is to walk up the main street, and one will find the offices of the main lenders all in close proximity.

Q. Yes, you can see it on Sparks street here.—A. I do not think that obtains to the same extent in the smaller centres where the so-called independent operators are more common.

Q. Well, I suppose there is a difference between the larger and the smaller centres, but may we take it that there is no such maldistribution of competition in the larger urban areas of Canada as to result in any local deviation in rates due to inequalities in competition?—A. No, I do not think so. If any particular locality is attractive I think lenders will not be long before they establish offices there, and if one of the larger operators establishes an office in some particular locality which seems attractive I do not think it will be very long before one or two competitors likewise establish offices there.

Q. There is nothing in this situation which in your experience accounted for any local difference in rates as compared with other urban areas elsewhere?—A. I do not think so. It would be exceptional.

By Mr. Follwell:

Q. Mr. Fleming mentioned that offices were being concentrated in urban areas, and that is natural, but is extensive use being made of the opportunity to borrow money by people engaged in agriculture? Do these companies lend to them?—A. Oh no, Mr. Follwell; the industry has always operated mainly in the urban areas.

Mr. BENIDICKSON: The farmer has special legislation available to him—the Farm Improvement Loans Act and the Farm Loan Act.

The WITNESS: One of the main things that has given rise to the industry has been the trend toward industrialization and the manner in which workers are paid. They are not so independent as rural folk who obviously have sustenance at least at most times.

Mr. FOLLWELL: The point I am trying to make is that the farming economy seems to be somewhat depressed at the moment, and naturally there is need for the farmer to be able to get money as quickly and as easily as anyone else.—A. I think that the lenders are sufficiently on their toes that if any farming locality has a real need they will supply that need.

Mr. QUELCH: You do not wish, surely, the farmers to make loans and borrow money at 23 per cent! They are having enough grief now!

By Mr. Argue:

Q. Mr. MacGregor is aware that, because of other legislation and other facilities, in the vast majority of instances farmers are able to obtain the same type of loans for probably 5 or 6 per cent for which the urban dweller has to pay 26 per cent through the small loans companies.—A. Farmers have never been frequent borrowers from the small loans companies as far as I am aware. The small loans companies have operated mainly in urban areas.

Q. One of the reasons would be that, if a farmer can obtain his credit needs at 5 or 6 per cent, he is not likely to pay a rate of 20 per cent.

The CHAIRMAN: I think that is a reasonable deduction, Mr. Argue.

Mr. FLEMING: That would commend itself even to the city dweller.

Mr. ARGUE: I want to point out that the man living in the city is getting beat. There is special legislation for the farmer, but there is no legislation in this field which has been established for the people in the city. It is a shame!

The CHAIRMAN: There is the Small Loans Act.

Mr. MICHENER: Mr. Chairman, I wonder if Mr. Argue would explain to me how the farmer can borrow under a comparable system at 5 per cent? I would like to know, I understand that a farmer cannot borrow, on comparable terms, for 5 per cent. Is that so? Can he make an unsecured personal loan at 5 per cent?

Mr. ARGUE: No, I do not think that he can. But a farmer is able to get probably 90 per cent of his credit needs—most of which is for machinery and repairs, improving his home, extension of facilities for the convenience of the farm family,—and he is able to get credit, in some instances, for the purchase of land—from the Canadian Farm Loan Board. So that, when he has to get a loan on his personal signature, he can very likely get it from the very same institutions which have already provided him with credit.

Mr. MICHENER: Perhaps Mr. MacGregor would give his opinion as to whether the two are comparable. I would have thought that a farmhand who was on a monthly salary would be in a comparable position to the worker in the city who is on a monthly salary, and who had about the same assets, and wanted to borrow. If you compare the farmer himself, who owns a farm, has grain and other chattels and securities, it would hardly be a fair comparison. I would like Mr. MacGregor to give his view about that.

Mr. GOUR (*Russell*): Mr. Chairman, Mr. Argue has given us a different picture of the farmer today.

The CHAIRMAN: I was delighted to hear him say that the farmer is so well off. It seems to me that his story is a little different today.

Mr. PHILPOTT: We are glad to see how drastically Mr. Argue has changed his opinion since the beginning of this session when he was talking about the inadequate bank loans, and when he was very violently criticizing the farm legislation which he now says is so good.

Mr. ARGUE: Mr. Chairman, I am sure Mr. Philpott knows that I was not referring to the legislation about which he was speaking at all. I was speaking of the Farm Improvement Loans Act, and I know Mr. Philpott, on one occasion, got up in a debate and started to deliver a speech which he had prepared to deliver in another debate; he has done much the same thing this morning.

The WITNESS: In answer to your question, I should not want to pose as an expert on farm economics or on farming. It does seem to me, however, from what has been said at this meeting, that the farmer is now pretty well provided for as far as borrowing facilities are concerned. I do not think

that there are enough potential borrowers in any locality to make it attractive for any licensee to establish an office in a rural area. It does not seem to me that there is any need for the facilities of this industry to be extended to the farming area from what has been said.

Mr. CAMERON (*Nanaimo*): Sharks always swim in seas where there are lots of fish.

Mr. MICHENER: I agree with you, but I thought that Mr. Argue made a comparison which I do not think is comparable.

By Mr. Follwell:

Q. What I am concerned about is that the farmer be not resisted when he goes to make these loans. Knowing something about a farming community, I agree that it is a very precarious business, and when a farmer goes in to negotiate a small loan then the operator of the business has to take into consideration what the farm is going to be like in two or three or five months from now. The farmer, in spite of the legislation which he has, may need some cash quickly and may prefer to do it on that basis. All I wanted to be assured of is that the farmer has not been resisted when he goes to make loans and that the companies treat him on the same basis as they would the city worker.—A. I would think that a farmer needing money would usually go to a bank where he is generally known. But I do not know the full answer to that question.

The CHAIRMAN: Generally speaking, a farmer has more assets than a factory worker.

Mr. QUELCH: And also more liabilities.

Mr. THATCHER: I think I have heard my good friend Mr. Argue say that neither the Canadian Farm Loan Act nor the Farm Improvement Loans Act is adequate and that farmers cannot get sufficient loans under them.

Mr. ARGUE: Every act can be improved.

Mr. THATCHER: Where can a farmer today get a rate of 5 per cent on an unsecured loan?

Mr. ARGUE: The banks do it often.

Mr. MONTEITH: Certain people can borrow on their name, where farmers and others cannot.

The CHAIRMAN: I think that we are getting far afield. Gentlemen, let us not have an argument here.

Mr. GOUR (*Russell*): Mr. Chairman, I think that I may be able to clear up the question of Mr. Thatcher if he thinks that farmers do not make these loans. I myself sell over $200,000 worth of credit a year and 90 per cent of it is to farmers. In most instances I do not charge any interest; but when it is on a long-term basis, if I charge interest, it is at 5 and 6 per cent a year. Nobody in this land can afford to pay interest at the rate of 3, 4, 5 or 5½ per cent a month. The farmers are still borrowing too much from those companies. The less they go to those companies, the better it is for them. I will give you a case. A year ago a farmer changed his Monarch car, last October—it was a 1952 car—for another car of about the same model except that it was a new 1955 car. He paid a difference of $1500. He had to pay on top of that $325 on a 30-month payment basis. I dealt with that gentleman, when he took the car back, at $2400. I am ready to sell that car for the same money, $2400. He paid, up to the time that I took it, $475 to the finance company, and in transferring it to me he lost $400. If he had his Monarch today I would give him the same money, $1300, for which he sold it last fall. By doing so he lost $875 to have a new car for eight months. I mean by that that the less our people buy at a finance rate of 25 per cent per year, the better it would be for them.

He should have kept his old Monarch. I am at present driving a 1951 Chrysler. That farmer should have stayed with the Monarch. A farmer does not need to travel more than 4,000 or 5,000 miles a year. You see the mistakes which they make when money is so easy. He lost that money just to have a new car for six or seven months, and a car which was not much better than the other car he had. I hope that these people will not go in too much for loans at 24 or 30 per cent. I think that the trend today is to go a little too far. For God's sake, do not go so often and pay 24 or 30 per cent. No farmer, merchant or businessman can spend very much at those figures. It is all right to have a little of it, but do not push it too much.

The CHAIRMAN: Thank you for your advice, Mr. Gour.

The WITNESS: The fact that some licensees, including quite small ones, are operating at rates less than 2 per cent per month suggests that others could do likewise but so far competition has been ineffective in bringing about any general reduction below 2 per cent per month. Seven licensees, however, have arranged life insurance coverage of loans at no extra cost to the borrowers, namely, Astre Finance, Capital Finance, Century Credit, Niagara Finance, Peoples Finance, Strand Finance and Trans-Canada Credit.

By Mr. Fleming:

Q. What do you mean by "at no extra cost to the borrowers"?—A. At no specific extra cost.

Q. But they pay the premium on the insurance.—A. The lender pays. The lender pays the insurance premium in full just as the lender pays his rent and other operating expenses.

Q. There is no specific addition, among the charges to the borrower, in respect of the insurance?—A. Right.

Q. Whatever charge is made is merged in the total?—A. Yes.

Q. And, I presume, in that case, that the lending institution has some sort of group policy that applies to all borrowers?—A. That is right.

Q. What is the amount of the insurance? Is it just the actual amount of the loan?—A. Yes.

The CHAIRMAN: It protects the borrower and his family against his death.

Mr. CAMERON (*Nanaimo*): When Mr. MacGregor first started to present his statement I thought the idea was that he should be allowed to present it. If I remember rightly, it was Mr. Fleming who interjected the first question, and you said you would permit that deviation.

The CHAIRMAN: I said, in view of the great length of the statement, that I thought the questions should be introduced as we went along, because otherwise the members would not remember the questions which they wished to ask.

Mr. CAMERON (*Nanaimo*): We all have paper and pencils before us.

Mr. FLEMING: That was the ruling made before the witness started to read page 1 of his statement.

Mr. QUELCH: It does seem to be a most peculiar procedure. I have never seen a brief read in this fashion before where we seem to have a road block at every paragraph.

Mr. FLEMING: I do not know what Mr. Quelch means, but if he means questions—

Mr. QUELCH: I just mean that what is happening is that we get one paragraph off and then stop, have a lot of questions, and then proceed to another paragraph and then stop.

Mr. FLEMING: As a matter of fact we had a stop of two and one-half meetings on one point, and the questions asked were questions which came from the middle table where the C.C.F. and Social Credit members sit. I am not saying that the questions were not proper.

Mr. QUELCH: It is an unusual procedure. In every other committee of which I have been a member, a brief is presented and then at the end of the presentation we ask questions. While we go through the brief we make notations. This is a most peculiar procedure, but I admit that I was not here at the start.

The CHAIRMAN: It was stated at the start that in view of the complexity of the subject that we felt that it would be better this way.

Mr. PHILPOTT: Mr. Chairman, I want to put in my comment here that, regardless of what the ruling was at the beginning, I think that the witness should now be allowed to read his brief and get through it. I do not intend to attend a dozen more meetings if we do not make more progress than we have been making.

Mr. THATCHER: I have some questions I wish to ask and, therefore, I would ask the chairman if the ruling is to be changed.

The CHAIRMAN: I am not changing the ruling. I think it is too complex a subject to deal with otherwise.

By Mr. Thatcher:

Q. In connection with this insurance, are there any Canadian companies which do charge for their insurance? You say that seven of them give it free, but are there any who make specific charges?—A. Any licensees?

Q. Yes.—A. In Canada there are two that had insurance arrangements in force when the Small Loans Act was passed in 1939. Those arrangements have been permitted to continue. They are such that the borrower pays the premium. The insurance in those cases is not compulsory—not technically so anyway. When a borrower seeks a loan, he is asked if he wants the insurance; but I suppose most borrowers take it because it probably seems attractive. Those are the only two exceptions. They have been a cause for some concern, because there is some question in our minds whether the wording of the act, as it stands at present, permits any additional charge whatsoever. However, as I say, those arrangements were in force back in 1939 and have continued. I would say in addition, however, that the premiums have been substantially reduced as compared to the premiums that were payable back in 1939. In one case I think there has been a reduction of about 50 per cent, and in another case a reduction of about 30 or 35 per cent.

Q. Have you, or the department, any objection to these seven companies, which you mentioned, giving insurance at no extra cost?—A. No objection whatever. Personally, I think it is the way it should be provided.

Q. If I understand Bill 51 correctly, in the future it is going to be illegal to charge for these insurance rates. I wonder if you would enlarge on the reasons for this proposal?—A. There is a provision in the bill which would prohibit a lender from making a specific additional charge over and above the maximum rate prescribed by the act. It would require all lenders, if they provide life insurance coverage, to do it as they have been doing it up to date, namely, by bearing the cost of it themselves within the all inclusive maximum rate prescribed in the act.

Q. I am trying to get clear in my mind the purpose of the amendment. Is one of the reasons that there has been a type of a racketeering in the United States on this matter of insurance?—A. That is perhaps the best way to put it. I would be glad to enlarge on that subject but it might take a couple of hours to do it.

Q. Can we take a couple of minutes and put it in a nutshell?—A. One of the greatest problems in small loans legislation in the earlier days was to specify the charges that a lender might make. The only satisfactory system that the Russell Sage Foundation was able to suggest was to prescribe a maxi-

mum permissible rate per month which included everything. There were to be no extra charges whatsoever for any reason. Now, in more recent years, the provision of life insurance in connection with a loan has given rise to quite a serious problem in the U.S.A. Some lenders have arranged life insurance more particularly on an individual basis rather than a group basis at an extra charge to the lender; the premiums have been excessive and also the commissions payable to the lender.

By Mr. Fairey:

Q. Do you not mean an extra charge to the borrower? You said to the lender.—A. Thank you. I meant to the borrower.

It has been a subject of considerable study in the U.S.A. in recent times because it has been a very serious problem. I believe there have been sufficient signs that the problems might extend to Canada as to make it desirable to make clear in the Small Loans Act that, whatever maximum permissible rate is described, it should include everything.

By Mr. Thatcher:

Q. That is much clearer, and I can agree with you. There is one more point on this.—A. I might quote the views of one or two persons in the U.S.A. on this subject, Mr. Thatcher. This is from a publication entitled Small Loan Laws put out by the Bureau of Business Research of the Western Reserve University and the author is Professor Wallace P. Mors who has devoted a great deal of time to the whole subject of small loans and to the subject of life insurance coverage in connection with such loans. Under the heading "Loopholes" he says:

> Unless a law is tightly written, some lenders will find loopholes to extract unnecessary charges from borrowers. The Russell Sage Foundation was keenly aware of this. As loopholes appeared it plugged them through revisions of the Uniform Small Loan Law.
>
> Now that the foundation has withdrawn from the field, states must follow a similar procedure on their own. Further, they must recognize that it is a never ending job. Conditions constantly change and bring new loopholes. Currently the big problem is insurance. States have been put under increasing pressure in the past few years to permit tie-in sales of credit insurance by small loan licencees. This proposal violates a basic principle of the Uniform Small Loan Law and Model Consumer Finance Act, namely, that licensees shall make one over-all charge and only one.

In another quotation under the heading "What About Credit Insurance" the author states:

> Small loan experience shows that extra charges of any kind invariably lead to abuses. The Uniform Small Loan Law meets this problem by prohibiting tie-in sales or other devices which permit lenders extra profit. A single, over-all charge is one of the law's cornerstones.
>
> A growing number of consumer finance companies are providing credit insurance to their borrowers under the one-charge principle. They furnish borrowers with group insurance and make no extra charge for it.

The author quotes from a report of a Congressional committee in the United States which looked into this problem there; this quotation reads:

> This situation places temptations before the unethical lender which too often are irresistible. Coupled with this is the inferior bargaining power of the borrowers. Especially is this true in connection with

small loan transaction... Because of the borrower's inexperience in business, lack of other credit sources, his imperative need for money, the unethical lender finds it an easy matter to coerce and intimidate him into buying credit insurance. The borrower is in no position to do anything but accept the lender's terms. One of these terms often requires the borrower to purchase the insurance exclusively from the lender... These practices are literally so widespread as to inflict these abuses upon millions of borrowers and their families. Finally, another quotation, this time from Professor William J. Parish of the University of New Mexico:

Finally, Professor William J. Parish of the University of New Mexico reached these conclusions after studying New Mexico's experience with tie-in credit insurance sales during the years between 1947 and 1953:

...credit insurance... costing a premium to the borrower which covers overhead and profits to the lender-agent, has no socially justifiable place in the house of the small loan lender.

In his considered judgement, the single, all-inclusive charge 'is the principle which more than any other factor has enabled the small loan industry to gain acceptance in the field of legitimate finance. To permit this principle to be breached would be a tragic and evil development'.

Mr. BENIDICKSON: I wonder if I could speak on a point of order, Mr. Chairman. I must confess for a couple of meetings I have been under a misapprehension. I did miss the meeting on Tuesday, I think, July 3, and at the next meeting I did ask one of my colleagues whether Mr. MacGregor had completed the reading of his brief, and I was informed that he had. I did not have access to the typewritten notes, and did not realize until now that this was not a fact and that I had been under a misapprehension. Out of courtesy, when Mr. Fleming raised his first question while Mr. MacGregor was reading the brief, I let it pass—

Mr. FLEMING: No. You did not—excuse me.

Mr. BENIDICKSON: But when he raised the second question I asked the chairman whether or not we were going to follow the practice which I take to be our usual one of not interjecting questions while a brief is being presented. Now, when I find we have not heard the latter part of this brief I wonder if the committee would not pause and consider the advisability of conforming to the more normal practice of allowing a witness to read his brief? Members of the committee could make notes of the questions which they subsequently might wish to raise, and we could go on from there.

Mr. FLEMING: I would like to make a comment about this in view of the fact that Mr. Benidickson has seen fit to bring my name into this matter. Mr. Benidickson was late for the first meeting of this committee and he did not hear the ruling—in my opinion the very sensible ruling—which you made at the outset, Mr. Chairman. The brief being presented is a very long brief; a great many tables are attached, in addition, and any one of them would merit a great deal of study. In your statement at the outset, Mr. Chairman, you said that while normally a witness reads his brief to its conclusion and questions are suspended until afterwards, in this case you felt we should ask questions as we went along. I think that was a sensible ruling and anything which has been done since has been done pursuant to that ruling.

Mr. BENIDICKSON: I was just asking whether the feelings of the committee—

Mr. FLEMING: If I might continue—Mr. Benidickson raised the same point during the course of the first meeting. I asked a question or two, and you reminded him of what you had said at the outset. He was not here at that time

and did not hear it. We have proceeded on those lines ever since. It is very true we have not gone through the whole brief but that is not the responsibility of any one member or any one group. The longest delay was on one particular page—page 26—on which we spent two and a half meetings, and the reason we did spend so much time there apparently commended itself to the committee because the point was regarded as of such importance that we interjected another witness for one and a half meetings in the course of considering the point there raised. So let us not have this put as though there were some improper departure from normal practice. If there has been any delay in reaching the end of the brief no particular member of this committee—not myself or anybody else—had anything to do with it.

Mr. BENIDICKSON: I did not say that, but I do insist that this is a departure from our usual practice.

Mr. FLEMING: It is a departure that was completely warranted in the opinion of the chair, backed up by the view of the committee at the opening of the hearings, and I think it is quite apparent that while we may hope to get along faster than we have in the last several pages, nevertheless the chairman was perfectly right when he said that this brief was too long and the subject much too complicated to have been read continuously. We would have been in a hodge-podge of confusion had we not followed in the orderly was in which Mr. MacGregor is proceeding in his approach, and Mr. MacGregor's explanations have enlarged very greatly the information contained in the brief. We all wish to get ahead and we know that time is limited. That is the reason why we are planning extra meetings, starting this afternoon; but nevertheless we are bound to have some regard for order and make an attempt, which I am sure all of us are making, to understand this complex subject. I do not see how we could go on on any other basis than that on which we have been proceeding.

Mr. BENIDICKSON: My experience has been that where there is a long brief it is customary either to have the brief read and then to ask questions subsequently or for members to be asked to take the brief away as their "homework": and real it and then come back and ask questions.

The CHAIRMAN: The reason I made that ruling, Mr. Benidickson, was because this is a particularly complex subject. It is not a simple subject. It is a long brief and each paragraph is loaded with information and facts. I felt that the only fair thing to the committee was to permit questions to be asked as we went along so that we might understand thoroughly what was there.

Mr. BENIDICKSON: I am in no way criticizing your judgment, Mr. Chairman, but I raised the matter as a point of order because I do not think it is working out to the advantage of the committee, and I was just wondering if at this point you would like to find out the feeling of the committee with regard to it.

The CHAIRMAN: If you wish to move a motion, that is your privilege. I am not changing my ruling, because I think it is sound.

Mr. CAMERON (*Nanaimo*): I make a motion that Mr. MacGregor be allowed from now on to read his brief uninterrupted, and that members reserve their questions until after it is concluded.

Mr. REGIER: I second the motion.

Motion put.

The CHAIRMAN: I declare the motion defeated.

Mr. QUELCH: I would suggest that when we are finally through with the brief it be printed in its entirety as an appendix, otherwise people who are interested in this brief are going to have an almost impossible task in disentangling it—it is so split up with additions.

The CHAIRMAN: I think that is a perfectly sensible suggestion and I am sure the committee will agree with it. Agreed.

By Mr. Thatcher:

Q. I would like to know if the department has had any indication from these seven companies which are today giving free insurance that if the new rates were put into effect they might be obliged to discontinue that service?—A. None of the seven companies mentioned has expressed that view to the department.

Q. I suppose you would have no idea whether or not there was that danger?—A. We hear by the "grapevine" that the proposed rates are considered too low but whether—

The CHAIRMAN: They will be here to make their representations, Mr. Thatcher.

The WITNESS: —but whether it would have that effect on their present practice I would not like to say. I would not like to speak for them.

By Mr. Michener:

Q. Mr. MacGregor deals in one paragraph on page 27 of his statement with a very important consideration, namely whether or not competition does have any effect on rates. There are a good many active and efficient companies lending money and I would like to pursue this question, because the evidence which he produces does not seem to be very conclusive. Some parts of it point to the fact that competition, left alone, does result in a reduction of rate in order to secure more business; and yet today the proportion of the business that is done below the legal maximum is not very great—at least, it is not half. I think Mr. MacGregor estimated it as 37 per cent. I have some information on that subject which I want to verify. Was that percentage applicable to the licensed or to the unlicensed field, or both?—A. The percentage figure which I think you have in mind relates to the unregulated field covering loans above $500.

Q. You mentioned seven or eight companies there who are charging less than 2 per cent, including Personal Finance, Niagara, Canadian Commercial, Union Finance, Maritime and Services. It was suggested to me that those companies held a little over 40 per cent of the total outstanding of the loans of $500 or more in 1954. I do not know whether you disagree with that?—A. That looks to be about right. The figure of 37 per cent which I gave was based on the 1955 figures. But I just realize, now, that it includes only the five companies named at the top of that page. It does not include the three mentioned in the second paragraph—Equitable, Maritime and Service, but their volume is so small that I do not think it would make any appreciable difference.

Q. When you add those who are giving free life insurance benefit what percentage more would that add to the 40 per cent?—A. The only important addition would be Trans Canada Credit, because Niagara is the biggest lender in the large loan field among the seven that are providing so-called free insurance. This company is included already in the 37 per cent. Trans Canada Credit has a substantial volume of business above $500, and it might increase the figure, perhaps, to 40 per cent or 41 per cent.

Q. Then it might be proper to say that 40 per cent or more of the companies lending in that field above $500 are now charging somewhat less than the legal maximum?—A. The total volume includes H.F.C. as well—the one large unlicensed company.

Q. And, looking at the previous experience, you had something to say about this on page 14 where you described the move toward lower rates which began in 1943. You say at the fifth line from the bottom of the page:

Significant reductions began to be made by the larger lenders late in 1943.

I understand there were some substantial reductions and an extensive move toward competitive lowering of rates which carried on until the matter came before this committee in 1946 in the form of a bill to reduce the maximum rate to—what was it at that time?—A. It was 1½ per cent.

Q. Was not the effect of that, oddly enough, to dry up the competitive reduction of rates?—A. I think I could answer your question briefly by saying it is significant that the substantial reductions made by the largest lenders in the 1940's occurred when no new licences were being granted—in other words when competition was not so keen as normally and certainly not so keen as it is now. The point I have in mind is that those substantial reductions were made at a time when the policy was against issuing any new licences at all and the number of companies was actually declining. But whether or not the bill of 1946 proposing a reduction to 1½ per cent had any direct effect upon the practices of the lenders that were then charging 1½ per cent I would hesitate to say. I think the important development in 1946, and through to 1950, was the rising level of expenses. I really think that is what prompted the lenders to get back to 1¾ per cent and finally to 2 per cent again.

Q. In other words there was not the same margin of profit with which to make a reduction?—A. Not with rising expenses.

Q. I would have thought that in a business which appears to be as competitive as this there would be a very strong tendency—apart from an illegal combination or something of that kind—to lower interest rates with the idea of increasing business, and I wonder whether there is any explanation why this has not come about.—A. I think competition has some effect on rates but I do not think it has a very profound effect.

Q. Apparently it has not. My point was that there should be a strong tendency to reduce rates if this business is so competitive, and your only explanation of why this does not come about is, as I understand it, that rising costs have not given the companies any latitude within which to make reductions.—A. I think that as competition increases the lenders are inclined to spend more to get a larger share of the business. For example, if you have a new shopping centre and a lender establishes an office there I do not think it will be long before you would see another lender establish an office nearby. Perhaps there is no dire need of the extra facilities in that locality, but if the competitor does not open a branch he may lose some of his co-called customers whom he now has; in the face of competition a lender will be inclined, I think, to advertise more and to spend more generally.

Q. I would think that if I wanted to borrow money on percentage, and one company charged 2 per cent and another 1½ per cent advertising would not affect my choice. I would go to the one which offered the lower rate of interest.

The CHAIRMAN: That is if you knew what the rates were.

The WITNESS: I think borrowers do not do that—otherwise borrowers now would be more discriminating in selecting their lenders and would go where the rates are cheapest.

By Mr. Michener:

Q. Why, then, do any of these companies lend money at less than the maximum rate—and there are over 40 per cent of the companies doing so?

The CHAIRMAN: Gentlemen, it is now one o'clock. Could we leave that over until 3.30 p.m. when we meet this afternoon?

AFTERNOON SITTING

3.30 p.m.

The CHAIRMAN: We will proceed.

Mr. K. R. MacGregor, Superintendent of Insurance, recalled:

Mr. MICHENER: I had been inviting Mr. MacGregor to comment further on the question of whether or not competition was effective in bringing about a reduction in the interest rates charged, and I pointed out that there seemed to be arguments both ways in his brief. Perhaps he would be ready to comment further on that now.

The WITNESS: As I have said before, Mr. Michener, I do not take the position that competition has no effect. I believe it has some effect; but I do not think that competition, of itself, would ever be sufficient to regulate the small loans industry—not yet anyway. It has not proved so in the past; otherwise small loans laws in the U.S.A. and in Canada would never have been necessary. I cannot say what motive prompted these particular lenders to charge less than the legal maximum. I can say, however, that in one or two cases, so far as I know, they never charged any more than the rates mentioned here. Maritime Finance was charging 1·8 per cent when they were first licensed in 1940. Canadian Acceptance never charged the full maximum rate, and a few years ago they were charging even less than they are charging today. However, I would suggest that these lenders that are charging less than the legal maximum, probably hope to secure some competitive advantage or, secondly, they feel they can make a reasonable profit at these rates. But I think that the answer must finally come from the lenders themselves.

By the Chairman:

Q. In their advertising, do they emphasize that they are charging less than the maximum permitted? Do they try to obtain an advantage by doing that?—A. I do not think so. I do not recall any recent advertising stressing lower rates.

By Mr. Michener:

Q. Well, the experience seems to have been that there was a very definite trend towards reduction, beginning about 1943, which came to an end— —A. 1950.

Q. Which came to an end pending revision of this legislation in 1946.—A. It was later than that. The reductions continued until 1948. Then the lower rates were stepped up and were finally back to 2 per cent by 1950.

Q. So today we have a substantial number charging rates less than the maximum, but a substantial number who charge the maximum—slightly over half who charge the maximum rate?—A. By number, the great majority are charging the maximum rate of 2 per cent. When you say "maximum rate", their rate is not a maximum rate in the true sense; they charge 2 per cent which is really the maximum rate for small loans.

Q. That is understood. We are dealing with the unlicensed business, but we are thinking about the small loans rate.—A. Yes. Perhaps I might interject that if competition is thought to be particularly effective, the question immediately arises as to why the other lenders have not been forced through competition to bring their rates down.

By Mr. Quelch:

Q. Has the number increased in the last five years?—A. The number of licensees has increased recently; but in the last two years there has also been a tremendous increase in the number of inquiries about obtaining a licence and the number of applications for licences. We have turned aside a good many applications.

By Mr. Michener:

Q. I would like to ask whether or not the principle companies in the business have been consulted about this proposed reduction in the maximum rate, or whether there has been a discussion in the industry about the possibility of lower maximum rates for small loans?—A. Yes, there has. The Canadian Consumer Loan Association itself recommended lower rates in a brief filed with the government last summer. I shall refer to that later on and quote their proposals.

Q. Yes. I notice that. But I am wondering whether it would be fair to conclude that with a maximum rate change in the offing, if the reduction which competition might bring about, and has brought about to some extent, may be deferred until the legal position has been clarified?—A. That is possible, but I do not presume to speak for the lenders. I do not know what is in their minds in that respect.

Q. If changes in policy were being considered, I should think that the companies would defer changes in rate while some legislative changes were being considered.—A. In other words, they might postpone reductions and make hay while the sun shines?

Q. That might be one way of looking at it. Do you think, Mr. MacGregor, that the maximum rate tends to become the rate?—A. Generally speaking, yes.

Q. Do you think that that is the way the business works?—A. It seems to work out that way.

Q. Notwithstanding the substantial exceptions?—A. There are always exceptions. I understand that in New York state, notwithstanding their relatively tight rate, so to speak, there are at present six licensees which I understand are charging less than the maximum rate prescribed in that state; and already it is one of the lowest.

Q. Then, there was another statement which you made in respect to the increasing cost as having been an explanation for the lack of rate reduction. I suppose that that, to some extent, is an argument against reducing the maximum rates at this time, if that is so and the costs are increasing?—A. Undoubtedly the fact that interest rates have been rising recently—and naturally interest rates affect money borrowed—and undoubtedly because expenses have been rising, the case for reducing the maximum rate is modified to some extent; but I think it is a relatively small extent.

Q. Then I think that you hold the opinion that the major companies are the more effective competitors in the field; they are more efficient and have been more efficient and are able to meet competition perhaps better than the smaller more recent licensees?—A. Generally spaking, yes. The major operators have a higher rate of earnings and they can afford to absorb a rate reduction easier than the smaller lenders.

Q. That leads to a question with which you may deal later, in which case I will defer it. It is: what would be the effect on the newer and less efficient companies?—A. It would be more serious; undoubtedly the proposed reduction would be more serious for them.

Q. Would you expect it to make it impossible for any substantial number of them to continue in business?—A. Well, as I mentioned, or as I propose to mention sometime, it is difficult to know what a lender expects to get out

of the business by way of salary, travelling expenses and all that sort of thing. One cannot really answer the question, I think, on the basis of a return on capital alone, for example, because one has to take into account all the other benefits that the small operator may derive from his business, and what he himself is satisfied with by way of a return on his capital. Some may say that 10 per cent is just not enough and that they would rather go into some other business. It is pretty hard for someone else to speak for them.

Q. I understand that you suggest that if certain lenders find it unprofitable to operate under the proposed scale that they would go and use their capital elsewhere.—A. A great many of the licensees have associated companies within their own offices which are presently operating in the conditional sale agreement field or in the larger loan field.

Q. What proportion of the present industry would you expect to be able to survive and make a reasonable profit in the proposed rates?—A. I would rather answer that question by saying that I think there would be an ample number of lenders who would remain and who would continue to provide the vast majority of the facilities presently being afforded. The number of lenders who might withdraw might be quite a few; but the volume, or the proportion, of business done by them in the whole field, I think, would be relatively small.

Q. It is rather the fringe companies that you would expect to have to withdraw under the new rates?—A. I would expect so.

Q. And they are mostly local concerns?—A. That is so.

Q. Would you consider that a desirable result from the point of view of the supply of credit in this field?—A. With all respect, I think that is for the committee to decide.

Q. The rate which you recommend, Mr. MacGregor, I take it to be the lowest rate which you think would return a reasonable profit to the efficient operator?—A. And would result in adequate facilities continuing to be available.

Q. Would you answer my question, that the rate which you propose you consider to be the lowest rate which would enable efficient operators to continue in business—the lowest practicable rate at which efficient operators would be able to operate?—A. I think that is a reasonable way to put it.

Q. Let me ask you this: do you think it fair to have some margin between the rate at which the efficient operator can operate and the maximum?—A. Not if there are enough efficient operators to provide adequate facilities.

Q. Then you are getting into a question of judgment as to who are efficient and who are not and you would have to tell the committee who are efficient operators and who would be left after the new rate was provided, in order to justify that position.—A. I was going to say that it would be inconceivable to me that a sufficiently large number of operators would withdraw to leave the field inadequately serviced. I feel that the rates proposed in the present bill would enable a sufficient number of the present licensees to continue to operate and make a reasonable profit and provide all the facilities that are necessary.

Q. I think the committee sees your point of view clearly enough. The question which bothers me is, whether it is fair to set a margin which does not make room at least for some inefficiency. You cannot expect everybody to operate efficiently at all times and from the beginning. What I am concerned about is that the rate does leave room for the average person and not just for the most efficient one.—A. The trouble, Mr. Michener, is that if the maximum rate is set so that some inefficient lenders may make a profit, then the other lenders will make an unreasonable profit. Moreover, as we in the department have always understood the legislation, it is primarily borrower legislation, so to speak, and the objective that was emphasized all through the committee's

report in 1938 was to obtain the best procurable rate for the borrower consistent with adequate facilities being provided. It was never regarded, so far as I know, as lender legislation designed to ensure that inefficient operators should make a reasonable profit.

Q. I am not suggesting that. I think that the facts which you have given us now show that the inefficient operators, or some operators, are not making a profit even with the rates as they exist, and in consequence the present rates are not a ceiling over all inefficiency. What I am trying to point out is the margin which there is between the reasonable profit which you say this new rate will permit to the best operator and a maximum is something above that which permits those who are average and, in the main, are local concerns to operate. I think that is an important consideration for this committee.—A. I agree that is an important consideration.

Q. So that they are not driven out of business just because they are not up to the highest standard. We all believe in regulation, but we do not believe in the idea that only an efficient monopoly can survive. That is not my view of it.—A. That is a terribly difficult question, whether the legislative rate is to be set so that the average or the inefficient operator may live and make a profit, or whether the rate should be set as the best procurable rate for the borrower.

Q. I would like you, if you could, to give us some indication as to what percentage of the lenders are going to be above the new rate if it is adopted and consequently forced out of business.—I would find that difficult, because I do not know what would satisfy some lenders; I do not know whether they expect 6 per cent, 10 per cent or 20 per cent.

Q. You have all their figures and you have seen their reports and have analyzed their statements carefully. You would see from those statements just what would put them in the red where they are now in the black.—A. Of course, but one must know a great many other things also: the salaries, the automobiles, the travelling expenses, and the other things that individuals are drawing from their own concerns. We in the department do not have complete information of this kind. Our examiner may give us some information on them if they seem to be out of line, but one wants to know everything that an operator is getting out of his business apart from the apparent return on his capital. Even then we could not say what minimum might satisfy a lender.

Q. I understood you to agree with me the other day that the details as to rent and other things in the ordinary course of business were not something which you should supervise.

Mr. ARGUE: But you are asking for that now. Surely it is important that this committee should know why these so-called marginal companies are not in fact showing a larger profit if it is because they have officers who are obtaining outlandishly high salaries.

By Mr. Michener:

Q. I understood Mr. MacGregor to say that he did not know what they were charging and that it was none of his business. It may be relevant to this committee to know, but I should think that you would agree with me, in your administration, that you cannot very well run their business. You can see that they obey the law, are reasonably efficient, and that their dealings are fair towards the borrower.—A. We do not supervise salaries, nor do we attempt to. The annual statements show the total salaries paid, total rent paid, total advertising expenses, and so on. But only by going into the company's office could one obtain the details of these several items of expenditure. We do have, as I said before—perhaps I used the word "details", and, if I did, that may not have been the most appropriate word—we have, in their

statements, the total salaries, rents, advertising and so on, but not the individual components of each item. One would have to know those components in the case of the operators themselves to know what they are getting out of the business.

Q. I suggest that that is not the duty of a licensing authority. Do you know of any business in Canada where the government undertakes to suggest what salary should be paid?—A. I am not suggesting that it is our duty. But, if one is asked, as I have been asked, whether I think a lender might withdraw, I think one has to know what that lender is getting out of his business in every form, before one would be in a position even to guess; and I am not sure, even if you have all information concerning salaries, travelling expenses, and so on, that anyone can speak for the lender himself because no one knows what may seem right to another person.

Q. Some part of the profit may be classified as salaries?—A. Yes.

Q. That was not quite the approach I had. I was thinking of the paternalistic supervision of the business—A. We have absolutely nothing to say about the salaries they pay and I do not recall any instance where we have uttered a word about them.

Q. You do not feel that you can separate the sheep from the goats even in an approximate way? That would, I think, be useful information to the committee. Assuming this new rate becomes effective, who will be the goats and who will be the sheep?

By Mr. Quelch:

Q. Will they not separate themselves when the new act comes into force? The inefficient ones will drop out—the ones paying excessive salaries will drop out and they will separate themselves.

By Mr. Fairey:

Q. Is it the assumption that only the smaller companies will be paying excessive salaries? Did you not say that the American companies were obtaining funds at a lower rate than the Canadian companies?—A. I said that is sometimes said. I did not say it myself. At present it is a fact that the larger American-owned licensees are I believe obtaining all, or nearly all of their lending funds in the United States. But, of course, some of our provincial governments and others are borrowing there for the same reason—there is some advantage now in doing so.

Q. I am not saying it is wrong. I was only asking whether it was a fact. In that case the larger American companies have definite advantage over the Canadian companies in that respect and therefore if the percentage is set so low—I am not suggesting it is too low—but if it is set so low it would make it very difficult for Canadian companies to operate as compared with the American companies which would then have an advantage.—A. They might. They probably would have.

By Mr. Thatcher:

Q. There is just one question I would like to ask along the line Mr. Michener was pursuing. I think every member of the committee is anxious to see that the consumer gets the lowest possible interest rate, but one point puzzles me. The Minister of Finance and other government ministers have repeatedly said in the course of this session that there is an extreme danger of inflation in the country at this time. Because of this danger the Bank of Canada has raised its interest rate, the commercial banks have raised interest rates, the rates of interest under the Housing Act have been put up, and so on, all with a view to discouraging inflation. I am wondering whether this proposal is not

at cross purposes with that trend. In other words, if we adopt Bill 51 would it not have an opposite effect as far as inflation is concerned?—A. I do not think so, Mr. Thatcher.

Q. Would you explain that, Mr. MacGregor? That is a point which puzzles me.—A. The extent to which credit is expanded or extended in this particular field is governed only to a relatively small extent, I think, by the interest rate level; it is governed to a much greater extent—I am speaking of the expansion of credit in this form—by the extent of the lending facilities that are available, that is to say by the number of lending offices. The higher the rates that lenders may charge, broadly speaking, the more facilities you will find offered and I think that is one reason why at the present time there has been such a marked interest manifested on the part of external lending organizations with a view to entering Canada. The number who have inquired during the last year or two is incomparably greater than ever before.

Q. You do not think that if the rate were lower as is being suggested, that there would be a greater demand for consumer credit and an increased tendency toward inflation?—A. I do not think so. That of course touches again on the question of rates, competition, and so on—how discriminating borrowers are in the matter of rates. I am sure that it is more a matter of habit than anything else. Borrowers are not very discriminating.

Mr. PHILPOTT: Mr. MacGregor, there must be a good deal of competition between the small loans companies, as a group, and merchants who are also giving consumer credit. Would this be a suitable point at which to raise the whole question of the relative rates charged by the merchants and the small loans companies? I want to get some information on that if it fits in well here—it might be a good place at which to ask these questions.

The CHAIRMAN: I have no objection to this matter being raised now.

By Mr. Philpott:

Q. Well, by and large, do you think the rates we have here under this Small Loans Act are competitive with the rates being charged by the big merchandising organizations that sell washing machines, vacuum cleaners and everything else by way of consumer credit?—A. Well, Mr. Philpott, buying "on time" under conditional sale agreements and otherwise is certainly a very broad and extensive field and I do not presume to know what rates are being charged across the country by different dealers, acceptance companies and so on, with whom we have no connection at all. I can say however that as far as our licensees are engaged in that particular field the average annual rate of return is indicated in table 6 under the heading "Conditional Sale Agreements". You will see there that for licensees as a whole the average annual rate is roughly 15 per cent per annum as against 22 per cent or 23 per cent for loans. It is my understanding that some department stores charge one per cent per month on articles bought "on time", including charge accounts that run past one month. There are departmental stores here in Ottawa—at least two of the larger stores—which operate on the basis of one per cent per month. On the other hand—

Q. Excuse me; when you are talking about one per cent per month is that interest rate calculated on the same terms as apply in respect of the Small Loans Act lender? Is that on the unpaid balance?—A. Yes.

Q. And that is on precisely the same basis as applies in the case of the Small Loans Act?—A. That is the all-inclusive rate.

Q. I do not challenge it. I want to get at the facts.—A. So far as automobiles are concerned I do not know what rates are being charged in the used car field but I believe that a good many of the operators in that field are

charging pretty high rates from all one hears. I understand that the average range in respect of new cars is between 14 and 17 per cent—somewhere in that area.

The CHAIRMAN: Does that include other charges, such as insurance placed by the acceptance corporation?

The WITNESS: No, everything, I think but insurance. Again I am speaking from general information; I have not bought a car on time so I do not know.

By Mr. Enfield:

Q. I could perhaps add something to that, Mr. Chairman, if I may. I had occasion to make a study for my firm of these conditional sale agreements for the smaller amounts under $500, and we found that the rate of interest in several cases we investigated worked out at about 21·6 per cent annually. It is difficult to tell what the monthly rate was because all the payment schedules and so forth were worked out at an annual interest rate. This inquiry was made in connection with the appliance field. There were no automobiles included in it, but it includes television, refrigerator and range accounts in that field where a tremendous volume of credit is extended. Competition is, however, extremely keen in that field and some of the finance companies are making rebates to dealers in order to get their business. I would think perhaps that this would bring the rate of interest down. Certainly rebates allowed to dealers sometimes reduce the annual rate to something like 18 per cent, but the customer does not feel the benefit of that rebate. He pays 21·6 per cent. —A. I believe that is so. I have heard it said that in the United States some finance companies are withdrawing from the field of conditional sale agreements for the simple reason that they feel that the dealer holds his cheque book because of this competition. On the other hand I have had cases brought to my attention here in Canada where a person who has bought, say, a new bicycle "on time" has been involved in interest charges of considerably more than 2 per cent per month. One might say in cases like this: he ought to go to a small loans company for the money and then pay cash. But apparently people are not sufficiently familiar with the situation to know which is the better course.

Mr. MONTEITH: A good advertising point.

By Mr. Enfield:

Q. There seems to be some confusion in the mind of the public as to the difference between the small loan company on one hand and the acceptance corporation which takes up conditional sale agreements on the other. Is it not true that we have no legislation covering acceptance corporations as such? —A. There is no Dominion legislation but there is legislation in three provinces dealing with the subject of conditional sales to a relatively limited extent. The provinces are New Brunswick, Quebec and Alberta.

Q. And is it not further true that the great volume of credit work is done not in the money lending field but in the field of the acceptance corporations? —A. That is true. The volume there is much greater.

Mr. FOLLWELL: Did I hear Mr. Enfield correctly when he seemed to say that according to the study made by his firm the dealer gets a "kick back" of about 18 per cent?

Mr. ENFIELD: No. I said they often received a small rebate which might bring the interest payable to the acceptance corporation down to about 18 per cent.

The CHAIRMAN: That is not passed on to the purchaser.

Mr. ENFIELD: No, it is not passed on to the purchaser.

Mr. FOLLWELL: It might be well for us to investigate the appliance field, too, then.

The CHAIRMAN: I do not think that would come within our terms of reference.

Mr. FOLLWELL: Well, we must accept that—you are a very efficient chairman.

The CHAIRMAN: That has been subject to challenge, apparently. Perhaps we could get on with the statement.

Some Hon. MEMBERS: Hear, hear.

The WITNESS: Table 7 shows the distribution of the income dollar so far as losses and expenses, other than income tax and interest on borrowed money, are concerned. The losses and main categories of expenses are in each case expressed as a percentage of total income excluding recoveries on amounts previously written off. Substantial variations amongst the several lenders and between small loans business and other business are evident. The expenses connected with small loans are relatively heavier than for larger loans, hence one expects to find relatively higher percentages for the former when there is little or no difference in the rates charged for small loans as compared with those for larger loans. On the other hand, this consideration is tempered where lenders transact a substantial volume of business relating to conditional sale agreements, etc., which, as shown in Table 6, generally carry a lower rate of charge. The volume of this kind of business is much larger, proportionately, in the "All Others" group of money-lenders. A few cases stand out where the percentages in the table are very much higher for small loans business than for other business. At least some of these cases are, in my opinion, attributable to the apportionment of too many expenses solely on the basis of the number of accounts without any regard to the size of loan. I believe that there has been great improvement in the accuracy with which expenses are allocated between these two main branches of business but in a few instances the licensees have continued to view the problem differently from the department.

By Mr. Follwell:

Q. With regard to one part of that particular paragraph where Mr. MacGregor says: "A few cases stand out where the percentages in the table are very much higher for small loans business than for other business. At least some of these cases are, in my opinion, attributable to the apportionment of too many expenses solely on the basis of the number of accounts without any regard to the size of loan". I am jut wondering if it is not the number of accounts handled which is the cause of the expenses which these companies have to meet.—A. To a large extent that is true but I feel that there are certain expenses—for example the salaries of executives—that are hardly apportionable solely on a piece basis, so to speak, or solely on the basis of accounts alone. With regard to the salaries paid to clerks, I would say that they might justifiably be apportioned on the basis of the accounts handled. On the other hand, advertising is another item where it is questionable whether the burden of expense should not have regard for the size of the loans and the earnings from them rather than the number of accounts alone. What I had in mind particularly in making these comments was the amount of the salaries paid to executives and expediture on advertising. One or two licensees apportion them all on the basis of the number of accounts alone with the result that you may have a ratio of 40 per cent for salaries under the heading "Small Loans" and only 8 or 10 per cent for other business. Or with regard to advertising, you might have 10 or 12 per cent under small loans and only 2 per cent under other loans.

By Mr. Cameron (Nanaimo):

Q. What do you include under the term "salaries" then? Would that include the wages paid to the clerical staff, and so on?—A. Yes.

Q. The whole works?

The CHAIRMAN: Mr. MacGregor asked me whether it would be satisfactory to the committee to have the complete financial statement of Merchants Finance Limited printed as an appendix to these proceedings; it is a long report, and otherwise he would have to have the documents photostated and many copies made. Would that be agreeable to the committee?

Agreed. (*See Appendix "H"*)

By Mr. Follwell:

Q. I have one other question on that point. I wonder whether the cost of servicing a small account, say, of $200 might not be just as great, or greater than, the cost of servicing a loan of, say, $2,000.—A. I would agree that many of a company's expenses are best apportioned on the basis of the number of accounts but let us take advertising, for example. Why does a company advertise? It advertises to gain business, but it will make more on the large loans than on the small loans. Would it not therefore be reasonable to apportion advertising costs at least in part on the basis of the size of the loans rather than on the basis of the number of accounts alone? I think so. Perhaps others do not agree.

Q. I was thinking of general office expenses. Once your advertising is over, you have a customer coming in who wants to borrow, say $200. I do not know if you have ever been in to negotiate a $200 loan—I have not—but I presume that many questions would be asked and a good deal of time would be taken up during the interview. It might be fairly costly to negotiate a $200 loan. But with regard to a sales condition loan I think it might be quite reasonable to negotiate a loan for as much as $2,000. I understand that when you have made a sale you send in your contract to the finance organization and they send back the money.—A. I know of no more difficult accounting problem than the apportionment of expenses. It is a matter of opinion how any particular item of expenditure should be apportioned between the various branches of a business in cases where it arises from or relates to more than one branch or fund. But this problem is not new and it has been studied at great length by the lenders, large and small. As I mentioned earlier, the largest licensee found that if the expenses were apportioned to the extent of 50 per cent on the basis of the average balances outstanding during the year and 50 per cent on the basis of the average number of accounts outstanding one arrived at just about the same result as through a much more detailed treatment of each separate item. If one accepts the view that a 50-50 division is reasonable and appropriate I think the case is pretty strong against the apportionment of all expenses on the basis of the number of accounts alone and that is what I am really saying here.

Q. Is there any other allocation formula, beside the account system, which you want to put forward for consideration? Is there any other particular formula which you could recommend?—A. No. We have always felt that it is an individual problem which should be approached and solved by the licensee himself, because he is naturally most familiar with the manner in which the expenses are incurred. We might, however, comment on their practice and we might possibly criticize it—

Q. Only in a constructive way, of course?—A. Of course! Where the lender, perhaps at the outset, has no particular idea how expenses should be apportioned we have suggested a formula as a starting point. The same problem arises in the insurance field. I do not think any two life insurance

companies are using precisely the same formula for apportioning their expenses as between the non-participating and participating branches. The practices vary throughout the whole field.

Q. I presume that the people who operate the company are in the best position to decide how the allocation should be made?—A. Quite! All we are interested in is in obtaining the most realistic picture possible; but we do feel that advertising expenditure and at least the upper salaries ought not to be assessed solely on the basis of the number of accounts. The result of the latter practice by a few licensees is reflected in the table—they have much higher percentages under the heading "Small Loans" than for other business.

Q. I notice that on your table 6, in regard to all licensees, the conditional sale agreements show somewhat lower percentages—16·3 per cent in 1953, 15·2 per cent in 1954 and 14·3 per cent in 1955—than the small loans.—A. That is not a question involving expenses; that is the average annual rate of income.

Q. Would there be anything there as a credit for reserves?—A. There has been no deduction from the income for that purpose in table 6. It would be treated as an item on the debit side and would appear in table 7 in the first general section headed "Net Amount Written Off Plus Net Transfer to Reserve for Bad Debts."

Advertising is one feature of the small loans business that usually attracts a good deal of attention. To the credit of the licensees it can be said that whereas the small loans companies that were in business in the thirties spent 10 per cent of their income on advertising, the proportion now is down to about 5 per cent or slightly less. There would seem, however, to be room for a further substantial reduction when one has regard for the enormously larger volume of business presently transacted and for the fact that the existence of the facilities of licensees is now far better known than twenty years ago. The very large proportion of business stemming from "current" or "repeat" customers is another aspect that should not be overlooked since they already have an intimate knowledge of the available facilities. It is difficult to escape the conclusion that the present situation is one where advertising is carried on more for a competitive advantage than to acquaint the public with the existence of money-lending facilities. The latter is the principle followed in Great Britain where the nature of advertising is strictly limited. Even if one were prepared to agree that advertising for competitive purposes is justifiable in the money-lending business, the over-all competitive situation would be relatively unchanged if all licensees were to reduce their advertising by, say, one-half. Any such change would, of course, have to be started by the largest lenders. For purposes of comparison, I might mention that trust companies subject to supervision by the department spend about 1¾ per cent of their income on advertising and mortgage loan companies about ½ of 1 per cent. Even if the present advertising costs of licensees were cut in two, they would still be high as compared with trust and loan companies.

By Mr. Fleming:

Q. Mr. MacGregor, there are a couple of points I would like to ask about. The first is the final sentence on page 28 of your statement.

> The latter is the principle followed in Great Britain where the nature of advertising is strictly limited.

Would you enlarge on that statement, please?—A. In Great Britain as a general principle lenders are forbidden to send circulars to anyone unless specifically requested to do so.

Q. That is, to send them through the mail?—A. That is right, and if they do there are only certain specific kinds of information that may be included

in the circular. The same applies to newspaper advertising. If it is the wish of the committee, I might quote the section of the Money-Lenders Act of Great Britain dealing with advertising. It is one and a half pages long.

Agreed.

5. Restrictions on moneylending advertisements:

(1) No person shall knowingly send or deliver or cause to be sent or delivered to any person except in response to his written request any circular or other document advertising the name, address or telephone number of a moneylender, or containing an invitation—

(a) to borrow money from a moneylender;

(b) to enter into any transaction involving the borrowing of money from a moneylender;

(c) to apply to any place with a view to obtaining information or advice as to borrowing any money from a moneylender;

(2) Subject as hereinafter provided, no person shall publish or cause to be published in any newspaper or other printed paper issued periodically for public circulation, or by means of any poster or placard, an advertisement advertising any such particulars, or containing any such invitation, as aforesaid:

Provided that an advertisement in conformity with the requirements of this act relating to the use of names on moneylenders' documents may be published by or on behalf of a moneylender in any newspaper or in any such paper as aforesaid or by means of a poster or placard exhibited at any authorized address of the moneylender, if it contains no addition to the particulars necessary to comply with the said requirements, except any of the following particulars, that is to say any authorized address at which he carries on business as a moneylender and the telegraphic address and telephone number thereof, any address at which he formerly carried on business, a statement that he lends money with or without security, and of the highest and lowest sums that he is prepared to lend, and a statement of the date on which the business carried on by him was first established.

(3) No moneylender or any person on his behalf shall employ any agent or canvasser for the purpose of inviting any person to borrow money or to enter into any transaction involving the borrowing of money from a moneylender, and no person shall act as such agent or canvasser, or demand or receive directly or indirectly any sum or other valuable consideration by way of commission or otherwise for introducing or undertaking to introduce to a moneylender any person desiring to borrow money.

(4) Where any document issued or published by or on behalf of a moneylender purports to indicate the terms of interest upon which he is willing to make loans or any particular loan, the document shall either express the interest proposed to be charged in terms of a rate per cent per annum or show the rate per cent per annum represented by the interest proposed to be charged as calculated in accordance with the provisions of the First Schedule of this act.

(5) Any person acting in contravention of any of the provisions of this section shall be guilty of a misdemeanour and shall in respect of each offence be liable, on conviction on indictment, to imprisonment for a term not exceeding three months or a fine not exceeding one

hundred pounds, or to both such imprisonment and fine, and, on summary conviction to imprisonment for a term not exceeding one month or to a fine not exceeding twenty pounds, or to both such imprisonment and fine.

(6) Where it is shown that a moneylending transaction was brought about by a contravention of any of the provisions of this section; the transaction shall, notwithstanding that the moneylender was duly licensed under this act, be illegal, unless the moneylender proves that the contravention occurred without his consent or connivance.

Now, in addition to reading that section, Mr. Fleming, I might quote two paragraphs from a book, "Money Lending in Great Britain", chapter 5, entitled "Beginnings of Administrative Restraint." I think it summarizes in a very few words the position in Great Britain with respect to advertising restrictions.

Misleading advertising is entirely abolished by the act of 1927. The moneylender may advertise only by means of announcements in newspapers or placards at his authorized address. These advertisements may contain only seven statements: (1) the lender's authorized name; (2) his authorized address, with its telegraphic address and telephone number; (3) any previous address; (4) a statement that he lends money with or without security; (5) the highest and lowest amount that he will lend; (6) the date when his business was first established; (7) the rate of interest he proposes to charge. If he publishes the rate of interest, he must express it as a definite percentage rate per annum or must show the rate to be charged as calculated in accordance with the schedule attached to the act itself.

The act abolishes all circularizing. Only in response to a written request may a moneylender send a circular. Circularizing is forbidden not only to lenders themselves but to agents or brokers who give information or advice about borrowing money. The act prohibits lenders from employing agents or canvassers and prohibits agents or canvassers from receiving remuneration for introducing borrowers to lenders. Contravention of these provisions not only subjects a person to criminal punishment but makes illegal and unenforceable a moneylending transaction so induced.

By Mr. Fleming:

Q. I see that in the concluding sentence of the paragraph you are drawing a comparison between the advertising costs of money-lenders on one hand and those of trust and loan companies on the other. I would not think, myself, Mr. MacGregor, that that was a very apt comparison, because the businesses are so very different. Do you think there is much weight in this particular comparison?—A. Well, it is a question, I suppose, of what proportion of any company's income may reasonably be spent on advertising. I referred to trust and loan companies because they are both under our supervision, and we are familiar with their figures. The mortgage loan companies, I suppose, do not have to go out looking for business these days to quite the same extent as the small loans companies. The trust companies, however, are always looking for business and their operations cover a very wide field.

Q. We do not need to argue about it; it may be a difference of opinion. But I would not think, frankly, that there was any basis of comparison there. I am quite prepared to examine the question of advertising costs on its merits, but I do not see that there is any basis of comparison between two types of business which are radically different in nature and which differ in the nature

of their contact with the public. However, I come to my final question: are you advocating, in putting forward these views in regard to advertising costs, Mr. MacGregor, the imposition of any limitation on the percentage that any of these money-lenders or small loan companies may devote to advertising?—A. No, I have no such thought at all, Mr. Fleming. So far as the small loans companies are concerned I believe the only satisfactory basis for prescribing charges is by way of one all inclusive maximum rate. As a matter of fact I doubt the constitutionality of any attempt to prescribe limitations on expenses of a particular nature.

Q. Such as advertising?—A. Yes. My thought is simply that here is one place where the lenders might save some money if the maximum rates are reduced.

Q. Well, if the bill gives effect to your view as to the all-inclusive nature of the cost, as defined in the act, it is directly related to the interest that need be charged?—A. That is right.

Q. Turning for a moment from the matter of expenditure on advertising, may I ask if you have received complaints as to the contents of advertising by any of the companies or firms which come under your jurisdiction as money-lenders or in connection with the Small Loans Act?—A. Not very often, Mr. Fleming. Our practice, when a lender is first licensed, is to request the lender to submit his advertising "copy" to us for some time, until we see the tenor and nature of it. After six months or nine months, or, at the outside, a year, we do not regularly receive copies of their advertisements, it being thought likely that any difficulties or problems would have been brought to light during that period.

Q. Let us consider the last year or two. Are you in a position to say how many complaints have reached your department as to the contents of such advertising?—A. We have not had many, Mr. Fleming. I cannot recall any particular case, but Mr. Urquhart says there have been a few—not necessarily complaints from other lenders but from the public.

Q. I was thinking more in terms of the public. The public would, I think, be the natural source of complaints.—A. We also take the initiative, of course, in writing to some licensees about their advertising—about some particular advertisement which we do not think squares with our earlier understanding, or which for any other reason seems objectionable.

Q. Would that be with regard to newspaper advertisements?—A. Yes.

Q. Do you have anybody in your department who makes it his business to scrutinize such advertising?—A. No, not as a regular procedure.

By Mr. Philpott:

Q. On that same subject, do you ever encounter any objection to the form of advertising that is put out? One case I have in mind is that of the Personal Finance Company which sends whole sets of unsolicited advertisements to private individuals with a card, all made out and a return envelope, showing exactly how much money could be borrowed. Complaints about this sort of practice are typical of the kicks I get from people, as a member of parliament. People do not like to be bothered by this unsolicited material that comes through the mail.—A. I am familiar with that—

Q. It seems to me that at that point in your statement where you speak about expenses on advertising, and in your reference to the law in Britain, which has definitely prohibited this form of advertising—

Mr. FLEMING: Through the mail.

Mr. PHILPOTT: My experience is that this particular type of advertising is offensive to a great many people. In other words, if they are going to spend all this money, they should spend it through the newspapers—

The CHAIRMAN: You would have no connection with the newspapers, would you Mr. Philpott?

Mr. PHILPOTT: Only for thirty-three years!

The WITNESS: I think the attitude of a good many people toward practices of this kind is about the same as your own, Mr. Philpott. I doubt very much the value of this form of advertising.

Mr. PHILPOTT: Speaking seriously—I was only joking, of course, about newspapers, radio and television—I would think a distinction should be drawn between unsolicited advertisements that enter a person's home and other types of advertising. Unfortunately complaints are often made to me about it. I have a blistering letter here from a person who does not belong to my political party, and who is not even in my constituency but if I were to read some of his comments on this particular type of advertising to the advertising manager of this particular company, I would not think that manager would think it was so smart to send out this 10 or 15 cents worth of advertising matter.

The WITNESS: I think the present form is less offensive than an earlier edition which included an imitation cheque indicating the amount of money which a potential borrower might raise. My reaction to some of these circulars is the same as your own, and I have received two or three in the last six months.

By Mr. Monteith:

Q. Do not other firms advertise through the mail in the same way, selling felspar, paint or everything else?—A. I think the main reason for objection is that it is generally regarded as undesirable to encourage people to borrow. If they need to borrow, they will probably go looking for a source from which they could obtain money.

Q. Do not the chartered banks advertise?—A. Yes, but not to the extent of 5 per cent of their income.

Q. Possibly not, but are we in a position to tell any business exactly what percentage of revenue it should spend on advertising? I understand the patent medicine industry spends up to 80 or 90 per cent on advertising in certain instances.

Mr. CAMERON (*Nanaimo*): That is hardly an admirable example to take, I would think.

By Mr. Thatcher:

Q. I would like to ask Mr. MacGregor if he does not feel that there are certain advantages to the consumer, or to the person who is negotiating a loan, when this advertising is done. In other words, it seems to me that when these companies advertise it gives the public an opportunity to gauge the merits of one company against another, to compare the rates, and so on; it would seem to protect them against excessive charges. Would it not be reasonable to think that if the companies do advertise, the public can choose to do business with the one that gives the cheapest rates?—A. I do not think the advertisements generally contain much information of value for that purpose.

Q. I have seen advertisements giving various rates at which you can borrow. Do you see anything wrong with that?—A. The monthly instalments?

Q. Do you see anything wrong with that?—A. No, I do not.

Q. Then, there is a statement which you make on page 29 of your statement with regard to which I cannot understand your reasoning; I would appreciate it if you would comment further on it. You say:

> "—the over-all competitive situation would be relatively unchanged if all licensees were to reduce their advertising by, say, one-half."

Do you not think that if it advertises, a company is likely to get a greater volume of business and that, as a result, it will be able to give lower rates than if it were not able to carry out that advertising?—A. I think, as I say, that the relative position would be unchanged if they all cut their advertising in two. At present, because of the volume of advertising, the large lenders tend to smother out the smaller ones.

Q. That would certainly not be true in other fields of business I know of.

By Mr. Thatcher:

Q. If the main companies do not advertise some of the people may go to the banks and others will not borrow at all. I think it is conceivable that the total business would fall off substantially and that interest charges would rise.—A. At the present time, 80 per cent of the loans are made to repeat or current customers. It does not need much advertising to bring these people back.

Q. I certainly cannot agree with that point of view. But we will assume that the committee adopted your recommendation and that they cut rates by one-half. Have you any idea how much money would be saved by the company or, ultimately, by the consumer?—A. It would have saved $860,000 last year.

Q. I have a handbook which I think is issued by Household Finance. They say that, on a $1,200 loan with twelve monthly payments, the customer would save 2½ per cent a month on this contract. I do not know whether or not that is correct, but if it is, would it not indicate that even if they cut their advertising by one-half, the saving to the consumer would be almost insignificant?—A. They could be saved one-half of 1 per cent per annum on their loans.

Q. It seems foolish to me to argue that by cutting advertising costs the company could increase its profits. It seems to me their profits in the long run would go down very substantially.—A. They are spending now about half of what they were spending in the 1930's and I think they are doing better than ever.

Q. I agree with Mr. Monteith that I do not think parliament should tell them what they may spend on advrtising.

By Mr. Fleming:

Q. The percentages were cut in half but the actual amounts are very much larger.—A. Yes.

Q. I think that that is a distinction which has to be taken into account. —A. It has dropped from 10 per cent in the 1930's to 5 per cent now.

Q. But I think the amount spent might be more significant in trying to understand the whole question. You mentioned the figure of $860,000. That is half?—A. Yes.

Q. The present total is about $1,700,00 per annum?—A. Yes.

Q. What was the total amount spent back in the days when the percentage was about 10 per cent?—A. I would have to look it up. I do not have it handy.

By Mr. Monteith:

Q. I would like to ask Mr. MacGregor if it is not reasonable to assume that any company would spend only the amount on advertising which it believes would bring it a maximum return in business. In other words, it is not going to throw money away on advertising that it does not think will bring in business?—A. That may be so. But if there is a tendency for the field to become overcrowded—and I think there are signs of that now—I think it can be expected that licensees will step up their advertising in order to hold their present customers, if nothing else.

By Mr. Regier:

Q. Mr. MacGregor, would you be prepared to say that the cause of the people of Canada would be best served if advertising on the part of these companies was eliminated altogether?—A. It is difficult to answer that positively, Mr. Regier. It has always been felt that the main thing is to ensure that necessitous borrowers are aware of available facilities if they need a loan. That is why the legislation, as I understand, in Great Britain restricts advertising to such essential particulars as the name of the lender, his location, and so on; but nothing is permitted that would induce or encourage a person to borrow. Whether or not the complete abolition of advertising would be desirable is probably a debatable point.

By Mr. Quelch:

Q. Mr. Thatcher suggested that if advertising was cut down the borrowers might go to the banks. That would be to their advantage, if they would go where they would be borrowing at a much smaller percentage.—A. If the borrower can get a loan from the bank at a lower rate, yes.

By Mr. Thatcher:

Q. Do you not think that in Great Britain one of the main reasons for the excessive rates in the small loan field is because companies are not allowed to advertise over there? Do you not think advertising might prevent some of their high rates?—A. I would not say that the rates charged in Great Britain are excessive. Just because 4 per cent is mentioned in the Money-Lenders Act as a rough guide to a court should not, I think, be taken as an indication that 4 per cent per month is the prevailing rate of interest.

By Mr. Enfield:

Q. Do not these rates mentioned in the statutes usually create a minimum rate that lenders charge? Is not that the experience? Our rates do the same thing.—A. That has been the experience on this continent.

By Mr. Cameron (Nanaimo):

Q. That is with reference to an entirely different kind of statute. The 4 per cent rate referred to in Great Britain cannot be compared to the statutory limitation in our statutes, because it relates to an entirely different situation.—A. We have never associated it as being comparable.

By Mr. Thatcher:

Q. Has the department ever made any complaint to these companies requesting them specifically to reduce the amount which they are spending on advertising?—A. No, sir.

Q. Nor is there any intention of doing that?—A. No, sir.

By Mr. Fleming:

Q. Then, to what do you attribute the decline in the percentage from 10 to 5 per cent?—A. Mainly because of the great expansion in the volume of business. The absolute amount spent is larger.

Mr. PHILPOTT: Mr. Chairman, I recall that, in this same committee, when the bank charters were up for review, we had very serious criticism of the Bank of Commerce because they did not spend enough money on advertising with respect to their loans.

Mr. QUELCH: They were loaning money at a very much lower rate of interest and the people were not aware of that point.

Mr. CAMERON (*Nanaimo*): They are giving a desirable service and I think the point is that perhaps these people are not giving a desirable service.

By Mr. Regier:

Q. Would you not agree that a lot of the people who make loans from the finance companies as a result of the advertising would be able to make the same loans from the banks of Canada?—A. If they applied I have no doubt that quite a few people could. What proportion of them could do so I would hesitate to say.

Q. In other words, then, the advertising is not serving the public of Canada in its own best interests.

Mr. THATCHER: That is a pretty wide statement.

Mr. PHILPOTT: We could put the shoe on the other foot and say that the banks are not advertising enough.

Mr. REGIER: I do not represent any newspaper here and, therefore, I am not interested in excess advertising in any shape or form. However, I do feel that half of the people who now borrow money from the finance companies would, if they took into their confidence the manager of the branch bank, be able to obtain the same amount of a loan at a greatly reduced rate of interest.

The CHAIRMAN: I think that that is an opinion.

The WITNESS: Concerning salaries and director's fees, it will be seen that they average about 25 per cent of income, or very slightly less, but in the case of one small loans company the proportion is about 50 per cent above the average and in the case of the "all others" group of money-lenders, the proportion is about one-third above the average. The explanation of these higher levels would seem to lie in the fact that in most instances ownership of the business is closely held by a few individuals and profits are being indirectly withdrawn as salaries.

By Mr. Follwell:

Q. When you say "it will be seen that they average about 25 per cent of income, or very slightly less, but in the case of one small loans company the proportion is about 50 per cent above the average", do you mean that that they would average about 50 per cent above 25 per cent which is about 37½ per cent? —A. About 36 per cent.

Q. What company would that be?—A. The second company in table 7.

By Mr. Monteith:

Q. Would it not be reasonable to compare these figures with the net profit position after salaries and directors' fees, if you are going to make any comparison?—A. Yes, in one respect, except that the earnings of that particular licensee are relatively lower than for most other licensees.

Q. Net earnings?—A. Yes.

Q. The net profit after earnings is considerably lower than others?—A. Yes.

Q. Does not that tend to bear out my thought that the two figures should be taken together in order to come to any comparison?—A. One is a contributing factor to the other.

Q. Yes. A. That is right.

Looking at expenses as a whole, it may be said that about 50 per cent of the total income received from borrowers is used to defray losses and expenses other than income tax and interest on borrowed money, the other 50 per cent being left for interest, taxes and profit.

Table 8 gives an analysis of operations in recent years, the income, losses, expenses and gross earnings being shown as percentages of average assets during the year.

Table 7 was based upon income; table 8 is based upon average assets.

It will be noted that one small loans company has quite a low level of gross earnings compared with most other licensees and that this is caused by higher expenditures for "salaries" and "other expenses". If salary expenses in 1955 were reduced from 8·5 per cent of income to the general average, 5·2 per cent, the gross earnings would be raised to 10·0 per cent. A similar adjustment in earlier years would have shown even higher earnings. Part of the explanation for the higher expenses in this case may lie in a relatively small volume of business being handled by its branches than in other cases.

Mr. Humphrys draws to my attention an error in a remark that I made a few moments ago. I said: "If salaries expenses in 1955, were reduced from 8·5 per cent of income....." In place of "income", that should read "average assets". This whole table is based upon average assets and not upon income.

By Mr. Monteith:

Q. You are referring to this one particularly company—A. Yes. The word "income" in this one particular company?—A. Yes. The word "income" in the second last line should be replaced by the words "average assets".

The lower level of income for the "all others" group of money-lenders results from a larger proportion of financing business relating to conditional sale agreements, and so on, carrying lower rates of charges. The higher expenses and lower gross earnings for this group in 1955 are explained by the high costs incurred by new licensees in 1954 and 1955 (see the footnote to table 9). And one may obtain the details by reference to table 4 also, where toward the bottom eight or nine new licensees are shown to have had substantial losses during 1954 and 1955. Excluding these new licensees, the gross earnings shown at 5·2 per cent in 1955 would be raised to 7·5 per cent.

There is a growing tendency in the industry to measure earnings in relation to the average assets or total funds employed, no distinction being made between the lender's own funds and borrowed funds, and in so doing to reduce the gross earnings not by the income taxes actually paid but by the taxes that would have been payable had no interest been paid on borrowed money. The right-hand column of table 8 lends itself readily to calculations of this kind; the percentages shown need simply be reduced by the applicable rate of income tax. In 1955, the tax rate was 20 per cent on the first $20,000 of taxable income and 47 per cent on the excess. Consequently, the net rate earned on the average assets would be at least 53 per cent of the percentages shown in the table and in the case of small lenders with taxable incomes of $20,000 or less the net rate would be 80 per cent. Most of the lenders in the "all others" group fall wholly or mainly within the 80 per cent bracket.

On this basis, the net rate would be about 7 per cent for the largest small loans company and 5½ to 6 per cent for most other licensees. If the percentage for the "all others" group in the table be raised from 5·2 to 7·5 per cent by excluding the new licensees, the net rate for this group would be of the order of 80 per cent of 7·5 per cent—6·0 per cent.

This method of computing the net rate earned on total funds employed does not of itself prove anything and must be used with great caution, especially in any attempt to compare earnings in this business with those in other businesses. It may, however, serve some purpose in comparing earnings with, say, those in the same industry elsewhere. In the various states of the U.S.A., the rates on this basis vary greatly—all the way from somewhat less than 3 per cent up to 7 per cent or more. There are very few less than 4 per cent but there are several less than 5 per cent.

The method just referred to for measuring net earnings is, of course, only one of several approaches to the problem and seems more appropriate for large

lenders—especially those operating with a relatively small capital and large borrowings from a parent organization—than for the smaller independent lenders. The more usual method of relating the actual net profits to equity capital seems more appropriate for the latter at least.

Table 9 carries forward the average assets and gross earnings from table 8 and also shows, for 1955, rates of earnings on two other bases. The first of these two, headed "net rate earned on average assets", has been included mainly to afford comparison with rates similarly computed in several states of the U.S.A. Under this method, the gross earnings are reduced by the income taxes actually paid and since the latter have been reduced through the treatment of interest on borrowed money as an expense, the net earnings are larger. In the states where this method is followed, rates of about 6 per cent are the most common.

The second additional set of rates expresses the final net profits, after taxes and interest on borrowed money, as a percentage of the lender's own funds represented by the paid capital, surplus paid in by shareholders, general reserves and the balance of the profit and loss account. Where a licensee is a subsidiary of a parent organization and operates mainly on funds borrowed from that organization the capital may be very small, thus giving rise to an inordinately high profit ratio. In these cases, the ratios are less meaningful than for the smaller independent lenders.

Coming now to the present situation, the main points that should be noted are the recent rapid shifting in loan activity from the present regulated field below $500 to the field above; the enormous growth of loans in the latter area, especially up to $1,000 but also in substantial volume up to $1,500; the failure of competition to reduce the charges for the larger loans; and the mushrooming of lending facilities, with unprecedented interest in this business being manifested from both within and without the country. In addition, the abuses that have developed elsewhere in the arrangements made for insuring the lives of small borrowers at undue profit to the lender and the possibilities of similar abuses arising in the small loans field in Canada suggest the desirability of preventive action in this respect, especially if new, reduced, maximum permissible charges for loans are stipulated.

Concerning lending facilities generally, I think it is universally accepted that over-ample facilities are not good either from the social or economic point of view. Too many offices must tend to encourage people to borrow.

By Mr. Thatcher:

Q. Would you not say that in a city like Toronto or Montreal, additional offices throughout the city would be of service to the people who are making the loans? In other words, I am wondering if a person, say, in Toronto, who lived at one end of the city, and because of some restriction had to go away down town, would not have reason to complain?—A. Of course that is not the situation. As cities grow the lenders have, as a general practice, established new offices in the new localities.

Q. You are not opposed to that?—A. No. I have in mind, however, the undesirability of too many licensees opening offices in the same block, perhaps a half dozen within fifty yards of each other.

By Mr. Monteith:

Q. What is wrong with that?—A. There is nothing wrong with it in one sense; but it may very well result in unnecessary facilities being made available.

Q. Should not the company judge whether or not it will get sufficient business to justify opening an office?—A. Sometimes I think that offices are opened simply because another lender has opened an office there.

Mr. FLEMING: The gasoline stations also.

The CHAIRMAN: And the chain stores!

By Mr. Thatcher:

Q. Are you suggesting that such a privilege should be restricted in any way?—A. No, because I do not think it would be constitutional to attempt to do so, but I regret seeing the clustering of offices—this is my personal opinion—in one block, with all the neon signs. I think that it encourages people to borrow.

Q. At the moment your department does not tell the people in any way where they may locate?—A. Not a word.

By Mr. Monteith:

Q. Many businesses in larger cities all locate in one area so that the people can do all their shopping in one place. Why cannot a borrower go shopping from one office to another? If they are close together it will facilitate this result.—A. If that were the result there might be some value in it, but I do not think borrowers do that.

By Mr. Follwell:

Q. Would that not tend to permit some competition and perhaps improve efficiency to the benefit of the borrower?—A. It might, Mr. Follwell, but on the other hand I think it encourages people to borrow. The facilities are too handy.

Mr. QUELCH: A good example of that can be seen between O'Connor and Metcalfe streets on Sparks street. It is almost a "honky-tonk" there, with neon lights all over the place.

Mr. FOLLWELL: What is wrong with neon lights? I think they brighten up the place.

Mr. REGIER: It is about as reputable as a "red light district".

Mr. FAIREY: Speak for yourself!

Mr. REGIER: I am speaking for myself!

The CHAIRMAN: Entirely for yourself, I think; the rest of us are not acquainted with those areas!

Mr. PHILPOTT: I suppose that will be taken out of Hansard, too?

Mr. REGIER: I am prepared to let that remain in Hansard.

The WITNESS: In most lines of business, strong competition usually tends to keep the situation under reasonable control and to lower prices but experience points to the opposite effect in the small loans business. As competition increases, expenses are prone to rise through more aggressive advertising, the opening of additional lending offices in close proximity to those of competitors, and in other ways. Incidentally, the clustering of lending offices that is becoming increasingly evident in Canada is not generally permitted in the U.S.A., where the so-called rule of "convenience and advantage" is part of the law.

By Mr. Fleming:

Q. Could you enlarge on that please?—A. The general practice there is to license each office and to require a case to be made that a new office in any particular locality would be for the convenience and advantage of the public.

Q. Is that practice adopted under state or federal legislation?—A. Under state law. The so-called "convenience and advantage" rule is not in the small loans law of every state but it is in the law of many states.

Q. What proportion?—A. I would think half, or more than half.

Q. Is it, for instance, the practice in states such as we are most familiar with—states such as New York, Michigan, Pennsylvania and Ohio?—A. I think all three have it. I know New York has it. It is necessary to get a license there for every branch office.

Q. Do you want to take the responsibility for supervising that arrangement in Canada?—A. No sir.

The CHAIRMAN: That would fall within provincial jurisdiction, would it not? Would you consider that you would have the constitutional right to license any individual branch?

The WITNESS: I would not, sir.

The general practice there is to license each office rather than each lender only, and to require a case to be made that a new office in any particular locality is necessary for the convenience and advantage of the public. However, any such rule in the act would clearly be unconstitutional since it would not be legislation respecting interest. One might think that a lender could secure a competitive advantage by rate reductions but this course is seldom adopted, apparently through fear that such a course would only reduce income without increasing business. The ineffectiveness of rate reductions in competition, or the reluctance of lenders to make them, is probably attributable to a less acute cost consciousness on the part of borrowers than in the marchandising field generally or to a reluctance on the part of borrowers, after having established an account with one lender, to switch to another. In any event, whatever the reason, competition has been ineffective in controlling charges; otherwise, small loans laws would never have been necessary and the present rates charged for the larger unregulated loans would not be so high.

By Mr. Follwell:

Q. With regard to one borrower switching to another company, is it your thought that once a borrower has established a connection with a finance firm or a lender the firm concerned knows all about the applicant who could then probably negotiate a new loan more easily and quickly than by going to another company?—A. I think that is so but I also think that borrowing becomes a habit, and if a connection has been made with a particular lender it is probably only reasonable that a borrower will return to the same lender again unless he has some particular complaint. For one thing, he knows that he got a loan before and that he will probably get it again, so why should he shop elsewhere and go through the preliminary routine again of disclosing his personal affairs?

Q. That is your thinking on it?—A. Yes.

The CHAIRMAN: Would not the same be true with regard to a bank? As long as you get a loan from one bank you keep going there, but when you are turned down you shop around.

The WITNESS: I think that if a lender turned down an old customer he would probably go to another lender but I think that in most cases he returns to the same source; I do not think he does much shopping around.

By Mr. Fleming:

Q. I suppose it depends on his credit record.—A. The experience strongly suggests what I have been saying, namely, that about 80 per cent of the loans made in the small loans area are to repeat or current customers of the same lender.

Q. Does that statistic go any further and tell you whether those repeat loans are in respect—or to what extent they are in respect—of loans not previously fully paid off, and how many are new loans?—A. The people we call current borrowers are borrowers who have reduced their indebtedness but who want more money. They have a current account, so to speak, with the lender.

Q. But if John Jones, having borrowed, say, $500, has at the end of the period of the loan paid back the $500 and then negotiates another loan, is that classified as repeat?—A. Yes. We call a repeat borrower one who has paid off his loan in full but who, after a short interval, comes back and negotiates another loan. In our published report at the foot of the several tables and more particularly on page 59 we state:

> By 'new' is meant persons who are not previous borrowers from the lender; by 'repeat' is meant persons who had fully discharged all earlier loans from the lender; by 'current' is meant persons with earlier loans from the lender undischarged.

Q. That is, not totally discharged—they might be discharged in part?—A. That is so.

By Mr. Monteith:

Q. And that figure of 80 per cent covers both repeat and current loans?—A. Yes. Most of them are current.

Q. Can you break down that figure of 80 per cent and tell us what proportion is, on your classification, made up of repeat loans and what is made up of current loans?—A. In 1954—I have those figures available—65 per cent of all loans made in the small loan area were to current borrowers; 14 per cent were to repeat borrowers and 21 per cent to new borrowers.

Q. Is that by number of loans?—A. By amount.

By Mr. Fleming:

Q. Would you have some other information on the number of loans?—A. We could get it rapidly, Mr. Fleming. Perhaps Mr. Humphrys here could do a little arithmetic. I could give it to you in a minute.

The desirability of extending the scope of the act and of setting lower rates of charges for the larger loans was expressed in a brief submitted in 1955 by the Canadian Consumer Loan Association whose membership comprises most of the licensed lenders. The recommendations in that brief were undoubtedly conceived with the best interests of borrowers and the business in mind and were prompted in part by the unsatisfactory practices being followed by unlicensed lenders in the unregulated field above $500. The principal recommendations were that the scope of the Act be extended to $1,500 and that a graded maximum scale of charges be set rather than a flat rate, being 2 per cent per month on the first $500 of any loan, plus 1½ per cent per month on any excess over $500 but not over $1,000, plus 1 per cent per month on any excess over $1,000 up to $1,500. For a $500 loan, this scale involved no change from the present monthly rate of 2 per cent; for a $1,000 loan, the equivalent flat monthly rate would be about 1·86 per cent; and for a $1,500 loan, about 1·69 per cent.

The main justification for high rates of charges on personal loans is that the amounts are usually small and the periods relatively short. Many expenses, such as those for investigating the security, bookkeeping, etc., are substantially the same regardless of the size of loan and hence call for a high percentage charge when expressed in terms of a small amount, the percentage decreasing as the size of loan increases. One feature that must tend to reduce

expenses in an established business in the frequency with which "current" or "repeat" borrowers return for additional loans since the security of these borrowers has already been investigated and their records have already been established.

By Mr. Follwell:

Q. You suggest there that current borrowers would just continue on the same security that they have, and they might go on for years?—A. They might. If the borrower has given a chattel mortgage on his furniture for a $200 loan that might serve for a later loan of $500 or $600. The security has been investigated and the lender has the advantage of knowing whether the borrower is dependable or not.

Q. Are you making that a point—that on account of this current business there would be an opportunity of expense reduction and even of rate reduction?—A. I think so. I think it is an element that should be considered because surely if lenders are dealing with the same people over and over again it ought to cost less to investigate their records and investigate their security. It is not as if they were dealing with a wholly new borrower in every case.

Mr. QUELCH: That is a point which is bound to be a strong one, surely.

The WITNESS: It is impracticable, because of the variables involved, to determine a scale of charges that precisely corresponds to the costs of every level. The best that can be done is to adopt a scale that results in a reasonable degree of fairness to all borrowers. For loans up to $500, or perhaps somewhat higher, a flat rate may be justified but for larger loans a graded rate is essential. It is undesirable to have arbitrary breaks in the formula such as result from a flat rate for loans up to a certain amount, another flat rate for loans within a certain range beyond, etc. Instead, a formula of the kind recommended by the association, which involves the application of graded rates to the successive tiers or layers of each loan, is generally more satisfactory. This kind of formula has been adopted in most states of the U.S.A., even for loans up to $300 or $500.

The determination of an appropriate scale of maximum rates is a most difficult problem and in some ways is almost an intractable problem because a rate that is adequate to enable most small lenders to make a profit results in most large lenders making inordinately high profits. The proper objective would seem to be the level at which efficient lenders only may make a reasonable profit rather than a higher level that would attract the inefficient as well. Looked at from the borrower's standpoint, one must have regard for the desirability of ensuring adequate facilities, especially for needy borrowers of small amounts, and yet of securing the best procurable rate.

Traditionally, the primary function of the small loans industry is to provide facilities for needy borrowers of small amounts and if the operations of the industry are to extend to larger and larger loans the rates charged should come down to levels at which borrowers may reasonably expect to find facilities available. A relatively high rate for a remedial loan of a few hundred dollars may be justifiable by reason of the impact of expenses but it is much more difficult to justify the same high rate for larger loans. It would seem to be a serious matter for a borrower of $1,000 or more to become saddled almost continuously, as many borrowers do, with charges at an unduly high level. If the small loans industry cannot provide borrowing facilities for larger amounts at more reasonable rates, the question arises whether other means of providing the necessary facilities ought not to be explored. The situation that has developed rapidly in recent years in Canada is one where the small loans industry has suddenly found itself with a vast new virgin field of larger loans open to it, a field relatively free from substantial competition. In the U.S.A., the banks occupy a very large part of this field and in several

important states the small loans companies are effectively restricted to the small loans field up to $500 because of the low rate prescribed by the usury laws for larger loans; in certain states, the small loans companies are specifically prohibited from making loans above the regulated areas. If the small loans industry in Canada is to become entrenched as the main source of personal loans in this broader field, a heavy responsibility rests upon the industry to provide the necessary facilities with maximum efficiency and at minimum cost which, I think, means at rates very substantially lower than charged for loans of $500 or less. It would be unfortunate if lenders are permitted to become accustomed to unduly high rates in the larger loan field for, like personal finances, expenses are usually not long in rising close to the level of income.

By Mr. Follwell:

Q. You say that in the United States the banks have entered a very large part of this field, and so on. I want to ask you about the banks. Are the banks in the United States permitted to get a higher rate of interest for this type of loan than banks in Canada? Do they charge a higher rate than the banks in Canada?—A. I should not like to speak as an authority on banking practice in the United States, because I am not, but I understand that, in the state of New York, perhaps 80 per cent of the personal loans are made by the banks. That statement was made in the "Journal of Commerce" a few months ago. In some states I think there are particular provisons in the banking law governing personal loans. In New York state, I believe the banks charge about 4 per cent discount which means an effective interest rate about double that. In some other states, I know they charge about 6 per cent discount which effectively means about 12 per cent interest. I would think that is near the upper limit of the charges made by the banks in the United States but some of the representatives of the American companies may be able to throw more light on this when they appear later.

By Mr. Quelch:

Q. They would be very similar to the charges made by the Bank of Commerce, then?—A. Yes, they would, Mr. Quelch.

By Mr. Enfield:

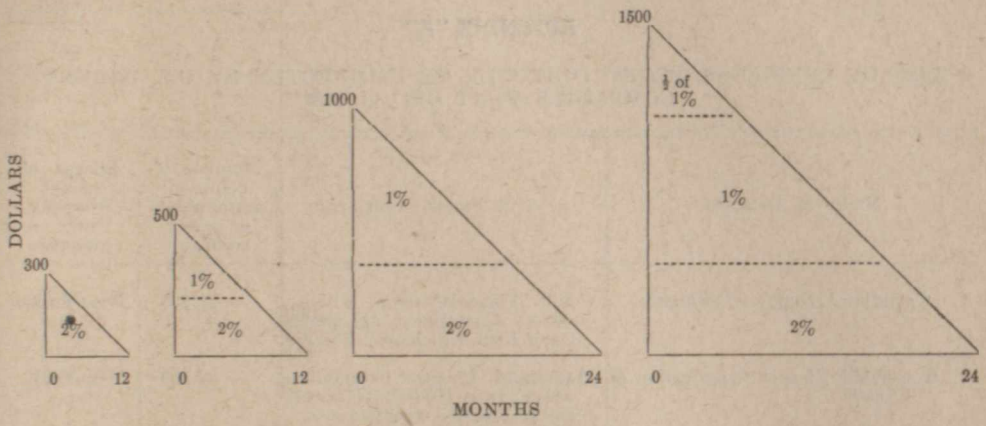
Q. What does this last phrase mean: "Expenses are usually not long in rising close to the level of income"?—A. I had in mind that as one's salary increases, somehow or other expenses seem to increase, too, with the result that there is never much more left over. One spends more, and the very fact that there is such a variety in the maximum permissible rates in the several states of the United States, bears out that idea, I think, because there is not the same variety in profit ratios.

By Mr. Fleming:

Q. What you would have in mind in reading that somewhat discouraging and rather despondent statement, was largely government taxation, was it not?

The maximum scale of charges proposed in the present bill, namely, 2 per cent per month on the first $300 of any loan, plus 1 per cent per month on any excess over $300 but not over $1,000, plus ½ of 1 per cent per month on any excess over $1,000 up to $1,500, is the equivalent of a flat rate of 2 per cent per month on loans up to $300, 1·81 per cent on a $500 loan, 1·48 per cent on a $1,000 loan and 1·27 per cent on a $1,500 loan, in each case on the assumption that the loan runs its full period and is not prepaid or refinanced earlier. In round figures, this means a rate of about 1½ per cent per month on a $1,000 loan and 1¼ per cent on a $1,500 loan. Having regard for the

incidence of expenses, these rates are, in my opinion, reasonably in balance with a rate of 2 per cent for the smaller loans. Pictorially, the layers of a loan carrying the various percentages mentioned, would look like this:



These diagrams show the element of a loan to which the 2 per cent rate would apply, the element to which the 1 per cent rate would apply, and the element or layer to which the rate of half per cent would apply.

By Mr. Regier:

Q. In view of the statement we have had handed to us regarding the position in the various states of the United States, would you be prepared to say that the proposed rate of one and one-quarter per cent on a loan of $1500, compares very favourably with the kind of rates being allowed in the United States on a loan of that size? I noticed that 19 out of the 33 states listed on the sheet handed to us this morning had very severe limitations on interest rates allowed on loans in excess of $1500. Have you any idea as to the comparison of 1¼ per cent on a $1500 loan and that allowed south of the border?—A. In interpreting any graded formula one must remember that the basic element carrying the high rate has a very important effect on the over-all rate. The rate of one-half of one per cent applying to the upper element has not nearly the same effect on the over-all rate as the rate applicable to the basic element, because the basic element carries right through to the end of the loan. I would say that the rates proposed compare very favourably and on the whole are a bit lower, perhaps, than the rates prescribed for loans of that amount in the United States, but there are not very many states which do cover loans up to $1500 yet. I would say this, in addition, that if the formulae in states such as New York, New Jersey and Connecticut which presently apply only to loans up to $500 were extended on the same basis, some of those rates might well be less than these proposed rates.

An Hon. MEMBER: I move we adjourn.

The CHAIRMAN: Gentlemen, it is 5.30 and I suggest we adjourn until 3.30 p.m. on Tuesday next, on which day we shall have two meetings, at 3.30 p.m. and at 8.15 p.m.

APPENDIX "A"

LIST OF LICENSEES OWNED DIRECTLY OR INDIRECTLY BY U.S. PARENT COMPANIES AS AT DEC. 31, 1955

Name of Licensee	U.S. Parent Company	Number of common shareholders in parent company	Shares of parent company listed on exchange
1. Canadian Acceptance Company...	C.I.T. Financial Corp. which owns Canadian Acceptance Corp. Ltd., which owns licensee.	23,895	New York
2. Household Finance Corporation of Canada	Household Finance Corporation which owns Household Securities Ltd. which owns licensee.	8,909	New York
3. Personal Finance Company of Canada	Beneficial Fipance Co.	23,264	New York
4. Associates Budget Plan Limited.	Associates Investment Co., which owns Associates Discount (Canada) Ltd., which owns licensee	5,797	New York and Midwest
5. Citizens Finance Company Limited (formerly Blake Pierce Finance Limited)	Equitable Credit Corp.	23	
6. Commercial Credit Plan Limited.	Commercial Credit Co., which owns Continental Guaranty Corp. of Canada Ltd., which owns licensee.	30,298	New York
7. Custom Finance Limited.....	Messrs. J. P. O'Connell and G. A. O'Connell, Seattle, Wash.	.....	.....
8. Pacific Finance Credit Limited (formerly P.F. Credit Limited)	Pacific Finance Corp., which owns Pacific Finance Corp. of Canada Ltd. which owns licensee.	3,450	New York and Los Angeles
9. Seabord Finance Company of Canada Limited	Seabord Finance Co.	13,955	New York and Los Angeles
Additional Licensee in 1956 up to June 30			
10. Civic Finance Company Limited	Capital Finance Co.	Owned locally in Ohio, number of shareholders not available	

APPENDIX B

APPENDIX

ABSTRACT OF 1955 FINANCIAL STATEMENT OF LICENSEES

Name of Licensee	Average Amounts During 1955		
	Total Assets (less reserves for bad debts and unearned charges)	Total Paid Capital, Surplus Paid in, and Balance of P. & L. account	Total Borrowed Money
Canadian Acceptance Co	541,729	475,617	48,088
Household Finance Corp. of Canada	55,365,364	8,554,420	45,406,905
Personal Finance Co. of Canada	53,518,761	14,926,756	37,056,530
Associates Budget Plan Ltd	629,461	51,689	577,526
Citizens Finance Co. Ltd	6,766,962	326,371	2,924,500
Commercial Credit Plan Ltd	2,595,536	436,315	2,112,500
Custom Finance Ltd	164,072	42,091	120,569
Pacific Finance Credit Ltd	1,164,784	637,416	500,000
Seabord Finance Co. of Canada Ltd	118,774	117,497	428
Totals	120,865,443	25,568,172	88,747,046
(Unlicensed) (Household Finance Corp. Ltd)	(70,398,164)	(4,783,466)	(63,800,735)

INCOME AND EXPENDITURE DURING 1955

	Income	Net Amounts written off plus net transfers to reserves for bad debts	Advertising
Canadian Acceptance Co	56,875	(—) 1,541	.....
Household Finance Corp. of Canada	12,447,495	254,436	447,419
Personal Finance Co. of Canada	11,805,371	509,811	560,719
Associates Budget Plan Ltd	85,201	38,327	28,632
Citizens Finance Co. Ltd	633,386	6,989	27,861
Commercial Credit Plan Ltd	559,990	38,781	30,059
Custom Finance Ltd	14,330	13,204	1,643
Pacific Finance Credit Ltd	121,945	33,304	49,268
Seabord Finance Co. of Canada Ltd	449	1,000	944
Totals	25,725,042	894,311	1,146,545
(Unlicensed) (Household Finance Corp. Ltd.)	(16,395,287)	(1,162,508)	(325,325)

"B"

OWNED DIRECTLY OR INDIRECTLY BY U. S. PARENT COMPANIES

Amounts at end of 1955

Paid Capital	Surplus Paid in	Balance of P & L account	Total Paid Capital, Surplus Paid in, and Balance of P. & L.	Banks	Borrowed Parent companies and affiliates	Money Other Sources	Total
250,000	.....	237,339	487,339	.....	28,502	.....	28,502
3,072,500	15,379	5,232,003	8,319,882	.....	44,791,760	.....	44,791,760
1,000,000	9,350,000	5,565,176	15,915,176	9,300,000	32,690,530	.....	41,990,530
100,000	.....	(—) 95,923	4,077	.....	1,155,052	.....	1,155,052
112,000	.....	240,785	352,785	.....	4,080,000	.....	4,080,000
50,000	10,000	426,886	486,886	.....	2,635,000	.....	2,635,000
100,000	.....	(—) 15,818	84,182	156,157	.....	84,980	241,137
1,500,000	.....	342,733	1,157,267	.....	1,000,000	.....	1,000,000
250,100	.....	15,107	234,993	.....	855	.....	855
6,434,600	9,375,379	11,232,608	27,042,587	9,456,157	86,381,699	84,980	95,922,836
(500,000)	(375,000)	(4,640,529)	(5,515,529)	(.....)	(80,233,178)	(.....)	(80,233,178)

Salaries and directors fees	Other expenses except income tax and interest on borrowed money	Total Losses and Expenses except income tax and interest on borrowed money	Gross Earnings before income tax and interest on borrowed money	Interest on Borrowed Money	Income Tax	Dividends to shareholders
7,128	6,718	12,305	44,570	.....	21,126	.....
2,809,418	1,850,811	5,362,084	7,085,411	2,024,017	2,406,636	2,891,940
2,679,196	1,993,993	5,743,719	6,061,652	2,009,411	2,035,400	40,000
36,547	58,882	162,388	(—) 77,187	18,037	.....	.....
176,368	150,413	361,631	271,755	158,983	36,658	.....
160,755	47,104	276,699	283,291	92,250	89,900	.....
5,055	6,977	26,879	(—) 12,549	1,786	.....	.....
182,186	165,282	430,040	(—) 308,095	9,167	.....	.....
2,228	11,385	15,557	(—) 15,108	.....	.....	.....
6,058,881	4,291,565	12,391,302	13,333,740	4,313,561	4,589,720	2,931,940
(2,042,765)	(1,337,881)	(4,868,479)	(11,526,808)	(2,815,944)	(4,107,592)	(3,085,000)

APPENDIX "C"

NUMBER OF OFFICES IN CANADA OF CHARTERED BANKS, CREDIT UNIONS AND LICENSEES UNDER SMALL LOANS ACT

As at Dec. 31	Bank Branches	Credit Unions	Licensees under Small Loans Act
1950	3,679	2,965	384
1953	3,933	3,606	536
1954	4,089	3,920	605
1955	4,245	*	772

* Not yet available.

APPENDIX "D"

CONSUMER CREDIT OUTSTANDING IN CANADA

At end of	Instalment Credit				
	Charge Accounts (1)	Retail Dealers (2)	Finance Companies (3)	Cash Personal Loans (4)	Totals
	Millions of Dollars				
1950 2nd Qtr.	313	138	162	346	959
3rd "	331	145	192	374	1,042
4th "	377	170	202	386	1,135
1951 1st "	370	166	216	394	1,146
2nd "	385	145	224	400	1,154
3rd "	376	125	215	386	1,102
4th "	420	126	186	388	1,120
1952 1st "	379	119	176	385	1,059
2nd "	405	167	265	420	1,257
3rd "	416	198	334	437	1,385
4th "	456	245	373	460	1,534
1953 1st "	426	248	423	479	1,576
2nd "	450	256	520	526	1,752
3rd "	450	262	545	547	1,804
4th "	493	286	512	569	1,860
1954 1st "	452	276	491	579	1,798
2nd "	465	292	515	618	1,890
3rd "	464	289	520	640	1,913
4th "	505	319	483	667	1,974
1955 1st "	461	289	473	684	1,907
2nd "	491	312	532	754	2,089
3rd "	535	309	578	790	2,212

(1) Charge accounts receivable outstanding on the books of retail dealers.
(2) Instalment receivables outstanding on the books of retail dealers.
(3) Instalment paper held by sales finance and acceptance companies in connection with the financing of retail purchases of consumer goods, largely new and used automobiles.
(4) Includes estimated personal loans by chartered banks, small loan companies, licensed money-lenders and credit unions.
SOURCE: Canadian Statistical Review, May 1956.

APPENDIX "E"

SHAREHOLDERS OF H. BELL FINANCE LIMITED, NEW WESTMINSTER, B.C.

—	Number of Shares	Amount Subscribed	Amount paid in cash
H. W. Bell, New Westminster	100	$10,000	$10,000
J. M. Streight, New Westminster	125	12,500	12,500
W. E. Davies, New Westminster	125	12,500	12,500
Totals	350	$35,000	$35,000

APPENDIX

SMALL LOANS ACT—LICENCES TERMINATED

Name of Licensee	Head Office in	Date of Licence
Associated Financial Brokers Limited	Vancouver	Jan. 10, 1940
Blake Pierce Finance Company (Partnership)	Windsor	Sept. 20, 1941
Bradley Loan and Finance Company (Partnership)	London	Jan. 1, 1940
Bradley Finance Limited	London	Oct. 6, 1944
Campbell Finance Corporation, Limited	Toronto	Mar. 31, 1947
Capital Economy Corporation	Montreal	Jan. 5, 1940
Capital Finance & Realty Limited	Toronto	June 27, 1940
Capital Finance Corporation Limited	Edmonton	Apr. 2, 1941
Cobourg Acceptance Company Limited	Chatham, Ont.	Aug. 10, 1948
The Commercial Acceptance Corporation	Montreal	Feb. 8, 1940
Commercial Contracts Limited	Ottawa	Jan. 6, 1940
Commercial Securities Corporation Limited	Winnipeg	Apr. 1, 1940
Consolidated Finance Co., Ltd.	Vancouver	Nov. 23, 1951
Contract Discounts Limited	Toronto	Jan. 4, 1940
Credit Moderne Limitee	Montreal	Feb. 16, 1940
Economy Finance Corporation Limited	Toronto	Jan. 1, 1940
Edmonton Credit Company Limited	Edmonton	Apr. 30, 1940
(a) Family Loan Corporation Limited	Halifax	Jan. 1, 1940
Freehold Finance Corporation	Montreal	Jan. 5, 1940
(b) General Finance Cape Breton Limited	Sydney, N.S.	Jan. 12, 1940
General Finance Eastern Limited	New Glasgow, N.S.	Jan. 1, 1940
(c) General Finance (Saint John) Limited	Saint John, N.B.	Jan. 9, 1940
Harris Finance Company (Clarence F. Harris)	Windsor	Mar. 6, 1940
Home Finance Corporation Limited	Montreal	Jan. 12, 1950
Household Finance Corporation Limited	Toronto	Jan. 1, 1940
(d) Imperial Agencies Limited	Winnipeg	Feb. 1, 1940
Industrial Credit Company (Guy R. Handfield)	Montreal	Feb. 14, 1940
Inland Finance Limited	Winnipeg	Jan. 1, 1940
Inter-Provincial Financiers Limited	Vancouver	Jan. 1, 1940
Merchants Discount Corporation	Toronto	Jan. 1, 1940
(e) Mersey Loan and Finance Limited	Liverpool, N.S.	Jan. 10, 1940
(f) Monarch Finance Company (Ida Geller)	Sudbury	Feb. 10, 1940
(g) Monarch Securities Limited	Vancouver	Feb. 21, 1940
Mutual Financial Aid Society	Vancouver	Jan. 18, 1940
National Loan & Acceptance Company	Montreal	Mar. 13, 1940
O'Neill, Clarence F.	Toronto	Apr. 17, 1940
(h) Personal Loan and Finance Limited	Fredericton	Jan. 9, 1940
Preferred Credit Service Limited	Toronto	Jan. 18, 1940
Quinte Finance and Securities Limited	Belleville	Jan. 1, 1940
Regal Finance Limited	Toronto	Dec. 2, 1947
Small Loans Reg'n (Creighton C. Richardson)	Montreal	Jan. 15, 1940
Standard Credit Corporation	Montreal	Feb. 7, 1940
(i) Standard Finance Limited	Truro, N.S.	Jan. 15, 1940
Star Discount (Partnership)	Toronto	Feb. 12, 1940
Sterling Finance Corporation Limited	Edmonton	Jan. 12, 1940
Strand Finance (M.R. Farewell)	Hamilton	June 27, 1940
Toro Finance Company (Partnership)	London	Jan. 1, 1940
Trenton Finance Company Limited	Trenton	July 8, 1947
Winnipeg Loan Company (Partnership)	Winnipeg	Jan. 18, 1940
Winnipeg Loan Company (Jacob Mesbur)	Winnipeg	Mar. 7, 1941
York Finance Company	Toronto	Jan. 17, 1940

(a) Paid capital impaired to the extent of $17,800 in 1954 and $14,889 in 1955. (Paid capital in 1955=$32,920)
(b) Paid capital impaired to the extent of $17,337 in 1940 and $25,353 in 1942. (Paid capital in 1942=$33,738)
(c) Paid capital impaired to the extent of $6,770 in 1940 and $7,024 in 1941. (Paid capital in 1941=$39,340)
(d) Paid capital impaired to the extent of $36,892 in 1940 and $41,774 in 1942. (Paid capital in 1942=$56,888)
(e) Paid capital impaired to the extent of $5,688 in 1940 and $6,318 in 1941. (Paid capital in 1941=$13,000)
(f) Charged excessive rates.
(g) Company went into liquidation approximately one month after becoming licensed and no statement was received.
(h) Paid capital impaired to the extent of $1,425 in 1940 and $2,234 in 1941. (Paid capital in 1941=$15,200)
(i) Paid capital impaired to the extent of $1,273 for small loans and $29,450 for other business in 1940; and $27,588 for small loans and $144,575 for other business in 1953. (Paid capital in 1953=$185,732).

"F"

AND THE REASONS THEREFOR

Date Licence Terminated	Reorganization of licensee, including change of name	Licensee voluntarily discontinued making new small loans but continued to administer loans on the books until finally liquidated	Small loans sold to another licensee	Voluntary liquidation of business of licensee	Licence terminated at instance of Department
Mar. 31, 1947	.....	x			
May 1, 1947	x				
Oct. 6, 1944	x				
Jan. 1, 1953	x				
Mar. 31, 1948	x				
Mar. 31, 1944	.....	.....	x		
Feb. 19, 1947	x				
Mar. 31, 1952	.....	x			
Sept. 30, 1954	.....	x			
Mar. 5, 1954	x				
Mar. 31, 1943	.....	.....	x		
Mar. 31, 1951	.....	.....	x		
July 15, 1953	x				
Mar. 31, 1944	.....	x			
Mar. 31, 1944	.....	x			
Mar. 31, 1949	.....	.....	x		
Mar. 31, 1944	.....	x			
May 30, 1956	.....	.....	.....	.....	(a)
Mar. 31, 1941	.....	x			
Mar. 31, 1944	.....	.....	.....	(b)	
Mar. 31, 1951	.....	x			
Mar. 31, 1944	.....	.....	.....	(c)	
Sept. 20, 1941	.....	.....	x		
June 30, 1955	.....	x			
Jan. 1, 1948	.....	.....	x		
Mar. 31, 1943	.....	.....	.....	(d)	
Mar. 31, 1944	.....	.....	x		
Dec. 16, 1946	.....	.....	x		
Mar. 31, 1943	.....	.....	x		
Apr. 7, 1942	x				
June 8, 1942	.....	.....	.....	(e)	
Dec. 19, 1940	.....	.....	.....	.....	(f)
Mar. 31, 1940	.....	.....	.....	(g)	
Mar. 31, 1944	.....	x			
Mar. 31, 1949	.....	.....	x		
Nov. 29, 1946	x				
Mar. 31, 1944	.....	.....	.....	(h)	
Mar. 31, 1953	.....	x			
Mar. 31, 1943	.....	.....	x		
Mar. 31, 1953	.....	x			
Mar. 31, 1943	.....	.....	x		
Sept. 30, 1954	.....	x			
Dec. 31, 1954	.....	.....	.....	.....	(i)
Mar. 31, 1953	.....	x			
Mar. 31, 1943	x				
Oct. 1, 1954	x				
Sept. 30, 1949	x				
Mar. 31, 1953	.....	.....	x		
Mar. 7, 1941	x				
Mar. 31, 1948	.....	.....	x		
Sept. 30, 1943	.....	x			
Totals.....	13	15	14	6	3

APPENDIX "G"

SUMMARY OF MAXIMUM PERMISSIBLE CHARGES AND MAXIMUM LOAN UNDER SMALL LOANS LAWS OF THE SEVERAL STATES OF THE U.S.A.

FLAT MONTHLY RATES

	Maximum Monthly Rate	Maximum Loan
	%	$
Florida	3½	300
Idaho	3	300
Maryland	3	300
Massachusetts	2	300
Minnesota	3	300
Missouri	2·218	400
Rhode Island	3	300

GRADED MONTHLY RATES

	On amount up to		On Excess Over		Up to	On Excess Over		Up to	Maximum Loan
	%	$	%	$	$	%	$	$	$
Arizona	3	300	2	300	— 600				600
California	2½	100	2	100	— 500	5/6	500	— 5,000	5,000
Colorado	3	300	1½	300	— 500	1	500	— 1,500	1,500
Connecticut	3	100	2	100	— 300	½	300	— 500	500
Illinois	3	150	2	150	— 300	1	300	— 500	500
Indiana	3	150	1½	150	— 500				500
Iowa	3	150	2	150	— 300				300
Kansas	3	300	5/6	300	— 2,100				2,100
Kentucky	3½	150	2½	150	— 300				300
Louisiana	3½	150	2½	150	— 300				300
Maine	3	150	2½	150	— 300	1½	300	— 2,500	2,500
Michigan	3	50	2½	50	— 300	¾	300	— 500	500
Nebraska	3	150	2½	150	— 300	¾	300	— 1,000	1,000
Nevada	3	300	1	300	— 1,500				1,500
New Jersey	2½	300	½	300	— 500				500
New Mexico	3½	150	3	150	— 300	1	300	— 1,000	1,000
New York	2½	100	2	100	— 300	½	300	— 300	500
Ohio	3	150	2	150	— 300	2/3	300	— 1,000	1,000
Oregon	3	300	2	300	— 500	1	500	— 1,500	1,500
Pennsylvania	3	150	2	150	— 300	1	300	— 600	600
South Dakota	3	300	¾	300	— 2,500				2,500
Utah	3	300	1	300	— 600				600
Vermont	2½	125	2½	125	— 300				300
Virginia	2½	300	1½	300	— 600				600
Washington	3	300	1	300	— 500				500
West Virginia	3½	150	2½	150	— 300				300
Wisconsin	2½	100	2	100	— 200	1	200	— 300	300
Wyoming	3½	150	2½	150	— 300	1	300	— 1,000	1,000
Alaska	4	300	2½	300	— 1,000				1,000
Hawaii	3½	100	2½	100	— 300				300

COMBINATION OF INTEREST AND FEES

—	Maximum Rate	Maximum Loan
Georgia	8% discount or add-on per annum, plus fees of $1 and 8% of first $600 of face amount and 4% of excess over $600; delinquency fine of 5% of instalment due.	$2,500
New Hampshire	2% per month, plus fee of $1 in advance for loans up to $50 and $2 for larger loans up to $300.	300
Oklahoma	10% per annum, plus initial fee of 5% of face amount, not exceeding $15, plus monthly fee of 2% on unpaid balance, not exceeding $2.	300
South Carolina	6% discount or add-on per annum, plus initial fee of 6% of face amount plus monthly fee not exceeding $1.75; delinquency fine of 5% of instalment due.	200

LARGELY OR WHOLLY INOPERATIVE LAWS

—	Maximum Rate
Alabama	8% per annum on loans up to $300.
Delaware	6% discount per annum on loans up to $500; investigation fee of 2% of face amount; delinquency fine of 5% of instalment due.
District of Columbia	1% per month on loans up to $200.
Mississippi	10% per annum, plus fees.
North Carolina	6% discount per annum, plus fees.
Tennessee	6% per annum on loans up to $300, plus fees not exceeding 1% per month.
Texas	10% per annum.

NO SMALL LOANS LAWS

Arkansas
Montana
North Dakota

APPENDIX "H"

SMALL LOANS COMPANIES AND OTHER MONEY-LENDERS

ANNUAL STATEMENT

OF THE

MERCHANTS FINANCE LIMITED

REQUIRED TO BE MADE UNDER THE PROVISIONS OF THE SMALL LOANS ACT FOR THE YEAR ENDED DECEMBER 31, 1955

DEPARTMENT OF INSURANCE
OTTAWA.

K. R. MacGREGOR
Superintendent of Insurance

This Statement is to be completed and returned in duplicate to the Department of Insurance on or before March 1, 1955

STATEMENT FOR THE YEAR ENDED DECEMBER 31, 1955

Of (the) MERCHANTS FINANCE LIMITED
(Name of money-lender)

How incorporated or otherwise organized.....Letter Patent.....
(If "individual" or "partnership", please state)
.....Date Feb. 23/38....

Amendments to instrument of incorporation or to other instrument of organization.....
Supplementary Letters Patent—March 27, 1942
" " " — 1954

Commenced business *(date)* April 1938.....

Head Office.....Toronto.....Street and number.....21 Dundas Square.....

OFFICERS

(As at date of filing statement.....Dec. 31st.....1955)

President ALEX G. CLIMANS.. Manager ALEX G. CLIMANS.....
Vice-President ANNE CLIMANS Secretary JAMES CLIMANS.....
..... Treasurer.....

DIRECTORS

(As at date of filing statement Dec. 31 1955)

ALEX G. CLIMANS, ANNE CLIMANS, JAMES CLIMANS.....

AUDITORS

Rumack, Siegal & Co.—Chartered Accountants
(Auditors' report should accompany statement or be sent forward as soon as available)

CAPITAL

Amount of capital stock authorized.....			$ 140,000 00
	(1,355 1st pref. shares of $100.00 each).....		
	(1,500 2nd pref. shares of $.100 each).....		
	(3,000 common shares of $1.00 each).....		
	.....		
Amount subscribed:—			
Preferred	(336 1st pref shares of $100.00 (1,500 2nd pref. shares of $1.00 .....each).....	$ 35,100 00	
	.....		
Ordinary	(3,000 shares of $1.00 each).....	3,000 00	
	.....		$ 38,100 00
Amount paid in cash:—			
Preferred	(336 shares of $100.00 each).....	$ 33,600 00	
	(1,500 shares of $1.00 each).....	1,500 00	
Ordinary	(3,000 shares of $1.00 each).....	3,000 00	
	.....		$ 38,100 00

LIST OF SHAREHOLDERS

(As at December 31, 1955)

Name	Address	Number of shares	Amount subscribed	Amount paid in cash
			$ cts.	$ cts.
A. G. Climans	1603 Bathurst St.	4,794	34,098 00	34,098 00
James Climans	33 Glen Rush Blvd.	41	4,001 00	4,001 00
Anne Climans	1603 Bathurst St.	1	1 00	1 00

(To be furnished in a separate schedule, if more space is necessary)

LIST OF PARTNERS

(As at December 31, 1955)

Name	Address	Amount invested in the business
		$ cts.

ASSETS

			$ cts.
1.	Balances of *small loans	$ 28,373 03	
2.	Income due and accrued on item 1	384 33	28,757 36
			28,757 36
3.	Balances of loans in excess of $500	$ 604,028 43	
4.	Income due and accrued on item 3		604,028 43
5.	Balances of conditional sale agreements and other contracts not included above		Nil
6.	Cash on hand		11,794 43
7.	Cash in bank		
8.	Other assets:—		
	(a) Office furniture and fixtures		1,323 57
	(b) Accounts and bills receivable		
	(c) Prepaid Rent		180 00
	(d) Automobile		3,857 28
	(e)		
	(f)		
	(g)		
	(h)		
	(i)		
	(j)		
	Total assets		
9.	Deductions:—		
	(a)	$	
	(b)		
	(c)		
10.	**Net assets**		649,941 07

***The term "Small Loans" as used in this statement means loans originally of $500 or less and includes advances of such amounts made under (1) contracts of sale with right of redemption and (2) sale with conditional re-sale.**

LIABILITIES

		$ cts.
1. Borrowed money:—		
(a) Cheques Outstanding	$ 7,207 42	
(b) Bank Overdraft	249,680 68	
(c) Loans Payable	97,265 02	
(d)		354,153 12
2. Taxes, licences and fees due and accrued:—		
(a) Income Tax Act (Dominion)	$ 16,954 22	
(b) Provincial Corporation Income Tax Acts		
(c) Other: Dominion, $.....; Provincial, $.....		
(d) Municipal		16,954 22
3. Other liabilities:—		
(a) Accounts payable		812 68
(b) †Unearned charges, if any, on loans over $500		45,300 00
(c) Unearned charges, conditional sale and other contracts		
(d) Dealers' reserves and holdbacks conditional from sales contracts		
(e) Other *(give details)* Income Tax Deductions		17,709 55
4. Reserve for bad and doubtful accounts:—		
(a) *Small loans	$ 908 43	
(b) Loans in excess of $500	5,757 38	
(c) Conditional sale agreements and other contracts		6,665 81
5. Contingency reserve		
6. Dividends to shareholders declared and unpaid		
7. Capital paid in cash		38,100 00
8. Surplus:—		
(a) *Small loans	$ 10,634 19	
(b) Business other than small loans	159,611 50	
		170,245 69
9. **Total liabilities**		649,941 07

† On loans other than small loans.
* For definition of "Small Loans" see page 4.

Give details of any liability not shown as direct debts in the above schedule of liabilities:—
(a) Debentures or other security of other corporations guaranteed ..... $.....
(b) Promissory notes or other instruments endorsed .....
(c) .....
(d) .....

REVENUE ACCOUNT

INCOME

	*Small Loans	Business other than small loans
	$ crs.	$ cts.
1. Income earned on:—		
(a) *Small loans	8,208 57	
(b) Loans over $500		168,127 77
(c) Conditional sale contracts and other contracts		
2. Recovery on bad or doubful accounts previously written off		4,227 00
3. Other revenue for the year:—		
(a)		
(b)		
(c)		
(d)		
(e)		
(f)		
(g)		
4. **Total income**	8,208 57	172,354 77

N.B.—A brief description of the principles on which the division indicated on this and the following two pages, between Small Loans and business other than small loans, has been made, should accompany the statement.

—		*Small loans	Business other than small loans
		$ cts.	$ ct.
Miscellaneous expenditure—Item 4 (n) on page 7.			
(a) Collection and repossession costs			
(b) Charitable donations	$1,620 00	81 00	1,539 00
(c) Insurance			
(d) General and Office	758 13	37 90	720 23
(e) Unemployment Ins	104 82	5 24	99 58
(f) Empl. Group Ins	284 04	14 20	269 84
(g) Auto	1,653 12	82 65	1,570 47
(h)			
Totals	4,420 11	220 99	4,199 12

* For definition of "Small Loans" see page 4.

REVENUE ACCOUNT
EXPENDITURE

—		*Small loans	Business other than small loans
		$ cts.	$ cts.
1. Interest on borrowed money		701 26	13,323 90
2. Amount by which ledger values of assets were written down:—			
(a) *Small loans	1,555 60	1,555 60	
(b) Loans over $500	4,005 59		4,005 59
(c) Conditional sale contracts and other contracts			
3. **Taxes, licences and fees:—			
(a) Dominion			
(b) Provincial			
(c) Municipal Business Tax	124 49	6 22	118 27
4. Other expenses:—			
(a) Advertising	9,756 73	487 84	9,268 89
(b) Auditors' fees	800 00	40 00	760 00
(c) Credit investigations			
(d) Directors' fees	2,250 00	112 50	2,137 50
(e) Furniture and fixtures	330 89	16 54	314 35
(f) Legal fees	2,000 00	100 00	1,900 00
(g) Postage and express	230 42	11 52	218 90
(h) Printing and stationery	313,87	15 69	298 18
(i) Search and registration of collateral	1,793 78	89 69	1,704 09
(j) Rents	2,160 00	108 00	2,052 00
†(k) Salaries	68,740 18	3,437 01	65,303 17
(l) Telephone and telegraph	1,133 12	56 65	1,076 47
(m) Travelling expenses	1,546 48	77 33	1,469 15
(n) Miscellaneous	4,420 11	220 99	4,199 12
(Give details on page 6)			
5. **Total expenditure**		7,036 84	108,149 58
6. Gross profit transferred to Profit and Loss Account		1,171 73	64,205 91
Totals		8,208 57	172,354 77

*For definition of "Small Loans" see page 4.
**Taxes incurred under Income Tax Act and Provincial Corporation Income Tax Acts are not to be included in this item— see page 8, item 9.
†Care should be taken to indicate here only amounts paid for services rendered and not withdrawals of profits from business. Such withdrawals should be shown opposite Item 7, page 8.

PROFIT AND LOSS ACCOUNT AND STATEMENT OF SURPLUS

—		*Small loans	Business other than small loans
		$ cts.	$ cts.
1. Surplus brought forward from previous year	128,594 91	9,182 00	119,412 91
2. Transferred from Revenue Account		1,171 73	64,205 19
†3. Decrease in reserves for bad debts and contingencies		1,655 60	1,678 59
4. Other items *(give details)*:—			
(a)			
(b)			
5. **Totals**	197,306 02	12,009 33	185,296 69
6. Dividends to shareholders			
7. Withdrawal of profits by partners			
†8. Increase in reserves for bad debts and contingencies			
9. Income taxes:—			
(a) Dominion	25,954 22	1,297 71	24,656 51
(b) Provincial			
10. Other items *(give details)*:—			
(a) Additional Inc. Taxes 1954	1,106 11	77 43	1,028 68
(b)			
11. Surplus at end of year	170,245 69	10,634 19	159,611 50
12. **Totals**	197,306 02	12,009 33	185,296 69

†These items must account for the increase or decrease which took place in all reserves for bad debts and contingencies during the year and details are to be given in the schedule on page 10 entitled "analyses of reserves for bad debts and contingencies".

*For definition of "Small Loans" see page 4.

OFFICES OTHER THAN HEAD OFFICE

Where located	Street address

MISCELLANEOUS

1. Is any business other than *small loans business transacted.....Yes.....
Loans over $500.00
If "yes", state the nature of such business and its interrelationship with the small loans business.....
2. State the monthly rate used in calculating the cost of *small loans.....two.....%
3. State to two places of decimals the average monthly rate earned on small loans determined by the following formula:—
Total "cost of loan" on small loans (Item 1 *(a)*, page 6) =1·97%
12/13ths of total end of month balances (Dec. 31+Jan. 31+Feb 28+etc. to+Dec. 31)
4. If an annual licence or certificate of registration is required by any province in which the lender is operating, was it issued?.....yes.....If "no", give reasons.
(Yes or no)
5. If a loan is unpaid at maturity date, state the rate that is charged thereafter on the outstanding balances.....1%.....
6. State arrangements in effect in your office for placing insurance, if any, on the chattels securing loans. either borrower places ins. or we place it with an agent, who collects same or we collect on his behalf.
7. Have any charges or expenses other than the cost of loan or interest as permitted by sections 3 and 6 of the Small Loans Act been charged directly or indirectly against the borrowers in the event of default or otherwise?.....Yes.....
(Yes or no)
If "yes" give full details of these charges in the schedule annexed. If more space is required, a separate sheet should be used and attached hereto.

Loan number	Date of other charge	Type of other charge	Amount of other charge
			$ cts.
8177	July 25/55	Lawyers Fees	1 00
8138	May 13/55	" "	4 00
8138	June 17/55	" "	10 20
8138	July 25/55	" "	8 50
8138	Aug. 12/55	" "	10 00

* For definition of "Small Loans" see page 4.

8. Have any *small loans borrowers' accounts been transferred or assigned to other agencies for collection? No.....If "yes", give complete information using a separate schedule if necessary
(Yes or no)
.....
9. Are the lender's *small loans insured under a life insurance plan? No.....If "yes", describe the plan:
(Yes of no)
.....
.....
.....
10. Were any wage garnishee actions instituted agains *small loans borrowers, co-signers and endorsers during the year?.....No. of accounts.....Balances of accounts $.....
11. Has any collateral security to *small loans accounts been sold during the year for a sum in excess of the borrower's account? No If "yes", what disposal has been made of excess proceeds.. *(give details*
(Yes or no)
.....
.....
.....

ANALYSES OF RESERVES FOR BAD DEBTS AND CONTINGENCIES

(See items 3, 8 and foot-note † on page 8)

—	*Small loans	Loan advances in excess of $500	Advances on conditional sale agreements and other contracts	Contingency reserve
	$ cts.	$ cts.	$ cts.	$ cts.
1. Provision during the year	Nil	Nil		
2. Recoveries during the year	Nil	4,227 00		
3. TOTALS		4,227 00		
4. Reduction in provision of previous year	100 00	1,900 00		
5. Written off	1,555 60	4,005 59		
6. TOTALS	1,655 60	5,905 59		
7. Increase (or decrease) during the year (3–6)	−1,655 60	−1,678 59		
Res. added to small loans taken from large loans	2,000 00	−2,000 00		
8. Add balances of reserves at beginning of year	564 03	9,435 97		
9. Balances of reserves at end of year	908 43	5,757 38		

* For definition of "Small Loans' see page 4.

EXHIBIT 1.—MOVEMENT OF *SMALL LOANS

—	Number of accounts	Amount	Averages
		$	$
(A) Total loans outstanding at beginning of year	209	40,147	192
(B) Add:—			
(1) Loans made during the year:—			
(a) Loans less than $50			
(b) Loans of $50 to $99	1	60	60
(c) Loans of $100 to $199	44	5,476	124
(d) Loans of $200 to $299	63	14,020	223
(e) Loans of $300 to $399	52	16,946	326
(f) Loans of $400 to $500	76	35,024	461
Totals B(1)	236	71,526	303
(2) Loans purchased during the year			
Totals B(1) + B(2)			xxxxxxxx
Totals A + B(1) + B(2)	445	111,673	xxxxxxxxx
(C) Deduct:—			
(1) Loans sold during the year			
(2) Loans written off during the year	10	1,555	155
(3) Loans repaid and payments on account	288	81,745	xxxxxxxx
Totals	298	83,300	xxxxxxxx
(D) Total loans outstanding at end of year (A + B − C):—			
(a) Original loan less than $50			
(b) Original loan $50 to $99	1	60	60
(c) Original loan $100 to $199	29	2,294	79
(d) Original loan $200 to $299	40	5,615	140
(e) Original loan $300 to $399	33	7,836	237
(f) Original loan $400 to $500	44	12,567	285
Totals	147	28,373	193

* For definition of "Small Loans" see page 4.
NOTE:—Amounts should be shown to the nearest dollar.

EXHIBIT 2.—DELINQUENT *SMALL LOANS ACCOUNTS

—	Number of accounts	†Amount of unpaid principal balance
		$
With instalments or portions thereof in arrears:—		
(a) Under one month	28	5,045
(b) One to two months	2	633
(c) Two to three months	2	205
(d) Three to four months		
(e) Four to six months		
(f) Over six months		
Totals	32	5,883

* For definition of "Small Loans" see page 4.
† The total unpaid balance of principal shown by the accounts for each lettered item is required by this column, not the total of the instalments in arrears.

EXHIBIT 3.—ANALYSIS OF SMALL LOANS MADE DURING THE YEAR*

—	Number of accounts	Amount	Average
		$	$
(A) ††According to type of security:—			
(1) Chattel mortgages	232	71,066	306
(2) Endorsed notes	1	100	100
(3) Wage assignments	1	200	200
(4) Other security	2	160	80
(5) Sale with right of redemption and sale with conditional re-sale			
(6) Unsecured			
Totals	236	71,526	303

—	Number accounts	Amount	Average	Loan balances repaid by current loans
		$	$	$
(B) According to borrower:—				
(1) New	85	25,258	297	xxxxxxxx
(2) Repeat	75	23,199	309	xxxxxxxx
(3) Current	76	23,069	303	12,881
Totals	236	71,526	303	xxxxxxxx

(1) By "new" is meant persons not previously borrowers from this lender.
(2) By "repeat" is meant persons who had fully discharged all earlier loans from this lender.
(3) By "current" is meant persons with earlier loans from this lender still undischarged.
†† **Classified according to the primary security.**
NOTE:—Amounts should be shown to the nearest dollar.

EXHIBIT 4.—POSSESSIONS AND SALE OF CHATTELS UNDER *SMALL LOANS CONTRACTS

—	Number of accounts	Amount due
		$
1. Chattels in possession at close of previous year	Nil	
2. Additional possessions of chattels, made in the current year and arising out of business originating in:		
(a) Previous years	Nil	
(b) The current year	Nil	
3. Totals	Nil	
4. Partial payments on account	xxxx	
5. Chattels sold		†
6. Restorations of chattels under agreements with borrowers		
7. Chattels in possession at close of year	Nil	
8. Totals	Nil	

† Account value should be shown.

EXHIBIT 5.—SUITS FOR RECOVERY UNDER *SMALL LOANS CONTRACTS
(DISPOSITION OF LEGAL ACTION)

—	Number of accounts	Amount due
		$
1. Suits pending at close of previous year	Nil	
2. Additional charges on above suits in current year	xxxx	
3. Suits instituted or reinstated during the current year	Nil	
4. Totals	Nil	
5. Partial payments on account	xxxx	
6. Judgments secured		
7. Suits withdrawn or suspended		
8. Suits pending at close of year	Nil	
9. Totals	Nil	

* For definition of "Small Loans" see page 4.

ATTESTATION

AFFIDAVIT VERIFYING STATEMENT

PROVINCE OF ONTARIO
COUNTY OF YORK CITY OF TORONTO

ALEX G. CLIMANS, President and JAMES CLIMANS, Secretary of the Merchants Finance Limited being duly sworn depose and say, and each for himself says, that they are the above described officers of the said company and that the foregoing statement and the separate schedules therein referred to and hereunto attached are made up from the books of the company and that to the best of our knowledge and belief they are correct and show truly and clearly the financial position of the company and the condition of the company's affairs on the thirty-first day of December, 1955.

ALEX G. CLIMANS,
*President**

JAMES CLIMANS,
*Secretary**

**Subscribde and sworn to before me this..... day of January, 1956

H. M. SHERMAN,
(State whether a Commissioner, Notary Public, etc.)

***If the lender is an individual or a partnership, the designation of the persons executing the statement should be appropriately varied.**

**** This affidavit is to be sworn to before some person duly authorized to administer oaths in legal proceedings for the county or district where the affidavit is subscribed and sworn to.**

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 18

BILL 51

An Act to amend the Small Loans Act

(including statement by Mr. K. R. MacGregor at Appendix "A")

TUESDAY, JULY 17, 1956

WITNESS:

Mr. K. R. MacGregor, Superintendent of Insurance

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. Hunter, Esq.,

and Messrs.

Ashbourne
Balcom
Bell
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fraser (*St. John's East*)
Fulton
Gour (*Russell*)
Hamilton (*York West*)
Hanna
Henderson
Hollingworth
Huffman
Knight
Low
MacEachen
Macnaughton
Matheson
Michener
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Quelch
Rea
Regier
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Stewart (*Winnipeg North*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White (*Hastings-Frontenac*)
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, July 17, 1956.

Ordered,—That the name of Mr. Knight be substituted for that of Mr. Argue on the said Committee.

Attest

LEON J. RAYMOND,
Clerk of the House.

77035—1½

MINUTES OF PROCEEDINGS

TUESDAY, July 17, 1956.

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day, Mr. John W. G. Hunter, the Chairman, presiding.

Members present: Messrs. Ashbourne, Balcom, Cameron (*Nanaimo*), Eudes, Fairey, Follwell, Fulton, Gour (*Russell*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Knight, Michener, Monteith, Philpott, Regier, St. Laurent (*Temiscouata*), Thatcher, Viau and White (*Hastings-Frontenac*).

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance; Mr. F. P. Varcoe, C.M.G., Q.C., Deputy Minister of Justice; Mr. E. R. Olson, Department of Justice; and representatives of certain Small Loans Companies and interested organizations.

On motion of Mr. Viau, seconded by Mr. St. Laurent (*Temiscouata*),

Resolved,—That Mr. Henderson be substituted for Mr. Fraser (*St. John's East*) and Mr. Deslieres, for Mr. Valois on the Subcommittee on Agenda and Procedure.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. MacGregor was again called; he continued reading his statement on the Small Loans Act and answered questions thereon.

It was moved by Mr. Michener, seconded by Mr. Follwell,

That the Committee now hear the remainder of Mr. MacGregor's statement and that questions thereon be deferred until its completion.

Following debate, the motion was unanimously resolved in the affirmative: Yeas, 14; Nays, 0.

Mr. MacGregor completed the presentation of his statement and was then further questioned.

Mr. MacGregor being still before the Committee, at 5.30 p.m., it adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m., the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Balcom, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieres, Eudes, Fairey, Follwell, Fulton, Gour (*Russell*), Hamilton (*York West*), Hanna, Henderson, Hollingworth, Huffman, Hunter, Knight, Michener, Monteith, Philpott, Power (*Quebec South*), Quelch, Regier, St. Laurent (*Temiscouata*), Thatcher, Viau, Weaver and White (*Hastings-Frontenac*).

In attendance: The same as at the afternoon sitting.

The questioning of Mr. MacGregor on his statement was continued.

(*Note: The statement of Mr. MacGregor in its entirety is reproduced at appendix "A" to this day's Minutes of Proceedings and Evidence. The related tables were printed as Appendices "A" to "I" to Issue No. 13 of the Committee's Minutes of Proceedings and Evidence dated June 28, 1956.*)

At 10.05 o'clock p.m., the Committee adjourned until 3.30 o'clock p.m. on Thursday, July 19, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

TUESDAY, July 17, 1956
3.30 p.m.

The CHAIRMAN: We have a quorum. I believe you have a motion, Mr. Viau.

Mr. VIAU: I move, seconded by Mr. St. Laurent, that Mr. Henderson be substituted for Mr. Fraser (*St. John's East*), and Mr. Deslieres for Mr. Valois on the subcommittee on agenda and procedure.

Motion agreed to.

The CHAIRMAN: I see in the day's motions that Mr. Knight has been substituted for Mr. Argue as a member of this committee. If you are all ready we will go on with the consideration of Mr. MacGregor's statement.

Mr. K. R. MacGregor, Superintendent of Insurance, called.

The WITNESS: A graded formula of this kind assumes that the layer of the loan carrying the lowest rate is repaid first. Consequently, the average rate earned on any loan is lowest in the first month and steadily increases from month to month until the full 2 per cent is earned during the later months. For the specimen loans that I have mentioned, the average rate in the first month and the equivalent flat rate throughout the entire period would be as follows:

Amount of loan	Average rate in first month	Rate toward end of period	Equivalent flat rate throughout entire period
$	per cent	per cent	per cent
300	2·00	2·00	2·00
500	1·60	2·00	1·81
1,000	1·30	2·00	1·48
1,500	1·03	2·00	1·27

By Mr. Follwell:

Q. How would you go about setting your rate? How did you figure out your table here? Is it computed on the basis of a loan made over so many months?—A. That is correct. The first column of the table shows the amount of the loan—$300, $500, $1,000 and $1,500. The second column shows the average rate in the first month. For example, a loan of $300 obviously carries the 2 per cent monthly rate throughout; the loan of $500 carries 2 per cent on the first $300, that is, a total of $6 plus one per cent on the additional $200 over $300, that is, $2 additional which, added to the $6 gives $8 and which divided by 5 gives 1·60 as the average rate in the first month.

Q. That is what I wanted to know.—A. Of course, as the loan is repaid the top layer disappears and at the end of the period the lower layer continues to carry 2 per cent per month. That is why in the third column I state that the rate toward the end of the period is 2 per cent in every case.

By Mr. Monteith:

Q. Is it not the case that if a loan of $1000 is made, for argument's sake the 2 per cent is on the first $300 and the total goes on the balance of $700—

the whole thing is lumped together, principal and interest, and you pay off in equal monthly instalments? Is that the way it works?—A. No, sir. Under the act as it is worded now interest accrues only on the outstanding principal—the balance of the loan—from month to month and the payment made by the borrower, which includes principal and interest, is applied first to the payment in full of the interest for that month, and secondly in repayment of a small part of the principal.

Q. Is it not done on the basis of the payment of equal monthly amounts? —A. Yes, the instalments are usually of equal amount combining both principal and interest.

Q. Including principal and interest?—A. Yes, that is correct. The column on the extreme right shows, as the heading indicates, the equivalent flat rate throughout the entire period of the loan. In other words, if the monthly rates shown in the right hand column were charged throughout the duration of the loan the total monthly instalment required to be paid by the borrower would be the same as under the proposed formula.

By Mr. Michener:

Q. What is the term of the loan used in making this formula?—A. Twelve months, but it would make very little difference if it were 24 months or 36 months. It would not make a difference of more than one in the second decimal place, I think, in the monthly rate.

The fact that the rate earned is less in the early months than in later months tends to depress earnings in times of rapid expansion, like the present, when more loans are in their early months; but this only shifts the incidence of earnings and does not alter the fact that the equivalent flat rates will be earned if loans run to maturity. It is only if loans are prepaid or refinanced before maturity that the full equivalent rate would not be earned. If anything, this may be regarded as an advantage of this kind of formula from the viewpoint of good practice since it may tend to discourage premature refinancing.

Q. Could Mr. MacGregor give us any indication of the percentage of loans which are repaid before maturity? I take it that has a bearing on the earnings.—A. In the small loans field, that is in the field of loans of $500 or less, by number about 58 per cent of the loans made in 1954 were to current borrowers, so that their loans were refinanced in every case before maturity. In 1955 it was 57 per cent.

By Mr. Follwell:

Q. That means a borrower negotiates another loan before he finishes paying his first?—A. Yes.

By Mr. Monteith:

Q. That means that in over half of these cases there would be, in effect, a prepayment of the loan at the time when the second loan was negotiated?—A. Those borrowers have not extinguished their debt before obtaining a larger loan.

Q. Yes, the borrower might have negotiated a loan and made repayments on it for two or three months and then, meeting with an additional need for money, negotiated a second loan. I take it that would be a new loan and that it would extinguish the old one, and that would be a prepayment. Taking your figure of 58 per cent, about 58 per cent at least of the small loans are prepaid before maturity.—A. That is correct.

Q. That would, I suppose, have quite a material effect on the earnings of the sliding scale which is proposed.—A. It would tend to depress them

somewhat, but if a loan is refinanced at half time, that is at about the mid-point of its normal period, I would say that the average monthly rate would be reduced by perhaps ·05 of one per cent per month.

Q. It is only in the last period in the case of one of these composite loans when the $300 item is unpaid that the full 2 per cent rate is applicable?—A. That is correct. Perhaps I might correct the estimate of ·05 of one per cent that I gave. This would be about right for a $500 loan, but for a $1000 loan or a $1500 loan the reduction in the average monthly rate would perhaps be nearer to ·1 of one per cent per month.

Q. I suppose it is accrued over a period. If a man were to borrow $1500 the rate he would be paying in the first month according to the table on page 36 of your statement would be 1·03 per cent, but if he were to refinance in the second month the effective interest rate on that loan would be 1·03 per cent.—A. That would be correct; the average rate would be depressed.

By Mr. Follwell:

Q. Did you give that figure in respect of 1954 or 1955?—A. I think I gave both. The percentage in 1954 was 58·3 and in 1955 it was 57·4. That is by number of accounts, not by amount of loan.

Q. That would show that there was a slightly downward trend, but not very much?—A. I would doubt that it is of any significance.

Q. I think you said that was the number of accounts, not the amount.—A. That is correct.

Q. There might be more money borrowed, but a few less borrowers?—A. By amounts the percentages would be higher.

Mr. FOLLWELL: Prosperous times! I guess people can borrow more money.

The WITNESS: It will probably be said that a rate of ½ of 1 per cent on the part of a loan between $1,000 and $1,500 is unrealistic because it is so close to the rate paid on borrowed money in many cases. It should be remembered, however, that this part is repaid first, is outstanding but a very short time and is made at little or no extra cost. Moreover, the rate of ½ of 1 per cent is merely an element in a formula for producing an appropriate composite rate for loans at various levels. A composite rate of 1·27 per cent per month for a $1,500 loan is equivalent to an effective annual rate of 16·4 per cent and a composite rate of 1·48 per cent per month for a $1,000 loan is equivalent to an effective annual rate of 19·3 per cent. It will probably also be said that lenders will refrain from making loans between $1,000 and $1,500 but this has not been the experience in states like Connecticut, New York and New Jersey where the rate of ½ of 1 per cent applies on the part of any loan exceeding $300. The trend of loans in those states has in fact been strongly into the area carrying this rate.

By Mr. Michener:

Q. There are one or two questions which occur to me with regard to that paragraph. It appears that in Connecticut, New York and New Jersey their rates are the same for the small loans part of the composite loans, but my recollection is that their rates are higher during the first part of the small loan, varying from 2½ per cent to 3½ per cent on the first $100 or $200. Perhaps you could tell us the rates in those states if they are used as illustrations.—A. In Connecticut the small loans law provides a rate of 3 per cent per month on the first $100, 2 per cent on the next $200, that is, up to $300, and ½ of 1 per cent on the element above $300.

The CHAIRMAN: Excuse me, Mr. MacGregor, but is that all the way up after that, or only to $500?

The WITNESS: Only to $500. The maximum loan allowed under the Connecticut law is $500.

The CHAIRMAN: So they are are not in comparable fields?

The WITNESS: Not exactly. In New York the law permits a maximum rate of 2½ per cent on the first $100, 2 per cent on the next $200 and ½ of 1 per cent on the next $200, that is, on the element above $300.

By Mr. Michener:

Q. Five hundred dollars is the maximum there, too?—A. That is correct.

Q. What was the effective rate for a $500 loan loan in New York state?—A. It is 1·88 per cent.

Q. And in New Jersey?—A. In New Jersey the law permits a maximum charge of 2½ per cent on the first $300 of any loan plus ½ of 1 per cent on the element above $300.

Q. The comparison you intend there, I take it, then, is between lending in those states in the range of $200, $300, and $500 which is the maximum, with what we would have here if this new rate were adopted, running in our case up to $1500.—A. I have in mind the field of loans, in these states between $300 and $500 where the rate of ½ of 1 per cent per month applies.

Q. Yes, you are not talking about loans above the $500 limit which are not regulated?—A. No I am not.

Q. It is in effect I suppose the comparison between an effective rate of 1·88 per cent and the rates you show in the table on page 36 which would be very substantially less in this province in the higher brackets of loan.—A. I did not make the statement referred to for that particular purpose. I made it in an endeavour to show that where part of a loan carries a rate of ½ of 1 per cent per month it has not seemingly had the effect of reducing the volume of loans made in that area. The evidence seems to be in the other direction.

Q. I suppose that one explanation might be that the effective rate in that area up to $500 is still much larger than it would be—in the case of the table you give here the effective rate of 1·88 per cent is a little higher than some of our loan companies are charging now in the field that would be covered by the new legislation.—A. Under the proposed scale of charges in that field it would be 1·81 per cent, a little less than 1·88 per cent.

Q. What I am doing is testing your theory that a composite loan with different rates of interest is the same as lending money at an average rate, and I am inclined to differ from you on that point. I think no matter how you average it, if a lender lends $500 at 2 per cent and another $500 at 1 per cent, the fact remains that even though the average rate is something in between he is risking his second $500 for 1 per cent, and that is something which a business man will have in mind in deciding whether to make that additional loan. And I am just wondering whether you are not talking wishfully when you suggest that the loan would be made as freely as a composite loan, because the rate still sounds like a substantial rate.—A. I am inclined personally to agree with you in one respect, namely that one should have regard for the composite rate; but in making the statement referred to I was simply endeavouring to anticipate the argument that might be advanced against any element of a loan carrying a very low rate, as, for example, ½ of 1 per cent per month, the argument presumably being that a lender would not want to lend any money at that rate. As against that possible argument I had in mind the situation in these three named states where the element of the loan between $300 and $500 does carry that rate and the trend of borrowing seems to have been toward that area.

Q. I see the argument, but it strikes me that the parallel is not very complete and I think the committee must face the prospect that the lenders

may cease to operate in the less profitable fields, and we will have to decide whether it is a good thing or not to take steps which would curtail, perhaps substantially, the amount of money available in the area not now covered by the act.—A. I admit that it is very difficult to predict what the reaction of lenders might be.

By Mr. Hollingworth:

Q. In other words in Connecticut, New York and New Jersey the lending companies are lending money at ½ of 1 per cent per month and are making a good profit on loans between $300 and $500.—A. I would not like to express an opinion on how good a profit they are making on that basis.

Q. Anyway, these are very interesting and significant statistics.—A. The average rate of profit in New York state has been declining in recent years and the explanation according to their official report is the increasing trend toward larger loans in the area that carries the rate of ½ of 1 per cent.

Q. Would you be in a position to know what loan companies in those three states charge in the area above $500, or $1,500?—A. My understanding, Mr. Hollingworth, is that they are not permitted to lend above the maximum of $500 in New York.

Q. What about Connecticut?—A. I understand the situation is the same there. I am not sure about New Jersey but I think it is the same in that state too.

Q. What arrangement is there for making loans above $500? Is there some arrangement similar to our own unlicensed field?—A. I believe that the banks and credit unions are making most of the loans in the larger loan area in the states that have been mentioned, but in some of the other states there are other laws in existence under which small loan licensees may operate.

Q. I think that in Ontario and in Canada as a whole we often look to see what goes on in important states such as New York, and that is why I asked that question; possibly we could draw upon their experience in this regard.—A. My understanding is that the demand for loans above $500 is supplied by other lenders in those states.

By Mr. Michener:

Q. There is another point here, Mr. Chairman, which I think we might consider further, too. Mr. MacGregor says that the extra loans in the increased field can be made at little or no extra cost. If A is lending B $500 he makes certain inquiries to see whether B can pay that $500 over the term of the loan, whatever it is. If A is lending B $1,500 I think some very different consideration might enter into the inquiry, and that it might involve quite a different processing before the lender would be satisfied to advance that amount of money to B, and that seems to be an element of cost, in fact it is a large element of cost—the salaries of the managers, or whoever has to interview and deal with the applicants would increase the cost of doing business. Would there not be a great difference in cost in connection with the two kinds of loan?—A. If there were a substantial difference in the amount of the loan I think there would be additional cost in investigating the larger case; but under the formula of course the rate of ½ of 1 per cent applies only to the element between $1,000 and $1,500 and I would doubt that there is much difference in the investigation made by the lender for a loan of $1,001 as against $1,499 or $1,500.

Q. As I understand it the proposed increase in the controlled area is from $500 to $1,500. You are comparing the cost of lending $500 with the cost of lending anything up to $1,500— —A. I was just dealing with the area to which the rate of ½ of 1 per cent applies and that area is only between $1,000 and $1,500.

Q. The same would apply to the area between $500 and $1,000?—A. I was not speaking of that area.

Q. The element of cost would enter into it substantially in my opinion—the bigger the loan the greater the cost of the inquiry.—A. If there is a substantial difference in size I would agree but where the difference is only a very few hundred dollars—$300 or $500—I doubt if the difference is material.

By Mr. Follwell:

Q. You indicated that the banks in the various states you mentioned are taking practically the whole load for sums over $300 or $500. Do the banks in the United States maintain a department somewhat similar to that of the small loans association for the purpose of investigating applications? Will they assume the risks that the small loan companies will take? If they can do it in the United States, or in several of the states of the United States, would you hazard an opinion that the banks could do it here in Canada?—A. I would prefer to step around that rather controversial question, Mr. Follwell. I am not intimately familiar with the internal organization of the banks in New York state which are making personal loans, but my understanding is that the banks in that state make about 80 per cent of the total personal loans made in the state.

Q. Are they controlled, as to the interest rate, by some machinery such as the Bank Act in Canada?—A. They are controlled by a banking law but I do not believe it is the same as the law in Canada.

Q. That is to say, the interest rate they are prepared to charge could be higher in the United States than in Canada?—A. It could be, but I think it is lower.

Q. Oh, it is?—A. In this particular type of loan.

Mr. CAMERON (*Nanaimo*): I think if you will look at Mr. MacKinnon's evidence two years ago you will find that evidence with regard to the practice in the United States was given.

Mr. FOLLWELL: Apparently the banks are taking over this job of making loans at regular bank interest—

The WITNESS: In making the statement I did, Mr. Follwell, namely that the rate charged by the banks in New York state is, I think, lower than the maximum rate stipulated under the Bank Act here, I had in mind reading in the Journal of Commerce a few months ago, which as you know is a New York financial paper, that four or five of the large banks there that were doing most of that kind of business were proposing to raise their discount rate from 3·83, I think, to 4·25 per cent. The effective rate of interest would, of course, be about double that rate because that is a discount rate applied to the face amount of the loan at the time it is made. If the rate of discount charged is of the order of 4 per cent that is why I said it is lower than the 6 per cent maximum stipulated in the Bank Act here, at least as interpreted by one bank.

By Mr. Follwell:

Q. Well, possibly the banks in the United States are taking on the same type of loans as we understood that the Bank of Commerce were to take on, and they are doing so on the same basis except that the rate of interest charged is slightly lower.—A. I would suppose that the banks in New York state—and I am really guessing here—would exercise themselves more in the field above $500 than in the smaller field occupied by the small loans companies.

Q. That is what I was trying to get at—the type of loan between $500 and $1,500 which we are hoping to legislate for in this country. The small loan companies in the United States are apparently not in that field at all. That is—as Mr. Hollingworth points out to me—the situation in the three states which

have been referred to. The small loans companies are not in that at all.—A. I think that is so but they are in it in some of the other states in varying degrees.

Q. But you are indicating to the committee that in most states the small loans companies are in business to deal with sums between $300 and $500—in some places it might be more—but that the banks are taking up that load between $500 and $1,500. Here in Canada we have always been hopeful that the banks would take up a little bit more extended loan and I think that is why we in the banking and commerce committee a couple of years ago gave them the right and privilege to take chattel mortgages. Apparently, however, the banks have not been inclined to do that; they seem to have decided that they do not want to get into the chattel mortgage business, leaving the field open to the small loan companies or to the money lenders. Am I right in those observations?—A. The latter is substantially the position at the present time.

Some hon. MEMBER: The banks are not taking the load they should take, and I think this committee should know about it.

By Mr. Monteith:

Q. Can I refer for a moment to a question which Mr. Michener raised a moment ago with regard to the cost of making a loan in the upper bracket? Let us suppose for argument's sake, say, a loan had been made for $700. That would be in the bracket up to $1,000 and bear ½ of 1 per cent interest. Suppose that started to be paid off and then someone came along and apparenly quite a percentage of loans, over 50 per cent, are for current borrowers, so if they increased their loan again he makes a loan for $1,500 there would have to be a complete recommencement of his position, would there not, before they could lend the $1,500?—A. There might be.

Q. The cost would appear to me to be possibly quite somewhat larger than in the original case where the man was paying 2 per cent.—A. I think there might be an additional cost or there might not. As against the desire of the borrower to obtain a larger loan the lender at least has some knowledge of his record apart from the investigation made at the outset.

Q. They would have a knowledge of his record but they would have to check whether he had the same assets, would they not?—A. I think that is so.

By Mr. Michener:

Q. I would think, Mr. MacGregor, that if a man negotiated a small loan and came back shortly and wanted to increase the amount, that would be an immediate ground for suspicion—that instead of paying off the debt he had contracted to pay he wanted to borrow more. There might be another explanation but there would be an element of suspicion, I would think. If I were in that operator's position, trying to decide whether or there was a good reason for the loan—the mere fact that he wished to borrow more instead of paying— —A. Yes, I would think so, but apparently they can make their cases pretty well, because it does seem to happen frequently.

Q. To say that there is no extra cost is certainly in my opinion an overstatement, and to say that there is little extra cost would seem to be an exaggeration of the condition that would obtain.—A. Well, I was thinking of two cases where a lender might be considering a loan of $1,000 as against a somewhat larger loan varying between $1,000 and $1,500. I can only express my personal opinion that I should be surprised if a lender makes much distinction in his investigation in that particular range. He may, but I should think only in special circumstances.

Q. Remember, we are trying to make out a case here for the additional $500 at ½ of 1 per cent. At the present time the only regulated loan is up to $500—A. That is true, but that is not the point I am endeavouring to make.

Q. You have to consider both stages and not simply the smaller. It is not simply a question of adding a few dollars to a loan but is a question of adding three times the amount which is now regulated.—A. Not for loans between $1,000 and $1,500.

By Mr. Follwell:

Q. Mr. Chairman, Mr. MacGregor says in his statement. "It will probably be said that a rate of ½ of 1 per cent on the part of a loan between $1,000 and $1,500 is unrealistic because it is so close to the rate paid on borrowed money in many cases". Do you mean by that, in the rate here, as indicated on table 5 under the heading "Average annual rate paid on borrowed money", where it shows a rate for the different companies of 5·48, 4·46, 5·42, and then a total of 4·91 per cent, that in borrowing there the company are borrowing money which they reloan, and that they pay an average of 4·91 per cent and in turn loan it out at these higher amounts that would be at a fairly close rate to the rate at which they borrowed it?—A. 4·91 per cent is the average rate shown in the table for 1955; but what I really had in mind is that a lender may be paying more than that now, perhaps 5½ per cent, on borrowed money; and ½ of 1 per cent per month or roughly 6 per cent per annum is not much higher.

By the Chairman:

Q. Not on a diminishing balance, surely?—A. I do not understand your question, Mr. Chairman.

Q. Surely ½ of 1 per cent per month would only be 6 per cent if the loan is not repaid.—A. The rate is ½ of 1 per cent per month which is roughly equivalent to 6 per cent per annum.

Q. If the loan is not repaid; but on a diminishing balance surely it is less. —A. These rates always apply on the diminishing balance but the rate per annum is the same.

By Mr. Follwell:

Q. What I am trying to find out is if the lender would be in a position, if we are going to say, "we will permit you to loan up to $1,500," to make $1,500 loans if he has to pay 4·91 per cent or about 5 per cent for money and can only get back 6 per cent?—A. Would he have anything left for expenses?— A. That is the point. I do not think that the expenses connected with making that small additional loan amount to much. I admit that the difference between the rate paid on borrowed money and this rate of ½ of 1 per cent per month may very well be quite small; but on the other hand I would doubt that if lenders are faced with an application for a loan of $1,200 that they will decline to make it simply because that loan includes an element carrying a rate of ½ of 1 per cent.

Q. If such were the case, I am wondering if what we are trying to do would be accomplished if a man who needs to borrow some money, on account of his risk cannot get it from a loan company other than from a financial house, and might then go to a finance company and say, "I want to get a loan for $1,200", and they say, "we can only give you a loan for $1,000 or $999, but just cannot give you a loan beyond that". What we are trying to account for is a man who needs money and should be able to get it. I am wondering if we are going to limit it so that a man who needs the money will not be able to get the amount which he needs.—A. I would be surprised if they would turn it down unless the risk were poor.

Q. Then you think that the cost of a loan of $900 would be probably comparable to the cost of a loan of $1,200? Is that what you are saying?— A. Would you mind repeating that?

Q. You are suggesting that to make a loan it would cost about as much for the lender to make a $900 loan as it would to make a $1,200 loan, that is the cost of writing up the loan, supervising it, investigating the borrower, and so on?—A. No. I am not thinking of loans of $900 because a rate of ½ of 1 per cent does not apply to any element of a loan below $1,000.

Q. If a man needs more money than $1,000 and goes to a loan company and says, "I need $1,200", then the lender can say, "Well, we understand that you need $1,200 but we are prepared to loan you only up to $1,000 because the terms on which we are allowed to operate on an amount over $1,000 are not profitable to us and we lose money on it." Nobody is going to operate where they lose money.—A. A lender might prefer to make a loan of $1,000 in that case, but if he thought that the applicant was a good risk and he wanted $1,200, I would be surprised if the lender would refuse to make the loan in the amount of $1,200 if the applicant wanted exactly that amount. If the lender refused, then I suppose that the applicant would probably go to another lender.

Mr. MICHENER: I see that the final five pages of the brief here deal with the effect of the proposed rate changes on the lenders and the borrowers. I wonder if it would be desirable if Mr. MacGregor read through the balance of the brief now and then we could question him on what occurs in those five final pages; it is all on one subject.

The CHAIRMAN: That is up to the members of the committee. If they wish to ask questions, they are permitted to do so.

Mr. MICHENER: I will make it as a motion that we do proceed in that way.

Mr. REGIER: Mr. Chairman, does this now mean that at the end of the brief we can ask questions on any part of the brief?

The CHAIRMAN: Naturally.

Mr. REGIER: Well, in that case I think that the motion defeats the very purpose for which it was ostensibly made. We had voted on that the other day and lost the vote; now we are right at the end of the brief and apparently it is going to be open to allow what, to my mind, will be a lot of nonsensical questions.

The CHAIRMAN: There was never a ruling that at the end of the brief no further questions could be asked. It was always assumed that we would get rid of the majority of the questions as we went along. However, that would not mean that there would be no questions at the end of the brief.

Mr. MICHENER: That would be a new application of closure.

Mr. CAMERON (*Nanaimo*): We have had the most invidious application of closure which I have seen so far.

Mr. MICHENER: I move, Mr. Follwell seconded, that we hear the remainder of Mr. MacGregor's statement and that questions thereon be deferred until its completion.

The CHAIRMAN: You have heard the motion. All those in favour?

I declare the motion carried.

The WITNESS: From the lenders' point of view, the most important question is, of course, the effect that the proposed rates would have on their income and profits. There is no doubt that the effect would be substantial. For loans up to $500, being the present regulated area, I estimate that the income would be reduced by about 5 per cent. For loans between $500 and $1,500, being the proposed new area of regulation, the effect would vary, depending upon the pattern or distribution of loans by amount. The two largest small loans companies have only a very small proportion of loans over $1,000 whereas many money-lenders do about as much business above $1,500 as between $500

and $1,500. For loans made in amounts between $500 and $1,000, I estimate that income would be reduced by about 24 per cent and for loans made in amounts between $1,000 and $1,500 by about 38 per cent, in each case in relation to assumed charges of 2 per cent per month. For loans over $1,500, which would continue unregulated, I think it would be unrealistic to assume any change in practice or to predict what changes, if any, may be made.

In the case of the largest small loans company, Household Finance Corporation of Canada, the present gross earnings of 12 per cent would be reduced to about 11 per cent and, after income tax at 47 per cent, to about 6·2 per cent. The unlicensed associated company, Household Finance Corporation Limited, would apparently have its gross rate reduced from the present level of 16 per cent or 17 per cent to approximately 11 per cent and, after tax, to slightly less than 6 per cent.

In the case of the second largest small loans company, Personal Finance Company of Canada, the present gross rate of 11·3 per cent would be reduced to about 7·5 per cent and, after tax, to slightly less than 4 per cent. This is probably the minimum level at which a large lender can be expected to operate but there is good reason to expect that this rate would improve once the expenses arising from the opening of so many new offices and the rapid increase in the volume of new business subside. Furthermore, one may reasonably expect that this company's rate of earnings will steadily increase and that before very long it will attain the same earnings level as the largest company.

The third small loans company, Community Finance Corporation, would apparently be hard hit because of its present high expense level and low profit level but if salaries and other expenses were reduced even to the level of the "all others" group of money-lenders, the earnings, after tax, would be over 4 per cent of average assets and the net profits after interest on borrowed money and taxes would be about 7·5 per cent of the company's own funds. This company operates in association with its parent, the Peoples Thrift and Investment Company, and some readjustment of its present organization, which includes a relatively large number of offices for the volume of loan business handled, would be necessary to show a satisfactory return. Community Finance gets most of its funds from Peoples Thrift and pays about 1 per cent more than it costs the latter to borrow; hence there is some indirect gain to the parent from these borrowing transactions.

The fourth small loans company, the Canadian Acceptance Company, also operates in association with its parent, the Canadian Acceptance Corporation Limited, but since the former is already charging only 1½ per cent per month on all loans over $500, its operations would be affected only slightly.

The four large money-lenders, Commercial Credit Plan, Niagara Finance, Trans Canada Credit and Union Finance, each operate in association with parent or related acceptance companies and in my opinion could continue to earn a reasonable return, especially if account is taken of the indirect advantages to the parent of sharing expenses in various ways, including so-called "service", "management", "contract", and so forth, fees. Union Finance just began business in 1952 and its earnings are steadily improving. In the case of Trans Canada Credit, the licensed lender obtains funds from its parent and pays substantially more than it costs to raise the funds so that the parent enjoys some additional return in this way.

The licensees that would be most seriously affected are in the "all others" group and vary all the way from individuals to fast growing subsidiaries of U.S. parent companies. A great many of the licensees in this group also operate in association with sales finance or acceptance companies and in many other cases the lending business is not the only business carried on by the owners.

Taking this group as a whole, but excluding the recent licensees with negative earnings, and assuming no change in lending practices above $1,500, it is estimated that the total net profits after interest and taxes would be reduced to about 6 per cent of the total of the lenders' own funds. In some cases the return would be more and in some cases less. Many lenders may feel that this is an inadequate rate of profit to maintain their interest in staying in the field and some might withdraw. On the other hand, the mortgage loan companies supervised by the department earned only 7·0 per cent in 1954 on equity capital and reserves before making transfers to strengthen investment reserves and 5½ per cent after such transfers. The rates of return on net worth vary greatly in different lines of business and while the rates in most lines are higher, some are lower. The current return amongst merchandising companies and public utilities is in each case roughly comparable, being of the order of 7 per cent per annum. I should not want to minimize or gloss over the seriousness of forcing any lender out of business but at the same time I feel that the great majority of those who might withdraw have the ingenuity to put their funds to other profitable use.

I believe that lenders who now do 90 per cent or more of the personal loan business in Canada would continue to operate at a reasonable profit under the proposed rates and that adequate facilities would continue to be available to the borrowing public. If, on the other hand, it is felt that all lenders, or practically all, must be permitted to continue to operate profitably, then higher rates than those proposed would be necessary. The fundamental question is whether borrowers in Canada are to secure the best procurable rates or whether they are to pay more than is necessary in order to permit several small lenders doing only a small fraction of the business to continue much as heretofore.

In the determination of this question, I would suggest for consideration that the future of many small lenders may not be assured in any event merely by fixing maximum rates at a higher level than necessary for other lenders, since in those circumstances more and more lenders, large and small, will probably continue to be attracted to the field. Also, there can be no assurance that a predominantly Canadian-owned industry can be built up merely through higher rates because there is no evidence that such a policy would lead to a decrease in the proportion of business transacted by foreign-owned licensees or that the borrowing public would benefit if that were the result. Moreover, Canadian-owned licensees may at any time be sold to outside interests, as occurred when the first small loans company was sold in 1932, the largest money-lender in 1946 and another small but successful money-lender in 1955.

Another proposal in the bill is to include in the definition of "cost of loan" any premiums for life insurance or personal accident or sickness insurance arranged by the lender covering the indebtedness of borrowers. In requiring lenders to assume costs of this kind there is, of course, no intention to prohibit any such insurance arrangements from being made. Elsewhere, however, serious abuses have developed, involving excessive coverage, excessive premiums being paid by borrowers and excessive commission profits being made by lenders. It is true that insurance of this kind is of benefit to borrowers but it is also of benefit to lenders who are thereby relieved of pressing for payment in embarrassing circumstances and, in fact, guaranteed payment in full. The insurance may theoretically be arranged either on a compulsory or optional basis on the part of borrowers but the difference in practice is more theoretical than real. I believe that the only sure way to avoid the arrangement of insurance simply as a device to supplement the profits of lenders or

otherwise to afford better security at additional cost to borrowers is to require any such cost to be absorbed by the lender within the maximum rate fixed by the Act. There have been increasing signs recently of the desirability of the amendment proposed.

The other amendments contained in the bill are, in the main consequential upon the adoption of the principal amendments and may more readily be dealt with when the bill is under detailed consideration, clause by clause.

In conclusion, I should like to say that notwithstanding all that is said and heard about this very controversial business, we have had good cooperation from licensees as a whole and there can be no doubt that conditions in the regulated field of loans have greatly improved since the act was passed.

The CHAIRMAN: Gentlemen, if there are any questions let us have them in an orderly way.

Mr. CAMERON (*Nanaimo*): Mr. Chairman, I was just wondering, before we proceed with the additional questioning of Mr. MacGregor, since we have Mr. Varcoe with us and the understanding was that he was to give us some advice on the legal aspects of the bill, whether it might be desirable to call Mr. Varcoe at this time to give us his evidence.

Mr. MICHENER: Mr. Chairman, while we have these last pages before us and they are fresh in our mind, it might be best to complete the questions now, if it does not inconvenience Mr. Varcoe.

The CHAIRMAN: I do not imagine that Mr. Varcoe will be inconvenienced either way.

Mr. F. P. VARCOE, C.M.G., Q.C., (*Deputy Minister of Justice*): Whatever is decided is all right with me.

The CHAIRMAN: Unless the committee has an overwhelming desire to hear Mr. Varcoe at this time, it would be normal to go on with the questioning of this witness.

By Mr. Michener:

Q. Mr. Chairman, may I ask some questions about the forecast of the results of the reduction in profits which Mr. MacGregor gives as percentages? Would it be possible for him to give us those in the form of dollars of reduced income?—A. Are you referring to any lender in particular?

Q. I was taking up your percentage reduction in earnings at the top of page 38, where you estimate that income would be reduced by 24 per cent in the loans between $500 and $1,000, and by 38 per cent in the next $500 bracket. —A. I was speaking generally at that point and I had in mind a uniform distribution of loans between $500 and $1,000, and between $1,000 and $1,500. I believe that those estimated reductions are conservative in the sense that I do not think the percentages mentioned are under-estimated; they lean, if anything, on the other side.

Q. And you had in mind the two largest small loans companies?—A. No. I had in mind any lender. Assuming that the lender has a uniform distribution of loans and that they are not bulked at either end of the range, I estimated that the income would be reduced by those percentages; but it would be the same percentage regardless of the volume. I had in mind any lender.

Q. I am interested in information as to how you arrived at those figures because it seems to me they are very important. They attempt to express the effect of the reduced rates. Now, taking the first one, you estimate that for loans made in the amounts between $500 and $1,000 that income would be reduced by about 24 per cent. What kind of income is that? Is it net income?—A. No. The gross income collected from borrowers.

Q. How did you arrive at that figure?—A. I could show you more readily if I had you here beside my notes. However, I will try to outline the general

approach. Thinking of the average rates proposed in the bill, the effective monthly rate for a $500 loan is 1·81 per cent, and for a $1,000 loan it is 1·48 per cent. The average of those two is about 1·65 per cent per month. I could show you better how I arrived at the final percentage, but perhaps I can tell you in a rough way. On the assumption that 50 per cent of the loans are refinanced at half time, the average effective rate of 1·65 would be reduced to 1·60 per cent, indicating a reduction of 20 per cent, of the basic rate of 2% per month. Then, I took into account the initial rates in the first month of any loan. For a $500 loan the initial average rate is 1·60; for a $1,000 loan the initial rate is 1·30 per cent. The average would be 1·45 per cent, indicating an average reduction on that basis of 27½ per cent. Then if one averages the two of the percentages, 20 per cent and 27½ per cent, he will get about 24 per cent.

Q. Yes. Well, that is of course largely hypothetical. It seems to me that to determine what difference there would be in the earnings one would have to know what amount of loan is outstanding at any given time in each category of loan. Has your office information of that kind from the companies?—A. No, we have not complete information of that kind. I am quite well aware of that method of estimating income on the basis of stratified balances, so to speak, but I believe that the approach I have adopted if anything over-estimates the reduction. It amounts, substantially, to assuming that of any lenders' business on its books, half of it is in the first month of duration, a quarter of it is about one quarter along the path to the normal maturity date and a quarter is about one half along the way to the normal maturity date.

Q. Well I suppose we will hear evidence later from the companies as to the actual effect on the business on their books at a particular time which will be more indicative than a hypothetical approach. I question this because it seems to me that if you take a simple example of a loan company that has three loans totallng $1,000 on its books—you might say there are three loans at $333 and work out some conclusion from it whereas there might be two loans of $100 and one of $800 and the illustration would be very different, so one has to have the information, which I understand you to say your office does not have, to arrive at the real picture—A. I think the information you will get by the method you propose, however, has to be interpreted with equal care because it tends to depress the effective rate of earnings. In the illustrations you give, my method would throw the $800 loan into its proper group.

Q. There is another point which seems to call for clarification. You suggest that the companies are expanding now and that their expenses are therefore greater than they will be in the future. That seems to me to assume that we have reached a static condition in Canada; and that is not the history of the last 10 years. Every active Canadian business has expanded and has been increasing its outlets and, I think, will continue to increase its outlets. To say we have now reached a time when this expansion will cease seems to me to be presupposing either a recession or a depression, which none of us is looking for. —A. I have no doubt at all that the business will continue to expand, but surely not at the rate at which it has expanded in the last 3 years.

Q. I suppose it is a matter of opinion how rapidly the expansion will continue. This country has been growing in the last 10 years at a rate which none of us would have expected, and I expect the small loans business will continue to grow in proportion. The next question I want to raise concerns the number of companies which will be affected by the change in rate and which might find it desirable to employ their funds elsewhere. I am looking at table 8 which sets out the principal small loans companies and money-lenders, and I note there that the largest one is Household Finance Corporation, the third on the page which had average assets as shown in the first column of $55,365,000 in 1955. The next largest is the one immediately below, Personal

Finance, with $53 million and the next is Niagara, $23 million, Trans Canada at $10·8 million, and then Community Finance, $4·7 million and the total of these five companies make up a very large percentage of the total outstanding at the bottom of the column of $180 million, not quite 90 per cent as you refer to it in your statement but still a very large percentage of the $180 million; and I wonder whether it is your expectation that these five companies are substantially all that will be left able to operate effectively and profitably under the proposed rates?—A. No, Mr. Michener, I would expect far more than that to continue.

Q. Of all the others, which I think amount to about 65, which are listed in table 8 which make up the total of 72 registered lenders, how many will you expect to be able to continue in business under the new rate?—A. I would not care to guess, Mr. Michener. I do not believe it is practicable to do so because I cannot speak for the lenders. I do not know what is in their minds concerning the rate of return they expect and what they expect to get out of their business.

Q. You make it very clear that those who will find difficulty under the new rate are those in the "all others" group and those are mostly small operators without many branches and doing business locally?—A. That is true.

Q. So that one consequence, whether or not we approve of it, would be the reduction of the number of companies in the business?—A. Yes I would expect so.

Q. It would not be likely to affect any of the large American companies which are among the five companies I mentioned.

Mr. CAMERON (*Nanaimo*): It seems to me Mr. Chairman that these are rather the kind of hypothetical questions which were complained about just now. Is there any particular point in wasting time in this way? Mr. MacGregor has told us he is not in a position even to guess.

The CHAIRMAN: It seems to me they are most relevant questions.

By Mr. Michener:

Q. I understood from Mr. MacGregor's statement that that is what he anticipated, and it strikes me as being a material consideration for this committee—A. I think it is, and I have stated that. Some firms might withdraw, but, as I said, how many I cannot guess.

Q. Not only is it going to effect a weeding out, if I may use that expression, between the American finance group and Canadians in the business, but it will also effect a weeding out between the large and the small companies in general terms.—A. I suppose the effect will be something the same as in the automobile industry, though the analogy may not be very good. We used to have many small Canadian companies in that field but they have all disappeared and now we have only three or four of the large American automobile companies supplying the field.

By Mr. Hollingworth:

Q. Is it fair to say that because of the present high rate of interest there are many marginal lenders in the field at the present time, and that if the rates were more reasonable they would not be able to carry on? Is that a fair statement?—A. There are not very many companies in my opinion which are really in a marginal position at the present time taking into account not only the return on capital but salaries and other things that the smaller operator gets out of his business.

I do not say this facetiously, Mr. Michener; and perhaps here again the analogy is not very appropriate; but suppose it were proposed to reduce the indemnity of members by 25 per cent and the question were raised: how many

members would not run again? Would each individual not have to appraise his own particular position in the light of what he would do with his time—what other interests he has and how well he can afford to absorb that reduction? There are so many other factors to be considered that it strikes me that there is a somewhat similar situation to be appraised here. One cannot speak for all.

By Mr. Michener:

Q. Here there seems an assumption, though, that it would be desirable to do that, and I am not prepared to make that assumption at the moment. We are making the assumption here that it is in the interest of the borrowers to reduce the maximum rate of interest, and we are trying to estimate the effect of that on those who provide the facilities for borrowing. What concerns me is the statement about the "all others" group in the light of Mr. MacGregor's statement which, if I may repeat it, says:

> Taking this group as a whole but excluding the recent licensees with negative earnings, and assuming no change in lending practices above $1500, it is estimated that the total net profits after interest and taxes would be reduced to about 6 per cent of the total of the lenders' own funds.

A. The phrase "negative earnings" relates to licensees who have recently entered the field and who have incurred relatively heavy expenses getting established.

Q. Yes. But the lenders' own funds are only part of the money employed in the business. What comparison could you make with other businesses? How is one to arrive at an assumption that that is a desirable result or that that is a fair return? What is the average return on equity capital in other lines of business?—A. I think there are tables available in respect to that for most businesses carried on in Canada.

By Mr. Cameron (Nanaimo):

Q. There are none—I think Mr. MacGregor has told you—who would think of having a net return of 81·9 per cent on equity capital—A. I am aware that there is a great variety of returns on the proprietary interest in a business. I have mentioned loan companies because we are familiar with their returns and they are in the lending business. Their net rate in 1954 was, as I have said, about 5½ per cent.

Q. Those are mortgage loan companies?—A. Yes.

Q. A mortgage loan company is not in a comparable position because its loans are secured by first class, improved residential property, which is about the best security on which anyone could lend money. These personal loans are unsecured in effect because the loan companies, as I understand their practice, have not undertaken to repossess or sell the chattels which are pledged. They rely on the personal promise of the borrower to repay.—A. I agree that the security is better in the case of mortgage loans on real estate, but at least they are in the lending business and these percentages are, after all, after losses have been taken into account and transfers made to reserves for bad debts. You asked me what other comparison could be made—

Q. Let me suggest other fields of enterprise—they are not comparable, but take some of the public utilities where the rates are fixed by the government. What about Bell Telephone? Is it not allowed an 8 per cent return on its capital?—A. I mentioned two other fields of activity—merchandising and public utilities—where in each case the return is roughly comparable being of the order of 7 per cent per annum. In making that statement I had in mind a tabulation which appeared in the Financial Post of May 12 of this

year. A long list of perhaps 25 or 30 public utility companies is given—the Bell Telephone Company is included, as is Calgary Power, Gatineau Power, Great Lakes Power, Quebec Power, Shawinigan and so on, and I have likewise in mind the merchandising group where perhaps 20 companies or more are included, among them being Dupuis Freres, Henry Morgan, Holt Renfrew, Loblaw Grocetaria and National Grocers—

Q. Is not that table concerned with the yields on the value of the stock?—A. Equity capital or proprietorship interest and after taxes.

Q. And the yield on the basis of market valuation?—A. Equity capital,—I think.

Q. I take it that that is what you have attempted to do here in arriving at your figure of 6 per cent—on the basis of equity capital?—A. Including the balance of the profit and loss account.

Q. That proceeds on the assumption that equity capital is the proper yardstick. These companies operate very largely with borrowed funds?—A. My personal opinion is that for the smaller ones equity capital is the most appropriate basis.

Q. But the ratio is about 2-½ times borrowed over equity capital for the smaller loan companies. With the larger ones—I think it runs many times their equity capital, so the amount of money in a business of this kind is far greater than the equity capital and the lender is equally responsible for both.—A. I should think that each individual lender would make his own decision and would have primarily in mind the return he is making on his capital in deciding whether to stay in business or to take his money out.

Q. You yourself say on page 40:

> I believe that lenders who now do 90 per cent or more of the personal loan business in Canada would continue to operate at a reasonable profit under the proposed rates—

This 90 per cent is made up almost entirely of the five companies I have mentioned, and which are listed in table 8. It does not leave much room for any of the smaller companies.—A. I was trying to be conservative. I said at least 90 per cent of the business. I believe a great many of the lenders in the "all others" group would continue.

By Mr. Thatcher:

Q. Is not that the main point of these whole proceedings? If this legislation should pass it will mean that we are just leaving the large American companies in the field, according to that statement.—A. I do not think that is what the statement says, Mr. Thatcher. I did not intend it to mean that.

Q. Since the other companies are doing 85 per cent of the business—Household and Personal alone are doing almost 85 per cent of the business—did you not say a moment ago that the smaller companies would be the ones which would likely go under?—A. It would most likely be the smaller lenders and they are all Canadian. But the statement I made was, I believe, "lenders who now do 90 per cent or more of the business." I did not just say "90 per cent". I said: "90 per cent or more". I think one could add up very quickly several lenders who would certainly continue—

Q. The companies which would likely go under would be the smaller Canadian companies if this change were made?—A. Assuredly—because they far outnumber the others.

Mr. HOLLINGWORTH: Is it not a fallacious argument to assume that many Canadian companies would go under? Is it not fair to assume that most of the profits are sufficiently high that Canadian companies would still be able to earn an equitable return on their money?

Mr. THATCHER: That is not according to Mr. MacGregor's evidence.

The WITNESS: That boils down to the question of what is an acceptable return.

Mr. GOUR (*Russell*): I understood you to say that there were 26 companies —utilities and so on—who were getting about 7 per cent of income on their capital after taxation. This is an important matter because we are dealing, mostly, with Canadian people. I cannot see why a lending company cannot be content to receive the same revenue on their capital as these utility and other companies. You also state, I believe, that 90 per cent of those engaged in this business will be able to continue at the lower rate proposed, but it was also said that 90 per cent will be able to continue at the lower rate suggested, except that they will receive a little less profit. I do not think we need concern ourselves with firms who do not wish to continue in business under these conditions. I wish to congratulate the witness for the splendid brief he has presented to us. And now, Mr. Chairman, I hope you will excuse me as I have to go to another committee, but before leaving I wish to express the hope that the clauses necessary to bring about this legislation will be carried.

The CHAIRMAN: Thank you for your help to the committee, Mr. Gour.

Mr. HENDERSON: I think every one would agree that we want to get for the borrower the best service at the lowest rate, but not to the extent of driving competition out of this field. Somewhere in between there must be a happy medium; I would hate to see this thing develop into a monopoly and I am not quite satisfied with the answer you have given Mr. Michener as to how many of the lending companies would be driven out of the field. We would like to have some idea of how many Canadian companies would be put out of business as a result of this legislation, and if you cannot tell us how many I would like to consider certain factors with regard to this legislation. On page 37 of your statement you say:

> For loans up to $500, being the present regulated area, I estimated that the income would be reduced by about 5 per cent.

On page 40 you say:

> I should not want to minimize or gloss over the seriousness of forcing any lender out of business but at the same time I feel that the great majority of those who might withdraw have the ingenuity to put their funds to other profitable use.

If we cannot be definite with regard to the number which would be put out of business I would like to take into account other factors which would contribute to that result, besides this bill. In table 8 which gives gross earnings before income tax and the interest on borrowed money you will note there is a trend there from 12·6 to 11·8 per cent ratio. This is the lowest in these four years. You have a pretty fair idea of the position and I would like to know what your prediction would be with regard to 1956, as to that trend.

The WITNESS: I do not expect it will be down unless lenders continue throughout 1956 to open as many new offices, for example, as they did in 1955. If they do then there might be some further reduction in 1956. I think we have had a wave of expansion in 1954 and 1955, Mr. Henderson, and I would not look for the same rate of expansion with regard to opening new offices every year—and once lenders get offices into operation it could be expected that they will contribute to their profits.

By Mr. Henderson:

Q. I have in mind one small office which is doing a service which no other company wants to do, and I do not feel we should drive such companies away

so fast without knowing what factors combined with this legislation might push them a little faster, because the community which I have in mind might as a result be without any loan facilities. Would you like to make any estimation of the likely trend of interest rates?—A. I just cannot make any forecast on that matter, I am afraid.

Q. You must have made a forecast in order to arrive at the rate which has been set and I was just wondering if that rate which you set in the preparation of your brief took into account the increase in the interest rate which has taken place, as far as bank interest is concerned.—A. I do not think that many people really expected to see interest rates rise as quickly as they have in the past 9 months, but the rate of interest itself is a relatively small element in the whole rate formula. After all, it is only a matter of one half of one per cent or one per cent or something of that order in 20 per cent or 24 per cent.

Q. But I think an increase in the bank rate is bound to result in an increase in the cost of credit elsewhere; the small lenders who go elsewhere for their funds, and who raise them in a competitive field would have to pay more because the whole field of interest rates, including interest rates on real property, will have gone up considerably. You would have to take interest rates into consideration.—A. I do not think maximum loan rates can be set with such a degree of precision. I do not think one could set a rate that would be appropriate as a maximum permissible charge having regard only for interest rates prevailing today because we know that in the past they have varied a great deal from year to year.

Q. One other question. If you are going to project this information, what in your opinion do you think the losses will be in future in the loan business in Canada?—A. I am afraid this is another place where I am greatly inclined toward caution in any reply I may make because I would not care to project what the trend of losses might be. I can only look at the past and at the present and there is nothing in the past or the present to raise any alarm in that respect, but I would say that if the future shows some radically different pattern of losses from the past then I suppose an amendment would probably be made to the act in order to provide for it, if it were an important consideration.

Q. On page 19 of your statement you say, toward the end of the page:

> The evidence is mounting that borrowers are getting deeper and deeper into debt rather than attaining solvency through loans. No doubt the current trend is part of the ever-growing practice, even in good economic times, of buying on the instalment plan or spending against the future beyond prudent limits. In other words, mismanagement of personal finance rather than misfortune would seem to underlie a great proportion of the loans made.

I gather that you anticipate that at the rate of borrowing that is now going on there might be a chance that losses will increase. Is that really what you mean—or what do you mean by that statement?—A. Well I had in mind dealing with the present situation as far as practicable on a factual basis. I cannot say that in making that statement I had in mind a likely increase in the rate of losses.

By Mr. Thatcher:

Q. Have any companies made the statement to you that they might be forced out of business by this legislation, Mr. MacGregor?—A. We have heard it said and representatives of the association have expressed that view.

Q. In how many cases? I take it this was on behalf of the whole association—not specific cases.—A. The president and some of the other officers of

the Canadian Consumer Loan Association intimated, I think, that the proposed rates were much too severe, and that many lenders would be put out of business. I cannot recall that they stated how many. Perhaps it is fair to say that the tenor of their remarks was that most of them would be put out of business.

Mr. THATCHER: Thank you.

The CHAIRMAN: Mr. Henderson, have you finished your questions?

Mr. HENDERSON: Well, I was just trying to get some more definite information as to how many companies would be "knocked off", but apparently that is very hard to determine.

The WITNESS: That is correct.

By Mr. Henderson:

Q. At the same time we are asked in the legislation before us to decide whether we should give effect to these proposed changes or not. I was hoping that you would be able to take into consideration the factors which we have now—the increased interest rate and any other factors which might have a bearing on the cost of operations, such as the increase in wages, and project them into the future for a period of 9 or 12 months so that we would have some idea whether this was an appropriate rate of interest and whether not too many companies would be put out of business, and whether we should not drive competition out of the field. I was just wondering if—possibly not now, but before we end our discussion—you could give us some projection on those lines?—A. I am afraid I could not. I would not want to guess how many lenders might withdraw. It is true that since this bill was first introduced interest rates have risen somewhat, but I would not want to project the possible effect of that on the lender in the future. There are, of course, some off-setting factors. Business is increasing and the earnings are likely to increase because of the increase in volume.

By Mr. Philpott:

Q. I have three or four questions to ask on that same subject. It seems to me we are coming right down to the most important and basic questions before this committee. I take it, from your whole brief, the main advantage of the proposed reduction of rates would be that the great majority of borrowers would get lower interest rates. As against that, as far as we are concerned on the committee, there would be certain disadvantages, and the one obvious disadvantage would be that a certain number of business concerns in Canada might be put out of business. I see by what you say on page 40 that 90 per cent or more of the personal loan companies would, however, continue to operate. Do you mean by that that 10 per cent of the smaller loan companies might be put out of business?—A. No, I did not; Mr. Philpott. I said: "lenders who now do 90 per cent or more of the business" not "90 per cent of the lenders by number".

Mr. MICHENER: It would be more than 10 per cent by number.

By Mr. Philpott:

Q. More than 10 per cent by number would be affected by the lower interest rates?—A. I did not say that.

Q. What I am trying to do is to get clearly in my mind the balance of the advantages and disadvantages, because that is the decision we have to make here. I gather that, on one side, there would be a certain number of people in Canada who might be put out of business and they are, by and large, the

smaller concerns and, of course, Canadian owned, which is a factor of importance to us. What I want to find out is whether these smaller companies who might be put out of business render a service to the people of Canada which is not rendered by the other companies.—A. That might be so in some particular localities where they are operating alone, but the number of such localities is, I think steadily decreasing.

Q. It has been submitted to me by some of them—and I am not prepared to say what I think of the submission—that in some cases they make loans to people whom they consider to be good risks, but that these same people would not be considered good risks by the big companies who operate on a more "cut and dried" formula. In other words, the other companies would not bother with this type of loan. Would that be your experience?—A. That might be so in some cases.

Q. So that would be one thing which we would have to consider. There is one other possible disadvantage which I can see from our point of view. How true is it that before we had the laws in Canada governing the small loans companies that a good deal of the business was done by what they call loan sharks? In other words, if we put out of business a certain number of people who now do one-tenth of the business, how much of that business which now goes to those licensed small loans dealers would go to unlicensed loan sharks at exorbitant rates of interest?—A. In my opinion, it would be very very small.

By Mr. Monteith:

Q. As I understand it, the companies doing about 90 per cent of the business would probably remain in operation, or something in that nature?—A. Yes.

Q. Do the majority of those companies not bring in their funds for loaning from the United States?—A. The majority.

Q. The majority of the funds used by that 90 per cent of the business comes in from the United States?—A. Yes. So long as Household and Personal continue to supply funds as at present, the majority would come from the U.S.A.

Q. Would there, in your estimation, be any possibility whatsoever of these companies with head offices in the United States finding a more remunerative field in certain of these states which are included in this list where the rates are higher?—A. I should not expect that, Mr. Monteith. I doubt very much if many, or any, of those United States lenders are earning substantially higher profits in the United States than they would earn here.

Q. I notice that some of the states have comparatively higher rates.—A. I think one feature which tends to keep expenses down in Canada is the fact that lenders operate, country-wide, on the basis of one scale of rates rather than ten or forty-eight different scales as they may do in the U.S.A.

Q. Then there would not be any danger, in your estimation, that there would not be a proper servicing of the field of small loans?—A. I may be wrong, but I have expressed the opinion that I think enough would continue to provide adequate facilities.

By Mr. Fulton:

Q. In discussing the effect of this change on the present lending companies, at page 38 you make the statement that the profit rate of one small loans company, Personal Finance, would be reduced to the rate of slightly less than 4 per cent. You go on to say,

> This is probably the minimum level at which a large lender can be expected to operate but there is good reason to expect that this rate

would improve once the expenses arising from the opening of so many new offices and the rapid increase in the volume of new business subside.

I am just wondering on what basis you make that assumption, because would it not be as reasonable to assume that when they opened those new offices they expected to show a profit eventually on the basis of the present rates? In other words, is it fair to ask you to reconsider that statement applying to it the effects of the reduction in rates which the bill would impose?

Q. Yes.—A. Had they known that the maximum permissible rate might be reduced, they would not have opened all these new offices?

Q. Yes. Particularly applying that to those which you mentioned—and it might apply to others—where they find that their profit might be reduced quite appreciably to the extent that it might compel them to re-assess and close those offices.—A. If the company intends to continue operating at all, I think it would probably have opened the offices anyway; because, if you are a lender, after the outstandings, as they are called, reach a certain point it is generally considered by the lenders to be more economical to open up another branch. Unless the company intends to remain in a static position, I think they would have opened up all, or most, of those offices anyway. Perhaps I have not answered your question.

Q. I will put it this way. Expansion is much more attractive when you are making a substantial profit. You have that backlog.—A. Yes.

Q. If that is a fair statement, would it not be as reasonable to assume that the effect of this legislation would be to make them re-consider and close some of these marginal offices? I mean, surely it is fair to say that the present plan of all the companies which have recently opened offices, which you yourself say at the present time are not individually profitable, was based on the rates in existence when they undertook that expansion?—A. Well, they are not profitable at the present rates, but they probably would not have been profitable in the first year on any rates. I am speaking now of last year. With the proposed new rates it is conceivable that some lenders who have opened offices might close some of them; but I can only say that I would not expect that would be the result. Competition again is an important factor. I think most lenders would be reluctant to close an office even if it is a marginal office in a locality where, if they did so, their competitor would be left to absorb all available business.

Q. Is it not also a fair assumption, from what you told us in the brief, that the competition would quite possibly be reduced—competition between larger concerns, to that extent that competition, at least in terms of numbers of those in the field, would be less?—A. I think that the lenders who may withdraw would not likely alter the competitive situation very much.

Q. But the numbers of those may not be less in absolute terms but might be less in terms of numbers of those engaged in competition?—A. I do not think that the withdrawal of a few of the smaller lenders would alter the situation appreciably in any respect.

Q. I was relating it to my question to you as to whether some of the major lenders too would not be led to close some of those offices which they have recently opened?—A. They might, Mr. Fulton; I do not know. I should not expect it, but they might.

By Mr. Michener:

Q. I was wondering; if there is less profit there must be less money available. That seems to be the law of the market.—A. I am not so sure that there would be less money provided by the lender who continues, but there would be fewer potential lenders desiring to get into the field.

Q. You think those who will continue will not be affected by the fact that they will make less profit?—A. I would have to agree that they would, to some extent.

The CHAIRMAN: Gentlemen, we will adjourn and will resume at 8.15 this evening.

EVENING SITTING

8.15 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Thatcher—

Mr. THATCHER: Gentlemen, I would just like to say a word about our meetings. I think that two or three weeks ago the steering committee decided that this committee should sit twice a day and see how we went on while parliament was sitting. I am not objecting too much to the four meetings but I think that if we are going to have four meetings we should arrange them so as not to sit at night. My own position today is that I have had five two-hour committees, some in conjunction with each other, and that, in addition to a sittings of parliament in the morning, afternoon and evening, creates an almost impossible situation. I think that other hon. members are in pretty well the same position and I would ask you to take up the matter with the steering committee to see whether it is advisable to go on at this pace. You can only be in one place at any one time.

The CHAIRMAN: I understand, Mr. Thatcher, that you have probably never encountered a strain like this before.

Mr. THATCHER: That could be, and it is hard work.

The CHAIRMAN: I will certainly take it up with the steering committee. I do really sympathize with your position; you must be getting very weary indeed.

Mr. Fulton, were you through with your questioning?

By Mr. Fulton:

Q. I have one or two more questions if I may ask them, Mr. Chairman.

On page 41 of the brief, Mr. MacGregor, you state:

> Another proposal in the bill is to include in the definition of "cost of loan" any premiums for life insurance or personal accident or sickness insurance arranged by the lender covering the indebtedness of borrowers.

Then, after setting out a number of facts you conclude that there have been increasing signs recently of the desirability of the amendment proposed. I would like to begin by asking you if you could give the committtee the benefit of your observations as to what are the signs of the desirability you refer to? What has been happening?—A. Mainly the developments in the United States, Mr. Fulton, which I described at the last meeting. A great many abuses have developed there and it is quite a serious problem.

Q. Have these abuses developed in Canada?—A. Not yet.

Mr. CAMERON (*Nanaimo*): Mr. Chairman on a point of order— As I recall it the other day, dealing with this question of members who have not been at previous meetings asking for the same information as has already been given to the committee, you at that time expressed the view that we should not have repetitions of questions which have been asked of Mr. MacGregor before.

The CHAIRMAN: Yes, I did express that view Mr. Cameron but it turned out that Mr. Argue, your compatriot, was so insistent on the subject that I did let him do it, and I think in view of the fact that I "leaned over backwards" to be fair to him I think I should do the same for Mr. Fulton.

Mr. FULTON: I was not aware that we had reached page 41 before, Mr. Chairman.

Mr. CAMERON (*Nanaïmo*): Your colleagues have been asking all possible questions on every paragraph.

The CHAIRMAN: It is also very difficult for any two people to ask identical questions, as you will well recognize.

The WITNESS: The practice has developed, Mr. Fulton, in the field elsewhere of arranging life insurance coverage in connection with loans. Sometimes it has been arranged on an individual basis and sometimes on a group basis but the greatest abuses have arisen admittedly in the case of individual coverage—the borrower has been asked to pay the premiums and the lender has usually received the commission and in many cases both the premium paid by the borrower and the commission paid to the lender have been excessive. Sometimes, the coverage has also been excessive. The subject has been investigated by a Senate committee in the United States. The likelihood of abuse is much less in the case of group insurance and in some instances the lender absorbs the whole cost of the group insurance. That is the practice in the case of several lenders in Canada at the present time. They provide life insurance coverage in connection with loans but the whole cost is absorbed within the maximum permissible rate. In other cases in the United States, the borrower is asked to pay for the coverage. There are of course different opinions as to the wisdom of the different arrangements but my personal opinion is that the practice followed up to date in Canada whereby the cost of insurance is absorbed by the lender within the maximum permissible rate is the most satisfactory, and it enables one to adhere to what a good many people regard as the corner stone of good small loans legislation, namely, that the maximum permissible charge should be all inclusive—that there should be no other charges at all to be borne by the borrower. I gave some quotations at a previous meeting from some authorities in the United States on this subject which I think you may find interesting in that regard.

Q. If we were to concern ourselves, through legislation, with the amount of premium that might be charged to the public in order to keep the maximum cost or maximum interest rate down to the lowest possible figure, and then leave it open to the borrower as to whether he wished to incur the extra cost of insurance and regulate the premium that could be charged, in that case would you not possibly get a lower cost on the loan?—A. I would have two main comments to make on that suggestion. One is that it violates the one-charge principle which I think is most important in small loans legislation. The second comment I would make is that I would doubt the constitutionality of legislating with respect to a maximum insurance premium that may be charged. The basis of this legislation as I understand it is that it is interest legislation, and I personally would doubt the authority of parliament to attempt to fix a maximum insurance premium that a borrower might be asked to absorb.

Q. Leaving that question aside for a moment—perhaps we shall hear later from Mr. Varcoe on that subject—and dealing with your earlier statement about the principle of the authenticity of the charge: that would mean to say, in effect, that every loan should be insured?—A. Not exactly. We have the principle in the act now of an all-inclusive charge but only seven lenders do provide life insurance coverage at the lenders expense. Most lenders do not provide such coverage at all.

Q. If you are going to fix your maximum rates to include the portion attribuable to the cost of insurance, is it not the experience that that maximum rate will be charged by all lenders whether or not they insure?—A. That is pretty much the situation now. Most lenders charge the maximum permissible rate of 2 per cent per month but only a few of them provide life insurance coverage as well.

Q. That is the point I was after. If what is sought is to fix a minimum lending rate which will provide for an adequate return to the lender, it seems to me that you could fix a lower reasonable minimum if you did not include the insurance charge and left it to the borrower as to whether or not he insured the loan. If you fix as your maximum rate one which takes proper account of the cost of insurance, it seems to me you are fixing a maximum rate higher than you need in order to include the insurance feature—A. It would probably mean in practice that the more efficient lenders would be more disposed to provide such coverage in connection with loans because they could better afford the cost, but it would still be optional to a lender whether or not he provided life insurance coverage. The proposal would simply mean that if life insurance coverage is provided the charge for it must be included in the maximum specified rate, whatever it may be.

Q. Would the result be that insurers would be included whether or not the buyer asked for it?—A. In all probability if a lender were to make insurance arrangements under the conditions proposed the coverage would be granted to all borrowers.

Q. What was the compelling reason for your recommendation in this case? —A. To avoid the abuses that have developed elsewhere where borrowers have been asked to absorb the additional charge for insurance and the additional charge has in many cases been excessive. It is true that the borrower receives the protection of the insurance but the lender also derives benefit from it because it improves his security.

By Mr. Crestohl:

Q. Where is the unfair element in that arrangement?—A. The unfairness is in asking the borrower to absorb the extra charge, especially if that extra charge results in an additional benefit to the lender.

Q. But you state that the borrower also gets the benefit of protection. He gets a *quid pro quo*—he pays for the insurance and he gets protection.—A. Yes, but the lender gets protection from it too, and for nothing.

Q. Does not the lender incur certain overheads in looking after this operation, in maintaining this insurance system and keeping a record of it, for which he is entitled to some compensation?—A. The additional cost is pretty small. In practice he would probably get the dividends under the policy. It just amounts to a violation of the principle of the all-included charge, which, as I say, has been held to be the best practice.

Q. This coverage can only be arranged through insurance companies and insurance companies are subject to federal inspection and control. I do not see that there is any insuperable difficulty there in stopping the abuses.—A. Of course, so far as supervision of the insurance end of it is concerned, Mr. Fulton, jurisdiction is divided. We, in the Department of Insurance, supervise from the point of view of solvency of insurers and have relatively little to say concerning the details of the manner in which the business is conducted. For example, we have nothing to say about contract terms or the licensing of agents or anything of that kind.

If it is your wish, I shall mention some of the abuses which were found in the U.S.A. in this field. This is part of some testimony before a United States government committee studying this problem. I quote:

> The subcommittee after its exhaustive study, found that there are certain key areas which must be regulated if the abuses of this insurance are to be eliminated and its benefits preserved. The most prominent abuses we feel are: pyramiding, coercion, excessive coverage, and the borrower being deliberately kept in ignorance of his coverage to avoid claims.
>
> An unscrupulous lender pyramids insurance policies in a variety of ways. Primarily it arises where a borrower, after negotiating an initial loan with insurance protection, finds that he needs additional cash. The lender makes the second loan with full insurance coverage, but does not cancel the insurance on the first loan, even though the initial loan is cancelled when the second loan is made. This pyramiding of policies is repeated until the borrower is burdened with insurance far beyond any reasonable need.
>
> We further found that some lenders require excessive coverage which bears no reasonable relationship to the loan.
>
> It was also realized that the lender requiring insurance occupied a position wherein he could control a so-called 'captive market'.
>
> We found that, in some instances, borrowers paid for policies of insurance and were kept in ignorance of the existence of such coverage. In other words, they were not advised of the existence of any insurance.

Perhaps that will give you some indication, at least, of the problems that were encountered.

Q. Well, one cannot overlook the evidence and the conclusions of a committee of that nature; but I would further suggest, with respect but still very definitely, that a lot of the abuses can be taken care of by virtue of the legislation or regulations requiring the disclosure of insurance when it is taken out—I am thinking particularly of the one where it says the borrowers did not know of the extent of the coverage and therefore were not able to take advantage of it. That, it seems to me, could be taken care of. Therefore, I believe that a lot of the abuses can be safeguarded against by other methods than this.—A. Technically, they probably could be through provincial legislation designed to deal with that particular problem, if maximum premiums, and so on, were set. But looking at it from the point of view of small loans legislation based upon interest as the foundation of it, I believe that the only safe course is to stick to the one guiding principle that has been adhered to throughout small loans legislation generally, namely, the specification of a maximum charge which includes all possible charges, leaving it to the lenders to absorb the cost of administration, whatever that may be, and to absorb the cost of insurance if it is their wish to provide insurance coverage with respect to their loans.

Q. With the greatest respect for your opinion—which I do have—but preserving a further difference of opinion with you, might I ask this: if it is felt desirable that these loans should be insured, then it is an argument that surely the sound way to approach it would be to say that every loan must make due provision for the insurance coverage in the way you said?—A. I do not think that it would be practicable to require that insurance coverage be granted. After all, this legislation is designed simply to set a maximum permissible rate which lenders may charge.

Q. Surely our experience is this, that once a maximum rate is set under legislation under which these companies operate, the inevitable tendency is for that to become a ceiling and not a floor; rather to become both a minimum as

well as a maximum?—A. Yes; but at the present time we have one large Canadian lender, at least, charging less than 2 per cent for loans above $500 and also providing insurance on such loans.

Q. Then I would answer you by saying, if that is the case with respect to one of the large companies, then why are you so afraid of these abuses which you referred to in the United States? If our experience in Canada is that these people who are doing a large volume of business can be trusted, then what are you concerned about?—A. The people who do a large volume of business do not presently insure. I mentioned one that does provide insurance.

Q. And the others do not charge for it?—A. There are seven companies that provide it but do not charge for it; they provide it now within the maximum permissible rate.

Q. I fail to see the urgency of the problem.—A. I think one reason is that lenders elsewhere—and I believe perhaps they may be expected to do the same here—may be more prone to make insurance arrangements in order to give additional security and to derive some additional profit, if they can do so, by arrangements outside of the maximum permissible rate. That is how abuses have arisen elsewhere. I suppose, if the maximum rates in Canada are reduced that lenders may naturally look more carefully at other ways in which they may—if they do not supplement their revenue—at least provide better security for themselves at the borrowers' expense.

Q. I suggest that one of the ways that unscrupulous ones will work is by charging the rate set for potential insurance and not giving it, if your argument is correct.

By Mr. Hollingworth:

Q. Would it not be more likely that the so-called marginal operators or pseudo loan sharks would be taking advantage of such as you were mentioning? I do not think that we are too much worried about the largest companies or the smaller reputable companies, but I would think that this would be a device whereby some of the more shady operators in the business would be able to fleece the public. I think that this is probably where the difficulty would be. I do not think that we have to worry about any of the reputable companies, which the great majority of them are, but I think it is probably necessary to take care of the companies which are not now so reputable.—A. I believe under present conditions there is no alternative to ensuring that borrowers are not asked to bear some additional charge through which the lenders benefit either directly or indirectly. One has a choice of one all-inclusive maximum permissible charge or more than one. The present bill adheres to the principle of one over-all inclusive charge.

By Mr. Crestohl:

Q. Would you favour the elimination of insurance?—A. No. I think the present situation is the most satisfactory of all, where lenders, if they feel able and desire to do so, absorb the cost of insurance within the stipulated maximum rate.

By Mr. Fulton:

Q. Surely the cost of insurance coverage is not the cost of making a loan. Perhaps that is where we are arguing at cross purposes. You are talking about all-inclusive charges and I took it that you meant an all-inclusive charge for making the loan.—A. Yes.

Q. Surely the charge on that loan for insurance is not a charge attributable to lending money, it is attributable to protecting the loan.—A. Interest is partly for the use of money and partly for the risk of losing it.

Mr. REGIER: It is a part of the risk.

By Mr. Fulton:

Q. It is another factor in the business of making a loan.—A. It is a factor, or a feature, that has developed in this business and which is closely related to the security for the loan.

By the Chairman:

Q. Are you claiming that the present wording of the act permits an extra charge for insurance, or are you only suggesting that the wording of the act is uncertain?—A. I think it is uncertain. We have interpreted it to mean that a lender can only make one all-inclusive charge. The proposed wording would certainly remove any doubt.

The CHAIRMAN: Possibly we could leave that for Mr. Varcoe.

By Mr. Crestohl:

Q. Mr. Chairman, I am still not clear as to whether or not you are suggesting that insurance should be a compulsory feature?—A. No, I am not.

Q. You are saying that the loan charge should cover all possible costs or expenses surrounding that loan?—A. Yes.

Q. And the insurance?—A. Yes.

Q. Assuming that the lender, under these circumstances, decides, "I will make this all-inclusive charge but I will not insure the loan". Then he will make a greater profit because he does not have the expense of insurance?—A. Yes.

Q. That follows logically from what you said. Consequently, do you not think that that will deter people from borrowing because the lender will hesitate to insure the accounts?—A. Only a relatively small proportion of the loans now are insured. The present situation has not deterred anyone that I can see.

Q. There is no compulsory insurance at the present time?—A. No, certainly not.

By Mr. Fulton:

Q. Do any of the companies in the field at the present time insist that insurance be taken out to cover a loan?—A. One company did back in the thirties before the Small Loans Act was passed but discontinued doing so. I described that practice previously. In addition, there are two relatively small licensees which, as I have said, offer life insurance facilities to borrowers at additional cost to the borrowers, which I also described at a previous meeting, and we have permitted those arrangements to continue because they were made prior to the passing of the Small Loans Act. In those two small cases, theoretically, the coverage is optional with the borrower. But I think it is only reasonable to assume that if an applicant comes into an office to make a loan and the lender says, "these are my terms, but there is also an insurance scheme", that the applicant will probably take the insurance. It is for that reason that I say that I think that the distinction between optional and compulsory facilities, is rather theoretical because it is not very difficult to imagine that one either takes the loan with the insurance or he does not get the loan. I do not say that that is the case, but it could easily become the situation.

By Mr. Regier:

Q. Mr. MacGregor, would you not admit that the situation becomes much more acute when you begin to think of loans from $500 to $1,500, in the bracket that the new legislation is proposing—and that a lot more so-called racketeering—if you like—would reappear, especially in the sale of used automobiles, where the lending company may make as a condition of the loan the provision

that you also take out, through their agency, not only automobile insurance but also life insurance for the remaining unpaid portion of the loan, and that because of the legislation which is contemplated raising the maximum from $500 to $1,500 this insurance feature has assumed much greater significance than it has hitherto in the smaller loans?—A. I suppose it is reasonable to assume that, if the amounts are larger, the possibility of profit to the lender may be greater, but I personally would not stress that point.

Q. Another thing is that you mentioned there are a number of Canadian finance companies, or companies which are under your jurisdiction, which have been giving this insurance free; and then you pointed out what is happening south of the border, and your insistence on this is merely more or less a precautionary measure. Would you not admit that some Canadian finance companies now operating in Canada are using this weapon as a club over the heads of their customers before they will grant the loan, and that we need not necessarily refer to what is happening south of the border because we actually know that some of it is occurring here right now in our country?—A. Have you in mind licensed or unlicensed lenders?

Q. I had more specifically in mind now those within the $500 to $1,500 field. They would, I suppose, be unlicensed?—A. Yes. I really do not know what insurance arrangements the unlicensed lenders operating in that field may have. However, I have in mind one case where an acceptance company, not under our jurisdiction at all, made arrangements that I think were very much open to criticism. It is that kind of thing which I have in mind in suggesting, as I did in one place, that there have been increasing signs; that was one of the signs.

Q. The company of which I was thinking handles the financing for one of Toronto's—if not the largest, at least one of the largest—automobile agencies, the Associated Discounts Limited. I do not know whether or not they are licensed. However, they will make you take out the automobile insurance through them, in addition to which you must take out life insurance with them. It specifically says on the policy that if the loan is repaid before the due date, there will be no cancellation or refund of the life insurance. I know that any of the customers who are smart enough insist on a refund and are able to get a refund, a refund commensurate with the protection which they have had. However, I am also willing to believe that 90 per cent of the customers are either afraid or are too ignorant of their rights to insist on the refund and do not get the refund. It is things like that which I think will be avoided if your recommendations are enacted.—A. That company is not licensed I might say, under the act, Mr. Regier. It does not make loans of $500, or under. It operates in the other field.

Q. However, under the new legislation it would be?—A. If they make loans up to $1,500 they would be required to obtain a licence.

By the Chairman:

Q. If they are in the loans field rather than in the discount?—A. That is quite right, Mr. Chairman.

By Mr. Henderson:

Q. Mr. MacGregor, before we hear Mr. Varcoe, I would just like you to explain—if the licensee comes in to you—what procedure do you use prior to your approving the applicant for a licence?—A. I should not like to say that we have any standard treatment that we accord applicants, Mr. Henderson. The first thing, of course, is to investigate the corporate status of the applicant to ascertain its powers. For one thing, we always endeavour to ensure that the corporate powers of a licensee, however incorporated, whether by letters patent

obtained in a province or otherwise, conform to the powers that are set out in section 14(a) of the Small Loans Act, being the powers that a small loans company incorporated by parliament would receive. In other words we attempt to ensure that licensees have uniform corporate powers. Secondly; we endeavour to ensure that the capitalization of the proposed company is appropriate having regard for the likely extent of its operations. We are obliged, under the act, to satisfy the minister that the applicant, if licensed, will carry on the business of money-lending with efficiency, honesty, and fairness to borrowers. Those are the words used. So that we always seek to ensure that the central figure in the operating office is a man experienced in the small loans business. If the applicant has been operating already in the lending field, perhaps above $500, or in some manner not requiring a licence, we naturally seek to ascertain his record.

The CHAIRMAN: Mr. Henderson, I wonder if you could speak up. It is very difficult to hear you.

By Mr. Henderson:

Q. Mr. Chairman, after that, we could presuppose that upon the passing of this legislation in accordance with your predictions at pages 40 and 41, where some licensees will sell out to other companies. Now, what procedure do you use upon the assigning of licences to the purchaser of another company?—A. It would depend whether one of the parties were a small loans company incorporated by parliament or not. If it were a small loans company incorporated by parliament we would, of course, ensure that it follows the procedure that must be followed by such a company under the Small Loans Act, and the Loan Companies Act, which also applies to it. In the more usual case, where the contracting parties are provincially incorporated, we would not stipulate any particular procedure, except that the sale, or the merger, be by way of agreement signed by the two parties, and we would request a copy of the agreement.

Q. Expecting that there will be some that will have to be sold, and their contracts taken over by larger companies, would it not be easier to cancel that licence, from the department's point of view, and from your supervision point of view?—A. If it involved the complete sale of a licensee's business the licence of the company selling out would not be renewed following expiration.

Q. It would be incorporated—that is, if you had 132 licensed now and six were sold to existing companies you would cancel out those six licences, and at the next term they would be incorporated with the purchasers licence?—A. I am not sure that I understand your question, Mr. Henderson.

Q. Do they renew their licences each year?—A. Yes.

Q. Then when the company renews its licence, you would not renew the licence of the company that had been purchased?—A. We would not renew the licence of any lender that had disappeared through selling his business to another licensee.

Q. But there would still be available, if you wanted to trace who the lender was—there would be available in the records as to what disposal was made of the licence?—A. The licence would simply not be renewed.

Q. But it could be traced?—A. I beg your pardon?

Q. It could be traced if any action was to be taken against that licensee?—A. We keep a complete record of every licence issued, and the subsequent history of it.

Q. When you renew these licences each year, Mr. MacGregor, do you ever call the licensees in and have them justify something they have done, or have not done, or is the renewal just automatic?—A. We review every case before the licence is renewed but do not usually call licensees in at the end of the

licence year. I cannot recall any case where we have done that. If we have a matter for discussion with a licensee during the year, it is usually taken up at the time and settled.

Q. If, Mr. MacGregor, the loan business were concentrated in four or five companies, eventually, do you think your administrative department, as it is now, could handle the supervision of those four or five companies, or would it entail greater supervision than at the present time?—A. I would think, or at least hope, that that is a hypothetical question, Mr. Henderson, and that we would have more than four lenders. But, if that were the result, I could not say, offhand, that the administrative problems would be increased. The number of licensees to be dealt with would be smaller and the volume of business would be the same or approximately the same.

Q. I was just wondering if, in your words to Mr. Fulton that these companies, since they have lower interest rates, they might be looking for other ways to supplement their incomes, being larger, as they are, or could be, it would be more difficult for you to supervise?—A. I do not think so. I do not think size would make any difference.

Q. What I was really getting at—and I was impressed with the brief, is to ascertain how much of the share of the national economy these loan companies are involved in. I was also impressed with the Banking and Commerce committee some two years ago when the banks were back for the renewal of their charters, and wondered if that policy would not be a good idea to follow as far as the loan companies are concerned. You recall the Banking and Commerce Committee, when some of the banks were making remarks about another bank going into the small loan business, the Bank of Commerce. It is a good place to air your difficulties. They became large entities, and the larger they become, I submit the more difficult it is for you as superintendent of a branch of government to control. Would it not be a good idea, that since the field will be narrowed down, that these licensees should present themselves before a committee every so many years and let us have a look at what they have been doing? It would not only clear it for the public, but it would clear it as between themselves, so that there will not be unfairness as between them. —A. I really do not think that the size would make any appreciable difference as an administrative problem. There are some licensees now—one in particular that is very large. There are a large number of small ones; some very small. So also in the insurance field we have some giants, and we have some very small companies, but the administrative problems are hardly proportionate to size.

Q. My problem was in suggesting that of another problem, Mr. MacGregor. When we take the small company or the competitive companies in small areas out of the field, we may find that the bigger companies, because they are not too profitable, are not opening branch offices to service those localities. Such instances as those, it flashed through my mind, might create a problem that you might have to handle, and it would become very difficult. I just wanted to get your opinion while you were available.—A. We really are not worried about that, I must say, Mr. Henderson.

By Mr. Michener:

Q. Mr. Chairman, I think we are nearing the end of Mr. MacGregor's testimony, and I should like to assure him that although my questions have been somewhat searching if not critical, I have not disagreed with all that he has said. I would like to thank him for his assistance to the committee in describing the operation of the act as it has been administered. He expresses the following sentiment in his last paragraph when he refers to the good cooperation of the licensees as a whole, "there can be no doubt conditions in

the regulated field of loans have greatly improved since the act was passed". I think the committee as a whole will subscribe to that statement completely. I personally feel that the all-inclusive charge is a sound basis of regulation. I am not so sure about the legality of it, but we may hear something about that from Mr. Varcoe.

Mr. Fulton has raised the question of the legality of incorporating the insurance premiums as an element of an interest charge, but it seems to me that the principle of a maximum all-inclusive charge has been the secret of the successful administration of this act, and has eliminated from the field the unscrupulous lender.

Now, the thing we have to decide is whether the maximum is too high, and whether there would be a reasonable margin for operation by the ordinary average business man under a lesser rate. There are just one or two questions that I have not satisfied myself on, and that I want to conclude with.

One comparison that Mr. MacGregor made was with the mortgage loan companies, which are also licensed and administered under his jurisdiction. The rate of return which they have been earning on their paid up capital was 7 per cent, I think, or 7½ per cent.—A. About 7 per cent in 1954, before transfers to reserves.

Q. Yes. Now, that as I pointed out earlier, is in a field of relative security as compared to the personal loan. What I would like to ask is whether there is any clamor to get into that field? How many people have applied for licences under that act in the past year?—A. Only one, Mr. Michener. But, the reason is that the original purpose of loan companies has been altered a good deal. The original purpose, of course, was to provide mortgage money for loans on real estate. The loan companies raised the money by the issuance of debentures, or the acceptance of deposits from the public, and lent it in that way. As time went on, however, the life insurance companies, especially, and other institutional lenders, became a very important source of mortgage funds. So that the original need of the loan company, as such, was to a substantial extent reduced. There have not been very many loan companies incorporated in recent years. There was one incorporated by parliament a year ago.

Q. A year ago. That is the only one in many years?—A. That is the only one that I can recall in 10 or 15 years.

Q. So that I think one might conclude that in that field, that attractive field of lending, where the security is substantial, and the return is 7 per cent, there is no expansion of the number of people, the number of companies, doing business?—A. Not dominion companies, anyway. There have been a few provincial companies incorporated.

Q. Now, another question which is merely by the way. I was struck by a phrase that you used, Mr. MacGregor about those who are in the business having sufficient ingenuity to put their funds to profitable use elesewhere, assuming they cannot operate under the new rates. I would like to ask you this: do you intend to say that it take considerable ingenuity to remain in the loan business, and therefore, that those who are in the business have a certain amount of ingenuity?—A. I did not really have that in mind, Mr. Michener, but rather that many of the lenders have associated companies—acceptance companies, or the like.

Mr. CAMERON (*Nanaimo*): I do not know why one should complain, I think that is a very kind word, Mr. Michener. I myself would be tempted to use a much harsher word.

By Mr. Michener:

Q. It just occurred to me that if it was the kind of business that required such ingenuity to remain in it, really we should not consider doing anything that would drive—that would make it impossible, or set a higher standard than the standard of the ingenious. However, that is just by the way.

Now, I think a good many people might be shaken a bit by the theory which you advanced about, the place that advertising plays in this business. I am not referring to the type of advertising but to the quantity. You suggested, Mr. MacGregor, that business would be as well off with half as much advertising as the present amount. In other words, if 10 per cent is spent in advertising, and it has been reduced to 5 per cent of the gross return, then it could just as well be reduced by half again and nobody would suffer. Now, it strikes me that that it a pretty dangerous proposition for any government to undertake to present to a business. I wonder whether you are advancing that seriously as an answer to a reduction in the rates; it never has struck me that it has been the role of any administrative bureau of government to see how much or how little advertising a business might do. That surely is within the realm of business judgment. If too much advertising is done, the return does not repay the expense, and vice versa.—A. I had no thought of suggesting any particular limit on advertising. As I mentioned before, Mr. Michener, I do not think it would be practicable to do so anyway. But, I do think that some money might be saved under that head. The question of advertising was investigated very carefully in Britain when the Money Lenders Act there was under consideration in 1925 to 1927. Rightly or wrongly, in their wisdom they decided to abolish all circulars. I personally have received three circulars from one lender this year already. I think each of those circulars, apart from the postage on it, must surely have cost 10 or 15 cents.

Q. You are fortunate in not having received three circulars from a thousand other businesses as well, because most people's waste paper baskets are full. But, are you seriously suggesting to the committee that the federal government should concern itself with the amount of advertising which this, or any other business does?—A. Not seriously in the sense that action should, or could be taken to do anything about it.

Q. Well, if it cannot be taken, why are we bringing that element into the consideration of the rate, because I agree with you that it cannot be properly taken. The only way you could reduce advertising would be by a combination of the lenders, which would be perhaps regarded by Mr. Varcoe as some kind of combination in restraint of trade. Certainly the advertising agencies and the newspapers would regard it as restraint of trade. I think they would be somewhat disturbed by even a suggestion that it is a proper matter for regulation by the federal authority.—A. I made it as an observation only, namely that I thought some money could be saved under that head if lenders think these rates are too restrictive.

Q. If we take it on that basis, perhaps that is sufficient. But, undoubtedly, if no advertising would be done, or could be done that would be a saving in the expense; but, what the consequent result would be in business is not for either me or you to say, I suggest. We cannot estimate it.

Mr. CRESTOHL: And if no salaries were paid to the directors we would have a further saving.

Mr. MICHENER: We might suggest reducing a good many things by half, taxes by half and salaries of civil servants by half, and if we are going to reduce the indemnity members by half, I think we might make it a general 50 per cent reduction all around.

Mr. CRESTOHL: And also cutting the salaries of stenographers in half would be a further saving.

Mr. CAMERON (*Nanaimo*): And we might even cut lawyers' fees.

The CHAIRMAN: Gentlemen, could I interrupt this lovefest and ask you to get on with the questions?

Mr. MICHENER: Thank you, Mr. Chairman. The other point is this: there is a suggestion made, the validity of which I should like to see demonstrated, that because of this increase in advertising more people will be induced to borrow. Now the reason a person borrows money is known in his mind alone, when he applies for a loan, and he expresses it when he applies for a loan—

The WITNESS: I suppose that advertising is generally designed to increase business, is it not?

By Mr. Michener:

Q. The test in this question is what information you have on it. Are these opinions expressed to you in the course of inspections by your inspectors? Do your inspectors do more than examine the books and the staff of the companies? Do they undertake to ascertain the method of operation, or do they sit in with the lender's officials in their interviews with applicants and gain a knowledge of the state of the borrower and his needs?—A. No, our examiners do not as a rule do that at all. I may say that in my earlier days, however, in checking some of the accounts in lenders' offices I have sat next to the booths where applicants were interviewed and I have heard some of the discussions, but that was accidental rather than by design.

Q. It is not a routine part of your supervision?—A. No.

Q. So the opinion you express as to why a borrower might need money and go to a loan office to get it is drawn, in the same way as my own, from a knowledge, or possibly a lack of knowledge, of the exigencies of ordinary life?—A. To some extent, but I assume that usually a borrower has a particular need and it is only for that need he seeks a loan. The kind of advertising I have in mind is of a rather different nature—where, for example, it is suggested that if one wants to go on a vacation somewhere he might very well apply for a loan for that purpose. I think that is rather different from the need to meet a medical bill or something of that kind.

Q. It is a different kind of thing but you know as well as I do that the reasons for which people want money are unlimited; there are a great many different needs and it is not possible to draw an exact line and determine what is a legitimate need. So far as the reasons for which people want a loan and the creation of an appetite through advertising and the number of offices established I am quite unconvinced that these have any effect in increasing the amount of borrowing. As you know, the amount of instalment purchasing today has grown out of all proportion to what it was even two years ago and this increase in borrowing from personal loan companies is an aspect of that same habit which people have today of spending their future earnings. If you have any concrete evidence to place before the committee for the suggestion that the existence of these companies which provide a service also create an appetite about which there is something wrong or unhealthy or immoral I would like to hear what it is because that is the point which is referred to and it has not been demonstrated.—A. I think it is relevant to suggest that lenders might save some money by reducing advertising. I think I also suggested that their relative position would remain about the same. Actually I feel that the position of the smaller lenders, if concern is felt for them, might be improved, because I would think that the absolute volume of advertising done by the larger lenders at the present time might tend to smother the little advertising that is done by the smaller firms. I think this is a place where some money could well be saved if it is felt that the proposed rates are too restrictive.

Q. If they choose to lose their profits through unwise or unnecessary advertising that is the prerogative of the man in business.—A. If they just lost their profits, and that were the end of it, perhaps nothing more need be said, but I do not think that would be the end of it; I think the next step would be to seek a larger permissible charge to enable them to make a reasonable profit.

Q. Still, I think our task is one which requires a pretty fine discretion. The task, as I understand your evidence, is to fix an exact rate at which the efficient operator can continue in business with a reasonable profit.—A. As long as there are enough efficient operators in the land to provide adequate facilities.

Q. I know, but the object is to fix a rate which gives no margin to any but the efficient operator by the standards you have assessed as providing a reasonable profit.—A. Of course, we in the department have simply been guided by what we believed to be the main objective of parliament and of this committee 15 or 20 years ago, namely to obtain the best procurable rate for the borrower.

Q. I think that is the objective of parliament still—the objective is first to secure a business which is run in a proper manner with due regard to the interest of the borrower. The act states that that is your responsibility, and you have paid a tribute to your licensees as having done just that. Now we come to the question of the control of the rate itself, which is not an easy problem. We shall hear representations from the companies concerned, but I take it no borrowers are going to testify—

Mr. CRESTOHL: I think parliament is also concerned in preventing an invasion of the freedom of trade and when we propose that a company should only spend so much on advertising and only pay so much to its directors, I think it amounts to an infringement of the freedom of trade.

Mr. CAMERON (*Nanaimo*): I wonder if Mr. Crestohl and Mr. Michener would like to get on the stand and let us ask them some questions? It seems to me they are mistaking the purpose of the committee, and what a witness should do in front of it.

Mr. CRESTOHL: If I want to give evidence I shall ask the permission of the chairman and not depend on your decisions.

The CHAIRMAN: I think those two members are adopting an unfortunate attitude and one which until now has eminated entirely from your party.

Mr. CAMERON (*Nanaimo*): What emanated from our party?

The CHAIRMAN: The reporter will repeat what I said.

The REPORTER (*reads*):

> I think those two members are adopting an unfortunate attitude and one which until now has emanated entirely from your party.

The WITNESS: May I make an observation on your comment, Mr. Crestohl?

Mr. CAMERON (*Nanaimo*): Oh no, witnesses are not allowed to.

The WITNESS: I hope it will not be taken that I am suggesting a limitation of any kind on adversing or on salaries, but I do feel that in studying the matter of what is an appropriate maximum permissible rate to be charged one must understand and ascertain as far as possible what the expenses are that are being incurred by lenders.

Mr. CRESTOHL: I realize that. I go along with that.

By Mr. Michener:

Q. I have one more question to ask. I believe that this matter was considered before a committee of the Senate and there was a newspaper report which I would like to draw to your attention. I want to ask whether what you said there does express your attitude—it follows on what Mr. Crestohl had to say—and one thing I have felt about the office of superintendent—

Mr. REGIER: On a point of order Mr. Chairman. I believe we are discussing Mr. MacGregor's report and not something that happened before the committee of the other place. Unless this has a direct relationship with Mr. MacGregor's report I maintain it is entirely out of order.

Mr. MICHENER: It is customary to hear the question before raising a point of order.

Mr. CAMERON (*Nanaimo*): We have heard so many of your questions and they are all the same kind.

Mr. MICHENER: I will come to the question. It was a report of an opinion expressed by Mr. MacGregor that there are too many companies in the business at the present time, and I wonder whether that was an accurate account of the view taken by Mr. MacGregor of the small loans field under his jurisdiction. The report I have mentioned it was printed in the *Globe and Mail*—the opinion you are alleged to have expressed.

The WITNESS: Well, I think I know the report to which you are referring and I can only say I am afraid there were a good many inaccuracies in that report. Unfortunately there was no verbatim record made of the proceedings, but some of the inaccuracies will be obvious to you because even in the reference to the present bill the rates mentioned there are inaccurate. I felt compelled—

Mr. PHILPOTT: On a point of order, Mr. Chairman, I think the witness has been on the stand for several days giving us the most complete cooperation and he has answered our questions at great length. I do not think he should be cross examined on some hypothetical thing, he is alleged to have said.

The WITNESS: As I say, I felt compelled to correct the inaccuracies that appeared in it.

Mr. MICHENER: I am glad to have your answer. The relevance of this, Mr. Chairman, is that we are asked to approve a reduction in the rates which obviously will have the effect of reducing the number of lenders in the business and if the Superintendent of Insurance feels that there are too many lenders in the business that is a material consideration.

The CHAIRMAN: Is that a suggestion or a question, Mr. Michener?

Mr. MICHENER: That is a question, unless I take Mr. MacGregor's answer to mean that he was not accurately reported, in which case I will leave it there.

The WITNESS: I would rather answer by saying that the increasing number of applications for licences and the increasing evidence of interest manifested in the field by additional external operators has given us some concern within the last two years especially during the past year and my personal opinion is that the lending facilities will become excessive if this carries on. The trend is in that direction.

Mr. MICHENER: That concludes my questions and I want to thank Mr. MacGregor for his willingness to meet all these questions and deal with them.

Mr. FOLLWELL: Mr. Michener asked quite a number of questions and opened up several fields for discussion. There was one matter which I wanted to pursue further before Mr. MacGregor rose, however, and that was with regard to insurance coverage. A great deal has been said about this but I would like to know how this insurance coverage is handled. Is a regular insurance policy issued for each loan and given to the borrower?

The WITNESS: If there is a group contract entered into between the insurance company and the lender then a certificate or notice is customarily issued to the borrower indicating the extent of his coverage.

By Mr. Follwell:

Q. Would it become part and parcel of the conditions of the loan? I take it it is not part of the contract but that it is something additional, in the same way as a man might buy an insurance policy to cover his automobile or his home.—A. It might be or it might not. It would depend on how it was arranged. It could be a collateral contract. It would more likely be a collateral contract if it were arranged on an individual basis in which case there would be an individual contract between the insurance company and the borrower. Usually, the coverage is in fact exactly equal to the outstanding balance of the loan, and in those circumstances it becomes, in a practical sense at least, a collateral document to the loan agreement. The coverage is directly related to the loan.

Q. Does the loan company, then, which gives a loan of $500 arrange a policy of $500 to cover that?—A. Five hundred dollars or the residual balance outstanding on the loan until it is fully paid.

Q. The insurance coverage would be reduced as the loan was paid?—A. It ought to be. That is the usual arrangement under group creditor schemes.

Q. If this is arranged as a separate item, does a borrower pay for a $500 insurance coverage when he gets the $500 loan for the full period of repayment?—A. That touches one of the abuses that I mentioned as having arisen in the United States where excessive coverage is paid for by the borrower; in some cases he did not even know what his coverage was. Ordinarily if insurance is arranged under a group creditor policy, the coverage is exactly equal to the outstanding balance of the loan, but in schemes of that kind arranged in Canada today by the seven lenders I mentioned the whole of the cost is absorbed by the lender so there is no question of the borrower paying any specific additional amount at all for an insurance premium as such.

Q. Did I understand you correctly as saying there were no loan companies in Canada which are now charging an additional amount for insurance coverage?—A. There are two small ones which had such arrangements in 1939 and we have left these undisturbed, though with some concern. I must admit that we have felt some uncertainty whether to permit those arrangements to continue. As I say, there are only two, both being relatively small lenders.

Q. Are the loan companies permitted to carry their own insurance and to charge a fee for doing so?—A. I think not. I think there is some doubt as to the position but our view is that they ought not to do so under the present legislation and the purpose of the amendment would be to remove any doubt in that respect.

Q. Are any loan companies at the present time carrying their own insurance and charging a fee for doing so?

Mr. FULTON: You mean putting the fee into their own pockets and saying they are carrying the insurance risk—in other words, gambling on it?

The WITNESS: I do not think so.

By Mr. Follwell:

Q. In regard to advertising, I think you said that the larger companies would be doing so much advertising that what advertising the smaller companies might do might very well be ineffective. Did I understand you to say that?—A. I had in mind that if the absolute volume were reduced it might benefit the smaller lenders if it had any effect in a relative way.

Q. I always found when I was in business that when business was not too good or when you were meeting difficult competition you had to advertise a little more. Would that not follow in this business? If the large companies do considerable advertising or begin to take business, might not the smaller companies have to do more advertising of necessity, with the result that their advertising expenses would increase?—A. That probably would be the case, but they are the ones who could least afford to do more advertising because they have a narrower margin as it is.

Q. You said, "In other words, mismanagement of personal finances rather than misfortune would seem to underly a great proportion of the loans made." That is on page 19, at the end of the second paragraph. I might read it again—and I must ask the indulgence of the committee, because I will admit that I did miss one meeting of the committee, and it is quite probable that I missed this particular section. As a matter of fact I did. However, Mr. MacGregor, you said, "In other words, mismanagement of personal finances rather than misfortune would seem to underly a great proportion of the loans made." Does this suggest or does it not suggest that when a borrower goes and gets a loan on account of mismanagement that the losses might tend to increase? The chap is already a mismanager and he gets more money to play with. Would you say that the losses would then—eventually they must finalize and the proportion of loans would increase.—A. I think it is always a possibility, Mr. Follwell, but I really believe experience alone will show whether losses are going to be heavier or not. There is no evidence, up to date, of any seriously high level of losses. I made that comment partly because some of the lenders advertise that if your monthly instalments now for goods bought on time are onerous that perhaps a loan would help to ease the pressure and spread them out. I have received circulars myself to that effect. This, I think, suggests that some folk become over-committed in buying things on time, and then they come to the small loans companies—in fact they are invited to—to ease the pressure.

I think it is mismanagement when people buy so much on time that they cannot carry the monthly payments, and then must seek relief through a loan to spread them out further. And I also had in mind in making that statement the trend toward larger and larger loans, and the high proportion of current and repeat borrowers who are coming back all the time for another loan, usually a larger loan. Those were the main thoughts I had in mind in making that statement.

Q. But, Mr. MacGregor, that is actually your opinion in the brief. You are not suggesting that the government—you are not saying that the government are saying that people mismanage their funds—or are you?—A. Perhaps I misunderstood your question.

Q. When you say that this is mismanagement, that is your opinion?—A. Yes.

Q. Not as an opinion of the government that people are mismanaging their funds?—A. This is my purely personal opinion.

By the Chairman:

Q. Mr. MacGregor, the thought did occur to me when I read that, that there was a certain inconsistency; you give as your opinion that mismanagement of personal finances seemed to underly the greater proportion of loans made. And at the same time you point out that the percentage of loss is phenomenally low, less than half of one per cent. It did strike me at the time that mismanagement—if these loans are the result of mismanagement, then why are the losses so exceedingly low in the small loans business? I am sorry to intrude myself on the proceedings of the committee, but that thought has

occurred to me all through this.—A. Well, I suppose the beneficial advice that the lenders give to these people results in re-establishing their finances on a sounder basis.

By Mr. Hamilton (York West):

Q. Would it mean that the evil day of accounting is to be postponed always by taking out new loans in larger amounts?—A. It is possible; they are spreading out their burden into the longer future, in many cases.

Q. But we might reach the stage where there could be a crisis of some kind arise when they had over-stretched themselves with the new loan?

The CHAIRMAN: You mean that the day of reckoning is coming!

The WITNESS: Yes, but the lenders have some reserves built up against that rainy day. They maintain reserves about equal to 3 per cent of the balances on their books which, at the present rate of loss, is about six times the annual losses suffered.

Q. The companies might be all right, but the borrowers might not be.

Mr. HENDERSON: Table 7, which has been discussed—

The CHAIRMAN: Mr. Henderson, do you mind if we complete Mr. Follwell's questioning?

By Mr. Follwell:

Q. When you suggest that loans are being made to some people at the interest rate of 80 per cent per annum, that this is mismanagement on the part of the borrower— —A. No, I am not. And the practice of that lender is not generally to make loans at that rate. As I mentioned before, that was an isolated instance.

Q. I was interested in asking Mr. MacGregor, Mr. Chairman, if he could give us an idea as to how he arrived at setting rates. How do you make up your mind about what a rate should be, and what factor you take into account?

Mr. CAMERON (*Nanaimo*): He has a crystal ball, and consults astrologers!

The WITNESS: I do not think one could suggest a maximum rate based upon any single approach when there are so many lenders in so many different circumstances. Some are large and some are small. I think one must have regard for several criteria, some of which are more appropriate for larger lenders than for smaller lenders. As I said, it may be more appropriate to gauge the earning capacity of the larger lenders, having regard to the funds employed. But I do think for the smaller lenders, it is more appropriate to have regard for the equity capital or proprietory interest in his business. These proposed rates admittedly involve relatively small margins, but there is some reasonable margin in them, both for larger lenders and small lenders.

Of course, there is another factor, that of income tax. Income tax is a most important feature, and it is much more important—or, rather, the impact of income tax is much less on the smaller lender than on the bigger lender.

In the case of the smaller lender, as you know, the first $20,000 of taxable income is subject to taxation at only 20 per cent, and a large proportion of the small lenders are in positions where all or most of their taxable income falls in that low income tax bracket. Most of them are in that position.

So that, the impact of taxation is less severe on the smaller lender than on the bigger lender. But in the case of the bigger lender, $20,000 is of no material importance to him. Most of his profits, most of his taxable income is taxed at the higher corporate rate of 47 per cent. So that even though the margins may appear to be relatively smaller for the smaller lender, there is some relief when one has regard for the lighter tax burden that he bears.

By Mr. Follwell:

Q. You are suggesting that because he does not make as much money then, naturally, under our basis of taxation he does not pay as much tax?—A. He not only does not pay as much tax, but he is taxed at a lower rate.

Q. Yes, I mean that; he does not pay as much tax because he has a lower rate?—A. Yes, relatively the burden is lighter.

Q. Do you take into consideration the matter of all the expenses of maintaining the office and whether or not it is an office that is in a large urban centrer, or in a smaller center, such as a village or a town?—A. It is hardly practicable to take features of that kind into account in suggesting a maximum permissible rate applicable to lenders of all kinds in all sorts of situations.

As I have suggested in the brief, some lenders might withdraw under these proposed rates. Some higher maximum permissible rate than that proposed would be necessary if it is desired to retain all or practically all the lenders who are now licensed.

Q. What you are saying is that under these proposed rates it is quite probable that the larger companies would be able to carry on and make a reasonable profit but, by the same token, smaller companies would probably go out of business?—A. I think some of the smaller ones might withdraw, but by no means all of them.

Q. Just the small, small ones.

Mr. CRESTHOL: It depends upon—

The WITNESS: Not necessarily the smallest. One of the smallest companies has operated at 1·8 per cent or less than that ever since it was licensed in 1939—I mentioned it in the notes.

Mr. CRESTOHL: Would your suggestion of ingenuity come into play at this point?

By Mr. Follwell:

Q. Mr. MacGregor, what would you estimate as the percentage reduction of net profit if we had this bill in effect for 1955, let us say—what percentage would the companies have had as a reduction of net profit?—A. I have estimated that the "all others" group, excluding the relatively new licensees that operated at a loss in 1954 and 1955 would have had a net return on equity capital of approximately 6 per cent—that is the rate I mentioned. In 1955 they had an actual return of 11·7 per cent. I show 2·9 per cent opposite "all others in table 9"; but in the footnote I explain that by the exclusion of those recent licensees that operated at a loss the rate would have been 11·7. So I guess in answer to your question the reduction would be from 11·7 to approximately 6 per cent.

Q. And then it would be almost cut in half, is that right?—A. Pretty nearly, although I think my 6 per cent is, again, on the conservative side. It may be nearer 7 than 6, but I stated about 6 per cent.

Q. You, for instance, would arrive at that estimate—what factors would you take into consideration? Would it be the number of loans?—A. I took into account the distribution of their business by amounts—that is to say the volume below $500 and the pattern of the loans between $500 and $1,000 and $1,500, and the proportion of loans above $1,500. I assumed reductions of the order that I mentioned, applicable to each particular range, making no reduction for conditional sale agreements and no reduction for loans over $1,500, a 5 per cent reduction in income from small loans under $500, and 24 per cent and 38 per cent for loans between $500 and $1,000 and $1,000 and $1,500 respectively.

Q. Then, what you would have to know is how much money they have out at 2 per cent and how much they have out at 1½ per cent?—A. That is not difficult, because most of them charge 2 per cent, and we have information about the rates charged by each licensee, or practically every licensee.

The CHAIRMAN: Gentlemen, at this point may I ask Mr. Cawker if he would try to line up the order of the witnesses for the Canadian Consumer Loans Association? I understand that you have Mr. F. S. Picard, who will give evidence in French. Would you try to give us some idea of the order in which he will come in your evidence, so that we can have an intepreter here.

Then, also, gentlemen, when we finish the evidence of Mr. Varcoe,—and I assume that will be at the next meeting—I wonder if you would bring along the brief that was furnished to you by the Canadian Consumer Loans Association, because those briefs are in short supply, and we have had them distributed to everybody. I would be obliged if you would do that.

Then, incidentally, subject to any change of plan that may be decided by the committee tonight, the next meeting will be at 3.30 on Thursday. We have not quite finished. We have five minutes to go; have you finished, Mr. Follwell?

Mr. FOLLWELL: I have another question Mr. Chairman.

The CHAIRMAN: I am sorry to interrupt you.

By Mr. Follwell:

Q. It is perfectly all right, Mr. Chairman. Mr. MacGregor would the proposed rates result in some reduction in income for a company with most of its money in loans above $500 as compared with a company with most of its loans below $500?—A. Yes, the impact would be more severe for lenders with a larger proportion of business between $500 and $1500. The impact is more serious for loans of lenders in the "all others" group, because they have a larger proportion of their business in that area.

Q. Then the company that loans over $500 would probably feel it a little bit more than the company with all their loans, or most of their loans, under $500?—A. Yes.

The CHAIRMAN: Does that exhaust you Mr. Follwell?

Mr. FOLLWELL: It does not exhaust me, Mr. Hunter, but I assume the witness will be here on another occasion?

The CHAIRMAN: We have several more people we wish to question. If you are through for the time being, Mr. Cameron, you have a few minutes.

Mr. CAMERON (*Nanaimo*): Yes, I suppose I have a few minutes, Mr. Chairman. Remarkable! I do not know what you were referring to just now, Mr. Hunter, about something having emanated from this party in reference to the cross-talk that we had between Messrs. Crestohl and Michener. I have no recollection of any members of our party being engaged in that. But, what I did evidence, and recall, sir, is the continual studied insolence from the chairman directed to members of this party.

The CHAIRMAN: You should be careful Mr. Cameron; you might break my heart!

Mr. CAMERON (*Nanaimo*): Oh, yes. I am not concerned about your insolence, because I realize you cannot help it. But, what I am concerned about is the evident determination of certain members of this committee to prevent this bill being reported out of the committee.

Some hon. MEMBERS: Hear, hear.

Mr. MICHENER: Do not talk nonsense.

Mr. CAMERON (*Nanaimo*): I might commend Mr. Michener on the remarkable way in which he has been able to maintain his detached view, in spite of having a pecuniary interest in one of the firms that is under the control of Mr. MacGregor.

Mr. MICHENER: Do not talk nonsense. I have no pecuniary interest in any firm that is under investigation.

Mr. CAMERON (*Nanaimo*): You are a director of a company which is fully owned by one of the firms under Mr. MacGregor's control.

Mr. MICHENER: That is not true, but I have no pecuniary interest in any company under consideration.

The CHAIRMAN: Just a minute, Mr. Cameron. I just want to know what you are trying to do here?

Mr. CAMERON (*Nanaimo*): I am trying to do this, Mr. Chairman: I would like to know just how much longer we are to go on fooling around this way. Do we want to get this bill reported?

Mr. REGIER: No.

Mr. CAMERON (*Nanaimo*): Or have we decided we are not going to? Are we going to have more of this nonsense, this continued repetition of the same questions over and over and over again; the same line of inquiry pursued for the sole purpose of expending time?

The CHAIRMAN: Mr. Cameron, if you are just going to make a speech—

Mr. CAMERON (*Nanaimo*): Yes, I am going to make a speech.

The CHAIRMAN: —I am going to rule you out of order.

Mr. CAMERON (*Nanaimo*): Rule away, because it does not bother me what you do. I am going to tell you this—

The CHAIRMAN: Order.

Mr. CAMERON (*Nanaimo*): —that the people of Canada—

The CHAIRMAN: You are out of order. I rule you are out of order, if you are just making a speech.

Mr. CAMERON (*Nanaimo*): Rule away, rule away!

Mr. REGIER: You may as well rule on behalf of the finance companies right now.

The CHAIRMAN: I am not ruling on behalf of the finance companies.

Mr. CAMERON (*Nanaimo*): I am here to see that the unfortunate people getting into the clutches of these disreputable people are in some way protected, and other people seem to be determined to protect the rights of these thieves.

The CHAIRMAN: That is a very interesting statement, Mr. Cameron, but it is based on your views, and has no foundation in fact, as far as I know.

Mr. CAMERON (*Nanaimo*): I know. Your opinion is not of any value.

Mr. MICHENER: Mr. Chairman, I would like to ask Mr. Cameron to withdraw the imputation that my remarks were motivated by anything other than an interest in getting the facts before this committee.

Mr. CAMERON (*Nanaimo*): I do not intend to withdraw anything, because it has been perfectly obvious to anyone with any common sense.

I would like at this point, Mr. Chairman, to pay tribute to another member of this committee, who has had the decency and propriety to stay away from the hearings concerning an institution of which he has been a director: the honourable member for St. Lawrence-St. George who has kept away from these hearings. I think that is something to be commended.

I will withdraw nothing.

Mr. MICHENER: Mr. Chairman, in view of the statement that Mr. Cameron has made, I would like the committee to understand clearly what my position is. I am a director of the Trans Canada—not Trans Canada, the Traders Finance Corporation Limited, which is a company engaged in acceptance business, and has no licence, or any connection with the small loans business, It owns a company known as the Trans Canada, which is engaged in the personal loan business. I have no interest in that company, and I have no part in its operation. That is my position. I have been interested in these proceedings from that point of view, as well as from the point of view of a member of the public, just as any man, who is a farmer, is interested in farmer legislation, and is entitled to discuss it. I have felt it my right to be here and to discuss

these matters in a proper way. I resent the allegation made by Mr. Cameron, and I think that he ought to withdraw it.

The CHAIRMAN: Mr. Michener, it may appear to Mr. Cameron that you may be in breach of some fiduciary relationship, but I know of nothing illegal about it, and it is entirely a matter of your conscience, just the way it might be with Mr. Cameron if he were engaged to study a bill affecting his profession or occupation, or had reference to his profession or occupation. I do not propose to do anything about that and I really do not see that it is any of the honourable gentleman's business, frankly.

Mr. REGIER: Mr. Chairman, since you added that, I would also like to speak to the point of order for a moment. I do not think that anyone, who has a personal holding in any of these companies, or anyone acting as a director for any of these companies, or any merchant who has any dealing in time sales of appliances, or otherwise, has any right to be a member of this committee and to vote in this committee and to take part in the discussion.

The CHAIRMAN: We might pursue that further, Mr. Regier. Do you think anybody who has a loan from a loan company should have any right to speak on this committee?

Mr. REGIER: Yes, Mr. Chairman, because that is less of a direct interest. That member is part of the general public at large, and the members of this committee are here to look after the interest of the general public at large.

The CHAIRMAN: It seems to me it is quite obvious that anyone who had a loan from a loan company, and sitting on this committee would have a personal interest in having the interest rates reduced.

Mr. FULTON: Mr. Chairman, Mr. Regier has said this is raised as a point of order. It seems to me, therefore, that if he means that, and if he and Mr. Cameron are serious, and it is a serious point, that we have not heard any authority cited on which they base their position. I wonder if we could discuss it without heat for a moment? Mr. Michener has made a complete declaration of his position. I should think that if the matter is going to be pressed, and not withdrawn, then certainly some authority should be cited upon which they base their position. I would ask them to consider whether in that case they should not go before the agriculture committee and suggest that one of their colleagues, who is a substantial rancher or farmer in one of the prairie provinces, has not got a direct interest in the matter being discussed in that committee now. I would not go there and raise that point, and say that he has no right to express his opinion or vote on the matters there. I suggest that unless they have some direct authority upon which they base their present proposition, they should not have raised the question with regard to Mr. Michener. If that is a reasonable point of view, then it is surely reasonable to suggest that they might consider withdrawing. I am not asking for a formal withdrawal, but, let us say, whatever action they care to take. But, if they are going to press it and raise it as a point of order, then I think that they cannot do anything else then until they show some authority for it.

The CHAIRMAN: That is up to those honourable members. If they wish to make accusations of that sort, I simply rule that they are out of order. I do not think they are in order, and I do not think there is a person who would hold them to be in order. I think it is entirely a matter of personal conscience of the honourable members concerned. If a farmer from their own party sits on the Agricultural Committee, that is a matter for his personal conscience, just as if Mr. Michener sits on this committee and has an interest in some other company that has some relation to the legislation. I do not think it is in order, and I so rule.

This meeting is adjourned. Will the agenda committee please stay for a few minutes?

APPENDIX "A"

STATEMENT ON THE SMALL LOANS ACT

by

Mr. R. K. MacGregor, Superintendent of Insurance

Notes: Examination of Mr. MacGregor on the statement is recorded in Issues Nos. 13 to 18 of the Minutes of Evidence, June 28 to July 17, 1956.

The tables referred to in the statement are at Appendices "A" to "I" to Issue No. 13, following page 455.

The practice of money-lending on personal security is of such long standing that one might suppose that all problems and questions concerning it would have long since been settled. However, its social and economic aspects are so broad that complete settlement will probably never be reached. This practice, which had its origin centuries ago in simple and diverse ways, has now grown into a well-organized and well-established industry. But changing times bring changed conditions and the principal change recently has been the increasing number of borrowers seeking ever larger loans. At the same time, there has been an obvious reluctance on the part of lenders to reduce the scale of charges for the larger loans. The small loans business is, in fact, no longer small—it has become a multi-million dollar business with some lenders having branches spread across the country comparable in number with the chartered banks and large chain stores. Experience has demonstrated that some persons must borrow sometimes, that other persons will borrow whether necessary or not, that other credit facilities have not been sufficiently broad to meet the borrowing desires of society, and that a regulated small loans industry is far preferable to unregulated lending on personal security.

It may not be necessary but it may nevertheless be of some value to review briefly the background of this particular kind of business in Canada before dealing with the present situation and the bill now before the committee.

In Canada, the earliest legislation relating to interest, usury and money-lending was the Act 17 Geo. III, 1777, Cap. III, being an Ordinance for ascertaining damages on protested Bills of Exchange and fixing the rate of interest in the province of Quebec. Section V of this act fixed the maximum rate at 6 per cent per annum for all contracts, the imposition of a higher rate resulting in voidance of the contract as well as other severe penalties.

A similar provision was included in an act passed in Upper Canada in 1811, 51 Geo. III, Cap. IX.

In 1853, both of the foregoing provisions were repealed by the Act 16 Vict. c. LXXX of the legislature of the former province of Canada. This act, although less severe in some respects, contained a provision that every contract

> shall be void so far, and so far only, as relates to any excess of interest thereby made payable above the rate of six pounds for the forbearance of one hundred pounds for a year, and the said rate of six per cent interest, or such lower rate of interest as may have been agreed upon, shall be allowed and recovered in all cases where it is the agreement of the parties that interest shall be paid.

A later act in 1858, 22 Vict. c. LXXXV, authorized the contracting parties to agree upon any rate of interest but fixed 6 per cent as the interest payable where no rate was stipulated by the parties or by the law. This was the origin of present sections 2 and 3 of the Interest Act.

By section 91 of the B.N.A. Act, the subject of interest was specifically allocated to the Dominion. Several acts were consequently passed by parliament in 1873 (chapter 70, relating to interest in the provinces of Ontario and Quebec and chapter 71 relating to Nova Scotia), 1875 (chapter 18, relating to

New Brunswick), 1880 (chapter 42, relating to interest on mortgages), and 1886 (chapter 44, relating to British Columbia), which, together with certain provisions of the acts of Prince Edward Island of 1869, were consolidated in chapter 127 of the Revised Statutes of 1886, An Act respecting Interest.

In 1897, a bill was introduced by Sir Oliver Mowat providing that where the rate of interest under any contract exceeded 8 per cent per annum the court should have discretion to declare the contract unenforceable. The bill was designed to prevent abuses such as a case cited where interest at 5 per cent per day had been provided for and judgment for recovery obtained. The bill was drastically revised in committee and emerged as chapter 8 of the statutes of 1897, which contains the originals of sections 4 and 5 of the present Interest Act, namely, a provision that only 5 per cent per annum can be recovered under a contract providing for interest at shorter intervals than yearly unless the contract expressly states the yearly equivalent of the periodical rate, and a provision for the recovery of any excess interest paid.

Up to this point, the legislation was not specifically framed for the protection of small borrowers on personal security and was inadequate for this purpose. Nevertheless it was known that unduly high rates were being charged on personal loans and the situation was generally unsatisfactory. At the session of parliament in 1899 Senator Dandurand introduced a Bill entitled An Act respecting Usury, which fixed a limit of 20 per cent per annum on any loan. In discussion in committee, the bill was amended to apply only to loans of $500 or less. Its application was also limited to loans by a "money-lender", who was defined as one

> Who carries on the business of money lending or advertises or announces himself, or holds himself out in any way, as carrying on that business and makes a practice of lending money at a higher rate than ten per centum per annum, but does not include a pawn broker as such.

This definition may be regarded as the original of the definition of "money lender" in section 2 of the present Money-Lenders Act. This bill was not enacted in 1899 but was revived and passed, with certain amendments, as the Money-Lenders Act in 1906, the maximum rate of 20 per cent per annum being unfortunately replaced by the rather ambiguous and uncertain references to 12 per cent found in sections 6 and 7.

It might be interesting to observe here that the Money-Lenders Act in Great Britain came into existence in 1900 following intensive study in the immediately preceding years and the credit union movement on this continent also had its birth during this period. The first Caisse Populaire was founded by Alphonse Desjardins at Levis, Quebec, in 1900, partly because of the high interest rates then prevailing on small loans and partly because of the lack of facilities for obtaining them at any price. Mr. Desjardins was at one time a parliamentary reporter and his brother was for several years Deputy Minister of Public Works.

The Money-Lenders Act was conceived in good intentions but over the years proved to be quite ineffective. Its main defect lay in the fact that "interest" was not defined and could not be held to include ancillary expenses, especially in view of the conflicting references to 12 per cent for interest alone in section 6 and to 12 per cent for both interest and expenses in section 7. Other reasons for its ineffectiveness were that no licensing or supervision of money-lenders was required, no one was charged with the responsibility of enforcing its terms, and borrowers were reluctant to incur the publicity and expense of taking remedial action themselves.

The result was that even though the Interest Act had been on the statute books in one form or another since before confederation and the Money-Lenders Act since 1906, the business of money-lending in Canada was for all practical purposes unregulated during the first quarter, or more, of the present

century. Sporadic evidence of exorbitant charges began to appear more frequently and complaints multiplied. Much began to be heard of the "loan shark" in the daily press, magazines, moving pictures, etc. One or two Dominion companies incorporated under the Companies Act were in the field but the great bulk of the business was carried on by provincially-incorporated companies, partnerships and individuals. Annual statements were not generally required to be published or filed; hence it was practically impossible to determine how many lenders were operating or the extent or nature of their operations.

Conditions in the personal loan field in the U.S.A. had likewise been unsatisfactory during the early part of this century but even before the first great war the Russell Sage Foundation had begun its work in an effort to find a solution to the problem of the necessitous borrower lacking the customary forms of security acceptable to banks, etc. The earliest attempts to solve the problem through loans made available by philanthropic agencies and the remedial loan societies proved inadequate and the conclusion was soon reached that the best solution would be by way of legislation specifically designed for this particular kind of business, legislation that would authorize adequate charges to assure the necessary facilities yet be the fairest possible to borrowers. This conclusion led to the drafting of a model bill in 1916 that subsequently became known as the Uniform Small Loan Law, including the requirement that interest and charges should be expressed as an all-inclusive rate per month not exceeding a stipulated maximum percentage of the balance of the loan outstanding from time to time, provision for licensing and supervision of lenders by the state and for severe penalties for infractions of the law. This Uniform Law was enacted in substantially the same form, but with various maximum rates, by one state after another so that at the present time such laws are in force in nearly every state.

In Canada, it may be said that regulation began in a limited way in 1928 with the incorporation of the first so-called small loans company, the Central Finance Corporation (now the Household Finance Corporation of Canada), by a special act of parliament (chapter 77). This act authorized the company to lend on personal security, subject to maximum charges as follows:

Interest—

(i) Loans up to $500, 6 per cent per annum in advance
(ii) Loans over $500, 7 per cent per annum in advance

Expenses—

(i) Loans up to $100, 1 per cent per annum in advance
(ii) Loans of $100 to $300, 1½ per cent per annum in advance
(iii) Loans over $300, 2 per cent per annum in advance

Since all of these charges could be deducted in advance, the actual nominal annual rate was about double the apparent rate, being roughly 14 per cent for a loan of $100 and 16 per cent for a loan of $500. As there was no general act in force at that time providing for supervision of companies of this kind, the Central Finance Corporation was made subject to the Loan Companies Act, with certain exceptions, and the power to take money from the public either on deposit or by the sale of debentures was withheld.

Within the year following incorporation, the company claimed that it could not operate on the scale of charges in its act and in 1929 sought and obtained amendments authorizing charges of 7 per cent and 2 per cent in advance for interest and expenses, respectively, on all loans plus, in the case of a loan secured by a chattel mortgage, "an additional sum equal to the legal and other actual expenses disbursed by the company in connection with such loan but not exceeding the sum of ten dollars". Obviously, the allowance of $10 for chattel mortgages provided a very much larger percentage margin on the smaller loans and when the maximum permissible charges of all kinds

were levied, the equivalent effective monthly rate variel from 5·71 per cent for a $50 loan repayable in twelve equal monthly instalments to 1·84 per cent for a similar $500 loan. This scale of charges is of special interest because it formed the basis of the general pattern followed by this and other similar companies for the next ten years, and also because it pointed up some of the difficulties of enforcing limitations expressed in this way.

In 1930, the second small loans company was incorporated by parliament (chapter 68), being the Industrial Loan and Finance Corporation (now the Community Finance Corporation), with essentially the same powers as contained in the act of Central Finance as amended in 1929. In 1932, control of the Central Finance Corporation was acquired by U.S. interests. This was followed by the incorporation of a third small loans company in 1933 (chapter 63), the Discount and Loan Corporation of Canada (now the Personal Finance Company of Canada), which was also backed by U.S. interests. The following additional small loans companies have been incorporated by special acts of parliament but none except the Canadian Acceptance Company over organized or commenced business:

	Chapter No.	Year
The People's Thrift Corporation	80	1928—Expired
Personal Finance Corporation	69	1934—Expired
The Small Loan Company of Canada ..	72	1934—Expired
Canadian Acceptance Company	82	1946
Rinker Finance Corporation	89	1948—Expired

The complicated scale of maximum charges in the special acts of the three companies transacting business in the early thirties made it very difficult, if not impossible, for borrowers to understand the effective rate involved and it bore with undue severity on the very small borrower. Another difficulty arose through the tendency to charge borrowers the maximum $10 fee for chattel mortgages whether disbursements were actually made or not; in one case, a sister company was incorporated to which was paid as a "disbursement" the entire chattel mortgage fee and expense charge received from the borrower. Experience pointed to the desirability of a flat percentage charge monthly on the balance of principal outstanding, in place of the complicated scale authorized, and the first step in this direction was taken in 1934 when, by an amendment to the Loan Companies Act (chapter 56) an overriding ceiling of 2½ per cent per month was placed on all charges by companies "incorporated or authorized by or under any act of the parliament of Canada and having power by virtue of any such act to make loans of any nature or kind". The amendment thus applied not only to the three special act companies but also to the few other Dominion companies incorporated by letters patent under the Companies Act that were engaged in the small loans business.

The effect of the latter amendment, so far as Dominion companies incorporated by letters patent were concerned, was to reduce the maximum charges to 2½ per cent per month on all loans; and the effect, so far as small loans companies were concerned, was to reduce the maximum charges to 2½ per cent per month on all loans up to $181.20, repayable in twelve equal monthly

instalments, the effective rate for larger loans decreasing gradually to 1·84 per cent at $500, as follows:

Amount	Monthly Rate for Interest and Expense	Additional Chattel Mortgage Fee	Equivalent total Monthly Rate
$ 50.00	1·48%	$ 2.76	2·50%
100.00	1·48	5.52	2·50
150.00	1·48	8.28	2·50
181.20	1·48	10.00	2·50
200.00	1·48	10.00	2·40
300.00	1·48	10.00	2·09
400.00	1·48	10.00	1·93
500.00	1·48	10.00	1·84

The situation in the early thirties, therefore, was that Dominion companies were limited in their charges whereas other lenders were not. Moreover, the chattel mortgage fee was authorized only for disbursements actually made and one of the three Dominion small loans companies was operating mainly in the province of Quebec where lending on the security of a chattel mortgage was impracticable since the civil code of that province required physical possession of the chattels to be taken by the creditor in order that the pledge be effective. As a consequence, this company was limited to a charge of 7 per cent for interest and 2 per cent for expenses, both in advance, as respects most of its business, such charge being equivalent to a monthly rate of only 1·48 per cent. This company felt that its position was unfavorable in comparison with the other two companies operating mainly in the province of Ontario, but it supplemented its revenue by requiring borrowers to insure their lives to the extent of their loans through the agency of the company, the premiums and the commissions being established at relatively high levels. Further questions arose concerning the propriety of charging chattel mortgage fees to borrowers again when loans were refinanced, and there were complications involving refunds when loans were refinanced or prepaid by reason of the fact that charges were all deducted in advance. The entire situation continued to be unsatisfactory from almost every point of view.

By 1934, representatives of the small loans companies agreed at a meeting in the department that the practice of deducting charges in advance should be abandoned in favor of a simple monthly percentage applied to the amount of the loan actually made and remaining outstanding from time to time; by this time, too, the need for more effective general legislation governing the small loans business was becoming more and more apparent.

The whole subject engaged the attention of parliament practically every year during the thirties and was dealt with at each session from 1936 to 1939.

In 1936, bills to incorporate three new small loans companies (the Domestic Finance Corporation, the United Credit Association and the Atlantic Loan and Finance Corporation) were introduced but were not preceeded with pending further consideration of general legislation. In that year, a special sub-committee of the Banking and Commerce Committee of the Senate, to which the three private bills had been referred, gave much attention to the whole problem and recommended general legislation based on the principle of a flat monthly rate on outstanding monthly balances but left the rate to be determined by the full committee. The first decision of the latter established the rate of 2½ per cent per month for loans up to $100 and 2 per cent per month for larger loans. However, representatives of certain provincially-incorporated companies contended that such rates would be insufficient to permit them to continue in business. The Committee then decided upon a rate of 2½ per cent

per month on loan balances of $300 or less and 1 per cent per month on loan balances above $300, payments to be applied first to the repayment of the element bearing 2½ per cent. The following summary compares the rates then permitted by the special acts of the three small loans companies with the rates established by the committee:

Amount of Loan	Effective Monthly Rate Permitted by Special Acts	First Decision	Second Decision
$100	2·50%	2·50%	2·50%
200	2·40	2·00	2·50
300	2·09	2·00	2·50
400	1·93	2·00	1·87
500	1·84	2·00	1·57

The draft bill with the final rates shown above was recommended to the government as a basis for general legislation but no action was taken, one of the main reasons being that the proposed rates exceeded the rates then being charged for the bulk of the loans made by the three small loans companies.

Perhaps I might mention here that it was at this time, 1936, that the Canadian Bank of Commerce inaugurated its personal loan department.

In 1937, two of the three small loans companies introduced bills mainly for the purpose of substituting a more satisfactory scale of charges than they had in their special acts. In one bill, a flat rate of 2¼ per cent per month was proposed and, in the other, 2 per cent; later in the same session, the 2¼ per cent rate in the former was voluntarily reduced to 2 per cent also. The view of the department was that a rate of 2 per cent was appropriate as an upper limit for all lenders but this was opposed by the third small loans company and by some provincially-incorporated lenders who claimed that they could not operate at that level; rates of 3 per cent per month and even 3½ per cent, at least for the smaller loans, were said to be essential. Both of these bills were reported favorably by the Banking and Commerce Committee of the house but no further action was taken. The committee gave lengthy consideration to the whole problem and the prevailing thought was that the question of appropriate general legislation was of paramount importance.

In 1938, the same two bills were in-introduced but were not dealt with. Instead, attention was focussed on the need of general legislation. The Banking and Commerce Committee of the house studied the problem for months and heard witness from all over Canada and several authorities from the U.S.A. The committee's final report No. 14, dated June 1, 1938, was accompanied by a draft bill entitled "An Act respecting Interest on Small Loans". A flat, all-inclusive, monthly rate of 2 per cent on outstanding balances was recommended and the scope of the bill was limited to loans of $500 or less. The committee's final report compressed in a few pages an excellent summary of the important aspects of the entire problem, together with the reasons underlying the rate recommended. I respectfully suggest the reading of this report by everyone studying the subject of small loans. I would draw attention particularly to the stated objective of the committee throughout its deliberations and which was emphasized in its report, namely, "to secure the best procurable rate for the borrower".

Opposition to the bill (mainly to the maximum monthly charge of 2 per cent on the part of certain lenders delayed its passage but it was finally enacted in substantially the same form in 1939 as "The Small Loans Act, 1939", with effect from January 1, 1940, and has stood unchanged up to date. It is probably unnecessary to refer now to many of its provisions but perhaps attention might be directed to a few main ones.

(1) A "small loans company" is defined to mean a company incorporated by special act of parliament and authorized to lend money on promissory notes or other personal security and on chattel mortgages. In 1939 there were three such companies and there are now four.

(2) A "money-lender" is defined to mean any person other than a chartered bank who carries on the business of money-lending or advertises himself, or holds himself or itself out in any way, as carrying on that business, but does not include a registered pawnbroker. Apart from the few small loans companies, all other licensees under the act fall in this category, which mainly includes provincially-incorporated companies, although there are still a few partnerships and individuals who were in business before the act came into force. Since then, all new licensees have been companies incorporated either by the Dominion or a province. If the former, that is, by the Dominion, it is by way of a special act of parliament; if the latter, that is by the province, it is usually by way of letters patent but at least one province also requires a special act of the legislature. The distinction between a "small loans company" and a "money-lender" is thus the method of incorporation, i.e., whether by a special act of parliament or otherwise. This distinction is carried through all reports and other data published by the department.

(3) The act requires a lender to be licensed by the minister if it wishes to charge more than 12 per cent per annum (equivalent to ·95 of 1 per cent per month) on a loan of $500 or less. A "loan" is defined as one in this area but the designation "small loan" is more usual. If licensed, the maximum charge on such a loan is 2 per cent per month for terms up to 15 months; for longer terms, the maximum gradually decreases according to the formula $1 \text{ per cent} + \frac{15}{n}$ of 1 per cent, where "n" is the term in months. This formula permits a maximum monthly charge of 1 15/18ths per cent or 1·83 per cent for a term of 18 months, 1·62 per cent for 24 months, 1/50 per cent for 30 months, and so on, but in practice few, if any, loans of $500 or less are made for more than 15 months. In fact, when the act was passed, the usual term was 12 months and although the act permitted the full 2 per cent to be charged on loans up to 15 months, it was not envisaged that the latter would become the standard term for loans of $500 or less. One of the main justifications for a relatively high rate on small loans is their relatively short term; a rate that is appropriate for a short-term loan becomes excessive if continued over an unduly long term. After expiry of the term of the loan, the Act provides for a maximum charge of 12 per cent per annum on any instalments unpaid. All loans are required to be repaid in approximately equal instalments at intervals of not more than one month each.

(4) One of the basic and most important principles in the act is that the stipulated maximum charge includes all expenses and applies to the principal amount of the loan outstanding from time to time. Moreover, charges may not be compounded or deducted in advance. In other words, borrowers sign a note only for the amount of the loan actually received in cash and pay interest precisely on that amount for the actual time they have it, thus avoiding all of the problems that arise if charges are imposed when the loan is made and a refund of the unearned part is properly due the borrower in the event of refinancing or prepayment of the loan before the normal expiry date.

(5) The Superintendent of Insurance is required to inspect, at least once each year, the chief place of business of every licensee, and financial statements in prescribed form are required to be filed annually.

(6) The special Acts of the three small loans companies existing in 1939 were amended and consolidated in a schedule to the Small Loans Act so as to conform to the provisions of that act.

(7) Licensees under the act may, and most of them do, make loans over $500 and also engage in other branches of the finance business as, for example, the purchase of conditional sale agreements from dealers, etc. These other activities are not presently regulated as to charges or otherwise by the act.

The experience of licensees under the act has been given in the successive annual reports of the department but I thought it might be helpful for present purposes to summarize the results in some respects and to analyze certain features such as expenses and earnings in greater detail than is customary. I have, therefore, prepared a special series of tables covering the more important items.

Before directing attention to certain trends and results portrayed by these tables, it might be well to comment briefly upon a few policies and practices that had a bearing on them; also, to refer to the only amendments heretofore proposed since the act was passed.

During the war and for a short time after, the granting of new licences was discontinued as a part of the plan to conserve manpower and to control credit. This accounts for the decline in the number of licensees to a minimum of 53 in 1944, at which it remained through 1946.

Concerning charges on loans, the uniform practice after the new Act came into force was to charge the maximum permissible rate of 2 per cent per month and it is rather interesting that notwithstanding the previous protests of some lenders that they would have to discontinue business at that rate the great majority were earning a satisfactory return—so much so, in fact, that significant reductions began to be made by the larger lenders late in 1943. At that time, several of them adopted a graduated rate of 2 per cent on the first $300 of any loan plus 1 per cent on the excess, if any, over $300—the element carrying the lower rate to be repaid first. For loans up to $300, the effective monthly rate remained as before at 2 per cent but for a $400 loan the rate became 1·92 per cent and, for $500, 1·81 per cent. Perhaps it might also be pointed out that this is the main part of the new formula proposed in the present bill. By early 1945, further reductions were made. Two of the small loans companies adopted a flat rate of 1½ per cent per month on all loans while the third such company did the same for all loans over $300, retaining 2 per cent for loans up to $300. The largest money-lender adopted a flat rate of 1¾ per cent on all loans. Later in 1945 one of the two small loans companies that had adopted the flat rate of 1½ per cent on all loans raised the rate to 2 per cent on loans up to $300 but the largest small loans company continued for some time further to charge only 1½ per cent on all loans.

In the light of this experience, the department recommended in 1946 that the maximum rate in the act be reduced from 2 per cent per month to 1½ per cent. Bill 140 was introduced for this purpose at the 1946 session and was given lengthy consideration by the Banking and Commerce Committee of the house of commons. However, representatives of the industry strongly opposed the measure mainly on the grounds that the great majority of lenders, more particularly the smaller ones, could not continue to operate under the lower rate and, besides, that it was uncertain with the prospect of higher expenses how long the larger ones could do so. The session ended without the bill being reported and it was not subsequently introduced again. By 1948, most lenders that had been charging less than 1¾ per cent per month had raised their rates to that level and by 1950 back again to 2 per cent. The reduced income and reduced earnings reflected in Table 1 for the period 1944 to 1950 are, of course, accounted for by the reduced rates then in effect.

Concerning expenses, it should be explained that many licensees have associated companies operating jointly or in close association with them, such companies confining their business to loans over $500 or to the purchase of conditional sale agreements, etc., or both, thus not requiring to be licensed under the act. The results of the operations of all such associated companies are naturally not included with the data for licensees but the expenses and earnings of licensees are nevertheless affected by the accuracy with which many expenses are apportioned between the licensee on the one hand and the associated company or companies on the other. The same comment applies to the allocation of expenses within a licensee as between its small loans business and other business it may be conducting. The accurate apportionment of expenses against different classes of business is always a difficult problem and each case has to be considered individually. To a large extent, the best method in any particular case is a matter of opinion. Certain expenses can readily be allocated specifically; some can reasonably be considered to be proportionate to the amount of the loan while others are more appropriately regarded practically as a constant per account. Some licensees consider that the best method is to apportion 50 per cent on the basis of amounts and 50 per cent on the basis of the number of accounts which, in many cases, brings out results very close to those produced by a much more detailed analysis. Most licensees have endeavored to make a reasonable allocation wherever necessary but there have been a few notable exceptions which in the view fo the department tend to distort the results. On the whole, if any company or class of business has received less favorable treatment in the apportionment of expenses, our view is that it has been the licensee rather than the associated company, or the small loans business of a licensee rather than its other business.

Concerning earnings, it cannot be overlooked that in many cases, especially amongst the smaller lenders or those closely owned and operated by a few individuals, profits are effectively withdrawn as salaries or other rather personal expenses, thus tending to depress their apparent earnings. Also, expenses are naturally increased and earnings are correspondingly reduced in times of expansion when new or additional lending offices are being opened. This has been an important aspect in recent years and especially so in 1955.

Some comment also seems desirable in explanation of the apparent discontinuity in the data for small loans in 1948, more particularly as between small loans companies and money-lenders; also in explanation of the apparent absence of any loans made above $500 by the largest small loans company, Household Finance Corporation of Canada.

In 1945, the largest operator in the money-lenders group was the Campbell Finance Corporation, a provincially-incorporated company that was owned by a large Canadian acceptance company. In that year, Campbell Finance was sold to a large U.S. finance company which was not then operating in Canada. About one year later, in 1947, the latter U.S. company in turn sold Campbell Finance to the Household Finance Corporation of the U.S.A., which already owned the Household Finance Corporation of Canada. In the same year, 1947, the name of Campbell Finance was changed to Household Finance Corporation Limited. In 1948, the small loans business of Household Finance Corporation Limited, licensed as a money-lender, was transferred to Household Finance Corporation of Canada, licensed as a small loans company; and at the same time, the loans over $500 in Household Finance Corporation of Canada were transferred to Household Finance Corporation Limited. The result at the end of 1948 was that a large volume of small loans in the money-lenders group was transferred to the small loans companies group and the loans over $500 in both companies disappeared from the data completely. The small loans company, Household Finance Corporation of Canada, thereafter confined its business to loans of $500 or less and the sister company, Household Finance Corporation

Limited, confined its business to loans over $500 so that it no longer required a licence under the act. The latter unlicensed company is the largest operator at the present time in the field of loans over $500, its volume of such loans being almost exactly equal to the total loans over $500 made by all licensed lenders combined. Incidentally, the large Canadian acceptance company that sold Campbell Finance in 1946 almost immediately purchased what was then a very small but is now a very large licensed money-lender; and the large U.S. finance company that purchased Campbell Finance but sold it so soon, re-entered the Canadian field in 1955 through a new provincially-incorporated company bearing a name similar to its own.

Turning now to Table 1, which covers only small loans, i.e., loans of $500 or less, the increase in the number of licensees from 62 at the end of 1953 to 70 at the end of 1955 should be noted. The number at the present time is 73 and there are about a dozen applications on hand or pending, including some backed by U.S. operators as well as substantial British interests. Paradoxical as it may seem, interest in obtaining a licence seems to have increased rather than diminished since the introduction of the present bill. But the increase in the number of licensees reflects only a fraction of the expansion in lending facilities: the number of branch offices is increasing at a tremendous rate. The number at the end of 1954 was 540, apart from the main office in each case, and during 1955 the number increased to 702, accounted for as follows:

Company	No. of Branches Dec. 31 1954	1955	Increase during 1955
Canadian Acceptance	35	43	8
Community Finance	23	25	2
Household Finance	169	209	40
Personal Finance	133	171	38
Associates Budget Plan	—	4	4
Atlas Thrift	1	1	—
Bellvue Finance	5	9	4
Canadian Personal Loan	1	1	—
Citizens Finance	1	12	11
Commercial Credit Plan	17	19	2
Consolidated Finance	4	4	—
Crescent Finance	9	9	—
Danforth Finance	1	1	—
Equitable Finance	—	2	2
Fairway Finance	2	2	—
Independent Finance	—	1	1
Lucerne Finance	—	2	2
Merit Finance	1	1	—
National Plan	1	1	—
Niagara Finance	87	106	19
P. F. Credit	1	22	21
Public Finance	1	1	—
Service Finance	1	1	—
Superior Finance	—	5	5
Trans Canada Credit	40	42	2
Union Finance	7	8	1
Totals	540	702	162

In addition to these branch offices, there were 65 main offices at the end of 1954 and 70 at the end of 1955. The total number of head offices and branch offices has increased from 384 at the end of 1950 to 772 at the end of 1955, i.e., by a little over 100 per cent. It seems clear that the lending field under present conditions is exceedingly attractive.

Items 2, 3, 5 and 6 of Table 1 show that the number and volume of loans of $500 or less made each year are still increasing, although at a somewhat diminished pace, but the balances outstanding show a tendency to flatten out. These trends are attributable to a rapid shifting toward loans of larger amount nowadays, as reflected in Table 2, involving also the refinancing of smaller loans when partly repaid in order to obtain larger loans. Reference to page 59 of the Department's annual report for 1954 will show that of the total small loans made in that year about two-thirds, by amount, were made to "current" borrowers who nearly doubled the balance remaining unpaid on their previous loans, while nearly 80 per cent of the total loans made were to these "current" borrowers who nearly doubled the balances remaining unpaid on their previous managed to repay their loans in full. Amongst the older lenders the proportion of "current" and "repeat" borrowers is generally higher than amongst the relatively newer licensees. The evidence is mounting that borrowers are getting deeper and deeper into debt rather than attaining solvency through loans. No doubt the current trend is part of the ever-growing practice, even in good economic times, of buying on the instalment plan or spending against the future beyond prudent limits. In other words, mismanagement of personal finances rather than misfortune would seem to underly a great proportion of the loans made.

Item 4 of Table 1 indicates that the average small loan is no longer increasing but it must be remembered that this is the average only for loans made in amounts not exceeding $500. If loans over $500 were also included, the over-all average would show a rapid increase. Unfortunately, accurate data in consolidated from are not presently available showing the size of loans made above $500.

Items 7 and 8 show the income earned on small loans and I have already explained the reason for the reduced income between 1944 and 1950.

Items 9, 10 and 11 show the net amounts written off loans and the net amounts transferred to reserves for bad debts expressed as percentages of the balances of loans outstanding. If the basis were the amounts of loans made, the percentages would be reduced by approximately one-half. The record indicates that Canadian borrowers are very reliable and that losses are slight. The net amounts written off annually have averaged about ½ of 1 per cent of outstanding loan balances, or ¼ of 1 per cent of the amount of loans made. Reserves for bad debts are maintained at about 3 per cent of outstanding loan balances, and since the growth of small loan balances has tended to slow up, the annual transfers for this purpose are now quite small. The record in the table extends back only to 1940 when the act came into force and it may be thought that losses during less favorable economic times might be much heavier. If the depression years in the thirties are any guide, there would seem to be little to fear since the experience of the three small loans companies during that period was equally good. For example, for the years 1934-1937, the net amounts written off were only about ¼ of 1 per cent of outstanding balances. On the other hand, write-offs in one state of the U.S.A. were reported to be as high as 11 per cent of loan balances in 1933 and about 5 per cent in 1938. Losses in the U.S.A. have generally been higher than in Canada.

Item 12 of Table 1 is intended to show the trend of expenses per small loan account per month. The average cost has been computed in the manner indicated mainly to facilitate comparison with the U.S.A. where the published figures are generally computed in this manner.

As might be expected, the average showed a tendency to decline during the war when costs were stable and volume was increasing; thereafter, the average increased steadily as the price level rose but the greatly increased volume has done much to offset rising prices so that the average cost now, $2.19 per account per month, is only about 50 per cent more than the average during the war. However, this cost is inflated to some extent by current expansion costs and, furthermore, the average size of loan has increased greatly. The relationship between the average size of loan and average cost per account per month is approximately the same now as during the war. In the U.S.A., the average cost in many states is of the order of $4.00 per account, or nearly double that in Canada.

Items 13 and 14 relate to earnings. Lenders operate in varying degrees and frequently to a large extent on money that they themselves have borrowed. Information concerning the extent of borrowed money compared with lender's own funds will be found in Table 5. Interest paid on borrowed money is, of course, deductible from taxable income so that both the weight of income tax and profits vary according to the proportion of borrowed money in the total funds employed. The profit on a lender's own dollar is obviously greater than on a borrowed dollar since interest must be paid on the latter, but so long as some profit can be made on a borrowed dollar the total profits will be increased by borrowing. Assume, for example, that a lender's gross rate earned is 8 per cent of loan balances or funds employed, measured before paying interest at 5 per cent on borrowed money and income tax at 50 per cent. On a lender's own dollar, the profit after tax would be 4 per cent.

The 8 per cent would be cut in two. It might therefore appear that since this rate is less than the rate payable on borrowed money, it would be uneconomic to borrow; that the gross rate earned is too low to permit operations to continue on a practicable basis. But such a conclusion would be incorrect since it is based on adjusting for income tax before interest on borrowed money whereas in practice interest on borrowed money is deducted from taxable income before income tax is calculated. Thus, on every dollar borrowed under the foregoing assumptions, 3 per cent would remain after paying interest and 1½ per cent after paying income tax. If for every dollar of a lender's own funds one dollar can be borrowed, the total profit in relation to each of his own dollars would be 4 per cent plus 1·5 per cent or 5·5 per cent; or, if three dollars can be borrowed, the total profit would be 4 per cent plus 4·5 per cent or 8·5 per cent.

There are several ways in which earnings or profits are measured in this business but no one method is free from question or provides a conclusive standard. If it is desired to measure the rate of return per dollar used in the business, regardless of whether that dollar comes from capital or is borrowed, then the interest paid on borrowed money should be ignored. This would be the case where earnings are expressed as a percentage of average loan balances, average assets or average total funds employed. If it is desired to measure the rate of return in relation to the lender's own funds or proprietary interest, so to speak, interest paid on borrowed money should then be treated as an expense. Sometimes earnings are quoted on the basis of the original amount of loans made rather than average loan balances and since the former are usually about twice as large as the latter, rates of earnings on this basis are bout 50 per cent of the rates based on average loan balances.

In view of the many possible pitfalls, great care must be exercised in the interpretation of rates of earnings. No single method can be relied upon to prove whether the rates of earnings or profits are reasonable or unreasonable. The actual profits, rather than the rates, are probably the determining factor in attracting lenders to or discouraging them from the small loans field. The rates shown opposite item 14 of Table 1 are on the "gross" basis, i.e., before paying interest on borrowed money or income taxes. They are thus independent

of the latter varying influences. These rates are put forward in this form mainly to show the trend of the inherent earning capacity of the total funds employed. Although a decline is indicated in recent years, especially in 1955, this is attributable mainly to the expansion in the industry, involving many new lending offices that take time to produce. Evidence of this strain is more apparent from an examination of the profits shown in Table 4 for new licensees during 1954 and 1955, listed towards the bottom of the table. As will be seen, most new licensees operate at a substantial loss for the first year or two until they get established.

The final item 15 in Table 1 shows the actual net profits on loans of $500 or less, after all expenses including interest on borrowed money and income taxes have been paid. The decrease in profits in 1955 is again largely the result of losses amongst new licensees, of the strain of expansion, and probably to some extent also, of somewhat higher costs generally. It is difficult to segregate the effect of each of these influences. However, the decrease in profits should not, in my opinion, be interpreted as any indication that the rates of charges for loans in this lower area are inadequate.

Table 2 gives an abstract of the experience for business other than small loans since 1950 because it is only since then that the volume of loans over $500 has increased so rapidly. The data relate to loans over $500 and also to financed paper such as conditional sale agreements, etc., where licensees are conducting that kind of finance business as well as making loans. Although the balances of small loans outstanding only increased from $58,606,-932 at the end of 1950 to $88,824,459 at the end of 1955, or by 52 per cent —see item 6 of Table 1—the balances of loans over $500 and other business increased during the same period from $24,247,729 to $109,523,731, or by 352 per cent. This clearly shows where most of the business is now done and the need for consideration of the charges being made for loans over $500. Of the total balances of $109,523,731 outstanding at the end of 1955, $93,634,713 related to loans over $500 as compared with $62,585,440 at the end of the previous year. The balances ($93,634,713) of loans over $500 made by licensees alone now exceeds the balances—$88,824,459—of loans of $500 or less and it is known from data furnished through the courtesy of Household Finance Corporation Limited that that unlicensed company has an additional volume of loans over $500 amounting to $91,000,000. These figures still leave out of consideration loans made by all other unlicensed lenders.

Items 2 and 3 of Table 2, relating to income, would indicate that the rates charged for loans over $500 are substantially less than for small loans but this is not so. The explanation will be found in Table 6 where it will be seen that there is not much difference between the annual rate of income for small loans and other loans but the rates for conditional sale agreements, and so forth, are lower. The rates of income in Table 2 are depressed by combining these two kinds of business but a separation was not made in the annual returns until 1953. Apart from some exceptions that I shall refer to later, most licensees are charging 2 per cent per month on loans over $500. It is this practice more than anything else that calls for study and attention now.

Items 4, 5 and 6 show that the percentages written off the larger loans are approximately the same as for small loans, being roughly ½ of 1 per cent of outstanding balances but the percentages transferred to reserves for bad debts are somewhat higher. This may indicate a more cautious outlook concerning future losses on the larger loans but it can be explained also by the rapid growth recently in this branch of the business. At the present time the reserves for bad debts are maintained in about the same proportion for large loans as for small loans.

Items 7 and 8 show, as would be expected, a generally higher level of gross earnings for the larger loans than for small loans, especially amongst the money-lender group. The somewhat lower rate earned by all licensees combined on the so-called large loan business as compared with small loan business is accounted for by the fact that most of the small loan business is done by the small loans companies which as a whole enjoy a higher level of earnings whereas more than half of the large loan business (so far as licensees are concerned) is done by the money-lenders which, in general, are smaller and have lower rates of earnings. The rates in Table 2 are, like those in Table 1, depressed in recent years—especially 1955—by the rapid expansion in new offices.

Item 9 of Table 2 needs little comment except to point out that the net profits on "other business" have now overtaken the net profits on small loans business and nearly all of the profits of the money-lender group appear to come from loans over $500. These results are, nevertheless, distorted to some extent by losses of new licensees and by an undue proportion of expenses being assessed against the small loans branch by some money-lenders.

Table 3 is a consolidation of the net profits shown in the final items of Tables 1 and 2. Regardless of the manner in which rates of earnings are computed, these profits represent the end result of operations from the lenders' point of view. Upon reference to Table 4, it might be noted that the net profits in 1955 would have been nearly $500,000 larger had it not been for the losses of lenders that were only licensed in 1954 or 1955. Excluding these losses, the profits in 1955 were almost exactly double those in 1951.

Table 4 shows the final profits of each licensee separately and also its own funds in the business, the latter comprising the paid capital, surplus (if any) paid in by the shareholders, general reserves (only one case) that have been established through appropriations from the profit and loss account, and the surplus balance existing in the profit and loss account. In many cases, licensees are not paying dividends to shareholders but are allowing profits to accumulate in the profit and loss account to provide additional working funds. Net profits compared with lenders' own funds indicate the profitable nature of the business in most cases under present conditions. In the case of Household Finance Corporation of Canada, mention should probably be made of the practice of paying a supervisory fee to the parent organization which at present is of the order of $500,000 per year and is, of course, included in the expenses. If this fee were not paid, profits would be increased by roughly half this amount, after allowing for the higher income tax that would then be payable.

Table 5 gives a comparison between the volume of lenders' own funds and borrowed money, together with the average annual rates of interest paid on the latter. The licensees shown separately were singled out because they have the largest volume of small loans. In total, borrowed money outweighs lenders' own funds by more than three to one.

It is sometimes said that U.S.-owned companies obtain their funds in the U.S.A. at a lower rate than Canadian-owned companies can arrange in Canada, thus giving the former a competitive advantage or at least accounting in part for their larger profits. There hardly seems to be justification for this view since the largest U.S.-owned company, Household Finance, has paid 4·75 per cent since 1954 on all moneys borrowed from its parent and Personal Finance has paid its parent 6 per cent since 1953. It might also be explained that a substantial proportion of the moneys lent by the parent organization in these two cases in the past has been raised from institutional investors in Canada on which the prevailing Canadian rate has of course been paid by the parent. There would be an advantage to the parent where money is borrowed either in the U.S.A. or Canada and lent to its subsidiary at a higher rate but this practice is also followed by some Canadian-owned companies.

Table 6 shows the average annual rates of income earned on the different classes of business. For loans over $500, although the prevailing rate is 2 per cent per month, the lower annual rate shown for the Canadian Acceptance Company is explained by the fact that that company charges only 1½ per cent per month on all such loans. Personal Finance adopted a new scale late in 1955 for loans over $500 which grades down to the equivalent of 1·73 per cent per month for a $1,000 loan and 1·65 per cent for a $1,500 loan. Commercial Credit Plan and Union Finance charge 1¾ per cent per month on all loans over $500, while Niagara Finance has a graded scale running down to about 1·8 per cent for a $1,000 loan and 1·7 per cent for a $1,500 loan.

Several licensees in the "All Other" group also charge somewhat less than 2 per cent per month on the larger loans but a few charge more. Equitable Finance charges only 1¾ per cent on small loans as well as loans over $500. Maritime Finance charges 1·8 per cent on small loans and grades this down to 1·625 per cent for loans over $500 for a term of 24 months and 1·50 per cent for a term of 30 months. Service Finance charges 2 per cent per month on loans up to $200 and 1¾ per cent on loans over $200; in one particular locality the latter rate is reduced to 1½ per cent.

The fact that some licensees, including quite small ones, are operating at rates less than 2 per cent per month suggests that others could do likewise but so far competition has been ineffective in bringing about any general reduction below 2 per cent per month. Seven licensees, however, have arranged life insurance coverage of loans at no extra cost to the borrowers, namely, Astre Finance, Capital Finance, Century Credit, Niagara Finance, Peoples Finance, Strand Finance and Trans Canada Credit.

Table 7 shows the distribution of the income dollar so far as losses and expenses, other than income tax and interest on borrowed money, are concerned. The losses and main categories of expenses are in each case expressed as a percentage of total income excluding recoveries on amounts previously written off. Substantial variations amongst the several lenders and between small loans business and other business are evident. The expenses connected with small loans are relatively heavier than for larger loans, hence one expects to find relatively higher percentages for the former when there is little or no difference in the rates charged for small loans as compared with those for larger loans. On the other hand, this consideration is tempered where lenders transact a substantial volume of business relating to conditional sale agreements, etc., which, as shown in Table 6, generally carry a lower rate of charge. The volume of this kind of business is much larger, proportionately, in the "All Others" group of money-lenders. A few cases stand out where the percentages in the table are very much higher for small loans business than for other business. At least some of these cases are, in my opinion, attributable to the apportionment of too many expenses solely on the basis of the number of accounts without any regard to the size of loan. I believe that there has been great improvement in the accuracy with which expenses are allocated between these two main branches of business but in a few instances the licensees have continued to view the problem differently from the department.

Advertising is one feature of the small loans business that usually attracts a good deal of attention. To the credit of the licensees it can be said that whereas the small loans companies that were in business in the thirties spent 10 per cent of their income on advertising, the proportion now is down to about 5 per cent or slightly less. There would seem, however, to be room for a further substantial reduction when one has regard for the enormously larger volume of business presently transacted and for the fact that the existence of the facilities of licensees is now far better known than twenty years ago. The very large proportion of business stemming from "current" or "repeat" customers is another aspect that should not be overlooked since they already

have an intimate knowledge of the available facilities. It is difficult to escape the conclusion that the present situation is one where advertising is carried on more for a competitive adavantage than to acquaint the public with the existence of money-lending facilities. The latter is the principle followed in Great Britain where the nature of advertising is strictly limited. Even if one were prepared to agree that advertising for competitive purposes is justifiable in the money-lending business, the over-all competitive situation would be relatively unchanged if all licensees were to reduce their advertising by, say, one-half. Any such change would, of course, have to be started by the largest lenders. For purposes of comparison, I might mention that trust companies subject to supervision by the department spend about 1¾ per cent of their income on advertising and mortgage loan companies about ½ of 1 per cent. Even if the present advertising costs of licensees were cut in two, they would still be high as compared with trust and loan companies.

Concerning salaries and directors' fees, it will be seen that they average about 25 per cent of income, or very slightly less, but in the case of one small loans company the proportion is about 50 per cent above the average and in the case of the "all others" group of money-lenders, the proportion is about one-third above the average. The explanation of these higher levels would seem to lie in the fact that in most instances ownership of the business is closely held by a few individuals and profits are being indirectly withdrawn as salaries.

Looking at expenses as a whole, it may be said that about 50 per cent of the total income received from borrowers is used to defray losses and expenses other than income tax and interest on borrowed money, the other 50 per cent being left for interest, taxes and profit.

Table 8 gives an analysis of operations in recent years, the income, losses, expenses and gross earnings being shown as percentages of average assets during the year.

It will be noted that one small loans company has quite a low level of gross earnings compared with most other licensees and that this is caused by higher expenditures for "salaries" and "other expenses". If salary expenses in 1955 were reduced from 8·5 per cent of average assets to the general average, 5·2 per cent, the gross earnings would be raised to 10·0 per cent. A similar adjustment in earlier years would have shown even higher earnings. Part of the explanation for the higher expenses in this case may lie in a relatively smaller volume of business being handled by its branches than in other cases.

The lower level of income for the "all others" group of money-lenders results from a larger proportion of finance business relating to conditional sale agreements, and so on, carrying lower rates of charges. The higher expenses and lower gross earnings for this group in 1955 are explained by the high costs incurred by new licensees in 1954 and 1955 (see the footnote to Table 9). Excluding these new licensees, the gross earnings shown at 5·2 per cent in 1955 would be raised to 7·5 per cent.

There is a growing tendency in the industry to measure earnings in relation to the average assets or total funds employed, no distinction being made between the lender's own funds and borrowed funds, and in so doing to reduce the gross earnings not by the income taxes actually paid but by the taxes that would have been payable had no interest been paid on borrowed money. The right-hand column of Table 8 lends itself readily to calculations of this kind; the percentages shown need simply be reduced by the applicable rate of income tax. In 1955, the tax rate was 20 per cent on the first $20,000 of taxable income and 47 per cent on the excess. Consequently, the net rate earned on the average assets would be at least 53 per cent of the percentages

shown in the table and in the case of small lenders with taxable incomes of $20,000 or less the net rate would be 80 per cent. Most of the lenders in the "all others" group fall wholly or mainly within the 80 per cent bracket.

On this basis, the net rate would be about 7 per cent for the largest small loans company and 5½ to 6 per cent for most other licensees. If the percentage for the "all others" group in the table be raised from 5·2 to 7·5 per cent by excluding the new licensees, the net rate for this group would be of the order of 80 per cent of 7·5 per cent equals 6·0 per cent.

This method of computing the net rate earned on total funds employed does not of itself prove anything and must be used with great caution, especially in any attempt to compare earnings in this business with those in other businesses. It may, however, serve some purpose in comparing earnings with, say, those in the same industry elsewhere. In the various states of the U.S.A., the rates on this basis vary greatly—all the way from somewhat less than 3 per cent up to 7 per cent or more. There are very few less than 4 per cent but there are several less than 5 per cent.

The method just referred to for measuring net earnings is, of course, only one of several approaches to the problem and seems more appropriate for large lenders—especially those operating with a relatively small capital and large borrowings from a parent organization—than for the smaller independent lenders. The more usual method of relating the actual net profits to equity capital seems more appropriate for the latter at least.

Table 9 carries forward the average assets and gross earnings from Table 8 and also shows, for 1955, rates of earnings on two other bases. The first of these two, headed "net rate earned on average assets", has been included mainly to afford comparison with rates similarly computed in several states of the U.S.A. Under this method, the gross earnings are reduced by the income taxes actually paid and since the latter have been reduced through the treatment of interest on borrowed money as an expense, the net earnings are larger. In the states where this method is followed, rates of about 6 per cent are the most common.

The second additional set of rates expresses the final net profits, after taxes and interest on borrowed money, as a percentage of the lender's own funds represented by the paid capital, surplus paid in by shareholders, general reserves and the balance of the profit and loss account. Where a licensee is a subsidiary of a parent organization and operates mainly on funds borrowed from that organization the capital may be very small, thus giving rise to an inordinately high profit ratio. In these cases, the ratios are less meaningful than for the smaller independent lenders.

Coming now to the present situation, the main points that should be noted are the recent rapid shifting in loan activity from the present regulated field below $500 to the field above; the enormous growth of loans in the latter area, especially up to $1,000 but also in substantial volume up to $1,500; the failure of competition to reduce the charges for the larger loans; and the mushrooming of lending facilities, with unprecedented interest in this business being manifested from both within and without the country. In addition, the abuses that have developed elsewhere in the arrangements made for insuring the lives of small borrowers at undue profit to the lender and the possibilities of similar abuses arising in the small loans field in Canada suggest the desirability of preventive action in this respect, especially if new, reduced, maximum permissible charges for loans are stipulated.

Concerning lending facilities generally, I think it is universally accepted that over-ample facilities are not good either from the social or economic point of view. Too many offices must tend to encourage people to borrow. In most lines of business, strong competition usually tends to keep the situation under reasonable control and to lower prices but experience points to the opposite effect in the small loans business. As competition increases, expenses are prone

to rise through more aggressive advertising, the opening of additional lending offices in close proximity to those of competitors, and in other ways. Incidentally, the clustering of lending offices that is becoming increasingly evident in Canada is not generally permitted in the U.S.A., where the so-called rule of "convenience and advantage" is part of the law. The general practice there is to license each office rather than each lender only, and to require a case of be made that a new office in any particular locality is necessary for the convenience and advantage of the public. However, any such rule in the act would clearly be unconstitutional since it would not be legislation respecting interest. One might think that a lender could secure a competitive advantage by rate reductions but this course is seldom adopted, apparently through fear that such a course would only reduce income without increasing business. The ineffectiveness of rate reductions in competition, or the reluctance of lenders to make them, is probably attributable to a less acute cost consciousness on the part of borrowers than in the merchandising field generally or to a reluctance on the part of borrowers, after having established an account with one lender, to switch to another. In any event, whatever the reason, competition has been ineffective in controlling charges; otherwise, small loans laws would never have been necessary and the present rates charged for the larger unregulated loans would not be so high.

The desirability of extending the scope of the act and of setting lower rates of charges for the larger loans was expressed in a brief submitted in 1955 by the Canadian Consumer Loan Association whose membership comprises most of the licensed lenders. The recommendations in that brief were undoubtedly conceived with the best interests of borrowers and the business in mind and were prompted in part by the unsatisfactory practices being followed by unlicensed lenders in the unregulated field above $500. The principal recommendations were that the scope of the Act be extended to $1,500 and that a graded maximum scale of charges be set rather than a flat rate, being 2 per cent per month on the first $500 of any loan, plus 1½ per cent per month on any excess over $500 but not over $1,000, plus 1 per cent per month on any excess over $1,000 up to $1,500. For a $500 loan, this scale involved no change from the present monthly rate of 2 per cent; for a $1,000 loan, the equivalent flat monthly rate would be about 1·86 per cent; and for a $1,500 loan, about 1·69 per cent.

The main justification for high rates of charges on personal loans is that the amounts are usually small and the periods relatively short. Many expenses, such as those for investigating the security, bookkeeping, etc., are substantially the same regardless of the size of loan and hence call for a high percentage charge when expressed in terms of a small amount, the percentage decreasing as the size of loan increases. One feature that must tend to reduce expenses in an established business is the frequency with which "current" or "repeat" borrowers return for additional loans since the security of these borrowers has already been investigated and their records have already been established. It is impracticable, because of the variables involved, to determine a scale of charges that precisely corresponds to the costs at every level. The best that can be done is to adopt a scale that results in a reasonable degree of fairness to all borrowers. For loans up to $500, or perhaps somewhat higher, a flat rate may be justified but for larger loans a graded rate is essential. It is undesirable to have arbitrary breaks in the formula such as result from a

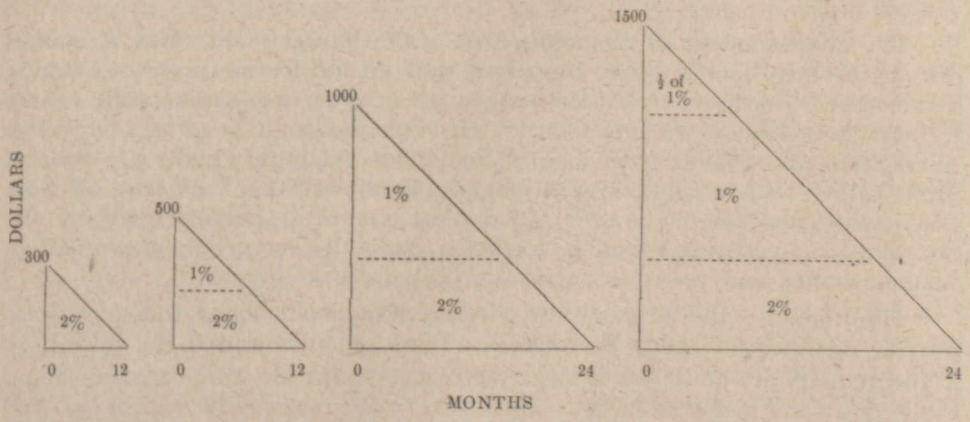
flat rate for loans up to a certain amount, another flat rate for loans within a certain range beyond, etc. Instead, a formula of the kind recommended by the association, which involves the application of graded rates to the successive tiers or layers of each loan, is generally more satisfactory. This kind of formula has been adopted in most states of the U.S.A., even for loans up to $300 or $500.

The determination of an appropriate scale of maximum rates is a most difficult problem and in some ways is almost an intractable problem because a rate that is adequate to enable most small lenders to make a profit results in most large lenders making inordinately high profits. The proper objective would seem to be the level at which efficient lenders only may make a reasonable profit rather than a higher level that would attract the inefficient as well. Looked at from the borrower's standpoint, one must have regard for the desirability of ensuring adequate facilities, especially for needly borrowers of small amounts, and yet of securing the best procurable rate.

Traditionally, the primary function of the small loans industry is to provide facilities for needy borrowers of small amounts and if the operations of the industry are to extend to larger and larger loans the rates charged should come down to levels at which borrowers may reasonably expect to find facilities available. A relatively high rate for a remedial loan of a few hundred dollars may be justifiable by reason of the impact of expenses but it is much more difficult to justify the same high rate for larger loans. It would seem to be a serious matter for a borrower of $1,000 or more to become saddled almost continuously, as many borrowers do, with charges at an unduly high level. If the small loans industry cannot provide borrowing facilities for larger amounts at more reasonable rates, the question arises whether other means of providing the necessary facilities ought not to be explored. The situation that has developed rapidly in recent years in Canada is one where the small loans industry has suddenly found itself with a vast new virgin field of larger loans open to it, a field relatively free from substantial competition. In the U.S.A., the banks occupy a very large part of this field and in several important states the small loans companies are effectively restricted to the small loans field up to $500 because of the low rate prescribed by the usury laws for larger loans; in certain states, the small loans companies are specifically prohibited from making loans above the regulated area. If the small loans industry in Canada is to become entrenched as the main source of personal loans in this broader field, a heavy responsibility rests upon the industry to provide the necessary facilities with maximum efficiency and at minimum cost which, I think, means at rates very substantially lower than charged for loans of $500 or less. It would be unfortunate if lenders are permitted to become accustomed to unduly high rates in the larger loan field for, like personal finances, expenses are usually not long in rising close to the level of income.

The maximum scale of charges proposed in the present bill, namely, 2 per cent per month on the first $300 of any loan, plus 1 per cent per month on any excess over $300 but not over $1,000, plus ½ of 1 per cent per month on any excess over $1,000 up to $1,500, is the equivalent of a flat rate of 2 per cent per month on loans up to $300, 1·81 per cent on a $500 loan, 1·48 per cent on a $1,000 loan and 1·27 per cent on a $1,500 loan, in each case on the assumption that the loan runs its full period and is not prepaid or refinanced earlier.

In round figures, this means a rate of about 1½ per cent per month on a $1,000 loan and 1¼ per cent on a $1,500 loan. Having regard for the incidence of expenses, these rates are, in my opinion, reasonably in balance with a rate of 2 per cent for the smaller loans. Pictorially, the layers of a loan carrying the various percentages mentioned, would look like this:



A graded formula of this kind assumes that the layer of the loan carrying the lowest rate is repaid first. Consequently, the average rate earned on any loan is lowest in the first month and steadily increases from month to month until the full 2 per cent is earned during the later months. For the specimen loans that I have mentioned, the average rate in the first month and the equivalent flat rate throughout the entire period would be as follows:

Amount of loan	Average rate in first month	Rate toward end of period	Equivalent flat rate throughout entire period
$	%	%	%
300	2·00	2·00	2·00
500	1·60	2·00	1·81
1000	1·30	2·00	1·48
1500	1·03	2·00	1·27

The fact that the rate earned is less in the early months than in later months tends to depress earnings in times of rapid expansion like the present when more loans are in their early months but this only shifts the incidence of earnings and does not alter the fact that the equivalent flat rates will be earned if loans run to maturity. It is only if loans are prepaid or refinanced before maturity that the full equivalent rate would not be earned. If anything, this may be regarded as an advantage of this kind of formula from the viewpoint of good practice since it may tend to discourage premature refinancing.

It will probably be said that a rate of ½ of 1 per cent on the part of a loan between $1,000 and $1,500 is unrealistic because it is so close to the rate paid on borrowed money in many cases. It should be remembered, however, that this part is repaid first, is outstanding but a very short time and is made at little or no extra cost. Moreover, the rate of ½ of 1 per cent is merely an element in a formula for producing an appropriate composite rate for loans at various levels. A composite rate of 1·27 per cent per month for a $1,500 loan is equivalent to an effective annual rate of 16·4 per cent a composite rate of 1·48 per cent per month for a $1,000 loan is equivalent to an effective annual

rate of 19·3 per cent. It will probably also be said that lenders will refrain from making loans between $1,000 and $1,500 but this has not been the experience in states like Connecticut, New York and New Jersey where the rate of ½ of 1 per cent applies on the part of any loan exceeding $300. The trend of loans in those states has in fact been strongly into the area carrying this rate.

From the lenders' point of view, the most important question is, of course, the effect that the proposed rates would have on their income and profits. There is no doubt that the effect would be substantial. For loans up to $500, being the present regulated area, I estimate that the income would be reduced by about 5 per cent. For loans between $500 and $1,500, being the proposed new area of regulation, the effect would vary, depending upon the pattern or distribution of loans by amount. The two largest small loans companies have only a very small proportion of loans over $1,000 whereas many money-lenders do about as much business above $1,500 as between $500 and $1,500. For loans made in amounts between $500 and $1,000, I estimate that income would be reduced by about 24 per cent and for loans made in amounts between $1,000 and $1,500 by about 38 per cent, in each case in relation to assumed charges of 2 per cent per month. For loans over $1,500, which would continue unregulated, I think it would be unrealistic to assume any change in practice or to predict what changes, if any, may be made.

In the case of the largest small loans company, Household Finance Corporation of Canada, the present gross earnings of 12·8 per cent would be reduced to about 11·1 per cent and, after income tax at 47 per cent, to about 6·2 per cent. The unlicensed associated company, Household Finance Corporation Limited, would apparently have its gross rate reduced from the present level of 16 per cent or 17 per cent to approximately 11 per cent and, after tax, to slightly less than 6 per cent.

In the case of the second largest small loans company, Personal Finance Company of Canada, the present gross rate of 11·3 per cent would be reduced to about 7·5 per cent and, after tax, to slightly less than 4 per cent. This is probably the minimum level at which a large lender can be expected to operate but there is good reason to expect that this rate would improve once the expenses arising from the opening of so many new offices and the rapid increase in the volume of new business subside. Furthermore, one may reasonably expect that this company's rate of earnings will steadily increase and that before very long it will attain the same earnings level as the largest company.

The third small loans company, Community Finance Corporation, would apparently be hard hit because of its present high expense level and low profit level but if salaries and other expenses were reduced even to the level of the "all others" group of money-lenders, the earnings, after tax, would be over 4 per cent of average assets and the net profits after interest on borrowed money and taxes would be about 7·5 per cent of the company's own funds. This company operates in association with its parent, the Peoples Thrift and Investment Company, and some readjustment of its present organization, which includes a relatively large number of offices for the volume of loan business handled, would be necessary to show a satisfactory return. Community Finance gets most of its funds from Peoples Thrift and pays about 1 per cent more than it costs the latter to borrow; hence there is some indirect gain to the parent from these borrowing transactions.

The fourth small loans company, the Canadian Acceptance Company, also operates in association with its parent, the Canadian Acceptance Corporation Limited, but since the former is already charging only 1½ per cent per month on all loans over $500, its operations would be affected only slightly.

The four large money-lenders, Commercial Credit Plan, Niagara Finance, Trans Canada Credit and Union Finance, each operate in association with parent or related acceptance companies and in my opinion could continue to earn a reasonable return, especially if account is taken of the indirect advantages to the parent of sharing expenses in various ways, including so-called "service", "management", "contract", and so forth, fees. Union Finance just began business in 1952 and its earnings are steadily improving. In the case of Trans Canada Credit, the licensed lender obtains funds from its parent and pays substantially more than it costs to raise the funds so that the parent enjoys some additional return in this way.

The licensees that would be most seriously affected are in the "all others" group and vary all the way from individuals to fast growing subsidiaries of U.S. parent companies. A great many of the licensees in this group also operate in association with sales finance or acceptance companies and in many other cases the lending business is not the only business carried on by the owners. Taking this group as a whole, but excluding the recent licensees with negative earnings, and assuming no change in lending practices above $1,500, it is estimated that the total net profits after interest and taxes would be reduced to about 6 per cent of the total of the lenders' own funds. In some cases the return would be more and in some cases less. Many lenders may feel that this is an inadequate rate of profit to maintain their interest in staying in the field and some might withdraw. On the other hand, the mortgage loan companies supervised by the department earned only 7·0 per cent in 1954 on equity capital and reserves before making transfers to strengthen investment reserves and 5½ per cent after such transfers. The rates of return on net worth vary greatly in different lines of business and while the rates in most lines are higher, some are lower. The current return amongst merchandising companies and public utilities is in each case roughly comparable, being of the order of 7 per cent per annum. I should not want to minimize or gloss over the seriousness of forcing any lender out of business but at the same time I feel that the great majority of those who might withdraw have the ingenuity to put their funds to other profitable use.

I believe that lenders who now do 90 per cent or more of the personal loan business in Canada would continue to operate at a reasonable profit under the proposed rates and that adequate facilities would continue to be availble to the borrowing public. If, on the other hand, it is felt that all lenders, or practically all, must be permitted to continue to operate profitably, then higher rates than those proposed would be necessary. The fundamental question is whether borrowers in Canada are to secure the best procurable rates or whether they are to pay more than is necessary in order to permit several small lenders doing only a small fraction of the business to continue much as heretofore.

In the determination of this question, I would suggest for consideration that the future of many small lenders may not be assured in any event merely by fixing maximum rates at a higher level than necessary for other lenders, since in those circumstances more and more lenders, large and small, will probably continue to be attracted to the field. Also, there can be no assurance that a predominantly Canadian-owned industry can be built up merely through higher rates because there is no evidence that such a policy would lead to a decrease in the proportion of business transacted by foreign-owned licensees or that the borrowing public would benefit if that were the result. Moreover, Canadian-owned licensees may at any time be sold to outside interests, as occurred when the first small loans company was sold in 1932, the largest money-lender in 1946 and another small but successful money-lender in 1955.

Another proposal in the bill is to include in the definition of "cost of loan" any premiums for life insurance or personal accident or sickness insurance arranged by the lender covering the indebtedness of borrowers. In requiring lenders to assume costs of this kind there is, of course, no intention to prohibit any such insurance arrangements from being made. Elsewhere, however, serious abuses have developed, involving excessive coverage, excessive premiums being paid by borrowers and excessive commission profits being made by lenders. It is true that insurance of this kind is of benefit to borrowers but it is also of benefit to lenders who are thereby relieved of pressing for payment in embarrassing circumstances and, in fact, guaranteed payment in full. The insurance may theoretically be arranged either on a compulsory or optional basis on the part of borrowers but the difference in practice is more theoretical than real. I believe that the only sure way to avoid the arrangement of insurance simply as a device to supplement the profits of lenders or otherwise to afford better security at additional cost to borrowers is to require any such cost to be absorbed by the lender within the maximum rate fixed by the act. There have been increasing signs recently of the desirability of the amendment proposed.

The other amendments contained in the bill are, in the main, consequential upon the adoption of the principal amendments and may more readily be dealt with when the bill is under detailed consideration, clause by clause.

In conclusion, I should like to say that notwithstanding all that is said and heard about this very controversial business, we have had good cooperation from licensees as a whole and there can be no doubt that conditions in the regulated field of loans have greatly improved since the act was passed.

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HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 19

Bill 51
An Act to amend the Small Loans Act

THURSDAY, JULY 19, 1956

WITNESSES:

Mr. F. P. Varcoe, C.M.G., Q.C., Deputy Minister of Justice; Mr. C. M. Cawker, President, Canadian Consumer Loan Association.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Ashbourne
Balcom
Bell
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fraser (*St. John's East*)
Fulton
Gour (*Russell*)
Hamilton (*York West*)
Hanna
Henderson
Hollingworth
Huffman
Knight
Low
MacEachen
Macnaughton
Matheson
Michener
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Quelch
Rea
Regier
Richardson
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Stewart (*Winnipeg North*)
Thatcher
Tucker
Valois
Viau
Vincent
Weaver
White (*Hastings-Frontenac*)
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, July 19, 1956.

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day, Mr. John W. G. Hunter, the Chairman, presiding.

Members present: Messrs. Ashbourne, Balcom, Cameron (*Nanaimo*), Crestohl, Deslieres, Enfield, Eudes, Fairey, Fleming, Follwell, Fulton, Hanna, Henderson, Hollingworth, Huffman, Hunter, Knight, Michener, Monteith, Philpott, Quelch, Regier, St. Laurent (*Temiscouata*), Thatcher and Viau.

In attendance: Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance; F. P. Varcoe, C.M.G., Q.C., and E. R. Olson of the Department of Justice; and representatives of certain Small Loans Companies and interested organizations.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

The Chairman presented the Fifth Report of the Subcommittee on Agenda and Procedure, as follows:

> Your Subcommittee met at 10.10 o'clock p.m. on Tuesday, July 17, 1956, and agreed to recommend:
>
> That the Committee continue its consideration of Bill 51, An Act to amend the Small Loans Act, on Thursday, July 19, at 3.30 o'clock and 8.15 o'clock;
>
> That, if several other committees will be sitting on Tuesday, July 24, the Subcommittee meet prior thereto to consider when the Committee should next meet; otherwise, that the Committee meet on Tuesday, July 24, at 3.30 o'clock and 8.15 o'clock p.m.;
>
> That the Subcommittee meet again to review the situation immediately following the second meeting on Tuesday next, July 24, or on such alternative day as may be fixed; and
>
> That the immediate order of business of the Committee be as follows:
>
> 1. To complete the examination of Mr. MacGregor;
> 2. To hear Mr. F. P. Varcoe, Deputy Minister of Justice; and
> 3. To hear Canadian Consumer Loan Association on their brief.
>
> Respectfully submitted.

The Fifth Report of the Subcommittee was adopted unanimously.

Mr. MacGregor was again called; there being no further questions of him on his statement on the Small Loans Act, he was thanked and was retired.

Mr. Varcoe was called; he was questioned on certain constitutional aspects of the legislation before the Committee. Mr. MacGregor answered questions specifically referred to him. Mr. Varcoe was thanked and was retired.

The Chairman stated that, pursuant to a resolution of the Committee on July 12, Merchants Finance Limited had been invited to appear before the Committee; and that he had received a reply from the company expressing its willingness to appear, and enclosing copies of certain letters and a table of

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statistics. It was agreed that the said correspondence be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix "A".*)

At 5.25 o'clock p.m., the Committee adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m., the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Ashbourne, Balcom, Cameron (*Nanaimo*), Crestohl, Deslieres, Enfield, Fairey, Fleming, Follwell, Fulton, Hanna, Henderson, Huffman, Hunter, Knight, Michener, Monteith, Quelch, Regier, Rouleau, St. Laurent (*Temiscouata*), Thatcher and Viau.

In attendance: Messrs. C. M. Cawker, President, and F. C. Oakes, Vice-president, both of Canadian Consumer Loan Association; Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.); and other representatives of Small Loans Companies; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

Mr. Cawker was called; he commenced the presentation of the brief of Canadian Consumer Loan Association, copies of which had been distributed to members of the Committee, and answered questions threeon. Mr. McClure answered questions specifically referred to him.

Mr. Cawker being still before the Committee, at 10.00 o'clock p.m., it adjourned until 3.30 o'clock p.m. on Tuesday, July 24, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

THURSDAY, July 19, 1956,
3.30 p.m.

The CHAIRMAN: Gentlemen, there is a quorum.

The standing subcommittee on agenda and procedure which held a meeting after the last sitting of this committee begs leave to present its firth report:

(For report of subcommittee, see minutes on proceedings of this day.)

The CHAIRMAN: Gentlemen, I am hoping that you can complete the examination of Mr. MacGregor fairly briefly. If there are any questions which you wish to ask, would members please indicate their names to me? All those who wish to question Mr. MacGregor will now kindly indicate their interest or forever hold their peace.

No further questions? Fine!

Mr. MacGregor, I think you will have to hold yourself available in case members may wish you to clear up any point which might arise.

Mr. K. R. MACGREGOR, (*Superintendant, Insurance Department*): I plan to attend every meeting, Mr. Chairman.

The CHAIRMAN: I know you would all like me to thank Mr. MacGregor for his patience and for the courtesy that he has shown to us all through this hearing. It has been the conduct of a very high-minded public servant doing a splendid job and on behalf of the Committee I thank you.

Hon. MEMBERS: Hear, hear!

The CHAIRMAN: Mr. Varcoe, could we hear from you, now?

Mr. F. P. Varcoe, C.M.G., Q.C., Deputy Minister of Justice, called:

The CHAIRMAN: Mr. Varcoe has not prepared any formal presentation. He is really here to answer any questions which he finds possible to answer on the constitutionality of any matter which might be considered before this committee—possibly such matters as advertising, the acceptance field, or any other points which any members of the committee would like to question him about.

By Mr. Knight:

Q. Mr. Chairman I have a question I would like to ask, and it is in regard to advertising which is put in the newspaper chiefly by small loans companies. It is their custom, rather than stating the amount of interest or the amount the loan will cost in terms of per cent per annum, to state that the loan will be repaid monthly, perhaps in 10 or 12 monthly payments. I take it they have reasons for doing so. Now I think that, where people who lend money advertise that fact, they should be required to state in plain terms the cost of that loan expressed as percentage per annum, bearing in mind that the type of person to whom they will be lending money is in many cases unable to do arithmetic, or so mentally disturbed at the time that they are unable to make the calculation. I have always felt that this would be desirable, instead of simply stating the amount that must be repaid at the end of January, February, March, and so forth; and my question is: Is there anything that would be illegal about introducing that procedure from the constitutional point of view? What is our position if we were to ask them to do that?—A. Well, Mr. Knight, if you are thinking about Bill 213—

Q. Naturally!—A. —that stands in your name, that contains the kind of provision you have in mind, and I note that it purports, in part, to amend section 14 of the Small Loans Act which is the section which relates to the powers of certain finance companies, that is, companies incorporated by parliament, and I think there would be no doubt that such a provision could be annexed to the powers of such dominion companies—

Q. In other words if it is not constitutional now it could be made so by an amendment to the act? Is that it?—A. When you say it is not constitutional now—it is not in the law now.

Q. I take it it is not part of your function to tell me what you think of the idea?—A. Oh no!

Q. It is simply a matter of the legality of the procedure?—A. That is right.

By Mr. Enfield:

Q. I wonder if Mr. Varcoe could review briefly for us the constitutional law under the purview of which we purport to pass the Small Loans Act and similar acts.—A. First of all, interest is a subject matter assigned by section 91 of the B.N.A. Act to parliament. I do not know whether your question is directed to asking what is the constitutional basis of the present Small Loans Act—

Q. Yes, with particular reference to the limitations which exist on the activity we can indulge in so far as this type of enactment is concerned.—A. In 1939 the device was resorted to of fixing the over-all cost of a loan. The idea behind that was, first of all, that everything that is paid to the lender by the borrower, apart, of course, from the principal, is interest. What the lender does with that, and how he disposes of it, does not make the sum which he receives any the less interest. Now interest is, as you know, the return made to the lender for accepting the risk of the loan and for compensating him for the use of the money lent. That was the first basis we had in mind when we prepared this legislation in 1939—everything which the borrower pays is interest, no matter how the lender may break it down, and suggest that it is for this and that, chattel mortgage charges, and so on. In case that did not cover the whole field of these charges we said, secondly, that when you fix the cost of the loan, accepting the view that there might be some items in there which are not interest, then you are nevertheless regulating the interest because you fix the maximum of 12 per cent, or whatever it is, and if any part of that is something other than interest you are nevertheless regulating interest by reference to that. In other words you say: there is a maximum of so much, and if the collateral charges are high, then the interest ingredient is low; if the collateral charges are low the interest rate is high, and so you are regulating the interest in that sum by reference to the collateral charges. The third line of reasoning was that to charge more than the rate fixed by the statute is oppressive to the lender and is therefore within the criminal law.

By Mr. Knight:

Q. I wonder if you could define for me the term "carrying charge" as applied to people who are selling things "on time"—mail order companies, and so on. So far as the customer is concerned I agree it is interest, and I think these other charges should be computed as interest, because what the borrower is concerned about is the cost to him of buying an article or making a loan. But from the legal standpoint, what is a carrying charge?—A. The expression is not a technical one—it might be defined according to different standards; there might be different forms. I would not like to offer a definition without having seen the context in which it occurs.

Q. Is it not true that where the law restricts the amount of interest as such, there are certain firms—I do not know whether they are in the lending

business or in the business of the sale of goods—who charge the limit, so far as interest rate is concerned, and then add thereto the amount of a carrying charge which in aggregate is tentamount to imposing a considerably higher cost on the consumer or the borrower than the law allows?—A. You are referring to some other line of business than the making of small loans?

Q. I am. I am referring to those businesses which make a practice of selling articles on instalments, and that sort of thing.

The CHAIRMAN: Did you have a question, Mr. Knight—I was not sure.

Mr. KNIGHT: That was the question. Perhaps I did not make it clear. I asked the witness if it were not true that certain of these businesses, when the rate of interest they may charge is restricted by law, are charging what is virtually an increased rate of interest by the addition of what are known as carrying charges, with the result that the cost to the buyer or to the borrower is, in the aggregate, increased.

The WITNESS: I am afraid I am not familiar with the methods whereby these businesses are carried on, Mr. Knight.

By Mr. Knight:

Q. Let me put it this way: would it be legal, for example, for a mail order firm, which is restricted legally as to the rate of interest it may charge, to impose sufficient carrying charges in addition to the interest on, say, $20 worth of goods as to enable it to collect, in fact, 58 per cent on its money?—A. Well, I do not know how they define the carrying charge; I do not know.

Q. That is what I was trying to get at, if I could have had a definition of "carrying charge" earlier on. I am just asking for information, and the chairman will put me right if I am not within the limits of the field which we are examining now.

By Mr. Quelch:

Q. Is there any limitation on interest charges made by companies selling goods on the instalment plan?—A. None that I know of, in the sense of limiting these so-called carrying charges.

Q. It would come under federal jurisdiction, would it not?—A. I do not know. I would not want to give an opinion unless I saw an actual example of the carrying charge.

By Mr. Henderson:

Q. Would not competition bring those carrying charges down?—A. I am not an economist. I think it would, but I do not know.

By Mr. Quelch:

Q. What about cars? When cars are financed that would come under federal jurisdiction—the interest charges—would it not?—A. The interest charges? Yes, sir.

By Mr. Regier:

Q. Is there any federal law that limits a department store—supposing the unpaid balance of an account is $20, is there any law which prohibits them from adding a carrying charge of $2 and having the sum repayable in four or five months time?—A. None that I know of.

Q. There is no law which prevents that.

The CHAIRMAN: He did not say there was no law. He said he did not know of any law. It is possible there could be a provincial law.

The WITNESS: There might be a provincial law. There is no federal law that I know of.

Mr. CRESTOHL: I think it would be helpful to members of the committee if you could say a word in explanation of the constitutional position with regard to the provincial governments having jurisdiction over acceptance corporations, which may be regarded as involved in some form of lending of funds or charging of interest, as it conflicts with the federal constitutional rights under section 91 of the B.N.A. Act.

The WITNESS: I think all I can usefully say about that is that parliament has jurisdiction over interest, and the provincial legislatures have jurisdiction over property and civil rights, which includes contracts of sale.

By Mr. Crestohl:

Q. Would not discounts, for example, and contract of sales be another form of interest?—A. Yes, discount is a form of interest.

Q. Is there not some conflict there which makes it difficult to coordinate the various powers exercised, because they are both a form of interest, whether it is the case of a money-lender under federal legislation or of a discount under provincial legislation.—A. There is no doubt that parliament could legislate to restrict the rate of discount or interest in those transactions but whether parliament could extend its regulation to cover something else called "carrying charges", I cannot say without a definite proposal being before me.

Q. I am not concerned with carrying charges. I am concerned with a straight discount charge which is, indirectly, interest.—A. Parliament could deal with that.

Q. You mean the federal parliament?—A. The federal parliament, yes.

By Mr. Hollingworth:

Q. In other words we could legislate regarding these discount houses as well as the small loans companies?—A. Discount is simply a form of interest. That has been held over and over again by the courts.

By Mr. Enfield:

Q. Does parliament have the constitutional authority to modify a term of a conditional sales contract?—A. The rate of interest or discount could be regulated, certainly.

Q. The regulation now is in the Interest Act. Section 2 of that act states:

> Except as otherwise provided by this or by any other Act of the Parliament of Canada, any person may stipulate for, allow and exact, on any contract or agreement whatever, any rate of interest or discount that is agreed upon.

A. Parliament could repeal that and say you could not contract for more than 5 per cent, or whatever it might be.

Q. So the conclusion of the argument, then, is that any charges whatsoever under a conditional sales agreement by way of prior discount could, if we wished be regulated by an act.—A. That is correct.

Q. So these carrying charges could be regulated?—A. I am not sure what is meant by that.

By Mr. Crestohl:

Q. The committee has been told, I think, that some of the lending companies, if, to use a colloqulalism, they "find the going difficult", could retire their funds from the lending business and utilize them, for want of a better term, in the discount business in acceptance transactions—the business generally carried on by acceptance corporations. They could retire to that because that would fall within provincial rights, but actually they would still be in the

lending business, and, if I understand you correctly, you state that parliament has jurisdiction to regulate the rate of interest on that basis, even within a province.

The WITNESS: Certainly.

Mr. KNIGHT: Mr. Chairman, on a point of order, my recollection was that the statement which was made was to the effect that they would move into other and more profitable businesses—I do not think acceptance corporations were particularly mentioned.

Mr. CRESTOHL: I think that was indicated; I presume it could be that.

Mr. PHILPOTT: If I take out a mortgage, they charge me so much interest on the mortgage and they also charge me a fee for drawing the thing up. As I understand it, two elements of cost enter into these loans with which we are now concerned. A service fee is charged for drawing up the mortgage—

Mr. CAMERON (*Nanaimo*): Legal fee—search of title—

Mr. PHILPOTT: All right, call it a legal fee, but in the case of the small loans companies, or where time payments are made on such articles as vacuum cleaners, two elements of cost arise. What we are concerned with, I think, is whether we have any legal power over instalment buying which includes both of these costs—in other words can we regulate carrying charges if carrying charges can be shown to include both the interest rate and the cost of making the loan or, if you like, of carrying it?

The CHAIRMAN: Would your ancilliary powers in connection with your jurisdiction over interest rates include service charges; for example, insurance costs?

The WITNESS: That is the theory we adopted when the bill was drawn up nearly 20 years ago, and it has not been held invalid by any court.

By Mr. Fulton:

Q. Has it ever been challenged?—A. I think it was challenged in a small prosecution at Sault Ste. Marie or Sudbury, but it never got beyond the magistrate's court.

The CHAIRMAN: No court of record?

The WITNESS: No.

By Mr. Thatcher:

Q. I would like Mr. Varcoe to explain precisely what the powers of parliament would be with regard to the regulation of advertising. As you probably know, Mr. Knight has a bill, No. 213, which to some extent would regulate advertising. Would you say whether you think that would be constitutional? —A. In answering Mr. Knight's question I said that I thought clause 2 of his bill was good, for the reason that it is limited to these dominion companies. It does not apply to money-lenders generally—it is simply a regulation of the method under which a dominion company carries on its business.

By Mr. Henderson:

Q. What effect would that have on the licensees?—A. Well, this paragraph 2 of the bill of Mr. Knight's would not touch them at all because it is limited to the dominion companies by its very terms. Whether or not it could be applied to them by another amendment I would have some doubt, because I do not see what it has to do with the regulation of interest.

Q. If we were to consider advertising, Mr. Knight's bill has a lot of merit in it. If we consider advertising as a cost of operation, or expense of operation, would that not put it entirely within the provincial jurisdiction?—A. I thought so, yes.

By Mr. Philpott:

Q. I do not understand that.—A. Parliament has power to incorporate what we call dominion companies. In doing so it can stipulate upon what terms those companies will carry on business. It can restrict their activities in any way that it pleases. It can also say to a dominion company, "you must carry on your business in a certain way with respect to advertising". But that is a very special case and does not apply to other than dominion companies.

By Mr. Thatcher:

Q. But aside from these small loans companies we are dealing with others in the jurisdiction of parliament, and you can tell them what they can spend for, or what the nature will be of, the advertising?—A. I would think so. I cannot see any constitutional problem involved. The dominion company is in the same position, under the control of parliament, as, let us say, a chartered bank. That is, parliament has complete control over its activities and can say how it may carry on its business.

Q. There has been some concern expressed in the committee that some of these companies might, by some chance, indulge in, perhaps—not false advertising—exaggerated advertising or something of that nature. Do you think that section 306 of the Criminal Code today might be sufficiently comprehensive to prevent that?—A. I would have to have a factual statement of what the advertiser is doing.

Q. Do you have section 306 of the Criminal Code? Would you look that up and give me an opinion on that later?—A. Yes, but I would like to know more precisely what are the facts to which you are objecting.

Q. I am just wondering if we could control false advertising by that section without having to enact a new section?—A. False advertising could be and is prohibited under the Criminal Code; there is no doubt about that.

By Mr. Knight:

Q. I take it that Mr. Thatcher means deceptive advertising. If it is proven to be deceptive advertising—which I think sometimes it is—what is the jurisdiction?—A. I have not looked at the Criminal Code and do not know exactly what the section says; but parliament undoubtedly can make it a crime to publish deceptive or false advertising.

By Mr. Thatcher:

Q. I was wondering if we have that power now without having to have additional legislation?—A. I would have to look at the Criminal Code.

By Mr. Hollingworth:

Q. The statement was made yesterday that if the companies were incorporated under a provincial charter that perhaps Mr. Knight's bill would not be unconstitutional. Would the same apply in the case of a loan company or finance company under the jurisdiction of the Department of Insurance?—A. Those are companies under parliamentary jurisdiction.

Q. I have been talking about a company incorporated under the provincial act which, I suppose, has to come to the federal department for a licence.—A. I am not sure that they attempt to regulate the provincial companies; but if it is a provincial company you could not get at it by this device.

Q. Even if it obtained a licence to operate from the Department of Insurance?—A. That licensing, of course, is itself somewhat doubtful.

By Mr. Henderson:

Q. Have there been any prosecutions, to your knowledge, for deceptive advertising in the loans business to date?—A. I have not heard of any.

Q. What about the patent medicines—

Mr. FULTON: The Food and Drugs Act.

By Mr. Henderson:

Q. The Food and Drugs Act.—A. They are being prosecuted under that act all the time.

Q. Where do you get your authority to prosecute under that act?—A. The criminal law.

Q. Under the section mentioned?—A. No. We regard the Food and Drugs Act itself as a criminal statute.

Q. What would the prosecutions be for?—A. The prosecutions, under the Food and Drugs Act, would be for either false advertising or for selling an injurious product.

Q. Would that also include deceptive advertising?—A. I would have to look at the act.

Mr. KNIGHT: Mr. Varcoe, I wonder if you recollect the case—and Mr. Fulton will recollect it because both he and I had something to do with the present regulations—in respect to the falsification of bacon wrappers by which there were red stripes upon them which made the meat look as though it were lean meat when in fact it was fat meat. How was that done? We were told by the Minister of National Health and Welfare that a directive had gone out to the trade. I have never inquired as to what "directive" means. In any event, they have stopped that practice.

The CHAIRMAN: I hesitate to stop any member, but are we not getting a bit astray?

Mr. KNIGHT: I wonder if a directive would have the same effect on these people, since this is a situation which is just as bad as the one concerning the packaging of bacon.

Mr. FULTON: I had occasion to look up the Food and Drugs Act and I found that it contains its own provision against this advertising.

By the Chairman:

Q. The question here is whether we could control provincial companies in so far as their advertising is concerned and be constitutionally correct. I think that the question boils down to this, that with your legislative jurisdiction over interest could you control advertising, to a limited extent, of provincial companies by forcing them to agree to disclose their rate of interest, or things of that nature?—A. I am doubtful about that. I do not see much difference between controlling a provincial insurance company and any other money-lender that would come, for example, within Part I of the Small Loans Act. I should think that any regulation of the business of that company, with respect to what it should publish in the way of advertising, or should not publish, would be a provincial matter.

By Mr. Enfield:

Q. Mr. Chairman, could I pursue a little further the point raised by Mr. Hollingworth? Suppose you have a loan company or a lending company that has obtained a provincial charter, not dominion, is incorporated as a company and then applies for a licence under the Small Loans Act; to what extent can we regulate such things that do not normally come within our constitutional jurisdiction such as advertising, location of office and so on?—A. I do not see how you could regulate those things. I do not see how any such regulation as that could possibly be in relation to interest.

Q. I see.

By Mr. Thatcher:

Q. On that point I think Mr. MacGregor said that in the United States, in order to prevent congregations of offices, they have some kind of a licensing system which I think he called a rule of "convenience and advantage", and also I believe he said that we would not have the constitutional right to do that. What would be the reason for that?—A. Would you repeat your question, please.

Q. Mr. MacGregor said at page 32 of his statement that in the United States they license the various lending offices and that in order to obtain a licence those offices have to prove what he called "convenience and advantage". Is that not correct, Mr. MacGregor? I believe that he also expressed an opinion that this parliament would not have the legal right to make such a requirement. I would like to know if that is correct and if so what are the reasons.—A. In the United States they do so many things under what they call their commerce clause which we do not have in this country. Any person who is engaged, apparently, in the United States in a trade or business that extends beyond the limits of a single state seems to come within the jurisdiction of congress in respect to regulation in almost every regard.

Q. But in any event the Canadian parliament would have no right to regulate the number of offices or the place where a company could establish offices?—A. Not unless it was a dominion company.

Q. Would it have that right if it were a dominion company?—A. I think so. It is a creature of parliament and parliament can restrict it in any way it pleases.

Q. When you say "dominion company", that would include pretty well all these companies which we are studying?—A. Well, yes.

Mr. CAMERON (*Nanaimo*): Just the four.

By the Chairman:

Q. Mr. Varcoe, I have always been interested in section 5 of the Small Loans Act. Supposing you had a provincial company incorporated in the province engaging in the money-lending business charging no larger rates than are permitted by the Small Loans Act but which refused point blank to take out a licence, what would be the constitutional position?—A. The substance of section 5 simply amounts to this, that any person who complies with that section may charge 12 per cent interest. There is a provision that any person who is lending money—if he wishes—may charge more than 12 per cent but must then have a licence. That is the point.

Q. Yes.—A. He has to have a licence so, in substance, it is a provision that relates to interest in this way that it grants permission to a licensee to charge more than 12 per cent.—Q. Yes. Supposing he charges 2 per cent up to $500 but refuse to take out a licence?—A. 2 per cent a month?

Q. Yes.—A. Well, he would have to be prosecuted, that is all.

Q. But do you prosecute him successfully? He has complied with the interest rate permitted by the Small Loans Act. Your legislative jurisdiction is over interest and you are assuming that this ancillary jurisdiction permits you to prosecute someone who refuses to take out a licence.—A. There must be a provision here.

Q. There is a provision all right; but the question is, do you win your case? —A. I think we would. It has not yet been tried out.

By Mr. Hollingworth:

Q. In connection with this question of advertising, there is one thing on which I am still not clear. I understand, Mr. Varcoe, that if it were a company incorporated under the dominion Companies Act, then possibly this advertising bill of Mr. Knight's might be constitutional, at least that is what I inferred;

but if it were incorporated under an act of parliament, would there be a difference?—A. There would be no difference. Any company that is incorporated by parliament, or under an act of parliament, would be in the same position. There might be some point beyond which parliament cannot go in regulating the contracts of a company, but where it is put right into the charter of a company that it must carry on business in a certain way, then I would think that is different

Q. But, as I recall it, when these different companies are incorporated by act of parliament specific rules are not laid down under the Companies Act, but it may be, for example, that the directors have to be Canadians. But if there is no specific direction incorporated in this act of parliament, will parliament have the ancillary jurisdiction?—A. I am not sure that I am following you. Are you talking about a company that would be incorporated under the Companies Act?

Q. No. I am referring to a company which is going to be incorporated by act of parliament. I am wondering whether Mr. Knight's bill is constitutional. That is what I want to find out.—A. I think it is; yes, I do. It relates to companies that are incorporated by parliament.

By Mr. Follwell:

Q. What you are saying is that parliament, then, can regulate every action of every dominion company?—A. I will not say every action. I will stick to this item here. I think that parliament could say that the company must carry on its business as Mr. Knight has provided for in the advertising field. I think I should offer this explanation. I was looking at clause 2 of Mr. Knight's bill. It is that part that I have been dealing with and not clause 1.

By Mr. Michener:

Q. Mr. Chairman, are we dealing with Mr. Knight's bill today? I thought Mr. Knight was in a hurry to get on with Bill 51.—A. What I said about Mr. Knight's bill related to clause 2 and not to clause 1.

By Mr. Thatcher:

Q. Then is clause 1 not constitutional?—A. I have already expressed the view elsewhere that I thought clause 1 was probably not good.

Mr. KNIGHT: Mr. Chairman, I do not know why Mr. Michener remarked as to my being in a hurry to get on with this bill, and I do not know where he got the impression that I was in a hurry. I might say that he certainly has not shown any hurry since I have been here over the last few sittings.

The CHAIRMAN: I do not think that these private arguments are helping the committee in any way.

By Mr. Follwell:

Q. Then, Mr. Chairman, I would like to ask Mr. Varcoe, if parliament passes a bill such as Mr. Knight's, to regulate the extent of advertising which any dominion incorporated company can do, then, Mr. Varcoe, is it within the realm of parliament to legislate on any phase of the companies' operation? Parliament could regulate as to how much money the companies could pay their directors, employees, labourers, or as to anything else?—A. Yes. When you get into the field of contracts generally, there may be a question about that. Generally speaking, I think that the exclusive power of parliament deals with these matters relating to the powers of the company, and you will notice that clause 2 of Mr. Knight's bill incorporates this proviso relating to advertising in the corporate powers of the small loans companies. I do not want to go beyond that in saying what parliament can do generally about contracts between a dominion company and any person with which it is dealing.

Q. What, in your opinion, as a very learned counsel, would be the result if parliament decided to legislate many pieces of legislation limiting, as I have indicated, the wages that are to be paid, and the expenses, the number of offices, and so on, with respect to all dominion companies? Is this what would happen; that you would have very few people applying for dominion charters and that instead of getting one charter from the dominion, they would get ten, one from each province in the Dominion of Canada? Could it lead to something like that?—A. That is a pretty general question to ask, I am afraid. I do not think it has ever been held that parliament could regulate, for example, the wages that a dominion company can pay as distinct from anybody else.

The CHAIRMAN: Would your jurisdiction not be negative? That is, you would refuse to incorporate unless they complied?

By Mr. Follwell:

Q. That is the opinion which I was trying to get; that by pursuing, say, a host of bills such as Mr. Knight's that we might put all the dominion companies in a position where there would not be one company in Canada which would want to incorporate on a dominion basis, and that they would prefer to go to the provinces and have ten incorporations in Canada instead of one?—A. I think in some fields, that is probably done. I do know that there are losts of companies which operate, by one means or another, in more than one province, if that is what you have in mind.

Q. Yes. They operate, but I presume that duty do not do it because of the fact that the legislation is burdensome?—A. I think parliament has, as regards dominion companies generally, restricted its legislation to those matters that have to do with the status of the company, its financing corporate powers, and so on.

Q. In other words have restricted it pretty much to some specific purpose and not more general purposes under the act?—A. It is hard to generalize. You could take, for example, the banks. They are dominion companies really. Their business is pretty completely regulated by the Bank Act. But in the case of other dominion companies the situation is slightly different. No one has yet been able to draw the line—or no one has yet attempted to do so at any rate—of distinction between a dominion company and, let us say, a bank, havink regard to the powers of parliament to regulate.

Q. Speaking of banks, Mr. Varcoe, we had the banks before this committee when it considered the Bank Act, and we were given information that the Bank of Commerce operates a personal loans business which I think is still thought by some people to be beyond the legal authority under the Bank Act in charging a 6 per cent discount rate, or carrying charge, on instalment loans. Now, would you give us your opinion as to whether or not they can legally operate on the basis on which they are operating?—A. I do not know how they are operating. I have not been informed as to that.

Q. I will be only too pleased to tell you and I am sure that the committee will bear me out on this. We were told that the Bank Act has a maximum rate of 6 per cent. Is that right?—A. Yes.

Q. Six per cent per annum; but we understand that the Bank of Commerce are making what they term personal loans and, I think, only in the personal loan field. They are charging a 6 per cent interest rate per annum on an amount which, over a period of a year, amounts to, I think, about 10·27 per cent—

Mr. Quelch: 10·46.

Mr. Follwell: 10·46. I understand that the other banks in Canada are not doing that because they believe that it is not legal under the Bank Act. The Bank of Commerce said here, if I remember it correctly and it is in the

record, that they had a legal opinion that they were perfectly within the act. Now, you are an officer of the crown in the Justice Department and I am interested, as I am sure are the other members of the committee, in knowing whether or not their legal opinion is right.

Mr. PHILPOTT: Mr. Follwell, you omitted one point. Under the Bank of Commerce system the borrower has to repay by monthly instalments.

By Mr. Follwell:

Q. I understand that they do. So that becomes the effective rate, 10·46 per cent, and yet you have just said that the Bank Act limits it to 6 per cent. —A. I do not know how these transactions are carried on. I could not undertake to review these opinions. I have heard that there were some opinions given which were contradictory of one another, but I never was asked to review them. I do not think it would be proper for me to do so without having at least all the facts before me.

Mr. CAMERON (*Nanaimo*): I think that if we would look at the evidence we would find that the inspector general of banks was asked a question on this point and answered that he had not yet had a case presented to him that led him to believe that he should contest the matter in the courts.

The CHAIRMAN: You mean that the Bank of Commerce has never been prosecuted?

Mr. CAMERON (*Nanaimo*): The inspector general of banks felt that there was no case for him to intervene.

By Mr. Follwell:

Q. What you are indicating is that this may very well be beyond the legal rate but that until it is contested there is no decision on it?—A. Yes; that is a fair way of putting it, I think. There is always room for differences of opinion in these matters. I do not know what the consideration was that persuaded one bank solicitor to say you can do this and another to say you cannot.

Q. Apparently every other bank solicitor except the solicitor for the Bank of Commerce said that you could not do it.

Mr. QUELCH: I do not think that the other banks went that far. I thought that some of them said that they did not desire to go into that type of business; they did not suggest that they refrained because they thought it was illegal.

The CHAIRMAN: I think you are wrong. I think it was brought out that there were two directly opposed legal opinions; one for the Bank of Commerce permitting them to charge 6 per cent discount, and the other a simple rate of 6 per cent.

Mr. FOLLWELL: Mr. Chairman, I have been very interested to know just where we would stand on that 6 per cent.

Mr. FULTON: Take out a loan and then prosecute them.

Mr. FOLLWELL: Perhaps the committee should take action through Mr. Varcoe to get a decision on this. However, I suppose we would only get a judge's opinion which is just one man's opinion in any event.

Mr. THATCHER: We could let the Bank of Commerce do what they are doing and let the other banks get into the same business. Perhaps parliament should pass legislation which would make it certain.

The CHAIRMAN: That is why I have considered this relevant. Otherwise, it seems pretty irrelevant.

By Mr. Follwell:

Q. There is one other question arising out of a question asked by Mr. Quelch. I think the question was this—and Mr. Quelch can correct me if

I am wrong: when automobiles are financed and finance charges are charged on automobiles—I think Mr. Quelch said—was there legislation limiting the interest that could be charged on this transaction, and I understood you to say, "yes, there was".—A. I said there could be; I did not say there was.

Mr. QUELCH: I asked whether such action would be within federal jurisdiction.

By Mr. Follwell:

Q. I wondered if there was legislation and, if so, what it is. I was looking at the Interest Act here.—A. The only federal act which would be applicable would be the Interest Act, and that simply says that you can charge what you please.

Q. That is the point which I wanted to have clarified. I thought you indicated that there was legislation which limited the amount of interest, or carrying charges, which could be charged on the financing of an automobile? —A. I intended to confine myself to saying that there was power to enact legislation which would limit the rate of interest charged in the circumstances. I wanted to avoid saying what the carrying charges should be because I do not know what is meant by that.

Q. Mr. Enfield and I were looking at section 2 and we saw there that with respect to automobiles or real estate that the interest could be on whatever the agreed basis is.—A. Yes.

Q. That is a fact?—A. Yes.

By Mr. Crestohl:

Q. Mr. Chairman, I would like to clarify something doubtful in my mind. If I understand correctly, section 91 gives you certain jurisdiction over interest? —A. Yes.

Q. Then the federal government proceeded to enact an Interest Act, in virtue of the power given it under section 91?—A. That is right.

Q. Following that, a Small Loans Act was enacted in which the rates of interest were fixed, again by virtue of section 91?—A. That is correct.

Q. Would you then say that parliament would now have the jurisdiction to enact legislation to affect loans beyond the Small Loans Act?—A. You mean other loans?

Q. Other loans beyond the Small Loans Act.—A. Oh, yes.

Q. In other words, parliament could now legislate an act similar to the Small Loans Act called a "huge loans act" or "big loans act"?—A. Yes.

Q. Going beyond $500?—A. Yes.

Q. Does that not lead us to the conclusion that interest in any guise on small loans or large loans is exclusively a matter for the federal parliament by virtue of section 71 of the B.N.A. Act?—A. That is right.

Q. When provinces proceed to enact legislation which makes possible the charging of interest or discount rates—which to a certain extent is simply another form of interest—is that not in conflict with the federal jurisdiction?— A. Yes, sir. That would be in conflict. I do not know if there is any such legislation.

Q. Take these acceptance corporations.—A. As far as the acceptance corporations are concerned, they do not do what they are doing by virtue of any provincial law, but they do it by virtue of the fact that there is no federal law.

Q. I see.

The CHAIRMAN: Are there any further questions?

By Mr. Enfield:

Q. Just to complete the picture, Mr. Varcoe mentioned earlier that he thought that the dominion would have the power to regulate the cost of loans

including the registration fees and so on, as if they were included with the interest, and he did say that it had never been challenged, but there was one small case, he thought in a magistrate's court.—A. Yes.

Q. I would say that section 2 of the present Small Loans Act—I do not think it is amended; yes, it is amended by the new bill which defines "cost" of the loan, and it indicates what charges are included as follows:

> (i) ...whether it is called interest or is claimed as discount, deduction from an advance, commission, brokerage, chattel mortgage fees, or recording fees, or is claimed as fines, penalties or charges for inquiries, defaults or renewals, or is claimed as charges for life insurance, personal accident insurance, or sickness insurance or is otherwise claimed,...

Would you say that if those charges were challenged, possibly it could be found that we would not have the jurisdiction to include such costs? —A. There is that possibility, yes.

Q. You say there is that possibility?—A. Yes.

Q. There is no magic in the Small Loans Act?—A. No.

By Mr. Follwell:

Q. Do I understand it correctly that with respect to this clause which I shall read again as follows:

> whether it is called interest or is claimed as discount, deduction from an advance, commission, brokerage, chattel mortgage fees, or recording fees, or is claimed as fines, penalties or charges for inquiries, defaults or renewals, or is claimed as charges for life insurance, personal accident insurance, or sickness insurance or is otherwise claimed—

Do I understand that if a licensee—or rather if this act were passed, or when it is passed—if the licensee should decide that he should not be saddled with any one of these charges as outlined or covered in the interest rate which is permitted to be charged, could he then take action?—A. That raises a question which I think should be answered first, and it is this: if a licensee applies for and obtains a licence, it may be that he thereby precludes himself from challenging the validity of the law under which he has taken out his licence. But if, on the other hand, the applicant is not a licensee, he might; that is, some person may be able to challenge the validity of this, and it is conceivable that it would be over-ridden.

The CHAIRMAN: That was not your case.

The WITNESS: No, no, and it is not now, but one cannot predict what the courts will decide. This is a border line case and everybody realizes it.

By Mr. Follwell:

Q. You are indicating that if a man applies for a licence then he is expected to accept the terms set out under the licence which he gets. Is that right?—A. I think that is correct, but that too is something that has never been conclusively decided in this country. In the United States, however, it has been held that if a person takes out a licence under any statute, he is thereby precluded from challenging the validity of that statute. But we have never had such a decision given in this country to that effect. However, there is a possibility.

Q. There is no legislation apart from that decision in the United States? —A. I recall a case in the United States, that of the licensing of a grain elevator, when the licensee later on challenged the validity of the statute under which he was licensed. Some court said that he could not challenge it, that he had estopped himself by his action in taking out the licence.

Q. Was that a Canadian case?—A. No, it was a case decided in the United States. The question has never been decided in Canada so far as I know.

Q. You are indicating that there might be a possibility that some licensee might contest the validity of accepting this clause, even in spite of getting a licence?—A. Any person may challenge the validity of any law or statute because that is one of the civil rights which we have in this country.

Q. Yes, it is just a matter of deciding whether or not he wants to contest it. —A. Yes.

Q. All you were expressing was the argument.—A. We would have to let the courts decide it.

Q. You mean the courts would have to decide whether it is right or wrong.

Mr. CRESTOHL: May I address a question to the chairman?

The CHAIRMAN: I am not the witness.

Mr. CRESTOHL: I mean a question of procedure. Would it be in order to ask Mr. Varcoe and the Department of Justice to give us a written opinion as to whether the procedure followed by the Bank of Commerce is *intra vires* and within the jurisdiction of the Bank Act?

The CHAIRMAN: I think you would find that Mr. Varcoe would adopt the general principle of the Privy Council and refuse to give an answer until he had a specific case in the courts.

Mr. CRESTOHL: I thought there was a specific case in the small loans department of the Canadian Bank of Commerce and in its operations by deducting this charge, within the meaning of the Bank Act.

The CHAIRMAN: I think that question would be outside our terms of reference, which have to do with the Small Loans Act. Perhaps that question would be in order at the next revision of the Bank Act.

Mr. CRESTOHL: All right.

The CHAIRMAN: Much as I would be delighted to ask Mr. Varcoe to solve that problem, I do not think it really is before us.

Mr. CRESTOHL: That is why I addressed my question to the chair.

The CHAIRMAN: I would rule, no.

By Mr. Quelch:

Q. If we are going to claim that the operations of the small loans branch of the Bank of Commerce are illegal on the grounds that the discount rate is embodied in the form of interest, then it may also be charged that every other bank is at fault in that respect. I know that in western Canada over a number of years it was the practice to discount a loan and to charge the maximum rate of interest in addition. For example, if you went to the bank to borrow $100, you would pay 8 per cent interest but you would only receive $92 because you had paid your interest in advance.

Therefore, if we claim that the Bank of Commerce may be operating illegally, then we must admit the fact that every other bank was operating illegally in western Canada in the small loans business. I do not know why they should hold up the practice of the Bank of Commerce as being a unique case, because they have already done it on a different basis; they have been charging a discount rate for instance on the maximum rate of interest, but I do not know whether they are doing it now or not.

By Mr. Philpott:

Q. May I offer one observation: if we are going to have all this discussion and this harping back and forth to the Banking and Commerce Committee of two or three years ago, when the high priced lawyers expressed some doubt as to the legality of the case or the procedure, why single out in the committee

so strongly in the way of disapproval the small loans system operated by the Canadian Bank of Commerce, because I think it was made clear at the time that if its legality had been challenged, it would have been quite simple to have changed the Bank Act to make sure that it was legal.

The CHAIRMAN: I think that was the general feeling of the committee. Are there any further questions?

Mr. FOLLWELL: As I was the one who introduced the subject in the first place. I think I should make it perfectly clear that I am suggesting that we should get an opinion as to whether this bank is operating illegally, and that we have never before in this committee had the services of Mr. Varcoe, and that it might be well to have an opinion from him if he cares to give it. Mr. Quelch says that banks in the west have been taking a discount of 8 per cent.

Mr. QUELCH: In the days before the rate was changed from 8 per cent to 6 per cent, it was the common practice to discount loans, and I can say that from personal experience. If I went to a bank to borrow $100 and the rate was 8 per cent, I would get only $92, because I would have to pay the 8 per cent in advance. That was the general practice in western Canada years ago. I am not speaking of the immediate present, but I am surprised that any bank would suggest that the practice of discounting was illegal because the banks themselves have been operating in that way, illegally or not, in the past.

By Mr. Thatcher:

Q. I think it might be rather a good idea for the committee if Mr. Varcoe could give us that opinion, because the Bank of Commerce today is making small loans at an interest rate which is considerably under that of the small loans companies; and if other banks could be encouraged to think that this practice was legal, it would set up competition across the country.—A. I am afraid that the other banks would not feel bound by my opinion.

Q. They might get into the small loans field to a greater extent than they are doing it at the present time.

By Mr. Fulton:

Q. Why not make up a reference? Isn't that the only proper way?—A. Certainly.

Mr. THATCHER: It seems to me that the committee should give some encouragement for the banks to make small loans.

The CHAIRMAN: Let us be realistic. If the other banks want to go into that sort of business there is nothing to prevent them.

Mr. THATCHER: They told us years ago that they were afraid it would be illegal.

The CHAIRMAN: That thought apparently does not disturb them today. The Bank of Commerce is carrying on under that principle.

Mr. CRESTOHL: It would help the situation if the committee would recommend the preparation of a stated case to be submitted to the Supreme Court on this very question.

The CHAIRMAN: I do not think that falls within the terms of reference of Bill 51.

Mr. CAMERON (*Nanaimo*): I do not think so.

Mr. FOLLWELL: What the committee is trying to do is to make money available to the people of Canada at the least possible expense. I think we should be interested in bringing out all the information we can get for that purpose.

The CHAIRMAN: I think so, but I do not think it falls within the terms of reference of Bill 51. Are there any further questions?

By Mr. Fulton:

Q. Mr. Chairman, I have two questions. Are you aware of any legislation which attempts to regulate indirectly by control perhaps the carrying charges of the lending companies or the discount companies or the acceptance companies, what they may charge?—A. No, I am not aware of any.

The CHAIRMAN: You are thinking of the three provinces referred to in Mr. MacGregor's evidence?

Mr. FULTON: No, I was asking my question on the basis of the discussion which had taken place earlier today.

The CHAIRMAN: I think, if I recall Mr. MacGregor's evidence correctly, he said there were three provinces in which there was legislation having to do with acceptance corporations. Do you remember whether it governed the interest on these carrying charges, that legislation?

Mr. MACGREGOR: The three provinces I am aware of, which have legislation in connection with conditional sale agreements, are New Brunswick, Quebec, and Alberta. The law in Alberta does nothing more than endeavour to ensure that the carrying charges, whatever they may be, are clearly stated.

The legislation in Quebec and in New Brunswick, if I recollect it correctly, deals with the minimum down payment, and the Quebec legislation deals also with the charges. I think that both New Brunswick and Quebec have clauses relating to the duration of payments.

By the Chairman:

Q. I would judge, according to your opinion, that the province of Quebec legislation governing the charges would be constitutional?—A. I would want to see that legislation before expressing any opinion about it.

Q. Quite.

By Mr. Fulton:

Q. My other question is specifically on the reference to one of the amendments in the bill contained in clause 1, which I shall read, as follows:

> (*a*) "cost" in relation to a loan, means the whole of the cost of the loan to the borrower,
>
> (i) whether it is called interest or is claimed as discount, deduction from an advance, commission, brokerage, chattel mortgage fees, or recording fees, or is claimed as fines, penalties or charges for inquiries, defaults or renewals, or is claimed as charges for life insurance, personal accident insurance, or sickness insurance or is otherwise claimed...

Those are the words I have particularly referred to. What would your opinion be, Mr. Varcoe? Would it be your opinion that it is within the competence of parliament to legislate for these companies under the heading of section 91, which gives us jurisdiction over interest so as to cover, or to make it illegal for a lending company to conclude a separate agreement with the borrower

as to whether or not his loan would be covered by insurance, that is, an agreement which is outside the terms of the loan agreement itself?—A. You ask me if it would be within the competence of parliament?

Q. Yes.—A. If that is your question; I think that parliament could not enact it as a separate law prohibiting the lender from contracting with the borrower to the effect that the borrower must be insured, but that is not this bill, of course; that is not what is done here.

Q. This bill prohibits. Would you tell me this: what is the effect of the bill as it prohibits?—A. As I understand it, the lender would say to the borrower, "Now, I want to have some added security, some more security than just your promissory note." So the lender says, "Will you undertake to take out a policy of insurance on your life so that if you should die before you pay, then the insurer will pay the debt?"

That is what we in the Department of Justice thought was legislation which related to the taking of security, and therefore since the interest rate is not only compensation for the lending of the money, but—

Q. To cover to some extent the risk?—A. Yes, to cover to some extent the risk, that therefore it was good interest legislation. I think we are right.

Q. Then it would cover only the case where the lender makes—whether it is a rigid rule that he makes, or whether it is a voluntary agreement—the charges to the borrower, the cost of the insurance premium that is taken out, whether the insurance premium is required as a rule, or if it is left to be voluntary with the borrower?—A. I think so.

Q. It should be, and let me put it this way: if the lender said, "Now, having made, or taken your loan, here is your charge, and it is concluded, but I now recommend that you take out an insurance policy to secure yourself."

Then what about that case where there is a separate contract issued through an agency of the lender, or a separate contract, outside the terms of the loan altogether, which was concluded? Could this legislation prohibit that?—A. I think it could. I think it would, yes. We must bear in mind, however, that these insurance contracts are primarily for the benefit of the lender and not the borrower.

Q. I think that is an arguable case.—A. I mean, if the lender himself is paying for the insurance.

Q. Yes.—A. Then it is a selling feature I suppose in the carrying on of his business with the public.

Q. I see.—A. But it is primarily for the benefit of the lender, and I think that the policies are really group policies in that they cover a large number of borrowers.

Q. It is difficult to put it all in legal language, but am I correct in my understanding of this fact that there is an argument that where there is a group policy, particularly under which the borrower is given the option of coming in, that if he comes under it, and the lender charges him for it, that is obviously included within the terms of the amending legislation?—A. May I observe generally before answering that many money lenders have but one source of income and it is the interest that comes to them from the loan.

Q. Yes.—A. And they dispose of that, they have to pay rent for their offices and to pay salaries and so on, and to say to the borrower that he has got to pay something on account of the rent of the lender—that does not make a payment on the loan interest because it is distributed in that way. The lender cannot break down these things and say this is the cost of one thing; and when he comes to that policy of insurance he is taking out a guarantee really, he is insuring himself that the loan will be repaid.

Q. No, no, I meant only in the event of death.—A. In the event of death, that is quite correct. I beg your pardon. It is comparable to an accident insurance policy that he would take out. He might insure his premises against fire, but he could not ask the borrower to pay for that.

Q. I think it opens up an interesting possibility as to how far you can go in the distribution of interest.—A. Well, it does indeed, and I would be against extending it any further than we have to.

Q. This year?—A. I would not say this year, but any time. I would leave it alone, speaking from a constitutional point of view only. I am not speaking about policy.

Q. You think we have gone about as "fur as we can go"?—A. Yes.

Q. You think that this is a constitutionally valid piece of legislation?—A. Yes sir.

By the Chairman:

Q. I might add that it was upon Mr. Varcoe's statement given in 1938 that this legislation was passed, and I would judge that he has not changed his opinion.—A. No.

By Mr. Fulton:

Q. But in 1938 it did not include the insurance practice.

The CHAIRMAN: No, but it said "any other charges".

By Mr. Enfield:

Q. May I refer to part II of the Small Loans Act, section 16, which says:

> The Company—referring to the company formed by the Act of Parliament—shall not issue any bonds, debentures or other securities for money borrowed, nor shall it accept deposits.

That may be the question that was troubling Mr. MacGregor when pointing this out on page 6 of his brief that originally the companies were given the power to take money from the public by deposit or to sell debentures. This seems to me to restrict the act rather severely, that is, the dominion companies. There have been very few dominion companies incorporated and it puts them in a poor credit position in so far as the parent corporations are concerned.

What is the principle or the philosophy which made a section such as that in the Small Loans Act? Has there been any move to have it amended or removed?—A. Mr. MacGregor could probably answer that question much more competently. I have not heard of any move to do it, but I would not know about it.

Mr. ENFIELD: Perhaps Mr. MacGregor would care to explore that question for us.

The CHAIRMAN: He did mention it in his report.

Mr. ENFIELD: Yes, it was mentioned previously.

The CHAIRMAN: Do you wish to elaborate on that, Mr. MacGregor?

Mr. MACGREGOR: I recall that the question was raised whether representations had been made to have that prohibition removed and if I remember correctly I replied by saying that there had not been. I also mentioned I think that we have endeavoured to deal with all licensees in the same way, whether provincially incorporated or by special act of parliament.

In other words although this prohibition appears only in part II, and as a consequence applies directly to the so-called special act companies of parliament alone, in practice the prohibition is discussed with other applicants when

application for a licence is made and agreement is reached to refrain from issuing debentures. I am not sure that I mentioned it before, but there are still a few debentures outstanding on the books of one or two licensees dating back to before 1939, when the act was passed. However, those licensees have not issued any new debentures since 1939.

There are, I think, several reasons why it is undesirable for a licensee to be given the power to borrow from the public in this way. In the first place it puts the whole business in a different light or, I am afraid, it would do so in the eyes of the public, more particularly since this business of small loans is regulated by an act of parliament, and the operators under it are licensed by the government.

I would fear that in some cases at least the public might well buy the debentures relying on the fact that this business is supervised by a department of the government.

Dominion loan companies which have the power to borrow debentures—not small loans companies, but loan companies which lend on real estate—are in a different position in that the use they make of the money they borrow from the public is strictly circumscribed by the Loan Companies Act. They may invest their borrowed money only in certain ways, for instance, in the purchase of Dominion, provincial or other high grade securities, and they may lend on real estate subject to certain limitation. But in the money lending business the security is of a different kind altogether and there is also a possibility that the money borrowed from the public might be very great in relation to the lender's own capital. The lender might borrow, to a very large extent, from the public on debentures and carry on a much more liberal lending policy which might result in losses. It would be very difficult to safeguard the investing public. A second consideration perhaps might be mentioned; I think that it would probably encourage the expansion of the money lending business. Whether or not that is desirable is a matter perhaps of policy; but it would probably lead to easier facilities for lenders obtaining money.

Thirdly there is a question in my mind at least: what need there is for a change in this respect at the present time. If there is a need, what is it? It is true that some of the largest small loan companies are obtaining money through their parents which are borrowing on debentures; but there are also Canadian licensees which are doing the very same thing.

The question then arises: is it the smaller lenders for which this power would be desired? If so, I would question the desirability of extending to them the power to borrow from the public, probably only possible anyhow at a high rate of interest which would appear very attractive.

Personally, therefore, I would say that I do not see the desirability of making any change, and that it certainly raises a great many possible difficulties if the prohibition is removed?

The CHAIRMAN: If a provincial company with power to issue debentures should apply to you for a licence, and the officers and the directors were such as to warrant the belief that if a licence were granted to them they would carry on with efficiency, honesty, fairness, and so on, and if they said that they proposed to borrow money from the public by issuing debentures, would you refuse to grant them a licence?

Mr. MACGREGOR: I do not think we have ever had to face that question quite so flatly as that. When an applicant comes to us—and usually, or in many cases they would have yet to become incorporated—we explain that if they are going to seek provincial incorporation, we would like to issue a licence under the act with the same powers that they would obtain if they came to parliament. As I have said before, we ask that their letters patent be confined to the powers set forth in section 14 (e) of the Small Loans Act, and

at the same time we point out to them that the provisions of part II which apply to special act companies and would prohibit them from issuing debentures and so on. I do not recall any cases where the applicant was not willing to go along.

The CHAIRMAN: You are going to meet that when the time comes—

Mr. MACGREGOR: Perhaps that is the best way to put it.

By Mr. Follwell:

Q. Mr. Chairman, Mr. Enfield and I maybe were pursuing a little bit of an aside there when we were saying this to Mr. MacGregor, that the limitation on the raising of money seems to place the Canadian companies in a very unfavourable position. You have indicated, and probably rightly so, that there should be more Canadian control of the companies operating in Canada under this act. Yet apparently the money that is needed to carry on the companies has to come from the parent companies, which seems to be pretty much American money. Now, Mr. Chairman, if I might ask Mr. MacGregor this: in his opinion, if the Canadian company were permitted to issue bonds, debentures and securities and to borrow from the public, is it not quite probable that they would be able to borrow money at a lower rate of interest than they are doing at the present time, which would in turn, or could be in turn be reflected in the interest charged to the borrower?

Mr. MACGREGOR: I would doubt that the smaller ones could borrow from the public cheaper than they can borrow from banks, or friends, or wherever they are getting the money now.

I must also admit that from my own purely personal point of view, there seems to be something slightly repugnant in encouraging the borrowing of money from the public at 5 or 6 per cent for the purpose of lending it again to the poorer public at 20 or 24 per cent. I do not, somehow, subscribe to anything that would further that.

Mr. FOLLWELL: No, but—

The CHAIRMAN: Mr. Follwell, we really are getting back to Mr. MacGregor rather than the present witness. I know Mr. Varcoe is a very busy man. I wonder if we could just complete any questions of Mr. Varcoe.

Mr. FOLLWELL: I think Mr. Varcoe was kind enough to turn this question, by Mr. Enfield, over to Mr. MacGregor, and Mr. MacGregor was kind enough to answer it.

The CHAIRMAN: Perhaps you could save your question for Mr. MacGregor until later, and we could continue with Mr. Varcoe. I am quite sure he is not anxious to come back here tonight.

Mr. FOLLWELL: I think Mr. Varcoe did say that, with respect to this clause 16, he had no legal opinion in regard to whether we should, or should not amend the act, is that right?

The WITNESS: I have no views about it. Are you speaking about section 16 of the Small Loans Act?

Mr. FOLLWELL: Yes.

The CHAIRMAN: You are really asking Mr. Varcoe a question on policy rather than for a legal opinion.

Mr. FOLLWELL: I beg your pardon?

The CHAIRMAN: You are asking Mr. Varcoe a question on policy rather than an opinion, when you ask him if he has any views on that. I do not think it is fair to ask even a deputy minister, who is the highest civil servant, to make expressions of policy.

By Mr. Follwell:

Q. He probably should not be asked to, but if he could, it might be helpful to the committee.—A. Let me say this: I do not know anything legally wrong with section 16. That is all I can say about that.

Q. Maybe I am not putting that question properly. Would there be anything legally wrong with having section 16 eliminated from this act?—A. No.

Mr. CAMERON (*Nanaimo*): There is nothing legally wrong in having the whole act repealed, is there Mr. Varcoe?

Mr. FOLLWELL: I am asking—

Mr. CAMERON (*Nanaimo*): Since Mr. Follwell is now reduced to asking self-evident questions, I think we might move on. He seems to have run to the bottom of his pit.

Mr. FLEMING: Does it lie within the competence of parliament to extend the scope of principle of the Small Loans Act to transactions between merchants and their customers, where sales are made by the merchants to the customers on time?

The CHAIRMAN: May I point out that he has already answered that by giving his opinion.

Mr. FLEMING: I made an inquiry, Mr. Chairman, and I was told it had not come up.

The WITNESS: It is difficult, Mr. Fleming, to answer a question of that kind without a specific project before one. I do not know enough about that business to say categorically yes or no. I do not know what sort of a prohibition, or restriction you would be adopting.

By Mr. Cameron (Nanaimo):

Q. Is such business controlled by the Small Loans Act, Mr. Varcoe?—A. No.

Q. So it is quite irrelevant?

By Mr. Fleming:

Q. The question was whether it lies within the competence of parliament to extend the principle and scope of this act to embrace transactions between merchants and their customers.—A. I will put it this way: If the legislation could be described as true interest legislation then it would be possible for parliament to do it.

Q. You are not likely to run into the situation where such legislation, or at least that subject would run into the old rule so far as interest is concerned. It would have to conform with the federal legislation so far as it relates to property and civil rights within the province, and it would be subjected to provincial legislation as well?—A. That is a correct statement, I should think.

By the Chairman:

Q. I think you did venture the opinion that in respect to a conditional sales agreement, or some form of acceptance transaction, that you could control the interest rate under your federal jurisdiction, which would include the same type of charges that you control in the small loans?—A. Yes. I am now putting it slightly differently, but with to same effect, I think.

The CHAIRMAN: Are there any further questions gentlemen? Thank you very much Mr. Varcoe. You have been very kind in giving your time to the committee, and they all appreciate it.

The WITNESS: It is a pleasure, thank you.

The CHAIRMAN: You will recall, gentlemen, that the sub-committee recommended that the next order of business would be the hearing of the brief by the Canadian Consumer Loan Association. Mr. Cawker is the president of that association. Now, before we go on, I would like to get something clarified. When I ruled that we would hear the brief of Mr. MacGregor and permit questions to be asked as he went along, I did not really know what I was getting into. I had no idea that it would go on for so long. I hesitate to make a similar ruling in this case, because we certainly spent a great deal more time on Mr. MacGregor than I anticipated. I thought two or three meetings would be about the limit. And now, if we adopt the same policy in respect to this brief, I do not know when we will ever finish.

I am going to suggest, therefore, that Mr. Cawker read his brief, and then we ask the questions. I admit that is a reversal of our previous procedure, but I am not sure I would have made the ruling that I originally made if I had realized how much time would be spent on it. I would like to have an expression of an opinion from the committee. If anybody feels that I should follow the same policy on this brief as I did on the previous brief I would like to hear that expressed. Otherwise I propose that Mr. Cawker read his brief, and if necessary make any comments on it as he goes along, and perhaps if necessary refer to expert witnesses on some phase of it. Then, when he is through we could ask our questions. Is that agreeable to the committee?

Mr. CAMERON (*Nanaimo*): Just a moment, Mr. Chairman. When you speak of the brief, I presume you do not mean all these tables? He is not going to read them?

The CHAIRMAN: I presume he would simply refer to the tables as he goes along, and perhaps give examples, if necessary.

Mr. CAMERON (*Nanaimo*): Yes.

Mr. FOLLWELL: Mr. Chairman, there was a matter I think that the commitee was very much concerned about, with respect to the Merchants Finance Limited, who were charging, we understood, interest at the rate of 80 per cent per annum on one loan. I think it was the steering committee that were going to decide whether they would have someone from that company appear before this committee.

The CHAIRMAN: I think this committee ruled that someone should be called.

Mr. CAMERON (*Nanaimo*): Someone would be invited?

The CHAIRMAN: The steering committee suggested that that was not the most vital evidence to be presented, and that we preferred to go on with our original program, and then if we had time we would call an officer of this company. In the meantime, I might say, I have had a reply to the letter written by the clerk advising them that they would be called, in which they set out certain information, and in addition certain correspondence between that company and Mr. MacGregor, the superintendent of insurance, and also giving an analysis of loans over $500. I did not propose to file this at the present time, but if the committee wishes this correspondence filed and printed as an appendix to the proceedings that would be quite agreeable to me. But, it struck me that this evidence should be substantiated by viva-voce. At this stage therefore, I am going to suggest that we do not file it, but bring it up later, if we have time to call this company. Is that agreeable to the committee.

Mr. FOLLWELL: Mr. Chairman, the only reason I raised this is because I just wondered if someone had forgotten about it, or if it had been moving along.

The CHAIRMAN: If any member of the committee feels that this should be filed as an appendix I have no objection.

Mr. FLEMING: It is the only way we will all have access to it, Mr. Chairman.

The CHAIRMAN: I have no profound conviction on the subject. If any member wants it printed, we will have it printed as an appendix.

Mr. FOLLWELL: I must admit that I probably was not listening closely enough to know what evidence you had there.

The CHAIRMAN: It is a letter from the Merchants Finance Limited addressed to me personally. It elevates me to the "Honourable" J. W. G. Hunter.

Mr. FOLLWELL: It what?

The CHAIRMAN: It elevates me to the "Honourable" J. W. G. Hunter. Accompanying it is a copy of a letter dated February 29th, written by Mr. MacGregor to the president of the company and a reply dated March 6, 1956. Attached also is, what they call the "Merchants Finance Limited Analysis of Loans over $500".

Mr. CAMERON (*Nanaimo*): Was that date right, Mr. Chairman? You said "March".

The CHAIRMAN: That is the way these copies of letters are dated.

Mr. CAMERON (*Nanaimo*): I thought we brought this matter up—

Mr. MONTEITH: That was previous correspondence.

Mr. CAMERON (*Nanaimo*): This is previous correspondence. I thought this was since the matter was raised in the committee, I am sorry.

The CHAIRMAN: Shall I direct the clerk to have this correpondence and the attachments printed as appendices to the evidence of today, so that it will be available to all members of the committee? Agreed.

(*See Appendix "A".*)

Mr. FOLLWELL: Would you clarify what you have said in respect to this company sending representatives here?

The CHAIRMAN: Yes. In the letter they said that they would like to be advised when they will be needed. It says, ". . . awaiting your pleasure in the matter of appearing before the Committee".

Mr. ENFIELD: Mr. Chairman, in regard to this brief, I would like it fully understood that we are to ask questions. I have looked through this brief, and it is on a very highly technical subject which could be treated much better by examining it carefully as we go along. Do I understand it that there are to be no questions at all?

The CHAIRMAN: I have been advised that the way the association will be explaining the evidence in here is that in respect to those aspects which are very technical, Mr. Cawker will call on his expert witnesses, his accountants and auditors, and people of that nature.

Mr. ENFIELD: As he goes through it?

The CHAIRMAN: No, to explain it when questions are asked on it.

Mr. ENFIELD: At a later date?

The CHAIRMAN: Yes.

Mr. ENFIELD: After the brief is presented?

The CHAIRMAN: Yes.

Mr. ENFIELD: Then the witnesses will follow—

The CHAIRMAN: It must be recognized that this is a very technical brief, and that Mr. Cawker obviously did not write it all. He had his experts write certain sections of it—his auditors, and people of that nature.

Mr. QUELCH: Mr. Chairman, now that we have completed Mr. MacGregor's evidence, is it the intention to print the complete statement of Mr. MacGregor with today's proceedings?

The CHAIRMAN: No, with last Tuesday's proceedings. That was the direction I gave. I presumed that it would be agreeable to the committee that his statement be printed *in toto* as an appendix to last Tuesday's proceedings, on which day he completed its presentation.

Mr. QUELCH: That is fine.

Mr. FLEMING: What about the tables?

The CHAIRMAN: The tables have already been printed as appendices to the proceedings in which they were tabled. It will be pointed out in the heading of the statement, when reprinted, where those tables have already been printed.

Mr. FLEMING: Yes. For the sake of clarification, perhaps we should put in that day's proceedings a reference to the pages at which these tables were printed earlier.

The CHAIRMAN: I think that would be a good idea. I will direct the clerk to do that.

Gentlemen, it is 25 minutes past five. We were going to stop at 5.30, so I think perhaps we now adjourn and should call Mr. Cawker at 8.15. Agreed.

EVENING SITTING

8.15 p.m.

The CHAIRMAN: Gentlemen, there is a quorum. Mr. Cawker, would you come forward and give your evidence, please?

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, called:

Mr. HENDERSON: Mr. Chairman, the present witness will be reading the first part of this brief and I know there are 11 pages of tables included in that first part. I do not know whether you ruled in connection with this brief, but it seems to me that this would be an opportunity for the committee to get the practical operation of the loan business from someone who operates a lan office and, reading this brief inclusive of the tables, it appears that it is merely a digest. I was just wondering if it would not be faster and more reliable for information of the members if, in this first part with this witness before us, —and, I presume, the accountants or auditors reading the last pages—we could be allowed to ask questions as he goes along.

The CHAIRMAN: I think, Mr. Henderson, it has already been decided earlier that, in view of how long it took on the previous brief by permitting that, we would have Mr. Cawker read the brief without interruption, subject to any personal footnotes or additions he wishes to add, and perhaps even from his two associates here, and then, at the end of his reading it, before it is turned over to the auditors who prepared the next part, the committee would put in their questions.

Now, that was what the committee decided.

Mr. CRESTOHL: Would we not be permitted to interrupt for purposes of clarification of the statement that was being made?

The CHAIRMAN: That was the reason I made my original ruling on the other brief; but it turned out to be something which I had not quite foreseen, and instead of just the odd question being asked for the sake of clarification, we did go into it in great detail, rather to a greater extent than I had anticipated. Therefore I though it would be preferable to have the president read this, with such personal remarks as he cares to make as he goes through it, and if members of the committee would not mind just jotting down anything that occurs to them—it is not as long as the other brief—it is 26 pages and quite a bit of it is taken up with tables and so on—I think we would get along more rapidly in that way, if you would not mind, Mr. Crestohl. That was the feeling of the committee before dinner this evening—unless the committee has changed its view on that.

Mr. FLEMING: How would Mr. Cawker like to present his brief, Mr. Chairman?

The CHAIRMAN: That is perhaps something we might even put to Mr. Cawker. How would you like to present your brief?

The WITNESS: Well, Mr. Chairman, I think, for complete clarification, it would be better to take the points as we go through the brief.

By Mr. Crestohl:

Q. I could not hear that, Mr. Chairman.—A. I feel that for complete clarification I myself would prefer that the interruptions be made and that the points be cleared as we go along.

Q. But only on points for clarification? If it is for details, the chairman can rule the question out of order.

Mr. QUELCH: How do you define "points of clarification"?

Mr. CRESTOHL: More information.

Mr. FLEMING: In view of what Mr. Cawker has said, would this suggestion have any merit; that we take it a section at a time?

The CHAIRMAN: What do you call a section?

Mr. FLEMING: Well, there are headings under the index of contents which indicates a number of them.

The CHAIRMAN: How would the committee like to settle for that suggestion, that we do it that way? For instance, it starts off with "Introduction", then "Legislative Studies", and so on. Then you come to "Operations of the Act," he reads that and you ask your questions at the end of each section. Would that be agreeable to the committee? That strikes me as a sensible suggestion, if it is agreeable. Let us do it that way.

Mr. Cawker, as I mentioned before, is president of the Canadian Consumer Loan Association.

The WITNESS: Mr. Chairman and hon. members, my name is Charles M. Cawker and my home address is R.R. 1, Foxboro, Ontario. My interest in this matter is based on the fact that I am president of the Canadian Consumer Loan Association and president and majority shareholder of the Bellvue Finance Corporation, a licensee under the act.

Mr. CRESTOHL: Mr. Chairman, why do you not ask the witness to be seated like the other one?

The CHAIRMAN: I thought he would realize he could be seated. I thought he preferred to stand.

The WITNESS: No, I will sit down. On behalf of the Canadian Consumer Loan Association, and the membership and myself personally as its president, I wish to thank you for the opportunity of appearing before the committee to assist in all ways possible in presenting the facts and to respectfully offer our experience gained in actual operations in the small loans field.

Mr. McGregor has presented many helpful statistical tables and, while we do not wish to burden the committee with repetitious statistics, our own presentation has required the use of some factual and practical studies. They have been done by independent accounting authorities of considerable stature in their profession, and I will be happy to introduce them when the time comes for them to present the studies that they have done for us.

I hope my role may be to answer the questions that might only be answered by people who work at the operating level, day by day, and have a direct contact with many thousands of families using our service. I am sure you will be interested in our operating procedure, the methods, and the many things we have found out in our dealings with the public. Of course, the most desirable situation would be to have a cross-section of the people who have used and are using our service today appear before the committee, and tell the borrower's attitude towards us. If the thousands of written indications in our file would be any yardstick I am sure it would be proof-positive that we are providing a necessary service in an efficient manner and at a fair cost.

Now, the scope of the question under study is immense, and I hope you will understand my hesitation to attempt to answer—

Mr. THATCHER: Where are you reading from?

Mr. FLEMING: He has not got to it yet.

The CHAIRMAN: These are introductory remarks.

The WITNESS: Actually, Mr. Thatcher, I really wanted to explain the guard of honour I have with me on my right, here. I hope you will understand my hesitation in attempting to answer all questions on all the phases with which we are concerned, because that would be in some cases only opinion, and for that reason I would ask, Mr. Chairman, the indulgence of the committee to refer to the gentlemen on my right any questions of a technical nature that I feel they could do a much more adequate job with than I could.

On my immediate right is Mr. F. C. Oakes, vice-president of the Canadian Consumer Loan Association, and next to him is Donald F. McClure, first vice-president of the Household Finance Corporation (U.S.A.), from whom you have already heard. Mr. Oakes has a broad experience in the many specialized areas of our industry and I think possibly the committee might feel it revealing to draw on his special experience in the field of advertising. Mr. McClure, on the matter of financial structure, I am sure would do a much more adequate job than I would, and I think it would be a considerable time saver.

We are a comparatively young industry in Canada and as you may have seen by statistics already placed before you, we are playing an increasingly important part in the modern economic life of the country. Again, we welcome an examination of our business, because I feel that public examination can only lead to an understanding of an industry that is comparatively new and whose place in the centre of things has yet to have an understanding as far as the well-being of the Canadian people is concerned.

With your permission, Mr. Chairman, possibly to pass the ball occasionally to the people on my right, I will proceed to read our brief.

The CHAIRMAN: All right.

The WITNESS: The Canadian Consumer Loan Association is composed of small loans companies and licensed money lenders making loans to Canadian consumers under the Small Loans Act. Subject to the approval of its board

of directors as to an applicant's qualifications, all corporations, partnerships and individuals licensed under the Small Loans Act are eligible for membership. The forty-four members of the association conduct approximately ninety per cent of the business regulated by the Small Loans Act, which in 1954 was 831,721 loans made for a total of $186,696,899.

Since then, the 1955 figures have been released. As Mr. McGregor pointed out in 1955 the figure for loans was 860,135 for a total of $191,248,000.

Forty-one of these forty-four members are Canadian owned companies.

And once again, since the preparation of the brief, the total membership is now something over 50.

The objectives of the association, which was formed in 1944, are set out in its charter and are concerned with promoting high ethical standards of operation among members. The association recognizes that the success of those engaged in the small loans business is primarily dependent upon public confidence and goodwill, which can be acquired and maintained only through sound operating policies, efficient service and fair dealing.

Before submitting the suggestions which are based on 16 years' practical operating experience of association members under the Small Loans Act, it would be appropriate to review the nature and extent of the studies which led to the passage of the present legislation.

Mr. FOLLWELL: Mr. Chairman, did you indicate that we were to take this, part by part?

The CHAIRMAN: Yes.

By Mr. Follwell:

Q. If you did, there is one question I want to ask on this first section. I think this would be of interest to all members of the committee. Mr. Cawker says in his brief that 41 of these 44 members are Canadian-owned companies. I think he indicated that you now have 50 members. How many association directors do you have on your association, Mr. Cawker?—A. Seven directors, Mr. Follwell.

Q. How many of these represent Canadian companies?—A. Five.

Q. You have five directors representing Canadian companies, out of seven? —A. That is right.

By Mr. Fleming:

Q. How many of the four small loans companies are members of your association?—A. Three of the four, sir.

Q. Which is the one that is not?—A. Canadian Acceptance Corporation.

By Mr. Fulton:

Q. What about your own company's record, Mr. Cawker? When was it formed?—A. In November of 1945.

Q. And your association with it dates from when?—A. From November 1945.

Q. And your own experience before that?—A. I was employed by Household Finance Corporation before the war, sir.

Q. And during the war?—A. During the war I was employed in the armed services.

Q. And you formed your own company, or you formed this company, almost immediately upon your discharge from the armed services?—A. Yes, sir; it was, you might say, my rehabilitation vehicle.

Q. How many of these engaged in the small loans business, how many companies engaged in the small loans business are outside your association? —A. If I recall the last figures Mr. MacGregor gave of 73 licensees, I think

our membership at the moment is 51—52 companies. We impose a six months waiting period after licensing, so that companies who have recently been licensed are becoming eligible for membership as the six month period elapses.

Q. Is the proportion of business done by the members of your association still approximately the same as the figure given in your brief?—A. No, it would be some figure larger than that.

Q. A little over 90 per cent now?—A. Yes.

By Mr. Henderson:

Q. How many years, Mr. Cawker, have you been in the loan business? —A. The total number of years? I was employed with Household Finance Corporation in 1935 to 1940, and immediately after the war. At the end of the war I commenced business with my own company.

Q. Did you start as a behind-the-counter man and work up to your present position? What experience have you had along that line?—A. Well, Household Finance Corporation has only one way of training men, and while they are a large American corporation, and I hesitate to say anything complimentary, I believe they have one of the finest training programs in the business.

I started on the outside as a purely outside representative, you might say, at the bottom of the ladder. And immediately before joining the services I was employed by them as a branch manager.

Q. Did you have any experience outside of this company in the loan business as well as in Canada?—A. Yes sir, in the United Kingdom.

Q. What experience did you have there?—A. Well, for the past two years with another associate in our company and myself—we organized for some English capital, first of all a hire-purchase company in London. We refer to that over here as a sales finance company. And in the last few months we are making personal loans over there under the Money Lenders Act of 1927, which has been referred to in testimony here.

By Mr. Fulton:

Q. When you say "we", you mean your company, or the company which you organized?—A. The economy organized in the United Kingdom. There is no connection between the Canadian company and the company in the United Kingdom.

By Mr. Henderson:

Q. Do you feel qualified to tell us about loan operations in the United Kingdom or have you anybody available in your organization who is qualified to tell us?—A. I think that I feel competent to talk about the loan business in the United Kingdom. We have gone through the process of becoming licensed, and before becoming engaged in the loan business in the United Kingdom we certainly—because of some of the restrictions which have been mentioned here—took a very careful look at it.

Mr. CRESTOHL: Can you tell us at this point the percentage of the business done in Canada by the 41 out of the 44 members of your association?

Mr. MONTEITH: He said it was 90 per cent.

The CHAIRMAN: That was for the 44 members, that 90 per cent.

The WITNESS: The total membership, as at the printing of this brief some two or three months ago, was then transacting 90 per cent of the total loan business transacted under the act in Canada.

Mr. CRESTOHL: Thank you very much.

By Mr. Cameron (Nanaimo):

Q. Can you tell us what proportion of that 90 per cent is transacted by the 41 of those member companies which you cited as being Canadian-owned?—A. It might be—may I answer you in this way: let us say that of the total business transacted under the act in Canada, by the members of our association and by the non-members—the total transacted by the Canadian-owned companies would, I think, be from 15 to 16 per cent.

Q. Thank you.

By Mr. Knight:

Q. And if your answer were confined wholly to the members of the association, what would it be?—A. No, that would include some of the Canadian companies which are included in the non-members at this moment.

By Mr. Crestohl:

Q. I have been told that 85 per cent of the loan business in Canada is done by non-Canadian-owned companies.—A. That is right.

By Mr. Thatcher:

Q. Would Mr. Cawker be good enough to clarify the answer which he gave to Mr. Henderson a moment ago about the United Kingdom companies? Could he tell the committee from his personal experience how the British rates compare, first of all, with the present Canadian rates, and secondly, with the rates proposed under the bill?—A. Well, the rates—

The CHAIRMAN: Is that not covered anywhere else in your brief under another heading, or is this the appropriate heading?

The WITNESS: It is covered in the brief. The rates stipulated by the Money Lenders Act of 1927 name a figure, as Mr. MacGregor has pointed out, of 4 per cent per month as the point at which the rate could be considered unconscionable.

Now, I believe that Mr. MacGregor said that at that point the onus was on the lender; that the onus was on the lender to prove that the rate was not unconscionable. But I can hardly agree with that, because there is no government agency of any kind which will question a rate. Be it 70 per cent per annum, the onus is on the borrower to take the matter into court, and the onus is probably then pretty evenly divided.

The borrower states his case, that he believes the rate is unconscionable, and then the lender has an opportunity to prove that the rate is conscionable.

By Mr. Thatcher:

Q. Could you state from your personal experience how the British rates in practice compare with Canadian rates at the moment?—A. The British rates in practice today run from 60 to 70 per cent per annum.

Q. So they are very considerably higher than our present Canadian rates?—A. Roughly I would say that they are working out very closely to three times as large; in other words, if they were three times the maximum rate under the act, now of 2 per cent, that would be 6 per cent per month, or 72 per cent per annum, and that a 70 per cent rate for the United Kingdom today is the rule rather than the exception.

Q. Would you not say that those rates are made possible—that those very excessive rates are made possible because the small loans businesses in Britain are not permitted to advertise?—A. Mr. Thatcher, I think that is the only answer to the hardships that are being imposed on the people there.

If I might enlarge on that for a moment, at the time the people in London asked us to investigate the small loans business in London, and the possibility

of setting up operations, I did a considerable amount of research myself. I asked the solicitor for the hire-purchase company to give me his views; and I also asked one of the oldest money-lending firms in London if they would be good enough also to express their views also on paper, because we felt that the one road-block to doing business at a fair rate in London was the inability to advertize.

I have some photostat copies of these letters and I would be glad to read them if it would be of help to the committee; they are not too long. One is from the solicitor and another is from a money-lender in the middle of London.

The CHAIRMAN: I think we would be interested. Would the committee care to hear them?

Agreed.

The WITNESS: The first is from Sir Charles Russell of Charles Russell and Company, 37 Norfolk street, London:

> Dear Mr. Cawker:
>
> I am writing in response to your request to give you my own views on the effect of the restrictions on advertising imposed in this country on the money-lenders.
>
> Historically, as you know, the business of money-lending acquired a very bad reputation in this country because of the harsh bargains driven by money-lenders in the 18th and 19th centuries, and because these gentlemen got into their clutches people unused to business, such as widows and young men, and then proceeded to relieve them in many cases of practically all the money that they had in the world. As a result parliament imposed very severe restrictions on the practice of money-lending, one being an absolute prohibition against advertising, except in a very restricted form, and touting for business. It may well be that this has in many cases had the reverse effect to that for which it was designed, because the public have got no method of comparing the terms offered by one firm against those of its competitors, and as a result no doubt in many cases people borrowing money in fact get into the hands of money-lenders of the worst type. Although the law has to some extent put a stop to the most blatant cases of extortionate interest, there is still, in my opinion, ample scope for those who are minded so to do to impose on the public.

This second letter is from, to my knowledge, one of the oldest money-lending firms in London, John Wallingford Limited, by its president, John G. Purvis:

> Dear Mr. Cawker:
>
> You asked me to put on paper some of my ideas pertaining to the personal loan business in the U.K. I can only repeat the opinion stated to you during our conversations.
>
> Whilst we have an act providing for 48 per cent per annum, other restrictive elements in the act produce the result of keeping the personal loan business in the lowest possible category of public acceptance.
>
> The basic reason, of course, is the restriction on advertising contained in the Money-Lenders Act.
>
> Prohibition of statement of policy, referring of new customers by old customers, direct mail advertising, has the result of keeping the public in ignorance as to where they may get the accommodation they need and the rate they will pay.

The result is the chaotic status of the business today. Usury and loan shark practices are prevalent in all our cities because people are simply drawn in their need to the most convenient supplier of money and, historically, enter into the transaction and consider the conclusions, namely the interest, later.

We could, as you can see, attract capital which we could put out at a lower rate than that permitted by the act, if we were able to operate a volume business by stating openly and adequately publicising our policy and rate.

Such a situation, you may be assured, would dry up almost completely the sources of hardship and misery which so many needy borrowers cannot avoid today. In short the business needs the opportunity to get into the open and publicly display its wares. Under such circumstances I am sure healthy competition would take care of the rest.

By Mr. Thatcher:

Q. I have one more question, Mr. Cawker, on this subject. I was rather surprised that the rates would be so high in Great Britain. Do you know, under the several parliaments of the Labour party, that no committee was set up at any time to study this question, or that there was no legislation contemplated during that period of time?—A. I know of no study since the passage of the act in 1927.

Mr. FLEMING: What was the date of the first letter?

By Mr. Crestohl:

Q. What is the name of the solicitor who gave the first opinion?—A. It is dated February 16, 1956, and the name of the solicitor is Sir Charles Russell of the firm of Charles Russell and Company.

By Mr. Knight:

Q. In both your letters the interest rate is stated in terms of per cent per annum. Is that customary in the British Isles?—A. I think it is, because the act itself recites it as 48 per cent per annum.

Q. I also notice, in the second letter, that the writer stated one of the disadvantages of operating a loan business in the old country is that they did not state openly and adequately the actual rate charged.—A. Did he say the rate charged?

Q. I took the words down, "by stating openly and adequately publicising". —A. Yes, I think that is fair.

By Mr. Henderson:

Q. If one of us was in London and wanted to make a personal loan, how could we be directed to where we should go and as to what scale of integrity we would be subjected; and how would we know that we went to the right office to obtain a personal loan and how much security they would require?—A. Well, the security situation is quite a revelation to us who have tried to practice a fair rate and to operate a fair personal security business in this country. They have no chattel mortgages as such in England; it is done by bill of sale and, of course, a money-lender over there can take securities, and he can take charges against a future inheritance. There is absolutely no restriction as to the kind of security. They can take property and anything else—and bear in mind that they take it all!

Q. When you mention "bill of sale", does it mean that when I make an application for a loan I make a bill of sale covering all my wordly goods—A.

As a document it is sort of half-way between a chattel mortgage and a conditional sale contract. As a layman that is the way it struck me. They cannot register the bill of sale the same as you can here. You simply do not act on it conditionally upon the borrower paying the loan.

By Mr. Quelch:

Q. Are not a lot of the small loans made by pawnbrokers in the United Kingdom? Or am I about thirty years out of date?—A. The pawnbrokers are quite active.

To answer the first part of Mr. Henderson's question, I would not know how you would tell a needy borrower how to find a reputable lender. They cannot put anything in the paper except their names, places of business, telephone numbers, and, I believe, they may also mention how long they have been in business. Because of the reputation which the business has over there, the landlords' councils in the city of London—I think it is a foregone conclusion—would refuse a money-lender the right to hang a sign outside his building. When I went to visit this fellow I think that I possibly got such a plain statement of the situation because he was interested in selling out his business as he was getting on in years. His office was on Shaftsbury avenue; it was very difficult to find, quite a "cloak and dagger" situation—up the back stairs, third floor, and then finally to a room number. They open the top half of the door, ask you who you are, close it again, and relay that information. It is just a delicate situation. They are ashamed of the business because they have not been able to get it out into the open. It is very poor!

We are approaching it over there from the standpoint of using the one statement of rate that the people understand. They need the service over there. There is just as great a need for it over there as there is here. For that reason people are being victimized every day. We are approaching it from the standpoint of personal loans at hire-purchase rates. In other words, as you might say here, personal loans at sales finance rates. That is the rate they understand. So many have been victimized that if you said "a rate on a percentage per month" or "percentage per annum" they would probably take it with a grain of salt. We have felt that by mentioning hire-purchase rates we will get some response from the public, because that is the term of rate they will understand.

By Mr. Fulton:

Q. Do you happen to know what percentage of the money-lending in the United Kingdom is done by the people of the type you described?—A. I have the slightest idea, Mr. Fulton, because there is no central agency. As I say, they operate in back alleys and corners of government buildings. That is a fact!

By Mr. Knight:

Q. Have you any idea of the percentage of losses over there as compared with here?—A. No.

Q. You have no statistics?—A. This fellow Purvis told me that the losses were quite high.

By Mr. Quelch:

Q. Have you any record of foreclosures in Britain?—A. In our own experience so far, no. We have had no foreclosures, I am thankful to say.

Q. But you decided to go over there into this paradise, as it were?—A. No. We first entered the field of sales finance business over there at the request of some English capital. Those people became aware of the type of operation

we have over here, and possibly, on occasion, I am inclined to brag about it a little bit, because I am not ashamed of it. We have a Canadian chap over there who is running the office, we feel at a fair rate, which is the same rate as we are operating at in Canada, under the act of 1939. We feel that, and, so far all the indications have been that it will receive good public response.

By Mr. Fleming:

Q. Mr. Cawker, may I ask you: do you think the situation in England would be greatly improved by the introduction there of legislation of the same nature as our Small Loans Act?—A. I do not think there is any doubt about it, sir. It is badly needed, badly needed.

Q. Is it the view of all your members that this act has brought great benefit to the Canadian public?—A. Yes, sir.

By Mr. Thatcher:

Q. Certainly the Canadian public, would you say, has had better treatment under the present legislation than the consumer in Britain—the borrower there?—A. I do not think there is any question of that, Mr. Thatcher.

By Mr. Cameron (Nanaimo):

Q. Mr. Cawker, in your investigations in Britain, did you come across any trace of the operations of the co-operative loan associations that, I believe, are operated by the co-operative wholesale bank?

Mr. FULTON: Operated by whom?

By Mr. Cameron (Nanaimo):

Q. By co-operative wholesale bank.—A. Yes, I think they call them building societies over there.

Q. I do not think it is confined to building.—A. They are doing quite a service over there. I have had some exposure to them when I was in England operating as a money lender, or as a sales finance company. There is one thing I do like about the situation over there, and that is there is no restriction whatsoever on how you obtain the capital which you use. In other words, our sales finance company over there can take deposits at whatever predetermined interest we would care to pay. Now, the building societies and the co-operatives that you speak of over there have done a rather outstanding job, I think, in bringing money into their funds so that they could lend the money to individuals. The impression that I got was that they were confining their loans more to building loans and property loans, sort of on a parallel with the building societies. But, I certainly did not have any intimate glance at their records. That was the impression I got when they told me the procedure they followed in soliciting deposits.

By Mr. Enfield:

Q. Do you have any idea of the volume of small loans business done in England?—A. No, sir, because there is no association of money-lenders over there. There is no central licensing authority. You get a licence in the magistrate's court jurisdiction in which you wish to operate. If you open a branch on this corner, and you wish also to open a branch a block up the street, there is nothing to prevent your doing that. You would simply apply for another licence to the court of that local jurisdiction.

Q. Is it not rather difficult for you to exercise your judgment on the need for this service unless you know the demand for the type of loan that you are

giving over there?—A. I can only speak from my own experience there. I would say that the demand, in our experience, far exceeds our ability to get funds to provide the service.

Q. That is the experience of this company?—A. Yes. I did not only talk to just one money-lender; I talked to several. They have more business knocking at the door than they can handle. But, there are so many cases of big loans. It is not well enough known that they are serving ,as I see it the geneeral public; and I think it is just as well, as a matter of fact, in view of the rates they are charging. But, we feel that from our own experience there is a very definite need.

By Mr. Knight:

Q. I would like to ask Mr. Cawker, is it not a fact that in the old countries, and I am thinking of Britain, that there are less people who borrow money? I mean, there has been a tendency—it has never been a country where credit has been very free? That is the first thing. Secondly: these rag-tailed sort of—what do they call that thing, that expression about this horrible condition in which this money-lending business is—is actually the fact, that Mr. Cameron brought up, that anyone that is in, shall we say, a standing of any kind, even the fact that he has a job in the community, sends him to these co-operative institutes which are doing a tremendous service over there? Thirdly, the high risk and the history of the loans, which go along with the condition which I have described, are the main causes for the high rate of interest that they have to charge in the slums—because that is what they are, that is where the business is done, the business you have just been describing?—A. I have not any figures on the co-operative balances, the outstanding balances. I would guess that the situation is possibly the same as it is in Canada with credit union fulfilling the function here. There is some similarity, I think you would agree. I certainly would not speak for the credit unions, but I think it is a matter where they could fill the need. I can assure you, Mr. Knight, we do not operate in a slum area over there. Our average loan is very, very close to the average loan in our own business in Canada.

By Mr. Thatcher:

Q. When you said they had a 60 or 70 per cent rate of interest in Britain, do you know whether that applies to the "Co-ops" also? Have you any idea? —A. I do not know the answer to that question and I did not dare ask it.

By Mr. Crestohl:

Q. Do you know whether the loans made in Britain by these building co-operatives are available to the public or whether they are restricted to members of those organizations?—A. The impression I had was that they were available to members only, but I would hesitate to go on record as being definite on that.

By Mr. Knight:

Q. There is a point about which I want to ask in regard to Mr. Thatcher's question. Supposing their rate of interest is 40 or 50 or 60 per cent, it makes very little difference because the profit—if you may call it profit—I do not —the dividend, or whatever it is—goes back to the original people who are paying the money temporarily into the institution in order that they and others may get the accommodation they do. In that case it is not a fair comparison.

The CHAIRMAN: You are referring to patronage dividends?

Mr. KNIGHT: Yes.

The CHAIRMAN: There is one question which you asked, Mr. Knight, and I do not think it was answered. You asked whether it was not true that the public in Britain were not inclined to borrow as much as the public here.

Mr. KNIGHT: Historically they are not likely to borrow money to the same extent as we are in a growing and pioneer country.

Mr. THATCHER: I do not think you would borrow as much if you were paying 60 or 70 per cent interest!

The CHAIRMAN: Let us see if the witness can answer it.

The WITNESS: I think the same trend is evident in the United Kingdom —a very similar situation to what we have seen here. I was amazed to find the volume of sales finance business being done in the United Kingdom—literally amazed! In other words, some of the traditional reticence about "buying on time", or borrowing, is very rapidly disappearing and I think in a great many cases people would be quite happy to borrow and make their purchases in the same way as occasionally happens here, though that is not the primary purpose of our business. I think that, as public education and fair competition can be developed, we will find that possibly the need can be filled at fair rates, because there is quite obviously a need there that is not being served at the present time.

By Mr. Thatcher:

Q. Could you say whether acceptance company rates are similarly high? Might not competition bring the rates down to more reasonable levels?—A. They are just about on a par with those of the Canadian companies; as a matter of fact, before the recent increase in the bank rate over there, on new cars they were fractionally below the Canadian rates.

Q. How would you account for that? Are they permitted to advertise? —A. Oh yes, their sales finance business is done in exactly the same way as we do it here. It is done through a dealer organization, and if company "A" gives a good service to dealer "A" there is nothing to prevent dealer "A" telling his friends that it is a good company which gives good service, and so business goes up.

By Mr. Michener:

Q. You have not mentioned the banks. Could you give us any information about the amount of small loans they make, and the rate of interest charged on them in Britain?—A. They make practically no small loans, Mr. Michener. They did, up until the second last treasury order, accommodate people who already had bank accounts; they do much more on a temporary overdraft basis than we do here. That is a service to the consumer, but it is to a consumer who is a property owner, and who has a bank account, and has had it for some years. At the present moment he would pay, depending on his status and record, 6 or 6½ per cent.

By Mr. Henderson:

Q. In the course of your evidence, Mr. Cawker, you made two statements which I want to try to reconcile. One was—in reply to Mr. Crestohl—that 85 per cent of the loan business in Canada was done by non-Canadian companies. You made another statement in reference to British loan companies, that there was no limit as to where and how they could obtain their capital. I presume you mean that the British companies can obtain capital by common shares and in any other way. Is that what you meant?—A. Yes, sir. Can I put it this way? From the standpoint of the Canadian companies in the field today in Canada, I think the one great reason that they have not gone out and obtained a bigger share of the business up to this time is the limitation placed on them

as to how they may raise money. They are limited, as Mr. MacGregor has pointed out, and we, as Canadian companies, especially the smaller companies—the more recently licensed companies—have had it pointed to us since the war —we never really took it as advice, I need hardly say; it was a condition of the licence—that not only were we limited to common shares, but to common shares of a certain par value, so that the smaller operator is faced with one of two alternatives—to borrow money at the bank or to sell out his equity. I have been faced with that problem several times in the last 11 years; sometimes I have had to go out and borrow money at a rather high rate of interest because I am not quite prepared to dilute all my equities. I am hardly able to reconcile, in my own mind at least, where the protection of the investor comes into this. We have a security commission which does a most adequate job in determining whether the investor is or is not being properly protected. Our own insurance companies are permitted to extend loans to this type of company, but it seems that one big condition is that you must have an American parent, and secondly that you must be big, and the Canadian companies feel very deeply about this situation, I can assure you, because we do not apologize for the fact that we have such a small share of the business. We are making some headway and taking a little business away from the American companies. They actually provide a rather good training field, and I am glad to see and probably personally have been responsible for seeing that young employees of companies who actually are American-owned members of the association, if they have got a little bit of spark of free enterprise in them, I encourage them to get out and go into business themselves, having in mind they have a little difficulty in raising their funds under the regulations on the type of security on which we can borrow and where we can borrow.

By Mr. Thatcher:

Q. I wonder if this would be a good point for you to tell the committee, whether you think the new rates proposed would mean that a number of companies would be forced out of business or whether most of them would continue to operate?

The CHAIRMAN: I think that is covered in another part of the brief.

By Mr. Henderson:

Q. Just before we get to that, I would like to ask Mr. Cawker a couple more questions on how these companies get their money—and I might say that I was looking at the July 14th issue of the *Financial Post* where I saw an announcement, for record purposes only, that Beneficial Finance Company offered a $35 million promissory note due July 1, 1976, and a $10 million Canadian promissory note due June 1, 1976, over the name of Eastman Dillon and Company. I take it this is the way Beneficial get their money in the United States, by a form of promissory note on which the home company gives out a return on capital, or it could be by bond, debenture or any other manner of exchange of that nature, and yet as I understand the legislation we have, if that same company or their company in Canada, or another Canadian company wished to get capital, they could not get capital that way. Is that correct, Mr. Cawker? —A. Well, without a complete examination of the type of security I would not be too sure. The Canadian company has no restriction on borrowing, and giving as security the company's promissory note; but we cannot issue debentures or preferred shares—at least that is what we have been told—so that we do not have the advantage of that long term money at a very desirable rate which is advantageous to us throughout the period of high rates—high banking rates and high interest rates generally. This advertisement you speak of, I think, is a good case in point. We have a restriction in effect that limits an

advance by the banks to finance companies, and I have no quarrel with that. And I have not any quarrel with the companies in our business, nor with the government agency that is armed with the statistics and know-how to determine whether that should be. But I do feel it very deeply for myself and the Canadian companies that we cannot do what Beneficial have done. We cannot go out into the public market and sell a debenture or sell a preferred stock. I am not prepared to say that, whether the company be large or small, the Canadian investor would be prepared to turn us down cold, and I further do not think he would lose any money.

Q. Well, if you could do that in Canada, if this long term capital were invested in, say, bonds or debentures of Canadian companies, do you feel that the Canadian companies getting their capital in that way would be able to increase their percentage of loan business above 15 per cent which they now have?—A. Would it be fair for me to give you the example of my own case? I have a sales finance company operating side by side with the personal loan company. It was formed three years after the—

By Mr. Monteith:

Q. May I ask, Mr. Chairman, what Mr. Cawker means by "side by side"? —A. They are separate corporate bodies and they operate from the same premises, and we have 11 branches at the moment and they operate side by side in the same premises. That company was formed three years after the licensed small loans company, Bellvue Finance Corporation. It has no restriction on how it raises capital, and indeed it is a little better than 2½ times the size of the loan company.

Q. When you talk about "sales finance company". What would that be—an acceptance company?—A. That is right.

By Mr. Henderson:

Q. Mr. Cawker, one more question. If you were able to go out and raise your capital in a similar manner to that which they can in Britain or in the United States, by their bonds and debentures for the sales company, would you be able to get your money cheaper?—A. There is no question of that.

Q. That you would?—A. We would get it cheaper. The most important thing is we would get more of it.

By Mr. Fleming:

Q. Would the borrower get any advantage from that fact?—A. Yes, I think he would, Mr. Fleming, because this association—I am coming to it later in my brief—has recommended a reduction in rate which is not as radical as that contained in Bill 51, and I feel—and mind you, that has been after a considerable amount of study, and I think almost all the Canadian companies would be able to survive at that rate. They would be able to survive much more easily and get a bigger share of the business if they had freedom in obtaining their funds, so that I think, in the long run, there would be a benefit to the borrower.

Q. I take it then, it is your opinion that this restriction on borrowing on debentures, and some other forms, is retarding the Canadian companies in their attempts to enlarge their organizations in the field in competition with American companies?—A. I think we can take it out of the category of opinion, Mr. Fleming. It is a fact, and I have verified it, and heard about it from every Canadian member of the association.

Q. Mr. Cawker, you say if you had freedom to raise your funds you could probably hire money for lending cheaper by being able to go into the public market?—A. That is right.

Q. I have two other questions. In regard to your British operation, some of the members on this side of the table would like to know how that is operated. I think it has been mentioned several times that it is 4 per cent or better, and I think you indicated that you operated in London a small loans business and a sales finance business. Could you tell the committee what rates your company is charging in England?—A. Yes, in the personal loan company we are charging 2 per cent per month; and in the sales finance business on new cars, 8½ per cent per annum which is a gross of 17; on used cars 9 per cent per annum; and on appliances 10½ or 10 per cent—I believe it is 10—which would be a gross of 21 per cent.

Q. Is that a comparable rate with your sales finance business in Canada?—A. Yes

Q. So you actually are operating in the British market at about the same rate, or approximately the same rate, as you are in Canada?—A. That is right.

Q. In Britain is there a limitation by legislation on the amount of money that you would loan to individual borrowers? For instance, we have a $500 limitation on small loans.—A. No, there is no limitation.

Q. Is it usual and customary for lenders to loan to an individual borrower frequently more than the equivalent of $500 in Canadian funds?—A. Well, we are not, but I think it is the practice. It is very difficult, actually, in speaking of money lenders over there. They are awfully secretive with the exception of this one fellow who, as I say, wanted to sell his business, and we talked to a point where he did give us his views. I never did have a look at his records. He said that, if we were interested in buying his business, they would be available, but I think the impression I got from the conversations I had was that the average loan ran from—well, they would not make one at less than 30 pounds which would be about $75, on up to possibly $400 or $500.

Now of course there is, in addition, over there a racket which I never did get to the bottom of, concerning loans against inheritances, and that I understand is a terrifically high rate operation, but I know very little about it.

By Mr. Cameron (Nanaimo):

Q. You were telling us that, in your case, the prohibition against raising funds in certain ways in Canada was hampering the growth of Canadian companies?—A. Yes.

Q. What would you consider to be a reasonable rate of growth?

The CHAIRMAN: That is the $64 question!

By Mr. Cameron (Nanaimo):

Q. Would you suggest that the companies with which you are connected and of which you are the major shareholder—would you consider that that is a bad prohibition in prohibiting their raising funds, and that it had a cramping effect on the expansion of those companies?—A. Yes, I think it has!

Q. Then perhaps you would be able to answer the other question now, because I noticed in the table which Mr. MacGregor provided to us, that in 1952 you and your associates had an average paid up capital plus surplus paid into general reserves and the balance to profit and loss account of $60,774; while in 1955, only three years later, that sum had reached a total of $111,494. I presume that during that period you were also in receipt of a salary or director's fees? Does that seem to indicate a very cramping position and that you have not been able to expand?—A. Compared to the share of the business going to the American-owned companies I am not at all proud, and I think it should be a great deal more.

Q. I must point out that you have done just about as well as the American companies, the four ones that are listed here. Your rate of expansion is the

same only that you started a little further down; but your rate is just about the same.—A. You will recognize, when it is presented by Haskings and Sells through their Mr. King, in the borrowing ratios—in other words, the use of capital leverage—I think, that I have been rather fortunate in the way I have been able to borrow money, and I think it will also show that only in one or two cases are there any other Canadian companies with a higher borrowing ratio than that of my own company.

Q. I hate to disillusion you, but there are some which have done much better. For instance, there is the Trans Canada Credit Corporation, which had a total of assets in 1952 of $264,000 odd, and only three years later it had $1,015,500; so you should not congratulate yourself too readily until you investigate some of your competitors.—A. I believe I qualified myself by saying that except for one or two—but I think it would be much preferable if we left it for the accounting people to deal with. I am not trying to hide my profits, and I think what I have said will be substantiated generally.

By Mr. Thatcher:

Q. The words "net profit" do not mean anything unless they are related to the capital invested. I think we should have this specific company as a witness if Mr. Cameron is going to question them.

The CHAIRMAN: We will be coming to that later. In the meantime there is one other point in which I am interested. Have you any knowledge of how the Canadian permissible rates compare with those in the other commonwealth countries? The thing I am interested in is the category in which the rates would fall in the other Commonwealth countries, such as South Africa, Australia, New Zealand, and so on.

By Mr. Quelch:

Q. And the details?—A. I cannot recite them, but I do know that they are all higher. I will make a note of it and get the information for you, if you would care to have it.

The CHAIRMAN: Yes, I think it would be interesting to the committee, but it is not vital.

By Mr. Henderson:

Q. In your evidence about the obtaining of funds or capital for the Canadian loan companies, are you able to obtain funds through promissory notes just endorsed by somebody else? Is that permitted to you under the act, as you understand it now?—A. Yes, I think it is, Mr. Henderson. But one of the things which we smaller Canadian companies face, of course, is the personal guarantee. I know what the situation is in my own company and I think it is pretty general that before we get into the category of loans such as Niagara Finance, Trans Canada, Citizens, most of the other small companies find themselves faced with the necessity of their directors, or their president, or their operating executive, guaranteeing the loans, whether they be from banks or from individuals; so I take it from that that we can borrow money on promissory notes endorsed by some official of the company.

Q. Has your association or representatives of your company ever made any request that the method by which you obtain your capital for the Canadian company should be changed, to your knowledge?—A. I am afraid we took the attitude of sort of "leave well enough alone"; but when I obtained my licence in 1945 the solicitors were advised by the department to change the charter because the charter included common shares at some other figure than the $100 par value, and they also included in the draft preference shares, and

that was ruled out; so I think that through the years we have sort of taken it for granted, but never tested it; we were not anxious to take issue with the department on it; and I do not think—certainly not this association—I do not believe it has taken any action to ask the department to waive that in the case of Canadian companies.

Q. Wouldn't it be doing a serivce to the borrower, because it would reduce your rates?—A. Yes, it certainly would.

Q. As a result of obtaining your capital?—A. Yes, because we measure any success in this business, I suppose, by the volume of business we can do, and with our limited means of raising money, the capital leverage therefore affects the interest on borrowed money, with wildest fluctuations—that has a very important effect on what happens to profits; so that if we were unable to, let us say, arrange a long term debenture a year ago when we might have got it at 4 or 4½ per cent, it would be very convenient at this present time when interest rates are somewhat higher. I think that would eventually be reflected with some advantage to the borrower, because, although Mr. MacGregor pointed out it would seem that 40 per cent of the business was not a very important result of competition, I think it is quite an important result. In other words, 40 per cent of the business is being done at a rate less than the present maximum rate up to $500. We have been proceeding on the premise that the 2 per cent per month permissible rate up to $500, was the effective charge all through the piece; but the fact remains, when we do examine it, that 40 per cent of the business is being done at something less than that. I think that is reasonable evidence of competition in the business. I think that Canadian companies would like to get on the band wagon much more than they are now, in exercising competition ratewise, if we could get the money at reasonable rates.

Q. What you are really saying is that before we can consider Bill 51 we should consider section 16 of the Small Loans Act?—A. Yes.

Q. Sections 16 of the Small Loans Act says:

> "The company shall not issue any bonds, debentures or other securities for money borrowed, nor shall it accept deposits."

A. I believe it was mentioned by Mr. Varcoe this afternoon that that legally applied only to the four small loans companies, but it is in fact the practice, as Mr. MacGregor pointed out, to limit the companies provincially chartered and licensed under the act to the same type of financing. So, therefore, it is mainly the small Canadian companies which are suffering. The companies which are named in the act all have available to them capital form a parent. That parent can raise money if it chooses.

By Mr. Enfield:

Q. How was this done? Was it done through a directive from the department, or through a written regulation or condition attached to your licence?—A. I really think that Mr. MacGregor might possibly answer this question better than I could. The fact remains that we all would like the privilege of raising money as we see fit, and none of us are doing it, and we need it very badly. So it leaves the conclusion up in the air. I am sorry!

By Mr. Fleming:

Q. Is it not likely that everyone in the business would raise the money that he needs for his business by the cheapest possible method?—A. That is very sure.

Q. Your present view is that you could raise your needed funds more cheaply by borrowing on debenture than you are doing at the present time?—A. That is right sir.

Q. If you were given the privilege of raising the funds in that way you would, if that were the cheaper way of doing it, and would forego that method if you could find a cheaper method still?—A. Yes.

Q. This question yet remains—you indicated your view on it earlier: Are the licensed companies in that event going to share with the borrowers some of the benefits of the cheaper rates at which they are then able to borrow money themselves?—A. Well, here I could only express an opinion. I think that the 40 per cent, or something over 40 per cent, who are operating at the maximum—I was going to say at the going rate, but I do not think it is a good term...

Q. Call it statutory maximum.—A. ..who are operating at less than the statutory maximum up to $500, is an indication that certainly savings to the lender will eventually be passed along to the borrower because of the competitive result.

By Mr. Follwell:

Q. What you are saying is that competition in the industry would pretty well compel everyone to look for people to whom to pass along the saving.—A. That is reasonable.

The CHAIRMAN: Are there any further questions on this section?

By Mr. Fulton:

Q. Is Merchants Finance a member of your association?—A. Yes, they are.

Q. I shall have questions about that later.

By Mr. Fleming:

Q. Have you any experience in the United States, or any competence to answer questions about the business in the United States? I mean yourself; no doubt there will be others later.—A. Well, I have had a reasonable exposure to it, Mr. Fleming; but I certainly have people with me here who, I think, would qualify in the expert category, and I would, in the interest of saving time, much rather that they answer the question. I would be very happy to have Mr. McClure answer any question which you would like to direct to him.

Q. Perhaps he will be back later.—A. He does not take a formal part in the presentation of the brief. He is here to assist me on any questions which he is much better qualified than I to answer.

Mr. FLEMING: May I put to Mr. McClure the question which I have come back to you with twice, Mr. Cawker.

Mr. McClure, has it been, in the experience of the United States, a factor in reducing the cost of operation that the small loans companies there are in a position to borrow money by the issuance of debentures? In other words, that they have more freedom than is permitted to them in Canada in the raising of money for their business purposes?

Mr. DONALD F. MCCLURE (*First vice-president, Household Finance Corporation (U.S.A.)*): Well, there is no question about the fact that the source of the money which is employed in the business is an important factor. It, of course, is not the only factor which leads to a reduction in the rate charged to borrowers. It occurred to me, while another question was being asked on the same point, that this question of the susceptibility of this particular business to the competitive force leading to a reduction in the rate of charge depends upon so many factors; one of the most important is that there be freedom of advertising; the other is that the lenders all say the same thing, so that the point of competition of rate is clearly understood by the borrower and not disguised. The other is that money is available in enough quantity,

and at a price. The other is that your operating costs are not in the meantime going up so as to nullify or offset savings which you might otherwise get by a reduction of interest rates, or a lack of freedom of advertising. Let me give you an illustration: in 1928 in the United States the going rate in the small loans business was pretty largely 3½ per cent a month. The rate was pretty much expressed as simple interest. There was freedom in advertising. There was only a limited amount of money available to lenders, because the business was not particularly well known. One of the companies felt that if they could get enough additional money to reduce the rate of charge to customers, and advertise it, they would attract to themselves enough additional business so that at the reduced rate they would make the same or more dollars of profit, but at the reduced rate to the borrower.

Mr. FLEMING: A bigger turnover?

Mr. MCCLURE: A larger volume of business on the books. In October, that particular company did reduce the rate from 3½ to 2½ per cent in connection with a flotation of a piece of financing which brought, by that time, a relatively large amount of additional money to the company. Within a matter of six months time that company had the additional money lent out at the reduced rate. Within two years time they were making more net profit at almost a third the cost to the borrower, because of the larger volume of business on the books, than there was before at the higher rate. So that there is a possibility for a very marked reduction in rate to the borrower, if all the conditions are right. But, they have to all be there. Perhaps I have not mentioned all of them, but certainly reduced rate on the capital is one, freedom to advertise and to be sure that the advertising can be clearly stated is another, and the fact that perhaps the rest of the industry does not move with as much speed. That could be repeated. There are other companies that have done the same thing.

That is not unique with that particular company. I simply used that as an illustration to show that it can be done if the conditions are right. I think that Mr. Cawker's statement that the companies that are domiciled in Canada, and have to rely upon raising their money in Canada, and have been forced to get their money at a very high cost, is true. It has put the Canadian competitor of the American companies at a disadvantage, on his own home ground. It has made the cost of the raw material which goes into this business more expensive to him. Incidentally, it has been a factor which the American-owned companies have had to take into consideration when they themselves may want to consider a rate reduction. What advantage of a rate reduction, to be sure, to the customer, if all you do is to find that your Canadian associates are helpless to meet the rate?

By Mr. Fleming:

Q. Mr. Cawker, how strongly is your association pressing for such an amendment of section 16 of the act as to permit licensees greater freedom in obtaining funds they need for the business as, for instance, raising money by debenture issues? How strongly are you pressing?—A. I think it would be fair to say, Mr. Fleming, that after some of the evidence we have heard, and some assessment of Mr. Varcoe's evidence this afternoon, the Canadian companies will now press very, very hard for the removal of what we have felt was a condition of licence.

Q. Which you think is discriminating against the Canadian companies?—A. Oh, I am sure it is discriminating against the Canadian companies. I think Mr. McClure, representing the largest American competitor, has admitted that.

By Mr. Thatcher:

Q. Mr. Chairman, I would like to ask Mr. Cawker a final question. So far as he is concerned, he says in the third paragraph of his brief, the objectives of the association are concerned with the promoting of high ethical standards of operation among its members. I am wondering if there is anything in your constitution or by-laws which would permit you, if you found that a member had been acting in an unethical way, to take any disciplinary action? Would you consider eliminating that company from your association?—A. At the moment we are in the process of amending our by-laws, because up to this point the association has had some element of control only over the operation of business coming under regulation of the Department of Insurance. The original constitution was built around the regulated area. We have not had any indication from the Department of Insurance of any complaints of violations in the area under $500.

Q. I am just wondering about the company, Mr. Cawker, that Mr. Fulton just mentioned, the Merchants Finance. Now, if they are really charging this 85 per cent rate that was reported, perhaps your association would consider taking some kind of action?—A. Mr. Thatcher, we certainly would not do that without all the facts. I can assure you that this association feels very, very keenly about any member, whether it be in the field under $500 or not, who charges usurious rates.

I have asked the department from time to time when we have had complaints, if they would supply details of any complaints. I have had none by name, or any way of identifying them until this matter was brought to a head some few months ago by Mr. Don Brown, and we have investigated that situation very thoroughly. It involved a loan outside the act—outside our powers to discipline. We are taking the necessary steps within our association to have the power to discipline any member who we feel is guilty of—

Q. Giving the whole thing a "black eye"?—A. A black eye. Mention has been made of Merchants Finance. I do not know whether it is your wish that I should pursue that any further. The Chairman mentioned he had a letter from them this afternoon and that possibly they will be asked to appear. I have been in touch with them, I can assure you, and the facts are rather disturbing to me.

By Mr. Knight:

Q. What are the disciplinary powers you have, Mr. Cawker, within the area that is regulated? You have mentioned that you have in your constitution some disciplinary powers with regord to that area, and I was wondering what . . . —A. Our present constitution gives us the power to expel a member for a violation which occurs within the area regulated by the act. We now want to have the power to discipline that member in the same way in any area as long as he is a licensed money-lender and a member of our association. We have spent too many hours in trying to gain public acceptance for this business, too many hours and too much money has been spent by the large companies—and I give them credit for it—trying to help the public rather than fleece them—to let this sort of situation occur within our membership in any area of its lending activities.

Q. And would you consider disciplining them with regard to anything except usurious rates? You have mentioned in general terms, the ethical standards of the lender. What might cause a member to come under discipline besides charging usurious rates?—A. Undignified, misleading advertising—Ethics is a pretty broad area to examine.

Q. You mentioned it; I did not. You mentioned it in your brief, so I would like to get some definition of your idea on that.

The CHAIRMAN: That is practically a standard clause in any constitution, is it not?

The WITNESS: I think it amounts to decent business practices. That, once again, is probably a broad general statement but I think that sums it up.

By Mr. Knight:

Q. Do you have any regulations or rules in your association regarding the methods used by your members in collecting the payments?—A. Well, we are certainly most interested that the methods of collection and collection procedure are fair and reasonable to the borrower. There have been cases where young inexperienced people going through a period of training have done things of which we do not approve, and have made mistakes. I cannot remember in the last seven or eight years a case where an experienced operator has been guilty of unfair tactics in effecting collection from a borrower. Let me put it this way: If we were not sure that a company which had a young experienced man on collection who committed some breach of what we consider fair and decent business practice did not take some strong disciplinary action we would feel that it certainly came within our province to take action.

Q. Would different personality qualifications be necessary in the man who makes a loan as distinct from the man who collects them?—A. In the approach to the operational problem, Mr. Knight, we cover that. I think it is on page 8 of the brief. Rather than jump ahead, would it be fair to deal with the question later? I would prefer to deal with it then.

Q. Very well. I bring the matter up because in my experience with implement companies a good many years ago I discovered that they sent a different type of man to get the money than they sent to sell the machine.

The CHAIRMAN: It is 10 o'clock gentlemen.

Mr. FULTON: Before we leave this subject I would be interested to know what methods of discipline are open to you. You mentioned expulsion from your association. Is that the only disciplinary action you could take?

The WITNESS: Actually it is the only disciplinary measure. We feel, however, that a company which is expelled from the association immediately assumes a new identity with the people in the same type of business, and I feel that the attitude of his associates will not take very long to curtail his activities and certainly improve his operations.

Mr. FULTON: Perhaps we could follow that up next Tuesday.

The CHAIRMAN: We shall meet on Tuesday next at 3.30 p.m. The meeting is adjourned.

APPENDIX "A"

OTTAWA, July 12, 1956.

Mr. Alex G. Climans,
President and General Manager,
Merchants Finance Limited,
21 Dundas Square,
TORONTO, Ontario.

Dear Sir,

I am instructed to advise you that at a meeting of the Standing Committee on Banking and Commerce held this morning, certain questions were asked of Mr. K. R. MacGregor, Superintendent of Insurance, regarding the rate of interest computed on an annual basis on certain loans which have been made by your company.

Pursuant thereto, the Committee resolved that Merchants Finance Limited be invited to appear before the Committee to explain its operations.

I cannot yet advise you of the exact date when you will be expected to have a representative appear before the Committee, but I will do so as soon as possible.

Yours very truly,

(Sgd.) ERIC H. JONES
Clerk, Standing Committee
on Banking and Commerce.

MERCHANTS FINANCE LIMITED

1409 Hermant Bldg.
21 Dundas Square
Toronto 1, Canada

July 17th, 1956.

The Honourable J. W. G. Hunter, Q.C., M.P.,
Chairman, Banking and Commerce Committee,
House of Commons,
OTTAWA, Ont.

Dear Sir,

Owing to the great concern expressed by the Canadian Consumer Loan Association, through its President, and the irreparable damage to my business and personal reputation resulting from the charge of the Superintendent of Insurance before your committee, specifying a charge of 85% per annum to a borrower, and lated modified to 80%, I phoned Mr. MacGregor on Friday, July 13th, asking him to identify the transaction on which he based his computative statement before the committee.

He identified his statement to be based on the complaint of one Murray Ward, 393 Nairn Avenue, Toronto, Ontario. The particulars of this loan are as follows:

The loan was negotiated in August 11, 1955 for a total amount of $2,100.00, repayable in 24 monthly instalments of $87.50 each commencing on the 11th day of September, 1955, and monthly thereafter on the 11th day of each month. The net amount advanced was $1,500.00 so that the charges, including prepaid interest, disbursements, valuation fees, legal fees, registration fees and other costs amounted to $600.00. The security obtained was household furniture under a chattel mortgage, together with a chattel mortgage on a 1953 Ford Panel Truck. In addition, there were two co-signatories, Mr. and Mrs. Masson Lee Smith. The co-signatories pledged household furniture by way of chattel mortgage and also gave a third land mortgage as collateral security to their chattel mortgage.

The truck was in poor condition with a value of about $450.00. Ward's furniture was not paid for and was subject to liens and was subsequently seized by the respective vendors to Ward. The chattels owned by Smith are in somewhat the same position and the collateral third land mortgage has a very doubtful value being behind two substantial first and second mortgages on a property on McRoberts Avenue in the City of Toronto.

As evidenced by the above security there was a substantial amount of risk involved as is indeed the case with all loans of this type. We do not think we have to labour this point. Merchants Finance had trouble with the loan from the outset. The first payment was received on September 20th and not on September 11th, when due, and this cheque was returned "N.S.F." The payment was subsequently received from the co-signatories on October 6th. The account has constantly been in arrears. There was another "N.S.F." cheque given on November 15th. All succeeding payments were made by the co-signatories.

Subsequently Ward abandoned the truck and the household furniture and the truck was turned over to the co-signatories in order to protect them on the loan. We are unable to ascertain Ward's whereabouts.

A letter was received from Mr. K. R. MacGregor, Superintendent of Insurance on February 29th, 1956, stating that he had received a complaint from Mr. Murray Ward, and requesting that I send him a summary of the history of this loan. A copy of this letter is attached. My Solicitors replied to this letter on March 6th, 1956, a copy of which is also attached.

At no time has Mr. MacGregor or his examiners visited my office to examine this account, and it is quite apparent that his statement of the 85% or 80% rate was based upon the *assumption* that Mr. Ward seriously intended and did in fact repay his account in advance. Of course this is completely erroneous as the correspondence will reveal.

In order to give the interested parties a complete picture of the average rate of charge made by my Company for loans over $500.00, I have attached a statement from Rumack, Seigel and Company, Chartered Accountants. This shows the gross charges earned for the last six years to average 25·8% of average amount of accounts receivable during the period.

I respectfully draw these facts to your attention in the interest of complete disclosure, rather than acceptance of what must be uninvestigated complaints.

I have made these facts available to the Canadian Consumer Loan Association, and will, in addition, await your pleasure in the matter of appearing before the Committee.

Yours very truly,

MERCHANTS FINANCE LIMITED
(Sgd.) ALEX G. CLIMANS,
President

DEPARTMENT OF INSURANCE
OTTAWA, CANADA

FEBRUARY 29th, 1956

Mr. Alex G. Climans, President,
Merchants Finance Limited
21 Dundas Street,
TORONTO, Ontario.

Dear Mr. Climans:

We have received a complaint from Mr. Murray Ward, 393 Nairn Avenue, Toronto, concerning a loan of $1,500.00, that he apparently arranged with your Company a few months ago.

As I understand it, the charges imposed were $600.00 and repayments were to be made over a period of two years at the rate of $87.50 per month. After making six payments, Mr. Ward seemingly desired to pay off the debt but was informed that a reduction of only $100.00 would be allowed against the original charges of $600.00.

Apart from the average rate involved being nearly 3% per month, even if the loan had run to maturity, the refund mentioned seems to be unduly small.

I should be greatly obliged if you would let me have a summary of the history of this loan, including its present status and the refund offered or allowed recently for complete repayment.

Yours truly,

K. R. MacGregor
Superintendent of Insurance.

MARCH 6, 1956

K. R. MacGregor,
Superintendent of Insurance,
Department of Insurance,
OTTAWA, Ontario.

Dear Sir:

Re: Merchants Finance Limited and Murray Ward 393 Nairn Avenue.

Your letter of February 29th addressed to Mr. Alex G. Climans, President of Merchants Finance Limited has been handed to us for reply.

This loan was negotiated in August, 1955 for a total amount of $2100.00 repayable in 24 monthly instalments of $87.50 commencing on the 11th day of September, 1955 and monthly thereafter on the 11th day of each month. The net amount advanced was $1500.00 so that the charges including repaid interest, disbursements and costs amounted to $600.00. The security obtained was household furniture and a chattel mortgage, together with a chattel mortgage on a 1953 Ford panel truck. In addition there was a co-signatory who pledged household furniture and gave our clients a third land mortgage as collateral to the chattel mortgage.

As evidenced by the above security there was a substantial amount of risk involved as is indeed the case with all loans of this type. We do not think we have to explain to you that people come to finance companies and are prepared to pay a somewhat larger rate of interest only when they do not have the type of security on which they can obtain a loan from the banks at a lower rate of interest.

Our clients had trouble with this loan from the very first payment, which was received on September 20th rather than on September 11th when due and which cheque was returned "N.S.F.". The payment was subsequently received from the co-signatory on October 6th. The account has constantly been in arrears and there was another N.S.F. cheque given on November 15th.

There is presently a balance of $1575.00 owing and our clients have offered Mr. Ward a rebate of $115.00 if the account were paid in full forthwith, which would leave a net amount due by Mr. Ward of $1460.00.

While you state that the refund offered seems to be unduly small, nevertheless our clients had to do the usual work involved in processing the loan, including appraisals, searching, registration, execution of instruments, legal work and general office overhead.

In addition of course the risk involved in this transaction as set out above has to be considered from the inception of the loan and our clients are of course entitled to be compensated for such risk.

If there is any further information you require, will you kindly advise.

Yours very truly,

SHERMAN & MIDANIK

Per: .....

MERCHANTS FINANCE LIMITED

ANALYSIS OF LOANS OVER $500.00

Year	Average Amount of Accts. Rec. during Year	Gross Interest Earned	Percent of Gross Interest to Accts. Rec.	Net Profit	Capital Employed	Per Cent of Net Profit to Capital Employed
	$	$	%	$	$	%
1955	565,965	168,127	29·0	40,757	305,611	13·3
1954	506,807	153,144	30·2	28,554	248,925	11·4
1953	469,306	114,095	24·3	25,649	209,814	12·2
1952	416,921	100,645	24·2	14,148	166,675	8·4
1951	377,842	90,303	23·9	12,742	145,436	8·7
1950	332,978	79,976	23·7	16,719	136,701	12·2
Totals for 6 years	2,669,820	706,290	155·2	138,569	1,213,162	66·2
Average per Year	444,970	117,715	25·8	23,095	202,194	11·0

NOTE:—Mr. A. G. Climans has personally guaranteed a bank loan which has averaged about $250,000.00 for the past 6 years. Actually this figure should be added to the "capital employed" in order to arrive at the true percentage of "net profits to capital employed".

We hereby certify that the above listed figures were taken from the books and records of Merchants Finance Limited.

Dated at Toronto, Ontario, this 13th day of July, 1956

(sgd.) Rumack, Seigel and Company,
Chartered Accountants.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 20

BILL 51

An Act to amend the Small Loans Act

TUESDAY, JULY 24, 1956

WITNESS:

Mr. C. M. Cawker, President, Canadian Consumer Loan Association

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

77117—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Ashbourne
Balcom
Batten
Bell
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fulton
Gingues
Gour (*Russell*)
Hamilton (*York West*)
Hanna
Henderson
Hollingworth
Holowach
Huffman
Knight
Low
MacEachen
Macnaughton
Matheson
Meunier
Michener
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Rea
Regier
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Stewart (*Winnipeg North*)
Thatcher
Tucker
Viau
Vincent
Weaver
White (*Hastings-Frontenac*)
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
MONDAY, July 23, 1956.

Ordered,—That the name of Mr. Batten be substituted for that of Mr. Fraser (*St. John's East*);

That the name of Mr. Gingues be substituted for that of Mr. Valois;

That the name of Mr. Meunier be substituted for that of Mr. Richardson; and

That the name of Mr. Holowach be substituted for that of Mr. Quelch, on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

77117—1½

MINUTES OF PROCEEDINGS

TUESDAY, July 24, 1956.

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Balcom, Batten, Cameron (*Nanaimo*), Deslieres, Fleming, Follwell, Fulton, Hanna, Hollingworth, Holowach, Hunter, Knight, Macnaughton, Matheson, Monteith, Philpott, Regier, Rouleau, St. Laurent (*Temiscouata*), Thatcher, Viau and White (*Hastings-Frontenac*).

In attendance: Messrs. C. M. Cawker, President, and F. C. Oakes, Vice-president, both of Canadian Consumer Loan Association; Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.); and other representatives of certain Small Loans Companies and interested organizations; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

On motion of Mr. Hollingworth, seconded by Mr. Philpott,

Resolved,—That Mr. Deslieres be substituted for Mr. Valois as Vice-chairman of the Committee.

On motion of Mr. Macnaughton, seconded by Mr. St. Laurent (*Temiscouata*),

Resolved,—That Mr. Low be substituted for Mr. Quelch on the Subcommittee on Agenda and Procedure.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Following debate, it was moved by Mr. Knight, seconded by Mr. Regier,

That this Committee rise now and that the bill be reported to the House at the first possible moment.

The Chairman ruled the said motion out of order; whereupon Mr. Regier appealed the ruling.

Following debate the Chairman stated that he proposed immediately to report to the House as follows:

> Mr. Knight has stated that in his view the Banking and Commerce Committee should immediately report Bill 51 to the House of Commons, even though the Canadian Consumer Loan Association has only just started making its representations, and he accordingly moved, seconded by Mr. Regier, that the Banking and Commerce Committee immediately report Bill 51 to the House of Commons. I, as Chairman of the Banking and Commerce Committee, ruled that the motion was out of order since Bill 51 had not yet been carried by the Committee section by section, nor had the title been carried nor the bill carried. Mr. Regier appealed my ruling.

Thereupon, at 4.00 o'clock p.m., the Chairman adjourned the Committee to the call of the Chair.

EVENING SITTING

At 8.15 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Balcom, Batten, Bell, Benidickson, Cameron (*Nanaimo*), Deslieres, Eudes, Fairey, Fleming, Follwell, Fulton, Hamilton (*York West*), Hanna, Henderson, Hollingworth, Holowach, Hunter, Knight, Macnaughton, Meunier, Monteith, Philpott, Regier, Robichaud, Rouleau, St. Laurent (*Temiscouata*), Viau, Weaver and White (*Hastings-Frontenac*).

In attendance: The same as at the afternoon sitting with the addition of M. Preston J. Heiman, Statistician, Canadian Consumer Loan Association.

The Chairman reminded the Committee that, immediately prior to the adjournment of the afternoon sitting this day, Mr. Regier had appealed his ruling to the effect that a motion by Mr. Knight was out of order. The Chairman stated that he had since referred the matter of Mr. Regier's appeal to the House and that Mr. Speaker had thereupon ruled that the ruling of a chairman of a select committee is subject only to an appeal to the committee concerned.

The Chairman then put the said ruling to the Committee. The ruling was sustained on the following division:

Yeas: Messrs. Balcom, Batten, Deslieres, Fairey, Follwell, Henderson, Hollingworth, Macnaughton, Meunier, Philpott, Robichaud, Rouleau, St. Laurent (*Temiscouata*), Viau and Weaver—15;

Nays: Messrs. Bell, Cameron (*Nanaimo*), Fleming, Fulton, Holowach, Knight, Regier and White (*Hastings-Frontenac*)—8.

It was then moved by Mr. Regier, seconded by Mr. Cameron (*Nanaimo*),

That the Committee now proceed to the consideration of the bill itself.

Thereupon Mr. Fulton moved a superseding motion, seconded by Mr. Bell, namely,

That Mr. Regier's motion be referred to the Subcommittee on Agenda and Procedure.

The said superseding motion was negatived: *Yeas*, 8; *Nays*, 10.

The main motion being then put, it was negatived: *Yeas*, 8; *Nays*, 13.

Mr. Cawker was again called; he continued the presentation of the brief of Canadian Consumer Loan Association and was questioned thereon. Messrs. Oakes, Heiman and MacGregor answered questions specifically referred to them.

Mr. Cawker being still before the Committee, at 10.00 o'clock p.m. it adjourned until 3.30 o'clock p.m. on Thursday, July 26, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

TUESDAY, July 24, 1956,
3.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. HOLLINGWORTH: Mr. Chairman, I move, seconded by Mr. Philpott, that Mr. Deslieres be substituted for Mr. Valois as vice-chairman of the committee.

The CHAIRMAN: Thank you. Mr. Valois. On account of illness at home Mr. Valois had to resign as vice-chairman.

You have heard the motion, gentlemen. All those in favour? Contrary, if any? I declare Mr. Deslieres elected vice-chairman of the committee.

Mr. MACNAUGHTON: Mr. Chairman, I move, seconded by Mr. St. Laurent, that Mr. Low be substituted for Mr. Quelch on the subcommittee on agenda and procedure.

The CHAIRMAN: You have heard the motion. All those in favour? Contrary, if any? I declare Mr. Low substiuted for Mr. Quelch on the subcommittee on agenda and procedure.

Mr. FLEMING: Mr. Chairman, before we proceed I should like to raise a question of privilege.

I think that all of us felt, when we were assigned to this committee and the committee was asked to undertake a study of this bill, that it was with the thought in mind that the bill was going to be reported back to the house and disposed of at this session.

Mr. Chairman, in the Toronto *Telegram* of Saturday, July 21, appears an article of Mr. Peter Dempson, member of the press gallery, in which he has written:

> The government plans to shelve its small loans legislation, which would set a sliding scale of reduced interest rates and increase the ceiling for loans.
>
> The bill, already given second reading—approval in principle—by the commons, is now before the commons' Banking and Commerce Committee.
>
> The government intends, at the next session, to bring in a revamped bill, probably calling for the same ceiling of $1,500 set out in the new legislation introduced this year, but with changes in the interest rate schedule. Existing small loans legislation provides for a ceiling of $500.
>
> The decision to scrap the small loans bill is said to stem from mounting opposition to it by both Liberal and Conservative M.P.'s. Main support for the legislation has come from the three C.C.F. members on the committee.
>
> Liberals and Conservatives, it is understood, have come to the conclusion the sliding scale of reduced interest rates proposed in the bill would be impracticable. Many of the smaller loan companies, particularly the Canadian ones, would be forced out of bssiness.

I may say that an article with similar purport appeared in the Ottawa *Citizen* of yesterday, written by Mr. Frank Swanson of the press gallery, in which the following statements appear:

> The government plans to shelve its small loans legislation which would have set a sliding scale of reduced interest rates and increase the maximum ceiling for loans, it was learned today—
>
> The government plans at the next session to bring in a revamped bill, probably calling for the same ceiling of $1,500 set out in the present legislation but with changes in the interset rate schedule—
>
> With the session expected to end in about two weeks' time, the government plans to leave the bill before the committee without having it returned to the house. This could be done since the government has a majority on the committee.
>
> A new bill could then be introduced at the next session to replace the one now before the banking committee.
>
> The decision not to proceed with the small loans bill is understood to stem from mounting opposition to the bill. Main support for the bill has come from the C.C.F.
>
> Liberal and Conservative M.P.'s it is understood, have come to the view that the sliding scale of interest rates in the bill would be impracticable. Many of the small loans companies, especially Canadian firms, might be forced out of business.

Mr. Chairman, I would like to say in the first place that we all recognize that this is quite a formidable undertaking and quite a large task which was assigned to this committee. But I wish to say, for those of us who are Conservatives on this committee, that we do want to see this matter carried forward and we do want to see the work of the committee concluded in time, if it is physically possible, to report the measure to the house at this session for whatever action the houses chooses to take.

I think that if it is the government's intention, with its majority on this committee, that the bill shall not be reported back to the house at this session, we ought to be told. I simply want to say, for those of us who are Conservative members on this committee, that we are quite prepared to sit and to attend as many meetings as this committee chooses to arrive at a conclusion on this important study at this session. We will do anything within our power to cooperate in completing at this session the task assigned to us, and, if physically possible, in time for the House of Commons and Senate to take such action on it as is their intention. But I do think—and I was hoping to direct my remarks particularly to Mr. Benidickson as parliamentary secretary to the Minister of Finance who sponsored this bill—

The CHAIRMAN: Parliamentary assistant.

Mr. FLEMING: Pardon me—parliamentary assistant to the Minister of Finance who sponsored this bill—that we should now have an authoritative statement from him as to the government's plans and intentions with reference to the disposal of this bill at this session. We are having a meeting of the agenda committee tonight, Mr. Chairman, which you have called, and no doubt this matter is bound to engage the attention of that subcommittee, and I think in all fairness that the government ought to tell us now, for the information of all the members of this committee, just what its purposes are with reference to this bill, particularly in the light of these reports and articles which I have read.

Mr. KNIGHT: Mr. Chairman, I would like to speak a moment to the question of privilege raised by Mr. Fleming. I would point out that I personally was on my feet for a moment or two before Mr. Fleming spoke and was asking for the floor; but that is incidental.

The CHAIRMAN: You did not say that you had a question of privilege.

Mr. KNIGHT: All right; we are being very formal.

I want to say that I do support what Mr. Fleming has said.

Now, I do not dispute the right of any member of this committee to have any opinion, whether he is a Liberal, Conservative or what he is, in respect to this bill. I think it has become fairly obvious—certainly I think there is some accuracy in the report which Mr. Fleming read—aside from the report that the majority of the people in this committee, irrespective of their political opinions, do not want this report acted on at this session. If that is true, we are merely wasting our time here. A good many of us are pretty busy and have points on the estimates which we think should be discussed. I for one do not believe in a bunch of grown men simply sitting here until the time is too late to report to the house.

I make it perfectly clear that every member in this committee has a right to do what he likes and I too, under the rules, have the same right to express myself in the way in which I am doing.

Mr. Fleming has expressed his desire to get the bill before the house. We have had various predictions as to what day the house might close. It is my opinion that if this bill is not reported within the next day or two that definitely kills it for this session. If so, and it is definitely killed for this session, why keep this array of gentlemen, who undoubtedly are as busy as I, sitting around here?

I will go further than Mr. Fleming and I will move that this committee now rise and report the bill to the House of Commons for the reasons which I have stated.

Mr. REGIER: I second the motion.

Mr. PHILPOTT: Speaking on Mr. Knight's motion—

The CHAIRMAN: First of all, a motion is quite out of order at this time because we are still dealing with the question of privilege. If you wish to make the motion later, that is your privilege; but, at the moment, there is a question of privilege before this committee.

I believe that I can speak for the Liberal party and say that the Liberal party has no control over the mental peregrinations of Peter Dempson or Frank Swanson. I do not know which crystal balls they used, but I can assure you that they have not consulted any Liberal crystal balls.

The instructions which I have, as chairman of this committee, are to go ahead, hear the evidence, and report the bill. The evidence is to be heard before this committee and that is all there is to it. If we can report the bill, fine; if we cannot get through the evidence, then we cannot report the bill; but the evidence is to be presented. To go ahead and report the bill at this time without hearing the other side of the question would be a great injustice.

Mr. PHILPOTT: I for one think that it is a piece of barefaced impudence to have that comment come from Mr. Fleming, because nine-tenths of the time wasted in this committee has been wasted by Mr. Fleming and his colleagues.

Mr. FLEMING: Mr. Chairman, I suppose that one should ignore hysterical outbursts of this type. It is an irrational comment on the face of it and I do not intend to let barefaced insults of that kind go unanswered. This is a palpable insult based on a monstrous distortion of the truth. If parliamentary language permitted something stronger than that, I would have it to say about this completely false outburst from the member. The record will speak for itself both as to the character and number of questions asked, and so far as—

The CHAIRMAN: Is this helping the committee at all? You have made your point quite clear that you disagree.

Mr. FLEMING: I always disagree with falsehoods.

Mr. KNIGHT: If the question of privilege is disposed of, I would like to move the motion which I started a moment ago when I was not in order. For that I apologize.

I move that this committee rise now and that the bill be reported to the house at the first possible moment.

In speaking to the motion I want to make one or two things plain, if I have not, and I shall try to be as brief as possible.

The CHAIRMAN: May I say, in my opinion, that this motion is entirely out of order. We have not even considered the bill.

Mr. KNIGHT: I would be delighted to make my motion that we do consider the bill. I am only a new member on this committee, but perhaps as a comparative outsider I am in a pretty good position to see what the position of this committee is as I come to it new. I am quite prepared, if I can get any support in this committee, to have the bill so considered; and I would be delighted if we could consider the bill. In understand that this committee has been meeting now for some weeks for the purpose of considering Bill 51, and I understand that the bill has not been so considered. That exactly is my complaint.

If this committee is not prepared to sit down and earnestly consider this bill, then, with a view to having it moved into the House of Commons, I would like to move that this bill be so considered. I think the best way we can do so is to put it up to the House of Commons and have a debate on the bill take place there, because this committee has not, as far as I can see, carried out its terms of reference in regard to the study of this particular bill.

The chairman says that the bill had never been considered and has never been seen publicly in this committee. If the chairman would give me some direction, I would do that; but I shall stick to my original motion, because at this late date I see no chance of having a thorough consideration of the bill. Therefore I hereby move, if I am in order, not to carry on, and without repeating my original motion, that this committee now rise and report the bill accordingly.

The CHAIRMAN: It has always been my understanding that you cannot report a bill until you have gone over it section by section. Accordingly I rule your motion out of order, Mr. Knight.

Mr. REGIER: Mr. Chairman, I seconded that motion and I maintain that your ruling is quite beyond your powers to rule. This motion was definitely in order. We have been sitting on this bill for, I believe, a month now. We have been considering the effect of the bill. Therefore we have been considering the bill, even though no one has been monitoring us and reading out to us the exact wording of the bill. I understand the committee has the power at any time to consider that it has dealt with the bill, and that this committee has the right to report the bill without having read it clause by clause.

I do not know whether you have yet made a ruling. However if that should be your ruling, then I must challenge your ruling and ask that there be a recorded vote taken.

The CHAIRMAN: I definitely rule that you cannot report a bill until you have gone over it section by section and approved its title, and so on.

Mr. REGIER: In that case, Mr. Chairman, I appeal your ruling and ask that a recorded vote be taken, and let us for once have the counting of the sheep.

The CHAIRMAN: Have the counting of what?

Mr. REGIER: The counting of the sheep.

Mr. FOLLWELL: And the goats, too.

The CHAIRMAN: We have always counted the members of the committee when we have had a count taken. Are you saying that the count has been wrong?

Mr. REGIER: No, I mean the recording.

The CHAIRMAN: Very well then, all those in favour of reporting to the house now without considering the bill first will please raise their right hands.

Mr. FLEMING: Mr. Chairman, it is my understanding that an appeal against the ruling of the chairman of a committee has to go to the house.

The CHAIRMAN: I do not think so.

Mr. REGIER: Definitely, of course. Mr. Chairman, I have sat in committee meetings before, and my understanding of the rules is that they definitely call for an appeal from a ruling of the chairman to be reported to the house.

The CHAIRMAN: If so, we shall do it.
You are quite right, the appeal is to the House of Commons.

Mr. HOLLINGWORTH: Mr. Chairman, what is the result of your cogitation? What is to be the procedure now?

The CHAIRMAN: The procedure is to appeal the ruling of the chairman to the House of Commons.

Mr. HOLLINGWORTH: Will you adjourn the committee while you are doing that?

The CHAIRMAN: Obviously.

Mr. FOLLWELL: You may come back next week.

Mr. KNIGHT: Or the week after.

The CHAIRMAN: When there is no recorded vote here the matter is referred directly to the house.

This is what I propose to report to the House of Commons:

> Mr. Knight has stated that in his view the Banking and Commerce Committee should immediately report Bill 51 to the House of Conmmons, even though the Canadian Consumer Loan Association has only started making its representations, and he accordingly moved, seconded by Mr. Regier, that the Banking and Commerce Committee immediately report Bill 51 to the House of Commons. I, as chairman of the Banking and Commerce Committee, ruled that the motion was out of order since Bill 51 had not yet been carried by the committee section by section, nor had the title been carried nor the bill carried. Mr. Regier appealed my ruling.

Mr. KNIGHT: On a point of order, Mr. Chairman, I think you stated that I said that in view of the fact that we have just started a study of the brief submitted to the Banking and Commerce Committee. I did not say anything about that. I said that in view of the fact that the bill had not been produced before this committee after four weeks of sittings had elapsed.

The CHAIRMAN: In my opinion, Mr. Knight, it would not be a fair representation to the House of Commons for it to hear one side of the case and without having heard the other side of the case—without the House of Commons knowing that the other side of the case had not been heard.

That is what I am proposing to report, gentlemen. The committee is adjourned pending the decision of the House of Commons.

EVENING SITTING

8.15 p.m.

The CHAIRMAN: Gentlemen, we have a quorum.

Mr. PHILPOTT: Mr. Chairman, on a point of privilege. At the last hearing Mr. Fleming was very much annoyed because he said I accused him of monopolizing too much of the time of the committee. In the interval I have made an analysis, and this is what has happened in this committee: the Conservatives who have nine members on this committee, have intervened 101 times; the Liberals, who have 32 members on this committee, 73 times; the C.C.F., who have four members on this committee, 71 times; the Social Credit, who have three members on this committee, four times. Of the first 600 pages of the printed evidence of this committee 127 pages were directly due to the questions asked by Mr. Fleming.

The CHAIRMAN: Well, that is very interesting evidence!

Mr. FLEMING: Mr. Chairman, all I have to say is that I do not believe those figures. That is not an official analysis, and I do not believe it for one minute. The fact is, as we well know, Mr. Chairman, that interventions can be long or they can be short, and the answers can be long or they can be short, that the questions gave rise to. This kind of unofficial analysis just is utterly meaningless, particularly when it was brought forward to try to back up an irrational and abusive attack made this afternoon by Mr. Philpott. It disentitles itself to being taken seriously by any person.

The CHAIRMAN: Mr. Fleming, I would remind you that there is a quotation from Hamlet which says: "The lady doth protest too much me thinks". I would be careful!

Mr. FLEMING: Perhaps I should not take the remarks of Mr. Philpott seriously, anyway.

The CHAIRMAN: Gentlemen, before we adjourned there was a ruling appealed, which was taken to the house. Mr. Speaker has since ruled that a ruling of the chairman of a select committee is subject only to an appeal to the committee concerned. Therefore, at present, there is a motion before the committee which was made by Mr. Knight, seconded by Mr. Regier, that this committee should forthwith report Bill 51. Your chairman ruled that motion out of order on the grounds that we have not yet passed the bill, section by section, nor have we passed the title, nor the bill as a whole. My decision, as chairman, was appealed by Mr. Regier. All those in favour of sustaining the chairman's ruling will please raise their right hands.

Mr. KNIGHT: A recorded vote, please.

The CHAIRMAN: Right, a recorded vote. Those who are in favour of sustaining the chairman's ruling will answer yea and those against the chairman's ruling will say nay.

The chairman's ruling is sustained.

Mr. REGIER: Mr. Chairman, I would like now to move that we now proceed to the consideration of the bill itself.

The CHAIRMAN: Is there a seconder for that motion?

Mr. CAMERON (*Nanaimo*): I will second it.

The CHAIRMAN: Moved by Mr. Regier, seconded by Mr. Cameron that the committee now proceed to the consideration of the bill itself. Before anybody speaks to that, I would simply point out that at this stage that would be taking one aspect of the evidence only and completely failing to hear any other aspect of it.

Does anybody wish to speak to this motion?

Mr. HOLLINGWORTH: Mr. Chairman, I think we should hear the witnesses, and then we will have heard both sides of the question. After that, I would than recommend that we proceed to discuss the bill, clause by clause. I would point out that if we do not hear this brief which is being presented by the witness I do not think it is really fair, because we are not giving the other side an opportunity to state its case.

Mr. CAMERON (*Nanaimo*): Can I assume from what Mr. Hollingworth has said that he thinks we should be satisfied with hearing the reading of this brief by Mr. Cawker?

Mr. HOLLINGWORTH: Yes.

Mr. CAMERON (*Nanaimo*): And that should be considered the case for the—

Mr. HOLLINGWORTH: That is the other side of the case, I would say, yes.

Mr. VIAU: Not only that, but without having taken a formal motion the other day the committee decided to have this brief presented to the committee, so such a motion just now would be out of order.

Mr. REGIER: Mr. Chairman, I contend that the committee has the right at any time to hear the evidence it wants to hear, and when it has decided that it has heard enough evidence, the committee then has a perfect right to go on to the consideration of the bill itself. I believe you, or one of the members of the committee, mentioned that if this motion were passed we would have heard only one side. I do not think that is the case at all. I think that a reading of the minutes over the minutes over the past month will reveal that there were very able spokesman here in opposition to the bill, and every possible angle of the opposition that I can think of has, I believe, been fully explored. I would just like to point out to the members of the committee that not only must this bill, if it is to be at all successful, be reported back to the house, but it has to be considered by the committee of the whole house, and then it has to come up for third reading, and then it has to pas the "other place". We all know we are working under a deadline, and it seems to me perfectly obvious that if my motion does not pass, there is not a hope in the world of this bill passing and becoming law at this session of parliament.

Mr. FLEMING: Mr. Chairman, you called a meeting of the agenda committee for 10 o'clock tonight, or at least following immediately on the conclusion of this meeting. I wonder if Mr. Regier would not be satisfied to have his motion considered at that meeting tonight.

Mr. REGIER: I would, if there is a way in which I can withdraw the motion until the next meeting.

Mr. FLEMING: Or simply ask that the motion be referred to the agenda committee, and then it can be considered along with the other business? I take it that the agenda committee, Mr. Chairman, must take a look at the whole situation before us in the light of what was said this afternoon, to see, or estimate what remains, and what we are going to have to do to complete the task. I take it that the burden of the remarks made this afternoon was that the committee wants to complete its task, and complete it in time to have the measure dealt with, as it must be, in the house and in the Senate, and then this motion—

The CHAIRMAN: I am not sure you are interpreting the committee correctly on that.

Mr. FLEMING: I may, or may not be. I was interpreting the sense of at least some of the statements made this afternoon. If Mr. Regier were satisfied, I think that the agenda committee could take this motion in hand and weigh it in relation to the problem before us.

Mr. CAMERON (*Nanaimo*): Do I understand, Mr. Chairman—

Mr. MACNAUGHTON: I do not think anybody can object to the agenda committee considering whatever it wants to consider, but it is this committee that decides whatever it wants to in the final analysis.

Mr. FLEMING: The agenda committee can only make recommendations to this committee.

Mr. MACNAUGHTON: You can consider this motion or anything else you like, but this is the committee which will decide who is to be heard.

The CHAIRMAN: There is a motion before the committee. The motion is that we proceed to—

Mr. FULTON: Mr. Chairman, is it not in order to move an amendment—or to be technical, it should, strictly speaking, be called a superseding motion? I do not want to move one unless Mr. Regier is willing.

The CHAIRMAN: There has been no superseding motion.

Mr. FULTON: I would suggest that a motion, that this motion be referred to the steering committee, is in order.

The CHAIRMAN: Any suggestion is in order. But there has not been an amendment to this motion or a superseding motion. If you wish to move an amendment to this motion or to move a superseding motion, that is your privilege, but these suggestions are only holding up the business of the committee. Let us get on with hearing the brief, if we are going to hear it.

Mr. FULTON: I think the mover of the motion said he would be satisfied to have it submitted to the steering committee this evening.

The CHAIRMAN: It is up to him to withdraw his motion then.

Mr. FULTON: I move that this motion of Mr. Regier's be referred to the steering committee.

The CHAIRMAN: I am not sure that that is a superseding motion.

Mr. FULTON: Do you accept it or not?

Mr. FLEMING: Mr. Chairman, I think it is one that is commonly regarded as such in the committees. We have had such motions before in committees where there is an agenda committee, I think quite frequently.

The CHAIRMAN: All right, I will allow that motion.

Mr. HENDERSON: Mr. Chairman, as I understand a steering committee it is to steer you ahead, not to handle something that has come before the committee in the past. Maybe I am wrong. Mr. Regier has a motion before the committee. I do not see how you can refer it to a subcommittee that is set up to look after things in the future.

Mr. FULTON: I have made a motion that Mr. Regier's motion be referred to the steering committee for consideration and report.

The CHAIRMAN: Mr. Henderson, I think it can be referred, but I am not suggesting for a minute that it solves any problem or serves any useful purpose. I am simply saying that I think the motion is in order. Is there a seconder for that motion of yours, Mr. Fulton?

Mr. BELL: I second it.

The CHAIRMAN: The original motion was that the committee now proceed to the consideration of the bill itself. There is a superseding motion that Mr. Regier's motion be referred to the agenda committee. The question now is on Mr. Fulton's motion, that it be referred to the agenda committee. All those in favour of Mr. Fulton's motion will please raise their right hands. All those against Mr. Fulton's motion will please raise their right hands. I declare Mr. Fulton's superseding motion defeated.

Mr. KNIGHT: Mr. Chairman, on a question of privilege. I am a new and perhaps an innocent member of this committee. I would like to know before whom I am speaking or working. I did have the idea at first to move the conventional motion of "I spy strangers in the house", but there are two reasons against that. In the first place because I know that that is one motion which has to be referred to the House of Commons for decision, so, I thought I would avoid that. But, I think I have the right, perhaps, to know—by the way, I hope this will not be construed as inhospitality by the fine looking gentleman that we have before us, but I am given to understand that there are several in attendance at this committee who can definitely be qualified as lobbyists, who have been here at every meeting of this committee, both in the daylight and in the evening.

The CHAIRMAN: Mr. Knight, let us get this clear right now. This is a committee at which any member of the public is permitted to attend.

Mr. KNIGHT: I am well aware of that.

The CHAIRMAN: You have no business commenting on any member of the public attending this meeting.

Mr. KNIGHT: I am not going to do that. I am going to suggest that some of the gentlemen to whom I am referring might be subpoenaed before the committee so that I might obtain from them certain information.

The CHAIRMAN: If you have anybody you want to subpoena before the committee you can make a motion to that effect. But, I am not going to have political speeches made to this committee.

Mr. KNIGHT: I am not making any political speech. I am anxious—other people have been allowed to express their desire that this bill should be reported to the House, or that it is the desire that it should not be. I am simply interested, and I think it is my right to know, as a member of the House of Commons and a member of this committee, who are present at the meetings of the committee.

The CHAIRMAN: I am ruling that you are quite out of order. I do not think it is any of your affair what members of the public attend these open committee meetings.

Mr. KNIGHT: I would like to know in whose interest these people are appearing.

The CHAIRMAN: I am ruling you out of order, Mr. Knight. I am quite convinced in my own heart that you are so completely out of order that I have never heard anything more out of order in my life—in asking what members of the public are attending the meetings of a parliamentary committee.

Mr. KNIGHT: It was not a question as to what members of the public are here. I would like to know what influences are attempted to be brought to bear.

The CHAIRMAN: If you have a specific charge to make, make it; otherwise you are out of order.

Mr. KNIGHT: I am not suggesting that they have any influence upon this committee. I would not suggest such a thing of any member of this committee.

The CHAIRMAN: Mr. Knight, you are just going on and on and on. You are out of order. If you want to "natter on" in this way, I have only one duty, and that is to report you to the House of Commons. If you wish me to do that I will be forced to do it.

Mr. KNIGHT: I could name some of these gentlemen, if necessary.

Mr. FULTON: Perhaps Mr. Knight would be interested to know that Mr. Duncan MacTavish is in the audience.

Mr. KNIGHT: I have known him for many years, and I am not saying anything about him. I have not mentioned his name—

The CHAIRMAN: Let us stop this nonsense now. Talk about wasting time! I want to get on with this bill, though you may not. Let us go on with the brief.

Mr. MACNAUGHTON: It is quite possible that some of these gentlemen are here to assist the committee.

Mr. KNIGHT: Let us have them on the stand. Let us hear what they have to say.

The CHAIRMAN: You want more witnesses, Mr. Knight?

Mr. KNIGHT: I would not object to some.

The CHAIRMAN: You would not object to some, if you could chose them?

Mr. KNIGHT: I would like to find out who is paying for them to be here.

The CHAIRMAN: The main motion before us is that we proceed to the consideration of the bill itself, by Mr. Regier.

All those in favour of the motion?

All those against the motion?

The motion is defeated.

We will carry on with the consideration of this brief. We have come to page 2, I believe—Legislative studies.

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, called.

The WITNESS: Mr. Chairman, at the conclusion of Thursday night's consideration I believe a question was raised concerning the purpose and the code of ethics of this association, and with the permission of the committee I would, very briefly and quickly, like to read article eight and article nine of the by-laws of the association. The heading of the first article is "Purpose of Association" and of the second article, "Code and Ethics and Business Standards". This may clear up the last point which was raised before the committee adjourned on Thursday night.

The CHAIRMAN: Right!

The WITNESS:

ARTICLE VIII—PURPOSE OF ASSOCIATION

In addition to the objects set out in the letters patent of the association, the following are declared to be the purposes thereof;

(*a*) To improve the operating standards of its members and to promote the best interests of the small loans business and its customers.

(*b*) To bring to the attention of the supervising authority or other proper government officers infractions of laws applicable to the business and to assist such authorities in the enforcement of such laws.

(*c*) To promote general recognition of the truth that success of those engaged in the small loans business is primarily dependent on public confidence and good-will, which can be acquired and maintained only through sound operating policies, efficient service and fair dealing.

(*d*) To maintain the small loans business as a constructive agency in community life, affording considerate and responsible sources of cash credit for worthy borrowers in accordance with the Small Loans Act, 1939, of the Dominion of Canada.

(*e*) To encourage and maintain truthfulness in advertising and promote policies calculated to cultivate an increasing public confidence in the small loans business.

(*f*) To assist in familiarizing Canadian families with the benefits to be derived from sound management and intelligent use of the family income.

(*g*) To encourage all members to cooperate with Better Business Bureaux, Chambers of Commerce, Boards of Trade, Welfare Societies and other public service agencies striving to improve economic and social conditions.

(*h*) To compile and make available and disseminate information relating to the business as a whole for the use of its members, legislative committees, and the general public.

ARTICLE IX—CODE OF ETHICS AND BUSINESS STANDARDS

(*a*) Members will explain fully to customers the actual cost, terms and contractual obligations of loan transactions.

(*b*) Members will use in all loan transactions written instruments worded in as simple, lucid, and unambiguous language as circumstances will permit and will draw such instruments with a view to the bona fide application of these standards of business conduct.

(*c*) No member shall take any note, promise to pay, or security that does not accurately disclose the actual amount of the loan, the time for which it is made and the agreed rate of charge, nor any instrument in which blanks are left to be filled in after execution.

(*d*) Every member shall, if so requested by the borrower, deliver to the borrower at the time any loan is made, an exact copy of any note, loan contract, chattel mortgage, lien agreement or wage assignment, signed by the borrower.

(*e*) Every member shall give to the borrower on demand a plain and complete receipt for all payments made, specifying the amount applied to loan charges and the amount, if any, applied to principal, and stating the unpaid principal balance, if any, of such loan.

(*f*) Upon repayment by a borrower of his indebtedness in full, every member shall mark indelibly such evidence of indebtedness signed by the borrower with the word "paid" or "cancelled", restore any pledge, return any note or loan contract or assignment given to the member by the borrower and upon request release any mortgage.

(*g*) Every member shall display in each place of business a full and accurate schedule of the charges to be made and the method of computing same.

(*h*) Members will endeavour to transact all business in such manner as to merit the respect and confidence of customers and the public.

(*i*) Members will avoid unduly harsh or oppressive collection methods and except in very special cases will resort to legal process for collection only in the event of misrepresentation, fraud, or refusal to comply with the terms of the contract.

(*j*) Members will adhere to the generally accepted standards of business deportment in competitive relations, in advertising, and in their dealings with the public.

(*k*) The members agree to take advantage of opportunities to explain the small loans business frankly and fearlessly to the general public, business men, public officials, the press, legislators and others who create public opinion.

Those are the two sections of the by-laws of the association which I think are most appropriate to the question that was asked.

By Mr. Fulton:

Q. I think I asked you at the conclusion of Thursday night's meeting about your code of discipline; I was particularly interested in your method of enforcement and I understood you to say that in the case of any infraction of that code, which I presume relates particularly to sections eight and nine, which is brought to your attention the association would cancel the membership of the offending company. Is there any other step that your association has taken or would take in the case of a particularly flagrant breach of this code of ethics?—A. Under the terms of the act as it is now we have never officially had brought to our attention any breach of the law or of our code of ethics, no matter how strongly we might wish to interpret them. Recently, I believe I mentioned, we have had drawn to our attention some practices of which we certainly do not approve but which have taken place outside the terms of the act, and so we are in the process at the moment of amending our by-laws so that we may take exactly the same action with regard to a member whom we have found to have committed a breach of even good judgment and common decent practice outside the act as it stands now as in the case of one within the act. If a breach under the act or of business ethics takes place now, that is, within the act, the procedure is quite clear-cut, namely to expel that member. And I can assure you that we would, certainly, if there were any act which we considered outside the law, report that situation to the proper authority. I can think of three or four cases in the last five years where usurious practices have come to our notice, by non-licensees —people who are therefore not members of our association. The most recent one happened as late as a month ago, and that is why I am familiar with the circumstances. We reported to the Superintendent of Insurance an illegal lender operating in the city of Montreat who was actually making loans in the field below $500. We gathered as much information as we were able to gather and immediately passed it on to the Superintendent of Insurance. Of course, on the other side of the ledger we have never actually been informed by the Superintendent of any situation where possibly a practice, though not outside the law, was a questionable practice and where, possibly, we might be able to influence that member or non-member to change his standard of operating.

Q. I do not want to suggest that your association should assume an obligation which legally it is not within its competence to assume and which in terms of practicability might lie beyond your power, but I was wondering whether, in the case of a violation of your code of ethics which your board of directors felt was a pretty bad business, you would take any other action besides expulsion or the cancellation of membership. I will be frank with you: cancellation of membership might not become known to the mind of the borrowing public; would you consider such a step as advertising or publishing the fact that an individual or a company, because of past conduct, was no longer a member of your association? Would you be able to answer the question as to whether your association would extend disciplinary action in this manner?—A. My opinion is that it would be a very practical approach, but I would certainly feel better if I could refer it to our legal advisor. As I mentioned before, such a situation has not occurred yet, and the situation we are considering at the moment is actually outside the scope of our association's activities. My first approach would be, as I have said, to expel the member, and certainly if there were any violation which would come under the regulatory powers of the Superintendent of Insurance we would not hesitate for one minute to report the situation to him. The point you have brought up is a very interesting one, and in our desire to clean up unsavory practices within the industry it is one we would like to consider.

Q. But you are not in a position to give us a definite answer now? It is something which has not arisen?—A. It has not happened, and such a thing is at the moment not covered by our by-laws.

Mr. KNIGHT: When you say it has not happened, do I assume that no such loss of membership or licence has occurred in recent history?

The CHAIRMAN: Loss of membership? They do not issue licences.

The WITNESS: That is right. I am told we did have one such case three or four years ago.

By Mr. Knight:

Q. As the result of disciplinary action taken by you?—A. By the association.

By Mr. Cameron (Nanaimo):

Q. Mr. Cawker, what privileges and advantages would a member of your association be deprived of if he were expelled from the association? I am trying to find out what would be the consequence of an expulsion.—A. It is rather peculiar, Mr. Cameron, when people start to misbehave, the word seems to get around; I certainly think that it gets around more quickly within the industry itself. I think that the privileges of this association have mainly to do with the continuing campaign which we have been waging, in the twenty-one years I have been exposed to the business, for better public acceptance and a better approach to operating standards. Then, of course, as I mentioned to Mr. Fulton, if there is a breach of the act itself I can assure you that we would have absolutely no hesitation in reporting that situation to the Superintendent of Insurance; in fact we would assist, as we have in the past, in gathering the information which we would need to take whatever disciplinary action he is empowered to take.

Q. I had in mind not actual illegal acts but possibly shady or off colour acts. Did I understand you to say that there is no definite disadvantage which would be incurred by a company except a bad name which would creep around through the industry? For instance, you do not have anything in the way of a central list of bad risks by which you warn your members·—A. No. Do you mean bad lending risks?

Q. If one company has had a bad experience with an individual, is his name kept on a list and passed on to others?—A. No.

Q. And there is nothing in the way of a penalty which you can apply?—A. I can only answer that by saying, on the basis of my twenty-one years' experience, eleven of which have been in operating my own business, that I have found that the advantage, not only through the basis on which I deal with the public, is that, after all, we end up with successful operations. Over my twenty-one years' experience I feel that they are not indefinite advantages; I feel that they are very tangible and definite advantages. We are not a policing organization, only to the point that there is an act; and Mr. MacGregor himself has told you that actually the complaints which occur under the act itself are so negligible that I believe he hesitated to put a figure on them based either on the period of the last year or the last ten years. My own experience in the business would support his view, that the violations under the act itself have been negligible.

Q. I well believe that. We have a fairly active police force in this country. But I wonder just how rapidly the bad name of a company gets spread around. I have here a copy of the publication of the United Automobile Workers of America, published at Brampton, Ontario, in which there is a story which gives names, dates and places, concerning a particular loan company and its victim, in which this company is charged—the name is here and the

date—with having impersonated the Unemployment Insurance Commission in order to gather information about one of its customers, with having taken the security for which this man was indebted—$350, and, according to their own statement, they sold it for $30—and finally of having used a so-called consumers' survey for which a bonus of 10 cents was paid, and this rather simple-minded man filled it in and gave all the particulars which the company wished. This was a method of collecting it. The man does not attempt to deny that he owed the money; he was laid off shortly after he undertook this obligation. Promptly, his security was taken over by the company, and as soon as he got a job, within about two months, a garnishee was put on his wages of $70 for the first cheque, and again a garnishee for the second cheque, despite the fact that in that particular part of Ontario it is well known that if there are two garnishees an employee loses his job. This is dated April 11th of this year. That is quite a long time ago. You say that a bad name gets around; but I still see this company's signs everywhere I go—they are still in business. Now, what is your association's attitude towards that sort of practice? And, if these charges are not true, I wonder why it is that the company, which is one of the largest in Canada and is named here in this article, has not taken steps in the way of legal action against this paper?

Mr. HOLLINGWORTH: What company is it?

Mr. CAMERON (*Nanaimo*): Personal Finance Company. I do not know whether or not the charges are true. However, it was about three months ago; this is a widely distributed publication which goes to thousands of members which I think would have come to the attention of that company, and, I would have thought, to your association.

Mr. FOLLWELL: What publication is it?

Mr. CAMERON (*Nanaimo*): "The Guardian," a publication of the United Automobile Workers Union.

The WITNESS: Are you asking me a question?

By Mr. Cameron (Nanamio):

Q. Yes. What sort of control have you over your members, when apparently this type of thing can take place, because I see that no action has been taken?—A. You have not read the article, Mr. Cameron, so I do not know the whole story. Mind you, if all these horrible tales which you recite here are true, I am amazed that there has not been some legal action taken. But you have asked me for my comment. I will not labour the fact that I have had some experience in the business and that I have also had the privilege of operating two credit bureaus. However, my first reaction would be, if impersonation of an Unemployment Insurance Commission representative were needed in order to obtain information, that the borrower in question must have been a pretty swift operator on his feet.

Now, this is one case. Possibly I could answer you with something a little more general. This is a letter addressed to my branch office in Oshawa—and I know there are some others in existence—from the United Automobile Workers of America, local 222:

> Dear Sir:
>
> May I take this opportunity in extending a thank you for the realistic and considerate attitude shown to the striking members of local 222 during our long ordeal with General Motors of Canada.
>
> Now that we have effected an honourable settlement let us hope we can once again enjoy our normal way of living and resume our obligations in so far as picking up our present and past monthly payments.

Being the one who appealed to you for extensions I feel obligated at this time to make known that our boys have assured me that within a reasonably short time they would do their utmost to take care of all arrears, and in so doing, place their accounts in the healthy position they were prior to our strike.

I also promise, that whenever possible we will remind our members of your fine gesture and consideration and hope that your company continues to serve our community in the same good relationship as in the past.

Respectfully yours,

(Signed) Howard J. Wood,
Chairman,
Shelter and Utilities Committee,
Local 222, UAW-CIO.

Q. That is addressed to you in what capacity?—A. It is addressed to our branch manager in Oshawa.

Q. Of your company?—A. Yes, sir. Now, I read that to you simply because you have mentioned a situation here which I think is evidence of possibly a young inexperienced man who has been just a little bit too eager to do a job. I do repeat to you, in all justice, that I think when a man is laid off—I did not get the particulars as far as this person's employment was concerned—I have not, in my experience, found a situation, certainly not in the last eleven years, where a man is temporarily laid off, or even laid off —to make it more definite—who comes in and tells us the story, that he has not had every consideration. I think possibly this letter is an indication of that. But there might be the case of a man who possibly in his lack of wisdom acts in a certain way—I agree, and that is why I get back to the benefits of public information. And if the man takes the attitude that he wants to hide and ignore the company, then possibly some young inexperienced man is going to take steps which might be considered indiscreet. I deal later on in the brief with the problems of personnel and training of personnel.

Q. It is not true that he tried to run away. He became unemployed, eventually started working at Duplate in February, and told everyone, including the loan company, that he would do his best to pay them all off as soon as he could.—A. I thought you said they had to use the Unemployment Insurance Commission.

Q. Yes. They had been pursuing him.

The CHAIRMAN: This is a specific case you are giving, as put forward in the United Automobile Workers Union publication; whether it is true, we do not know.

Mr. CAMERON (*Nanaimo*): But the point is that this has appeared in the public press, and has been there for some time and no action has been taken.

The CHAIRMAN: Are we going to deal with every specific case which a member can bring up?

Mr. CAMERON (*Nanaimo*): I think that it might be well to deal with a specific case which indicates what control Mr. Cawker's association has, if any, over the members of his association.

The CHAIRMAN: He told you that the only control which they have is to expel a member; that is the only action. I do not see that by labouring this specific case we will get any further ahead. If you want to labour it, go ahead.

Mr. MACNAUGHTON: Why do you not produce the paper and file it?

Mr. CAMERON (*Nanaimo*): I would be glad to. Do you wish to put it in the record? I will move that this particular article be included in the record.

The CHAIRMAN: You have read it, have you not?

Mr. CAMERON (*Nanaimo*): No. I move that this article "I'm Hooked by Finance Company", published in "The Guardian" of Wednesday, April 11, 1956, be printed in the proceedings of the committee.

Mr. REGIER: I second the motion.

The CHAIRMAN: If we print that, which may or may not be true, we have no option but to go into it and call the Personal Finance people to find out the truth of it. I do not see how we can be fair to any or both groups unless we hear both sides.

Mr. CAMERON (*Nanaimo*): Mr. Macnaughton suggested that we file it.

Mr. MACNAUGHTON: File it, but not print it.

Mr. CAMERON (*Nanaimo*): What do you mean by "file it"?

Mr. MACNAUGHTON: We can read what you have told us about it and check up on you.

Mr. KNIGHT: It is already in the record.

The CHAIRMAN: I can also point out that anything which Mr. Cameron read from that article is in the record; but I do not see any point in having a thing like that printed without hearing both sides of the case.

Mr. CAMERON (*Nanaimo*): I thought that Mr. Macnaughton wanted to have a permanent record of it.

Mr. MACNAUGHTON: I just wanted the evidence of what you have been telling us, because I have not seen the article yet.

Mr. CAMERON (*Nanaimo*): Here it is. You may read it.

Mr. MACNAUGHTON: Thank you.

The CHAIRMAN: Will the witness please carry on now with his brief.

The WITNESS:

LEGISLATIVE STUDIES

After various parliamentary studies of private bills dealing with small sum lending, from 1936 to 1938, the Banking and Commerce Committee of the House of Commons in 1938 was directed to "enquire into the practices of individuals, partnerships and companies making loans on personal security and to consider the maximum rate of interest and charges which should be permitted for such loans".

Evidence given before the committee established the following:—

1. Our modern economy creates the need for this type of loan to wage earners and salaried people.

2. This need will be met either by legal and supervised agencies or by illegal lenders at unregulated rates.

3. Chartered banks and credit unions do not meet the need to the extent that it exists.

4. The interest rate of 12 per cent per annum permitted under the Money Lenders Act would not allow a commercial enterprise to meet the cost of making and servicing such loans and at the same time show a reasonable profit.

5. If legal, supervised agencies are to satisfy this demand, the permitted maximum charge to cover every element of cost of such loans must be high enough to enable efficient management to meet the cost of making, servicing and collecting such loans and earn sufficient profit to attract an adequate supply of capital.

This last point was emphasized by experience in some of the United States, notably New Jersey, Virginia and West Virginia. Rates there had been established after exhaustive enquiry and when subsequent laws reduced rates below the level necessary to produce a fair return to the lender, the supply of licensed capital rapidly decreased. The result was a return of high rate, illegal loans in considerable volume.

Such a result would fall far short of serving the borrower's best interest, for a legal rate at which money is not available is of no value to people who need loans. The 1938 committee reported that a maximum rate fixed by law amounts to an injunction that if people cannot borrow at the prescribed rate, they cannot borrow at all. Experience has shown that such an injunction cannot be enforced. People in need of cash will borrow at illegal rates if they cannot find a lender willing to lend within the legal maximum.

The report of the 1938 Banking and Commerce Committee of the House of Commons is attached for reference purposes. In every respect except the loan ceiling and the maximum rate, the report remains as applicable today as it was at that time.

The CHAIRMAN: That is the end of a section of the brief. Are there any questions?

By Mr. Henderson:

Q. You quoted from the evidence given before the Banking and Commerce Committee of 1938 and in paragraph 1 on page 2 you adopted this part of the evidence:

> 1. Our modern economy creates the need for this type of loan to wage earners and salaried people.

First of all I would like to ask you this question: do you personally, in this business, agree with that paragraph?—A. I do not think there is any question, in view of the number of loans made last year and the volume of business which I think at the moment amounts to 12 or 13 per cent of the total of consumer credit outstanding. It would only indicate that our modern economy does create the need for this type of loan to wage earners and salaried people. We recognize that credit unions serve a very important function where their members are concerned, and we have had it asked here why our customers did not go to the banks to borrow money?

I think the answer to that question is quite obvious; so that, with the trend, when you ask me for my personal opinion, it is my personal opinion that people should be free, and that they should be entitled to involve themselves for a reasonable period of time for things which contribute to their standard of living and which they can enjoy today.

Q. Looking at this more objectively, do you in any way feel that the people of Canada are going too far in that direction in making use of these loans, and is there any guard or guide that your organization or your company provides to prevent people from borrowing money who should not do so, because sometimes people need a little guidance? Do you have any services or guide that you provide in order to prevent an over-extension of borrowing?—A. Well, Mr. Henderson, that in effect asks an opinion as to the wisdom of the Canadian people in the expansion of consumer credit that is going on today. Do I interpret your question correctly?

Q. If I might interrupt, I am sorry, but what I was referring to, and what caused me to ask you is this: when Mr. MacGregor was giving his evidence, in the second paragraph on page 19 of his statement he said:

> The evidence is mounting that borrowers are getting deeper and deeper into debt rather than attaining solvency through loans. No

doubt the current trend is part of the ever-growing practice, even in good economic times, of buying on the instalment plan or spending against the future beyond prudent limits. In other words, mismanagement of personal finances rather than misfortune would seem to underly a great proportion of the loans made.

You are in the business and you have had some experience of what Mr. Cameron was talking about, where I thought the loan companies were a little too rough on somebody who had borrowed, and it ran in my mind whether they should or should not have taken this loan in the first place. Now, I would like to hear your opinion, when you mention that our modern economy creates the need for this type of loan to wage earners and salaried people, in view of Mr. MacGregor's statement that perhaps we are going beyond prudent limits, and that it was mismanagement of personal finances rather than misfortune which seemed to underly a great proportion of the loans made.—A. I would say, very frankly, that this is Mr. MacGregor's personal opinion, because the facts contained in table 7 on page 14 of our brief which we shall be considering in due course would give no such indication to us. I feel this way, and I think it is held pretty well by the membership of our association, since we are, on page 19 of Mr. MacGregor's brief, and I think they represent a very substantial portion of our industry. But I would be something less than loyal, I think, to the people with whom we do business, the Canadian people generally, if I did not say that I think this is a terrible indictment of the intelligence of the Canadian people.

We find, by and large, and of course we can always out of the 860 and some odd thousand transactions in the year—we can always find in just one—or more than one something which has unfortunate aftermaths. But the figures do prove that the Canadian family, generally speaking, takes a well planned approach to involving itself in short or long term obligations. I find that due to the opportunity to look at the payments and look at the rates—not the interest—they hear about that on the radio; they come into our offices and they know how much they can afford to pay per month, and generally it is a pretty well planned family business.

The government, for instance, can finance its future out of taxes to be collected; business can borrow on the productivity and the prospects of business in the years to come; and I think that within prudent limits it is only fair that the Canadian family is also entitled to borrow.

I submit to this committee that when we get to table 7 on page 14, you will find we keep a rather careful record of the relationship of borrowing to the credit extended to family income and to the disposal of that income. Therefore I can only disagree with any suggestion that the Canadian people are increasing their debt more due to mismanagement than to misfortune.

Q. May I ask one more question. It is suggested that the decrease should follow factors which we must take into consideration, such as the risk factor. You have had some experience abroad and I would like to hear your opinion as to the comparative risk of Canadian borrowers, on the average, with borrowers outside of this country. In other words, are we good risks or bad risks in Canada?—A. I think there can be only one answer to that question. I think that the Canadian people are good risks.

By Mr. Hollingworth:

Q. What percentage of the people borrowing from you realize that they are paying 24 per cent interest per year? What percentage of people borrowing from the different finance companies realize that they are paying 24 per cent interest per year? Do you tell them that or not?—A. Well, Mr. Hollingworth, really, I do not know that we need to tell them. There has been a rather

broad coverage in the press lately, I would say, concerning the rate that we charge. It might also be interesting to mention here that not only is the figure of 24 per cent mentioned, but it is blown up a little bit; I have even seen 26 per cent. I have, however, seen advertisements in the press where the interest would indicate that it is 24 per cent per annum, and of course that is to the lender, and it certainly has been well taken care of in recent weeks, and in addition to that all our documents show the per month and per annum rates.

By Mr. Knight:

Q. For information, you say that all your documents show the rates and the cost of the loan per annum?—A. Per month and per annum.

Q. Do your documents show the rate per cent per annum and the cost of the loan?—A. Yes, they do.

Q. And your advertising?—A. It is not in any finer print than anything in the rest of the document. There is an assumption here that I would like to clear up, that people walk into our offices and blindly say "I want $100 or $200 or $500", and that they have absolutely no regard for what it costs them. That just is not the case.

By Mr. Hollingworth:

Q. I suppose when people come in you explain to them what their monthly payment is going to be; you stress that aspect of it rather than the interest; you do not bother about the interest particularly. Their main concern, I presume, is in what their payments are going to be.—A. We have found—and this is general practice—that it is better to have a complete discussion with the borrower about the rate he is paying and what will happen, for instance, if perhaps the loan is prepaid, and how the charge will be computed. I have seen misunderstandings occur, let us say, when at the end of three months the borrower writes in to say that he finds that he can hardly understand the charge. Therefore you have to go into the business of explaining how the charge is based on the unpaid principal balance each month, and why the payment is made, so that, just by way of good business practice, we have found—and this is pretty general throughout the industry—that it is much simpler to have the rates discussed at the very beginning of the transaction. Moreover the rate will appear in two places, on the promisory note and on the chattel mortgage which, generally speaking, accompanies it.

By Mr. Knight:

Q. Mr. Cawker, you have said that your documents say that. You have now just explained what those documents are. I was very pleased to hear you say that you go into it with the prospective customer before, and not three months after, he gets the loan. I am now going to ask you this: if you think there should be given the widest possible publicity to the actual amount of the loan, both for the benefit of the customer and the general public, why is it that loan companies, advertisements do not—and I have never yet seen one of them declare it—the amount in terms of rate percentage per annum of the cost of a loan? That is my first question. The second question is: you said that in certain places you had seen suggestions of 26 per cent. Would you tell me, because I am quite sure you know to a decimal point, what is the actual way of stating a loan of 2 per cent per month in terms of percentage per annum?—A. It is 24 per cent per annum.

Q. Exactly?—A. I believe it is exactly.

Q. I think you had better check that.—A. Possibly—

Mr. K. R. MacGregor (*Superintendent of Insurance*): It is 26·8 per cent. Was that your question?

Mr. CAWKER: I was asking your confirmation of my statement that 2 per cent per month is 24 per cent per annum to the borrower.

Mr. MACGREGOR: Loan contracts usually state that the rate is 24 per cent per annum payable monthly. The effective annual rate is 26·8 per cent.

By Mr. Knight:

Q. That is the question I wanted to bring up.—A. Yes. But, I was assuming here that we were discussing the rate, which in all our documents, is predicated upon a percentage per month on the basis of monthly payments. I mean, under the act itself we cannot—it calls for regular monthly payments, equal monthly payments.

Q. I am only interested, Mr. Cawker, in the percentage per annum which the customer has to pay. If, as you have stated, it is in your interest and the public interest that the complete rate should be known, then my question to you is: why not show in the advertisements of the small loans companies the amount of the cost to the borrower stated in those particular terms?—A. I think, possibly, with the committee's permission—the vice-president of the association is with me and I think he is possibly a little more agile in the field of advertising; that is his vocation. With your permission, I would like to have him answer that, Mr. Chairman.

Mr. OAKES: In the first place Mr. Knight, we have no objection to your suggestion. We considered it at the time that the bill was introduced. We have no objection to stating the rate percentage per month, or per annum. But you realize that, in general advertising principles, and advertising copy, you seek to indicate to the possible customer where he can obtain service and the type of service that is obtainable. We try to restrict our advertising, simply for economy of copy, to the basic facts which bring people to our office, at which time we have this discussion which Mr. Cawker mentions. The customer seeking a loan needs to be directed. I am not saying it is the same principle, but possibly the Ford Motor Company does not go into the details of the differential in their advertising. People want to know first about the automobile. They can go into the mechanics of it when they arrive a the showroom. So we have no real objection to that.

Mr. Knight: If you have no objection, might I ask this question: why is it not done? I am not clear on that. Is it to save space in advertising, is that what you said?

Mr. OAKES: To make the principal points known to the potential customer.

Mr. KNIGHT: Mr. Cawker has already stated that a statement of the rate of interest is one of the basic things that ought to be known by the customer before he makes a loan, or before he comes in. I ask this one more question: do you consider that a statement of the amount of interest in terms of percentage per annum, which we have been told by Mr. MacGregor is something over 26 per cent—do you consider that such advertising would be detrimental to the amount of business that you would do in any given period or do you think it would help?

Mr. OAKES: I did not say it would help, I said it would not be detrimental.

Mr. KNIGHT: You say you have no objection to having it appear?

Mr. OAKES: No, sir.

Mr. KNIGHT: Then may we look for it to appear in future advertisements, in some cases?

Mr. OAKES: We will continue to take the advice of our copy people, Mr. Knight, on that subject.

The CHAIRMAN: Mr. Knight, have you ever known of an advertiser emphasizing anything but the good points in their advertising? Have you ever seen the Goodyear Tire Company say at the end of their advertising: "But, of course, this tire will wear out"?

Mr. KNIGHT: Mr. Chairman, you have asked me a question and I am going to answer it. The reason I asked that question was because Mr. Cawker emphasized that he considered it was in the interest of the members of his association that the borrower should be properly informed before the loan was made as to the exact amount that the loan was going to cost—hence my question.

Mr. FAIREY: Mr. Chairman, 2 per cent per month on the unpaid balance surely does not work out at 24 per cent per annum—not on the unpaid balance, if the loan is repaid by equal monthly payments? What does that work out at?

The WITNESS: May I refer that question to the statistical people? I think they would do a much more able job than I would, Mr. Fairey. Would Mr. Heiman, if you please, answer that question?

Mr. FULTON: Who is Mr. Heiman?

The WITNESS: I am sorry. Mr. Heiman is the statistician connected with the Personal Finance Company, one of the members of our association. I am anything but a statistician, and I have asked them to back me up on questions of this kind.

Mr. FULTON: Thank you.

Mr. HEIMAN: This whole concept of rate is not an easy one. We refer to 2 per cent per month, 24 per cent per annum, and 26·2 per cent per annum. I think, boiling it down to its simplest terms, we could take a $100 loan as an illustration, on which the rate is 2 per cent per month, repaid in twelve monthly instalments. The actual cost to the borrower, if he paid that on the due date in each and every one of the twelve months, is $13.46—that is the total cost. So what we do, we speak of 24 per cent per annum. We cannot speak of it in terms of the original amount of the loan. The 24 per cent is the effective rate based on the average unpaid balance that this borrower has throughout the life of the contract. It works out somewhere around —at this roughly 53 or 54. That is where you get this 24 per cent, by dividing $13.46, the total charge, by the average unpaid balance. I think that answers your question.

Now, so far as the actual payment is concerned, he pays only $13.52. To get to the question of the 26·8 per cent rate, actually 2 per cent per month as the nominal rate would work out at 24 per cent per year; with that, no one can quarrel. I think that when Mr. MacGregor says it is 26·8 per cent he is introducing an element of compounding—in other words what he is assuming is that the lender, immediately upon receipt of the interest, reinvests that full amount of interest in a new loan or part of a new loan. That, I know from our experience has been a thing that was done in the past, but we do not expect it much any more.

When we get into a compounded rate I do not think we can overlook the fact that as a dollar of the interest is received a good part of that dollar goes for expenses such as rent, salaries, advertising, telephones, travel, and so on, and cannot be reinvested in full; only a very small part of it can be reinvested. So, even if you ascribe to the compounding theory it would work out to very much less than 26·8 per cent—it would probably be 24·000 something per cent. It would be very small at best. That, Mr. Chairman—

Mr. FAIREY: Do I understand you to say now that the rate of 24 per cent, or 26 per cent, or whatever it is, is the return to the company, but the borrower actually pays 13·46 per cent ?

Some Hon. MEMBERS: No.

Mr. CAMERON (*Nanaimo*): He pays $13.46 all together?

Mr. HEIMAN: That is correct.

Mr. KNIGHT: He actually only has the use of the money for six months.

Mr. HEIMAN: He uses an average balance for 12 months of $53.

Mr. CAMERON (*Nanaimo*): So it is 26·8 per cent?

Mr. HEIMAN: I did not say that. It is 26·8 per cent if you assume—and that is not, of course, what they are going—that they are compounding. A borrower only pays 24 per cent. If you assume full compounding and full reinvestment of each dollar of income every month, the moment it is received then you could say that the lender in effect is getting 26·8 per cent, but the borrower still pays an equivalent of 24 per cent on the unpaid balance.

Mr. CAMERON (*Nanaimo*): If I may take the words you said a few moments ago—you said that this $100 loan was in fact, as far as the borrower was concerned, at an average of $50 a month for the 12 months.

Mr. HEIMAN: I said $52 ou $53.

Mr. CAMERON (*Nanaimo*): And on that a borrower pays a total of $13.46?

Mr. HEIMAN: That is right.

Mr. CAMERON (*Nanaimo*): Then I submit that $13.46 on an average loan of $50 —

Mr. HEIMAN: Mr. Cameron, may I intervene for one moment to clarify that? I can figure out the average balance for you exactly—a dollar or two will make a tremendous difference one way or the other. If you figure it on the average balance, each and every month; if you divide one into the other, it will be 24 per cent—it cannot be anything but that. The 26·8 per cent rate is only obtained—and I think that is true, Mr. MacGregor—on a compounded arrangement.

Mr. MACGREGOR: I would have to differ from you in some respects.

Mr. CAMERON (*Nanaimo*): I wonder if we might hear Mr. MacGregor's explanation of how he reached the figure of 26·8 per cent?

Mr. FULTON: Did I understand you to say, Mr. Heiman, that a borrower taking out a $100 loan would pay $13.46 a month, for 12 months?

Mr. HEIMAN: No, in total. That is the total cost for 12 months.

Mr. FULTON: For a $50 loan or $100 loan?

Mr. HEIMAN: For $100. The cost of a $50 loan would be just half of that, payable on monthly instalments.

Mr. FULTON: It would cost $13.46.

Mr. HEIMAN: That is correct, if paid on time.

Mr. REGIER: Mr. Heiman you say, if I understand you rightly, that the difference between your figure of 24 per cent and Mr. MacGregor's figure of 26·8 per cent arises because Mr. MacGregor was assuming that the company's money was available for investment the moment it was received?

Mr. HEIMAN: I presume that is accurate; I have not seen Mr. MacGregor's computation.

Mr. REGIER: We might hear from Mr. MacGregor on that very point. However, you said that it was not available for reinvestment. I have here a statement by at least one company which operates on a paid-up capital of

$38,000 but which has a bank overdraft of $249,000 which indicates that not only is their interest dollar immediately made use of but that it is made use of but that it is made use of in advance of receipt.

Mr. HEIMAN: I do not understand—the $249,000—what was that?

Mr. REGIER: It is the Merchant's Finance, which has a paid-up capital of $38,100, and they have a bank over-draft of $249,680.68, which is a sound business proposition.

Mr. HEIMAN: I do not see that that has anything to do with the interest; that is the same as borrowing from the bank to finance the business. I am talking about the dollar of interest received from the borrower, but I say again, it is virtually impossible for the lender to invest that borrower's dollar the moment he receives it; he has his out-of-pocket expenses to pay, as I mentioned before.

Mr. REGIER: All right. Will you agree, Mr. Heiman, that if their net earnings are one third of their receipts that at least one third of the dollar is immediately reinvested?

Mr. HEIMAN: I could not say it would be immediately reinvested. I do not know. It would seem to me he could have to have a borrower at his door every minute to do that.

Mr. CAMERON (*Nanaimo*): Are you suggesting that your company, for instance, has money piling up to any large extent without borrowers being available—that the money is lying idle?

Mr. HEIMAN: No, sir. Business is good, thank goodness, right now.

Mr. CAMERON (*Nanaimo*): Mr. Cawker told us when he was last before the committee that the companies were experiencing great difficulty in finding money to lend to customers.

The WITNESS: American companies?

Mr. FAIREY: We asked Mr. Heiman to illustrate a specific point. I suggest we proceed.

Mr. CAMERON (*Nanaimo*): I think before we do that, in fairness to Mr. MacGregor, who said he differed from Mr. Heiman, he should be given an opportunity to explain the basis on which he arrived at his figures of 26·8 per cent.

The CHAIRMAN: Perhaps you would care to do that, Mr. MacGregor.

Mr. MACGREGOR: Where the lender operates on the basis of a charge of 2 per cent a month the borrower pays over to the lender interest on the outstanding balance of the loan at the rate of 2 per cent per month. The corresponding nominal rate per year is of course 12 times that or 24 per cent per year. But from the borrower's point of view he pays his 2 per cent per month every month. It is true the lender may not reinvest it but that is not the borrower's fault; the borrower pays his 2 per cent on the outstanding balance regularly each month, and if the lender does reinvest it immediately, the effective annual rate is 26·8 per cent. That is about all there is to the story.

Mr. FULTON: Is the difference this, Mr. MacGregor, that one rate is arrived at by calculating the return on the money to the lender, and the other is arrived at by calculating the cost of the money to the borrower?

Mr. MACGREGOR: Yes, in a sense, but from the borrower's point of view if he pays it every month the monies are beyond his grasp; then it is up to the lender to reinvest promptly if he can.

Mr. FULTON: Quite. I want to be fair to both points of view. I do not want to "load" my question—please elaborate on it if I am "loading" it—but what I want to know is exactly what does it cost the borrower?

Mr. MacGregor: It costs the borrower 2 per cent per month, and since he pays his interest monthly on the outstanding balance the effective annual rate corresponding to a monthly charge of 2 per cent is 26·8 per cent.

Mr. Fulton: Am I correct in interpreting your answer as being that it costs the borrower 26·8 per cent per annum?

Mr. MacGregor: At that rate, taking into account the interest he pays and the times at which he pays it over,—which is monthly on the outstanding balance.

Mr. Cameron (*Nanaimo*): And that is so regardless of whether the loan company collects the money or not?

Mr. MacGregor: That is quite right.

Mr. Monteith: It is true, then, that these companies have not been living up to the sections of the act under which it is required that only 2 per cent per month be charged?

Mr. MacGregor: They have lived up to those requirements. Most of them have operated on the basis of a maximum monthly rate of 2 per cent.

Mr. Monteith: And you intimate that a rate of 2 per cent per month on a reducing balance does work out to a rate of 26 point something per cent?

Mr. MacGregor: That is the corresponding effective annual rate. The monthly instalments a borrower pays are determined on the basis of a monthly rate of 2 per cent.

Mr. Regier: Is it correct, Mr. MacGregor, to assume that if the borrower made monthly payments and was credited on the principal with the full amount of each monthly payment, and then at the end, when he no longer owed anything, if he just asked how much his interest would be for that money on a monthly basis he would then be paying 24 per cent?

Mr. MacGregor: Well, the loans are not actually administered on that basis. The monthly installment is credited first to interest and only the remainder of the monthly installment is then credited against the outstanding balance.

Mr. Regier: It is the fact that he is actually prepaying interest before the expiry date of the principal of the loan that accounts for the 2·8 per cent?

Mr. MacGregor: He does not actually prepay it. He pays interest every month as it accrues. That is the first credit made from his installment.

By Mr. Fulton:

Q. Can somebody reproduce this in the form of a simple chart?—A. I think possibly that might be well here because reference to the gross charges collected by the industry to the average outstanding balance will show that the companies collect about 23 per cent. Now, theories are one thing; facts are another. I am not a theorist and I am not a statistician, but I can reduce gross income to average outstandings and very simply find that the industry realizes 23 per cent. That is the general over-all picture.

Q. Is that taking into account losses and uncollectables? What I would like is for somebody to put in the form of a simple graph something which would show the difference between the 26·8 per cent and the 24 per cent per annum.

By Mr. White (Hastings-Frontenac):

Q. When you mentioned 2 per cent, is that all the borrower pays, or are there any other charges or services for which he pays?—A. No. That is covered quite specifically in the act. That is an all-inclusive charge.

Q. Does he pay for registering the chattel mortgage?—A. No, sir, he does not.

By Mr. Henderson:

Q. Do you furnish him with a discharge to the chattel mortgage at no expense to him?—A. If it is requested, yes, and if it is registered.

The CHAIRMAN: Are there any further questions on this part?

By Mr. Fleming:

Q. You say "if it is registered". Are you referring to the chattel mortgage or to the discharge?—A. The chattel mortgage. It is a matter of company policy. In all cases they do not register. There are different situations in which company policy dictates that they will register; it varies through the companies.

Q. They will furnish to the borrower a discharge of his chattel mortgage on request without a charge to him?—A. Yes, sir.

By Mr. Henderson:

Q. Would it be a good piece of public relations and a good piece of business to send them a discharge of a chattel mortgage without them having to ask for it? It causes a good deal of trouble when a person is looking into the titles of personal property.—A. Mr. Henderson, I will not speak for the one American company where I received my early training as of this moment, but at this time when I was employed by them it was a practice. It is a policy which I have maintained, and I know that quite a few of at least the Canadian companies do follow that practice, because it gives us an opportunity to express to the borrower our appreciation of the way in which he has handled his account. It is just good business to return the chattel mortgage and to express our appreciation for a piece of business well conducted.

Q. I think, looking at it from the point of view of the borrower, and also those who look after his affairs, that it might be a good practice if all Canadian companies would follow that practice, because, generally, when you ask to have them turned up I would say that that company spends more money doing that, and wastes time. At the same time, when the borrower receives it, it certainly makes him feel better, I am sure. I would certainly recommend that policy to all companies.—A. Yes. In the by-laws of our association we encourage that. We do not feel that it is something which we can dictate to the membership; but, in the code of ethics as I read them, I think you will recall that there was a reference to the return of documents to the borrower. As I say, it was a practice, I know, at one time with the Household Finance Corporation, as it is with a great many of the operating companies today. I think it is an excellent suggestion. Mr. Oakes tells me that it still is a practice with the Household Finance Corporation.

By Mr. White (Hastings-Frontenac):

Q. If a loan for a period of twelve months is paid off at the end of three, four, five or six months, what happens then as far as the interest is concerned? Does he have to pay some bonus?—A. No. He pays interest only up to the day the loan is paid off. That is also specifically covered in the 1939 act and in Bill 51.

Q. So that in no event would he pay more than the 23 per cent according to your figure?—A. Yes.

By Mr. Henderson:

Q. If I should be late a few days in my payments, do you adjust the interest up to that date?—A. Yes. Similarly, if you paid if three days ahead of time you would be credited with that.

By Mr. Fleming:

Q. On what basis do you adjust in the case of a payment three days late?—A. Well, the general policy in the industry is to use a calculator based on days and principal balance.

Q. Is it straight per diem prorating of the 2 per cent per month?—A. That is right. There are minor variations there covering, for instance, the month of February where the Department of Insurance have given up some guidance, and I think it is an excellent approach to the problem. There are some minor variations, but generally speaking it is per diem.

By Mr. Follwell:

Q. Mr. Chairman, may I ask one or two questions. On page 2, Mr. Cawker, in your brief in the third line you say:

> ... enquire into the practices of individuals, partnerships and companies making loans on personal security ...

What exactly do you mean by personal security?—A. The security we refer to there is the individual's character, stability and ability to repay, rather than tangible or, let us say, readily saleable security. In other words, while the security most frequently used, let us say, is, possibly, furniture, the record shows I think in the accounts of the department published annually that really the security boils down to the personal security, the intent and the ability.

Q. Are you indicating to the committee that you do make loans on a personal signature of guarantee to pay, or do you always require furniture?—A. Not always.

Q. Or television sets, automobiles, boats or anything?—A. No. There is quite a reasonable number of loans made on simply single signature with no tangible security of any kind. There is a much lesser number made, of course, on an endorsement basis.

Q. They would be made pretty much on the basis of the character of the borrower, probably after investigation, and ability to repay?—A. That is right.

Q. There is one thing bothering me which appears in your brief under the third item on page 2. You mention:

> Chartered banks and credit unions do not meet the need to the extent that it exists.

Why do people borrow from these small loans companies when they can borrow at what is probably lower cost from the banks and, particularly, the credit unions?—A. Of course, the credit unions, first of all, loan only to their members. In the case of the chartered banks I think it boils down to two specific points: the first point is that the charge which they are permitted to make for a personal loan, payable in instalments, is possibly not adequate. Secondly, I cannot speak as to the banks policy. People come to us because they cannot borrow, first, from the credit union, possibly because they do not belong to one, and, secondly, possibly because they cannot borrow from the bank.

Q. So you are indicating that if they have no other place from which to borrow they come to the small loans company?—A. That is right.

The CHAIRMAN: Are there any further questions on this section, gentlemen?

The WITNESS: There is one point, Mr. Chairman, since we have written the brief. I refer to the last paragraph, having reference to the states of New Jersey, Virginia and West Virginia. I would ask the committee to refer exactly what happened in those states while various experiments with rates were being carried on.

By Mr. Cameron (Nanaimo):

Q. I am just wondering if that is the evidence we are asking for. We had evidence given by Mr. MacGregor who, may I suggest with all respect, had a better opportunity to secure information from the United States than any private corporation would have. He is in touch with the departmental by opposite authorities in the United States; and it does seem to me that I thought that Mr. Cawker was going to read his brief without being interrupted.

The CHAIRMAN: I think that if there is something in the brief which Mr. Cawker feels should be extended, he should have the same privilege that Mr. MacGregor had. I do not see why he should be penalized if it is something relevant to our enquiry as to rates. Your suggestion is as to what happened in those three states?

The WITNESS: That is right.

The CHAIRMAN: Then I see no objection to it. I personally would be interested to hear what did happen.

The WITNESS: I will go through this very quickly. Dealing first with the state of New Jersey:

> The rate was reduced February 15, 1930 from 3 per cent to 1½ per cent per month on balances. Outstandings dropped from $20 million to $5·4 million by November 30, 1931. This reduction would have been even more severe had no tone large legal lender continued to make loans at 1½ per cent as an experiment at the request of state authorities. The need continued beyond this company's capacity to meet it and many borrowers resorted to illegal lenders. Affidavits from borrowers showed they were being charged up to 4000 per cent per year. Rate increased to 2½ per cent in 1932 which is the present maximum and illegal lending disappeared.
>
> In the case of West Virginia, in 1925 the rate was 3½ per cent to $300 ceiling. In 1929 the rate was reduced to 2 per cent per month. By January 1930, 23 illegal lenders were operating in the state, and the licensees had been reduced from 52 to 36, and in 1933 there were only 23 licensees.
>
> In 1933 the rate was 3½ per cent on the first $150 and 2½ per cent to $300 with no maximum maturity.
>
> During low rate period J. B. Easton, President of West Virginia Federation of Labour, wrote to state legislature as follows: You have not alone made it impossible for a man to borrow at 3½ per cent, but you have gone further. You have prevented him from borrowing at all, except through the 20 per cent per month loan shark".
>
> There is a letter here dated March 12, 1931 to the House of Delegates, Charleston, West Virginia from the Joint Legislative Board, West Virginia State Federation of Labour, Brotherhood of Locomotive Engineers, Brotherhood of Locomotive Firemen and Enginemen, Order of Railway Conductors of America, as follows:
>
> We have found from investigation of numerous complaints that the labouring people of West Virginia are being robbed at the hands of the loan sharks.
>
> The Legislature of 1929 reduced the legal rate on small loans to 2 per cent. You now have before you Senate Bill No. 127 which increases the rate back to 3½ per cent. This bill labour whole-heartedly supports.

Our reasons:

1. Prior to 1925 the state was infested with loan sharks.

2. By the enactment of the small loan law of 1925, providing for the 3½ per cent rate these sharks were practically eliminated.

3. After the reduction in rate in 1929 practically all legitimate companies ceased to operate. Not in any instance have we found a company granting loans for less than $150.00 at the 2 per cent rate.

4. The loan shark companies have sprung up like mushrooms, the borrower unable to get money from legitimate companies was forced to borrow from these highrate companies.

5. In questioning these borrowers we find that the prevailing rate of interest is 240 per cent and in some instances as high as 600 per cent.

6. We know that the borrower when forced to borrow is not going to prosecute the lender for fear of losing his job.

7. We believe that 3½ per cent per month will attract legitimate capital into the business to provide this small loan service.

"We therefore, ask you to see that no amendments are made to Senate Bill No. 127 in the interest of labour.

(Signed) John B. Easton G. F. Todd
C. L. Jarrett F. Higinbotham"

In the state of Virginia in 1918 Virginia passed a small loans law with rates as follows:

5 per cent per month to $50.00, 3½ per cent per month to $300.

In 1922 the above law was amended and rate changed to 3½ per cent per month to $300.

On June 27th, 1942, the law was again amended and rate was reduced to 2 per cent per month to $300.

During 1942 number of licensees dropped from 103 to 66 and loans made dropped from 148,000 in 1941 to 108,000 in 1942.

During 1943 ten more licensees went out of business and loans made dropped to 97,000. By 1944 number of licensees in business stood at 58 and loans made totalled 95,000.

On January 1st, 1947 the law was changed again and the rate set at 2½ per cent per month to $300.

Effective February 20, 1956, Virginia again amended the small loans law by increasing the maximum size of loans from $300 to $600 and authorized 2½ per cent per month on the first $300 and 1½ per cent per month on balances exceeding $300 up to $600.

The state of Missouri in 1913 passed an act limited in application to cities with population of 30,000 or more with the rate set at 2 per cent per month plus fee of $1.50 on loans of $300 or less.

In 1927 an act was passed setting the rate at 3½ per cent per month.

In 1929 amendment to the 1927 act reduced the rate to 2½ per cent per month.

In 1939 an amendment was made to set rate of 3 per cent per month up to $100 and 2½ per cent per month on entire amount of loan above $100 to $300. (Step rate).

In 1946 section 44 of article III of the Missouri constitution of 1945 became effective July 1, 1946 and on the advice of the Attorney General, the Commissioner of Finance refused to renew small loans licences all of which expired June 30, 1946. With no small loans law rate reverted to general interest law at 8 per cent per annum.

In 1951 Senate bills 78 and 79 drafted to overcome the constitutional problem became law. Rates set 2·218 per cent per month on balances up to $400 and general interest law at 8 per cent per annum above. On loans made for amounts higher than $400 both rates must be computed separately on separately unpaid balances of each portion of loan with both portions repaid simultaneously. Charge may be simple interest on unpaid balances or pre-computed subject to rebate under rule of 78ths.

The CHAIRMAN: It is now 10 o'clock, gentlemen, and the committee stands adjourned.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 21

BILL 51

An Act to amend the Small Loans Act

THURSDAY, JULY 26, 1956

WITNESS:

Mr. C. M. Cawker, President, Canadian Consumer Loan Association

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. Hunter, Esq.,

and Messrs.

Ashbourne
Balcom
Batten
Bell
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fulton
Gingues
Gour (*Russell*)
Hamilton (*York West*)
Hanna
Henderson
Hollingworth
Holowach
Huffman
Knight
Low
MacEachen
Macnaughton
Matheson
Meunier
Michener
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Rea
Regier
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Stewart (*Winnipeg North*)
Thatcher
Tucker
Viau
Vincent
Weaver
White (*Hastings-Frontenac*)
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, July 26, 1956

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Balcom, Batten, Bell, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieres, Enfield, Fleming, Follwell, Fulton, Hanna, Henderson, Holowach, Huffman, Hunter, Low, Macnaughton, Matheson, Monteith, Philpott, Rea, Regier, Robichaud, St. Laurent (*Temiscouata*), Thatcher, Viau, Weaver and White (*Hastings-Frontenac*).

In attendance: Messrs. C. M. Cawker, President, and F. C. Oakes, Vice-president, both of Canadian Consumer Loan Association; Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.); and other representatives of certain Small Loans Companies and interested organizations; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. Cawker was again called; he continued the presentation of the brief of Canadian Consumer Loan Association and was questioned thereon.

In response to questions asked at the previous sitting, in the course of his evidence Mr. Cawker read a letter to himself from Messrs. Deloitte, Plender, Haskins and Sells, Chartered Accountants, of Toronto, dated July 25, 1956, regarding the computation of the permissible interest rate under the Small Loans Act; and Mr. MacGregor tabled a memorandum on the same subject, which the Chairman read into the record.

During Mr. Cawker's evidence, Mr. MacGregor answered questions specifically directed to him.

Mr. Cawker being still before the Committee, at 5.30 o'clock p.m. it adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Balcom, Batten, Bell, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieres, Enfield, Fairey, Fleming, Follwell, Fulton, Gour (*Russell*), Henderson, Holowach, Huffman, Hunter, Macnaughton, Matheson, Monteith, Rea, St. Laurent (*Temiscouata*), Thatcher, Weaver and White (*Hastings-Frontenac*).

In attendance: The same as at the afternoon sitting.

Following debate, Mr. Fleming moved, seconded by Mr. Monteith,

That the Committee sit more frequently, twice on Mondays, twice on Tuesdays, once on Wednesdays, twice on Thursdays and once on Fridays, a total of eight sittings per week, with a view to completing consideration of Bill 51 during this session.

77322—1½

Following further debate, Mr. Benidickson moved a superseding motion, seconded by Mr. St. Laurent (*Temiscouata*), namely,

That the matter of frequency of sittings of the Committee be referred to the Subcommittee on Agenda and Procedure for their consideration and recommendation, later this day.

The motion of Mr. Benidickson was resolved in the affirmative on the following division:

Yeas: Messrs. Balcom, Batten, Benidickson, Crestohl, Deslieres, Fairey, Follwell, Gour (*Russell*), Henderson, Huffman, Macnaughton, Matheson, St. Laurent (*Temiscouata*) and Thatcher—14.

Nays: Messrs. Bell, Cameron (*Nanaimo*), Fleming, Fulton, Holowach, Monteith, Rea and White (*Hastings-Frontenac*)—8.

The motion of Mr. Fleming was thereby superseded.

Mr. Cawker was again called; he continued the presentation of the brief of Canadian Consumer Loan Association and was questioned thereon. Mr. McClure answered questions specifically directed to him.

Mr. Cawker being still before the Committee, at 10.00 o'clock p.m. it adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

THURSDAY, July 26, 1956,
3.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. I think we are at the third section "operation of the act" on page 3 of the Canadian Consumer Loan Association.

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, called:

The WITNESS: Mr. Chairman, and hon. members, near the conclusion of Tuesday night's evidence there was a question brought up as to the actual difference in the rate charged under the existing act and that of a rate based upon some assumption upon which I was not particularly clear, but the thing seemed to me to be of sufficient importance, and it was further brought out, I believe, by Mr. Fulton, that it might be well to have a very simple chart that a layman might understand demonstrating exactly what the charges per month and per annum on a loan under the existing act would amount to.

Therefore with your permission I would like to read this short letter of which I have had some copies made. The letter is from the firm of Deloitte, Plender, Haskins and Sells whom I have had prepare a sample loan together with their comments. While the distribution is taking place I would ask if I might simply read this short note attached to the chart. It reads as folows:

DELOITTE, PLENDER, HASKINS & SELLS

Chartered Accountants

38 King Street West,
Toronto, Ontario.
July 25th, 1956.

Mr. C. M. Cawker, President,
Canadian Consumer Loan Association.

Dear Sir:

As you requested, we attach our computation of the interest and principal repayments made by a borrower who secures a cash loan of $100 under the terms of the present Small Loans Act, namely, that the charge for the loan will be calculated at 2 per cent per month on the amount actually advanced to the borrower and the monthly balances thereof from time to time outstanding, and that the loan and charges will be repaid in twelve monthly instalments.

As you will see from schedule I attached, the borrower receives $100 in cash and makes twelve approximately equal monthly payments of blended principal and interest (eleven of $9.46 each and the twelfth of $9.40), thus repaying the loan and charges in full.

The borrower thus had the use of $100 for one month, $92.54 for one month and so on or, on the average, $56.11 for the twelve month period. For the use of this $56.11 for one year, the borrower has paid

a total of $13.46. Thus the rate of charge on the borrowed funds actually paid by the borrower amounts to 24 per cent per annum.

However, if the terms of the loan provided for a charge of 2 per cent per month compounded monthly (which, of course, would be illegal under the Small Loans Act) and no payment during the year (which would also be contrary to the present Act), at the end of twelve months he would have to pay $126.82 to settle the total amount owing. Thus, on this basis (which ignores two important provisions of the Small Loans Act) it could be said that a borrower would pay $26.82 for the use of $100 for one year or a rate of 26·82 per cent per annum (See schedule II).

It must be recognized that, from the point of view of a borrower under the Small Loans Act, this is purely academic because this compounding of interest is expressly prohibited by the act. It occurs only when the law permits the charging of interest on interest (as well as on principal).

A person securing a loan, which falls within the provisions of the Small Loans Act, would not pay a charge exceeding 24 per cent per annum. This would be so even though he did not make his monthly payments as agreed because:

(1) the act limits the maximum rate of charge to 2 per cent per month "on the amount actually advanced to the borrower and monthly balances thereof from time to time outstanding",

(2) "every loan shall be repayable in approximately equal instalments of principal or principal and cost of the loan at intervals of not more than one month each", and

(3) "the cost of the loan or any part thereof or any interest accruing after default shall not be compounded or deducted or received in advance".

It is therefore clear that if a borrower under the Small Loans Act were required by a lender to pay at a rate greater than 24 per cent per annum calculated on the oustanding balances of the funds, the use of which the borrower actually enjoyed, the lender would have violated the provisions of the Small Loans Act.

Yours truly,

DELOITTE, PLENDER, HASKINS & SELLS.

SCHEDULE I

Interest and Principal Repayments of a Loan of $100 bearing a Rate of 2 per cent per month and Repayable in Twelve Monthly Instalments

	Monthly Payment	Interest Portion of Payment	Principal Portion of Payment	Principal Outstanding
Amount of Loan				$100.00
First Month	$9.46	$2.00	$7.46	$92.54
Second Month	9.46	1.85	7.61	84.93
Third Month	9.46	1.70	7.76	77.17
Fourth Month	9.46	1.54	7.92	69.25
Fifth Month	9.46	1.39	8.07	61.18
Sixth Month	9.46	1.22	8.24	52.94
Seventh Month	9.46	1.06	8.40	44.54
Eighth Month	9.46	.89	8.57	35.97
Ninth Month	9.46	.72	8.74	27.23
Tenth Month	9.46	.54	8.92	18.31
Eleventh Month	9.46	.37	9.09	9.22
Twelfth Month	9.46	.18	9.22	——
Totals	$113.46	$13.46	$100.00	$673.28

Average principal outstanding during the year $=\$673.28 \div 12 = \$\ 56.11$

Charge paid for use of $56.11 for one year $\$\ 13.46$

Therefore Charge paid for use of funds $= \dfrac{\$13.46}{\$56.11} \times 100 = 24$ per cent per annum

NOTE: Calculations have been carried to nearest figure in each case. Each of the twelve months has been regarded as one-twelfth of a year.

SCHEDULE II

Interest and Principal Repayment of a Loan of $100.00 Bearing a Charge of 2 per cent per month Compounded Monthly Repayable at the End of Twelve Months

	Monthly Charge	Balance of Principal and Interest
Amount of Loan		$100.00
First Month	$ 2.00	102.00
Second Month	2.04	104.04
Third Month	2.08	106.12
Fourth Month	2.12	108.24
Fifth Month	2.16	110.40
Sixth Month	2.21	112.61
Seventh Month	2.25	114.86
Eighth Month	2.30	117.16
Ninth Month	2.34	119.50
Tenth Month	2.39	121.89
Eleventh Month	2.44	124.33
Twelfth Month	2.49	126.82
Total of Monthly Charges	$26.82	
Average principal outstanding during the year		$100.00
Charge for the use of $100.00 for one year		$ 26.82
Therefore Charge for use of funds $= \frac{\$26.82}{\$100.00} \times 100 =$		26·82 per cent per annum

NOTE: Such a transaction as is illustrated above would be in violation of the Small Loans Act.
Calculations have been carried to nearest figure in each case.

Schedule I is simply a $100 loan repayable monthly, assuming that it is paid on the due date each month. The average principal balance outstanding during the year is $673.28, divided by twelve or 56.11; and the charge paid for the use of $56.11 for the one year is $13.46. Therefore the charge paid for the use of the funds, by a simple calculation, is 24 per cent per annum.

Schedule II portrays the compounding which the firm mentioned in its statement, and I think that it is quite self explanatory in bringing out a charge of $26.82 or a percentage per annum of 26·82 per cent. Of course that would be illegal under the Small Loans Act under which we operate now.

The CHAIRMAN: Mr. MacGregor, did you make any computation on this?

Mr. K. R. MACGREGOR *(Superintendent of Insurance)*: Mr. Chairman, in view of Mr. Fulton's question at the end of the last sitting I prepared a brief note on the point which I had not intended to table, but which I simply had in mind handing to Mr. Fulton. However, in view of the submission that has just been made I would like, with your permission, to table this memorandum which is quite brief.

Mr. CAMERON *(Nanaimo)*: Could we have it read?

Mr. CRESTOHL: Mr. Chairman, if what Mr. MacGregor has just tabled is connected with the Deloitte-Plender statement which was just read, would it be possible for Mr. MacGregor's statement to be read now, because we have not got copies and we might thereby follow the sequence.

The CHAIRMAN: Do you wish to have it read now?

Agreed.

It says:

> Explanation of the difference between an effective rate of interest of 24 per cent per annum and a nominal rate of 24 per cent per annum payable monthly.
>
> Interest rates are usually expressed as a rate per cent per annum on the assumption that the interest is paid at the *end* of the year on the principal outstanding during the year.
>
> As an example, assume that a loan of $100 is outstanding throughout the year.
>
> *Case 1.* If the stipulated rate of interest is 24 per cent per annum, then the interest payable at the *end* of the year will be $24. In this case, the effective rate is 24 per cent per annum.
>
> *Case 2.* If, however, the stipulated rate is 24 per cent per annum payable monthly, which means 2 per cent per month, then the interest is payable at monthly intervals during the year and not at the end of the year. In this case, the borrower pays interest earlier and has not the use of these interest payments during the year; instead, the lender has the use of such payments. Obviously, it makes a difference who has possession of such payments during the year and it is this difference that results in different effective annual rates. By the lender's own terms, the use of any moneys carries a charge of 2 per cent per month. Therefore, in order to compare the two cases, the monthly interest payments that the borrower makes throughtout the year in the second case should be accumulated at 2 per cent per month to the end of the year in order to ascertain their equivalent value at the end of the year, as follows:

End of month	Interest payment	Interest payment accumulated at 2 per cent per month to end of year
	$	$
1	2.00	2.487
2	2.00	2.438
3	2.00	2.390
4	2.00	2.343
5	2.00	2.297
6	2.00	2.253
7	2.00	2.208
8	2.00	2.165
9	2.00	2.122
10	2.00	2.081
11	2.00	2.040
12	2.00	2.000
	Total	26.824

In case 1, where interest is all paid at the end of the year, the effective annual rate is 24 per cent, but in Case 2, where interest is paid at the rate of 2 per cent monthly throughout the year, the effective annual rate is 26·8 per cent.

Mr. FOLLWELL: From what you have just read, I am wondering—that is predicated on the fact that the borrower, if he did not pay the interest monthly, would have the use of the dollars that he would pay in interest until the end of the year, and I would think, Mr. MacGregor, in that case, the effective rate would still be only 24 per cent for the borrower. Is that right?

Mr. MACGREGOR: I think rather than prolong the discussion I would rather say that this is simply a discussion of a technical point and one cannot get away from the basic fact that the nominal rate of interest expressed as a percentage per annum payable at intervals more frequently than annually is not the same as a flat rate per annum. One could carry on the discussion endlessly, and assume all sorts of different circumstances, but the two rates are fundamentally different.

Mr. FOLLWELL: I just wanted to have that in the record.

The WITNESS: Might I ask for the record, Mr. Chairman, if we are to assume that the banks—on the very rare occasions when I have any money in the banks, I find that they debit their interest monthly, rather in the usual case when I have an overdraft—are we to assume then that the banks with a stated rate of 6 per cent per annum will not charge something more, as in the case of the Bank of Commerce we heard objection when 10·46 was mentioned; was it in fact something greater than that? Is that the conclusion we should draw?

The CHAIRMAN: I do not know, Mr. Cawker, and I must say, with all respect, that you are here to give evidence and not to ask questions.

Mr. MACGREGOR: May I say that included in the bill is a provision to substitute a new maximum permissible rate for unlicensed lenders; the rate at the present time is 12 per cent per annum, which means that an unlicensed lender may not charge more than ·95 of one per cent per month.

The proposal in the bill is to make this 12 per cent per annum payable monthly which means one per cent per month. But there is a difference between one per cent per month and ·95 of one per cent per month and the provision in the bill is designed to remove the practical difficulty caused by this difference. I do not think that anyone would contend that the two rates in that instance mean the same thing. The difference will show up quite clearly, I am sure, when we come to discuss this provision in the bill.

Mr. BATTEN: As a new member of this committee I suppose I should not say anything.

The CHAIRMAN: Not at all.

Mr. BATTEN: I think this whole argument is based upon a simple mathematical fallacy. I find that sometimes it appears that if you borrow $100 at the beginning of the year and you take off the normal amount for each interest, let us say, from January through to December, you find you have effectively borrowed $50 for the whole year which of course is not true.

If you take $100, and you are going to pay back equivalent amounts for each of the 12 months, then for each month you will be taking off $8.33. Which means that in the month of January you owe $100 and in the month of December, after taking successive amounts of $8.33 you still owe $8.33. The average then owing would be the 12 months that you owed for each month added up and divided by 12, or simply arrived at by taking the amount in the first month, which is $100, plus the amount in the last month, which is $8.33, and dividing by two, which gives you the effective amount owing over the whole year of, not $50 but $54.16.

Now, if you take 24 per cent of $54.16 you have $13. But under this scheme, as has been explained, you are paying decreasing amounts each month. If the amounts are calculated so that you are going to pay the same amount each month, then the effective rate is increased by a little bit more, mounting actually to ·36 per cent, making a total of 13·46 per cent for half a year for the effective rate of 26·8 per cent for the whole year. I agree with the mathematics that have been explained, Mr. Chairman.

Mr. PHILPOTT: You should all be satisfied. We have got our own expert!

The WITNESS: Operation of the Act—When the Small Loans Act was passed in 1939 its principal objectives were to protect borrowers from exorbitant rates; and to provide for the operation of a licensed and regulated source of consumer loans for moderate income families. The record shows that within the limits set by the act these objectives have been achieved.

Today, after 16 years of operation, the act needs only comparatively minor revision, and this is not due to any defect in its original provisions but to changes which have accompanied the economic growth enjoyed in this country during the last ten years.

Complaints under the act have been rare. This is noteworthy when it is remembered that licensed lenders deal with hundreds of thousands of Canadian families each year.

If I might just add one comment here. I am not going to labour the question of complaints. We have heard from Mr. MacGregor on the subject. But, early in the year we did feel some concern as to whether the records of the association were adequate to determine whether in fact we had been reasonably complaint free, also whether the individual companies were reporting the situation accurately and completely. I asked the Toronto Better Business Bureau what their experience had been, since I felt it better to get away from specific isolated cases, and have the general picture as far as the operations of the companies during the life of the act. On March 19 they wrote me, in care of the secretary of the association, in Toronto:

March 19, 1956.

W. J. Cannon, Esq., Secretary
Canadian Consumer Loan Association,
55 York St.,
Toronto, Ontario.

Dear Mr. Cannon: *Re: Small Loans Act (1939)*

You may remember that some years ago I wrote you regarding the above act.

Prior to the passing of this act we were inundated with complaints in connection with the activities of loan sharks. As a consequence we organized and operated an anti-usury department, following which we received thousands of complaints from the public who had paid exorbitant rates of interest on small loans.

Following the passing of this act complaints of this nature practically ceased and the few we have received, have been from individuals who did not understand what the charges they paid covered.

I am of the opinion that this is one of the finest pieces of legislation that has ever been passed by the government at Ottawa to cope with unfair and unethical practices. It has meant the saving of many hundreds of thousands of dollars to the Canadian public.

Regarding Bill 51 (an Act to amend the Small Loans Act) copy of which was forwarded to me recently, I note that the proposed rates are set on a decreasing scale as the size of the loan increases. While I

believe this is all right in principle; however, if the rates are set too low, many of the legitimate lenders will be unwilling to make loans in those sizes and, therefore, a certain amount of the protective value of the act will be destroyed. If the Canadian public cannot borrow sums of money from legitimate lenders they will have no other recourse but to do business with those who may charge an exorbitant rate of interest.

With kindest regards,

Yours very truly,

And it is signed "A. R. Haskell, general manager"—of the Toronto Better Business Bureau Incorporated.

In addition to our own practical knowledge of the operation of the act through personal contact with these families, the point of view of those responsible for its administration is illustrated by the following statement (*Hansard*, May 27th, 1955, page 4189) by Mr. W. M. Benidickson, Parliamentary Assistant to the Minister of Finance:

> Hon. members are probably aware that the Small Loans Act is administered by the Department of Insurance which reports to the Minister of Finance. This department has a very strict policy, not only for licensing but for scrutinizing the charges of these companies and the annual statements that they present. I think it is fair to those in charge of this administration to say that they have probably been carrying out the supervision in this field in a cleaner and better way than probably any other country of which we know.

The successful operation of this legislation has been materially assisted by the desire of licensed lenders to see the act achieve its purpose. Members of the Canadian Consumer Loan Association are constantly on the alert to report to the department any violations of the act or instances of anti-social lending practices in their communities.

I regret, gentlemen, that in reading I neglected to end the quotation on the page before you, but I believe it was quite obvious, where Mr. Benidickson said—"better way than probably any other country of which we know."

The CHAIRMAN: Gentlemen, that finishes that particular section. Are there any questions on that section?

Mr. HENDERSON: Mr. Chairman, there were two statements that Mr. Cawker made. The first being: "when the Small Loans Act was passed in 1939 its principal objectives were to protect borrowers from exorbitant rates; and to provide for the operation of a licensed and regulated source of consumer loans for moderate income families." In the last paragraph he says, "The successful operation of this legislation has been materially assisted by the desire of licensed lenders to see the act achieve its purpose."

I am one of those who believe that we should see you fellows more often. I believe you should come back the same as the banks do to have their charters renewed, so that you can iron out your own ideas and make any comments on your operation that you wish. I have noted, as before, that you do have a great slice of the national economy of this country. I would like to know what comments you would have or what objections, if any, if you appeared before this committee more often for, if not an annual renewal of your licence, then for a review every five or ten years. I just put that proposition to you, and I would like to hear what you have to say about it.

The WITNESS: I hope you put the question to the industry, and not to me personally. I have had a very kind reception here but, in principle I think we have said that we welcome a public examination of our industry. Supervision of the small loan field is absolutely essential and, of course, I think supervision and cooperation with supervision is a two-way street. I think a review of the operations of this industry is quite reasonable.

Members, I am sure, have already been made well aware of the outstanding contribution of the Russell Sage foundation and its full analysis of the small loans problem over the years. I think the most impressive thing, probably, about the Russell Sage foundation is their very realistic approach. Of course, they have spent many years in developing the approach and developing their conclusions. They spent a lot of time, of course, trying to develop philanthropic capital to extend the operations of credit unions. I think we would be fair to say that they accepted human desires and needs as they saw them. The result, really, was, I think the first realistic answer to the problem of this type of money lending, in the history of mankind and a model uniform loan act that stood the test of time.

Now, there is an organization which has been financed and they have given this matter a terrific amount of study. So, I suppose it would be quite reasonable to assume that more study of the situation in Canada probably would lead to a better situation for both lender and borrower. I would not like to express an opinion as to how often they should be seen. That is for the committee, I would presume, to decide, but I think in principle it is a good idea.

By Mr. Holowach:

Q. You mentioned in your brief, Mr. Cawker, at the bottom of page three, that in your opinion the act needs only comparatively minor revision. Would you care to elaborate on that and tell us what you had in mind?—A. Yes. We cover that matter, Mr. Chairman, in a later section of the brief, if you would care to let me handle it then, I will attempt to answer the question.

Q. It is just that you spoke in this section in a rather affirmative way, that only minor changes, or minor revisions are needed. Now, what revision did you have in mind as an association?

The CHAIRMAN: That is covered later in the brief where they make their recommendations. Would you care to defer your question until that point is reached?

By Mr. Follwell:

Q. Mr. Chairman, on page 3 in the first paragraph of the section are these words:

> The record shows that within the limits set by the act these objectives have been achieved.

Now, Mr. Cawker, could you tell the committee to what extent did the passage of the Small Loans Act improve conditions in the small loans field? Is that what you mean by that clause?—A. Yes, I think so. For instance, in 1940 when this act came into effect if my memory serves me correctly, 40 loan "sharks" were known to have closed their doors in the city of Toronto alone. I would assume that probably a ratio reasonably close to that would have resulted in the various other cities across Canada. Actually I think the act has encouraged competition and that has certainly made for better competitive practices; and I think good competitive practices and strong competition in the business has certainly resulted in a definite advantage to the borrower.

Q. Mr. Cawker, we have heard the term "loan shark" used, now, probably for the first time. I am not sure what to understand by it. You as a witness have used that term, but I really do not know what a "loan shark" is and I do not know if any other member of the committee knows. Have you any opinion as to what a "loan shark" might be?—A. I have never tried to analyze the phrase and create a definition of "loan shark" but falling back on experience we have seen cases of a borrower exposed to rates ranging from 400 per cent per annum and upward. I believe in the testimony I read on Tuesday night we saw evidence that in one of the states of the union where there had been reductions in interest rates which had been unrealistic, rates there had been in operation as high as 4,000 per cent per annum. In one of the states we saw that a strong business had sprung up—it was either in Virginia or West Virginia—at rates of 20 per cent per month. Those are the type of operations I have in mind when I think of "loan sharks". I have not had to think about "loan sharks" in Canada for 16 years because with the passage of the act they have become a thing of the past.

Q. I suppose, Mr. Cawker, that it would depend upon the individual endeavouring to make the loan. If a man were in a position to negotiate a loan from a bank at 6 per cent per annum he would probably think that someone who could not do this and who negotiated a loan at 2 per cent per month might be in the hands of "loan sharks". I suppose it is a matter of relativity. I was just interested because those words have been bandied about a lot and I did not know what definition there was in the minds of the licensed money-lenders.—A. Our attitude, of course, Mr. Follwell, would be that there is an act of parliament which has worked satisfactorily and which has given an adequate rate in the field over which it has jurisdiction, and I think I speak for the industry completely on this, that anyone who charges a higher rate than that set out in the Small Loans Act of 1939 falls into the category of "loan shark".

An Hon. MEMBER: Hear, hear!

Q. Just at the end of this particular section there is a paragraph which reads:

> The successful operation of this legislation has been materially assisted by the desire of licensed lenders to see the act achieve its purpose. Members of the Canadian Consumer Loan Association are constantly on the alert to report to the department any violation of the act or instances of anti-social lending practices in their communities.

We have heard in this committee in the last few weeks the charge that a certain company was operating on a basis of about 80 per cent interest and I am just wondering if you could tell the committee if the Canadian Consumer Loan Association has reported any violations to the Inspector of Insurance?—A. Yes, we have, Mr. Follwell. There have been few, because I believe that the situation is relatively clean. There are very few circumstances involving high rate lending or illegal lending which have come to our attention. But there was one, as recently as a month ago, in the field now covered by the Small Loans Act and we reported that to the superintendent together with the data which we were able to gather—information that might be helpful to the superintendent.

The CHAIRMAN: Are there any further questions on this section, gentlemen? If not, we will pass on to the next section: Loan Office Operation.

The WITNESS: Credit unions and small loans licensees are the only consumer credit services which have their maximum permissible rates of charge

set by law and, in addition, are required to use an all-inclusive per cent per month rate which covers all costs to the borrower. Small loans licensees show in their contracts the rate of charge per month and per annum.

This rate of charge covers more than what is usually considered to be "interest". It represents the lender's gross income from which he must meet all costs of doing business and produce a reasonable profit.

The per cent per month method of charge prescribed by the Small Loans Act is often confused with "discount" and "add-on" methods of charge used in the instalment sales of automobiles, appliances and merchandise. These methods are prohibited under the act. I think most hon. members of the committee are aware, of course, that the apparent rate in an "add-on" or discount type of contract is just half the true effective rate when that contract is repaid by instalments. In addition to the interest rate, conditional sales contracts permit extra charges for insurance, delinquency fees or any other charges which they feel are justified and should be passed on to the customer.

The business of making consumer instalment loans is, in every sense of the word, a retail business. Money is acquired on a wholesale basis and merchandised at retail. As in every other business we have had to face the problems of increasing salaries, rents, advertising and other costs of doing business.

Since the majority of our loans are made without liquid or readily salable security each loan application requires careful investigation. In the best interests of both borrower and lender we must establish the following:

1. Character of the applicant.
2. Earning ability.
3. Stability of employment.
4. Other sources of income.
5. Existing debt commitments.
6. Paying record.
7. Essential living costs.
8. Evidence of family co-operation.

Only with this information can lenders decide whether or not an applicant is a good risk.

The transaction begins when a complete stranger enters the lender's office to enquire about getting a loan. He is assigned to a private room where an interviewer conducts a preliminary discussion of his problem.

The next step is to complete a written application which gives information regarding his job, his family, his fixed expenses (rent, insurance payments, etc.) and the nature and amount of his debts. At this point the lender often decides to pay a visit to the applicant's home. The representative who visits the home turns in a written report describing not only the furniture (the usual security) but also comments on income and job stability, indebtedness and ability to pay, paying habits, residence stability, appearance of home and neighbourhood and other conditions which may be observed best in the home. Many loans are completed right in the lender's office but every application requires verification of employment, address, indebtedness and paying habits and these involve time, labour and skill in order to satisfy the lender that the prospective borrower has capacity to repay the loan.

When the investigation is completed and the amount of the loan is determined, lender and borrower agree on amount of monthly payment and a due date for the instalments. The necessary documents are then prepared, explained, and signed by the customer. In most cases lenders arrange for both husband and wife to be present to receive a thorough explanation of the loan and its terms so that family co-operation may be encouraged.

I may say that this is intended to discourage either spouse borrowing sums of which the other is not aware, and in my opinion it insures that the money lent will be used for a useful family purpose. We, as lenders, must be sure that there is no evidence of mismanagement, because this would adversely affect that borrower's ability to repay.

Extensive bookkeeping facilities are necessary for the collection, processing and recording of the monthly instalment payments.

By law the borrower is expressly permitted to prepay his loan in whole or in part before maturity on any date on which any instalment falls due without notice, bonus or penalty and so, if any borrower changes his mind and pays off the loan quickly, the lender has no way of recovering even his out-of-pocket disbursements.

Borrowers often encounter new emergencies during the term of the loan which require consultation with the lender and a complete review of their circumstances. This may require frequent checking of the borrower's position in the event of sickness, accident or temporary unemployment.

Approximately 30 to 35 per cent of applications are refused after careful investigation reveals that the circumstances of the applicant do not warrant a loan being made. It is not in the best interest of the lender or the applicant to make a loan when it appears that the applicant is over-reaching his credit and may have difficulty making repayment.

I think I touched upon this earlier but I believe it is worth repeating: we are always cautious with regard to a customer who comes to us without a repayment plan. It is our experience that the best loan from our standpoint is made to a customer who is trying to anticipate the normal future emergency or contingency.

The lender can, of course, make no charge to recover expenses resulting from applications which do not result in loans. All such expenses must be paid from revenue from loans made.

In that regard I think we all realize that an application which we turn down is sometimes more time-consuming than an application which results in a loan, and I think this is fact that is recognized in other lending legislation,—for instance, the Canadian Farm Loans Act where an appraisal or investigation fee is permitted. It is certainly true in the first and second mortgage fields where the mortgagor is required to pay the necessary fee for legal charges, search of deed, proof of title and so on. However, these costs are not considered part of the interest rate. It has been said that the Canadian lenders are not able to say no to an application for a loan, but the position is in fact that between 30 and 35 per cent of the people who apply for a loan are not granted one.

The operation of a consumer loan business requires suitable offices and adequate personnel. In common with the customers of chartered banks and other service organizations, our customers expect to transact their business in modern offices. Locations must be readily accessible and well identified. Standard office equipment, telephones, adequate protection for currency and valuable documents, together with furniture and other equipment must be

provided. The employees must be persons of integrity, as they are constantly handling funds and extending credit. They must be intelligent and well trained for the protection of the public, as well as the lender.

The CHAIRMAN: Are there any questions on that section, gentlemen?

By Mr. Philpott:

Q. On page 5 you interpolated some comment about comparisons with your charges and the way the charges are made by the appliance and automobile companies. By and large, how would you say that the charges of the small loans companies of Canada compare with similar credit given by appliance companies, automobile companies and so on?—A. There is such a wide range that your question is a difficult one to answer. Rates range from, I would say, a low in the new car field of 15 per cent—1 per cent either way—to something considerably higher than the rates permitted under the act. I have seen used car rates that extent quite frequently to the 30 per cent per annum figure—2½ per cent per month.

Q. What I am trying to get at is this: I do not suppose that very often a customer comes into a small loans company rather than to an appliance company to borrow money to buy something on time for the obvious reason that he can get it on time from the appliance company?—A. I cannot say that it is a prominent purpose of loans in our industry. I think there is just a general assumption on the part of the general public that they can obtain instalment repayment privileges at the dealer's place of business.

Q. On page 5 you make it very clear that, under the legislation which we have passed here, actually there are other services included in the charges which we have more or less arbitrarily said are interest charges. I understood your interpolation to mean, with respect to these other companies, that perhaps in all cases the public did not understand so clearly the charges they are paying in some of these other forms of credit?—A. They do not understand the charges they are paying, I think, for instance, to an instalment finance company; I agree with you. One of the heaviest elements of charge which is relevant to a point which I made on page 7—the practice of sales finance companies to set down a minimum charge—is the situation where, at the end of a month, the purchaser of a refrigerator or car finds himself in funds and comes to pay off the transaction. In most cases, I think, in the sales finance rates which I have seen, those rates are much much higher than those permitted under the Small Loans Act.

By Mr. Enfield:

Q. Does Mr. Cawker have any figures on the frequency at which you do have to realize on your security which, as you say, is mostly furniture?—A. I think possibly the best place to find that would be in the blue book issued by the Department of Insurance. We report to the Department of Insurance each year on suits filed, suits outstanding from a previous year, repossessions, furniture repossessed and returned to the borrower. They are a fraction of a per cent. In my own ten years experience, we have in one case made a seizure of furniture and retained it. That was because the borrower and his common-law wife agreed to abandon the furniture and asked us to dispose of it. It was not a case where we had seized the furniture and sold it; it was a case of voluntary disposition of the furniture to reduce the obligation.

In the case, for instance, of Household Finance Corporation—and this is for the year 1954—the total number of chattels repossessed and sold was one.

Q. One case?—A. Yes.

Q. That would indicate that it is very seldom done.

By Mr. Follwell:

Q. What would the percentage be?—A. Very minute, point something something-odd.

By Mr. Cameron (Nanaimo):

Q. In every case of a loan which is secured in this way which gets into default, do you repossess? I mean, in reference to the statement which you made just now, does that indicate that the number of loans in default is very minor?—A. No. The question was as to the number of repossessions made.

Q. What I want to find out is, do you always repossess where you have security of that type when a loan is in default?—A. Very definitely not. It is the rare exception where we do repossess.

Q. What course do you pursue?—A. Well, there are a variety of courses. Delinquency is an individual problem for each account which becomes delinquent. Just to make it very factual, the general practice is that at the end of five or seven days past due, the customer gets a notice and he may or may not get a second notice, and then a final notice, which would consume possibly a period of two weeks. Then, in the case of most companies with which I am familiar, the next action would possibly be a letter over the signature of the manager asking the customer to either make his payment or attend at the office to discuss the reasons for the arrears. If the customer refuses both to pay and to discuss the matter with the manager, who is after all responsible for the loan, then a representative might be sent out to see him to find out exactly what the situation is and what is the reason for delinquency. In cases of family emergency, temporary lay-off, or good sound reasons for delinquency, the general practice is that the company will grant an extension for the period necessary.

Now, when you run into a situation—which I am glad to say is very very rare—where the customer takes the attitude "I am not going to pay and I am not going to talk to you about it", that probably precipitates the very rare case where we might have to take comfort in either the court or our security.

Q. But in the vast bulk of the cases you are able to have the delinquent loan repaid or renegotiated in some way?—A. Yes, or held in abeyance. That is, of course, one of the important reasons for an adequate rate, and as evidence of this is the situation which occurred in Oshawa. A reasonable rate makes it possible to cooperate in times of emergency. To my personal knowledge—and I am quite familiar with, for instance, the situation in Oshawa—I have not heard of one of our companies making a repossession or instituting a suit in the courts.

By Mr. Follwell:

Q. Mr. Cawker, following what Mr. Cameron has said, when you find at any time that you cannot secure the chattel or furniture, or cannot find the recipient of the loan, you then have to write off the account; or, what do you do in that case?—A. Well, of course, if we cannot find him and we cannot bring about repayment, then naturally it becomes a write-off.

Q. Do you have many such write-offs?—A. We deal with the actual figures throughout the industry a little bit later on in the brief, Mr. Follwell. I can say it is quite small.

By Mr. Regier:

Q. Does your annual report to the Superintendent of Insurance include a report on the number of garnishees?—A. Yes, it does—oh, garnishees, wait a minute. I do not think it specifies garnishees. I think it specifies suits through the courts.

By Mr. Cameron (Nanaimo):

Q. The suits would include garnishees as well?—A. They might or might not. First of all, I think that a suit is usually interpreted as taking judgment, and following judgment there might be an order to pay which if ignored might result in a garnishee if the suit has been obtained. I hope that I would be putting it right if I said that a garnishee was a by product, or aftermath, of taking court action.

Q. There would have to be some court action in order to obtain a garnishee?—A. Yes.

Q. I was wondering if it was included in any other kind of action you took?—A. The figures quoted in Mr. MacGregor's return would give some indication of what the total number of garnishees would be, because there has to be judgment before there can be a garnishee; but I think in the majority of cases judgment simply rests and that garnishees as an aftermath are very rare. Personally, in my own business I would never garnishee.

By Mr. Follwell:

Q. You told Mr. Cameron that you have a conference with the borrower and that you grant an extension sometimes to the borrower when you find that he cannot pay for one reason or another. How do you go about granting an extension? Do you make a new contract with the borrower for a longer period, or for a new period, or do you just permit him to catch up later? Under the act I believe that you are limited to fifteen months on small loans. If you find a condition where the borrower has now paid for thirteen months and still has two months to go, if you want to give him an extension, do you under the Small Loans Act write a new contract; or what do you do?—A. No. Generally speaking, in that case, if it goes over the fifteen-month period, then we simply revert to ·95 per cent per month. To answer the first part of your question, we do not necessarily write a new contract. There is no advantage to the lender, certainly, in doing that because there is no varied charge for the writing of a new contract. It depends entirely on whether it is of benefit to the borrower and whether it makes a good customer out of a border-line customer because of an emergency or existing situation. It may quite possibly be, No. 1, simply an extension for a certain period; or, No. 2, it might be, as in some cases of hardship, suspension of interest. It has been quite a common practice with the larger companies to give an extension, interest free, to give the family a chance to get back on its feet. In some cases where it would appear to be beneficial to both the customer and the lender, then a new contract might be written. We find many cases. We see it every day in the week, where, due to some emergency, such as a lay-off or a strike when no family funds are available, or in an emergency case of sickness where payments of some kind simply cannot wait, we have made loans for a period like that where it is rather indefinite when the first payments can begin. So that it is a question of dealing with each individual delinquency as it occurs and on its merits.

By Mr. Henderson:

Q. With respect to office administration in the loan business and with respect to trying to cut down your administration costs while at the same time giving to the borrower a longer period of loan in order not to have to go through the cost of re-financing, would you say that 15 months was a long enough period?—A. It would certainly be more desirable for the borrower if that period were extended, let us say, to 400 or 500—to 20 months. That seems to be the general request that we meet with these days. It would certainly make it easier for the lender to be able to grant the 20 months in deserving cases.

Q. What would be the specific advantage to the lender that would encourage the lowering of his administration costs?—A. I do not think there would be a specific advantage to the lender in lowering his administrative costs with an extension of the present contract limit of 15 months. It might of course save at some stage the re-writing of a contract, but as I mentioned earlier there is no compensation for the re-writing of a contract.

Q. When you re-write a contract does the borrower get charged for the financing costs?—A. Absolutely not; that is prohibited specifically under the terms of the act.

Q. Have you any statistics as to the average borrower, as to what period of loan it would best be extended to?—A. Well, I am not sure whether you mean statistics which show the average life of a loan before refinancing.

Q. What is most advantageous to the maximum payments each month that the borrower can make at present day living?—A. Well, of course, present day living certainly pre-supposes an increased number of requests, we find, for a longer period. We do not like to grant—frankly from an administration viewpoint—a 15 month contract, let us say, and then have to juggle with two tables, that is, two per cent for a maximum of 15 months, or one for ·95 of one per cent. So that it is possible that occasionally a contract is written for 15 months where it should be written for 20 months. We are all human and I think my first reaction would be that maybe it is easier to write this contract for 15 months and if the customer is finding it difficult two or three months from now, then to absorb the expense of writing a new contract and extending the balance to what could well have been taken care of in an original 20 month contract.

Q. Well, from your experience is there anything to support a 20 months contract—does it follow that it would be easier in the loan business?—A. It would certainly be easier to satisfy and it would appear to meet the customer's requests in the main today. We are making more loans in the range of $400 to $500 and even above than we were 20 years ago. People are learning and I think are doing a good job in managing and distributing their income each month, and I think the reason for the desire for a longer contract is that they have planned their incomes; they wish, let us say, to consolidate existing bills which we deal with, and that takes care of the preponderance of our loans. If they had 20 months, maybe they could do the whole consolidation just as well, but if they only have 15 months, possibly they can only do a part of it.

It has just been pointed out to me here and I think it is a good point, that the customer first of all has the advantage of paying off at any time during the contract or increasing his payments and getting the resulting savings in interest. From the standpoint of the monthly payment it would be a fair assumption to say that the customer does like to have a safety margin, in other words, to be able to feel that he can pay for 20 months, but he would feel more comfortable and secure if his contract were for 15, 16, or 17 months.

Q. If he had a 20 month contract and paid it off in 6 months, he would get the advantage of his interest? What percentage of the finance charges does he recover?—A. I think that possibly I should approach it from the other end. Let us take 6 months. He pays only the charges based on the rates which are laid down in the act to the day that the loan is paid off without notice or bonus. I would not, however, create the impression that at the end of six months he only pays one half of the original charge. If you computed it you would see that he pays on a decreasing monthly balance. I could have that worked out very simply and very quickly, but I would hesitate to make a guess at it.

By Mr. Low:

Q. Referring to page 6 of your brief where you have set out a list of eight matters of information which you feel your investigators have to determine, I wondered if the loan companies tried to determine also the purposes for which the loans are being sought?—A. In all cases, sir.

Q. You say in all cases?—A. Yes.

Q. That was not stated here and I just wondered.—A. I think that comes at page 13 where we have given a complete "re-cap" of the industry percentages under purposes of the loans.

Q. I see. I had not looked that far; I wondered if you had any information, or perhaps if you had pointed out in this table any information about the percentage of loans that are granted for medical purposes, medical expenses?—A. We bulk that on page 13 under medical, dental, and hospital bills; and the percentage of the total is 12·90.

Q. Is that of the total in volume or the total of applicants?—A. No, that percentage is related to the total number of loans made.

Q. The total number?—A. That is right.

Q. Have you ever worked it out as a percentage of the total volume, the total money value.—A. I do not have those figures, sir. We could secure them however.

Q. I think it would be very useful if you could.

Mr. PHILPOTT: Mr. Chairman, is this the right place for us to ask questions about page 13?

The CHAIRMAN: I do not think it is really.

Mr. PHILPOTT: I have some questions myself for page 13 and that is why I asked.

The CHAIRMAN: Are there any further questions on this section? If not, let us move on to statistical tables on page 9.

The WITNESS: The following tables are presented in order to give the Committee a clear picture of the extent and nature of the consumer loan business covering loans of $500 or less, up to the end of 1954, the last year for which all figures are available from the report of the Superintendent of Insurance.

Now, the only industry figures available for 1955 as I mentioned were those published in the interim report of the Superintendent of Insurance or the Department of Insurance. As this report is subject to correction we have not used the figures as it was anticipated that the department would recheck those figures and make them available to the committee. But with your permission I will just comment on the 1955 figures as necessary.

Tables 1 and 2 show the growth of the industry by number of loans and dollar volume since 1950.

TABLE 1

SMALL LOANS MADE

Small Loans Companies and Licensed Money Lenders

Data from reports of the Superintendent of Insurance 1950-1954

Year	*Number*	*Amount*	*Average Loan Made*
1950	586,672	$119,295,371	$203
1951	680,174	142,938,846	210
1952	755,506	167,161,448	221
1953	770,449	174,503,555	226
1954	831,721	186,696,899	224

We note the growth in the number of loans from the total in 1950 of 586,672 to a total in 1954 of 831,721; and in 1955 we now know that the total was 860,135 of loans, and the amount as indicated in the table increased from $119,295,371 in 1950 to $186,696,899 in 1954, and for 1955, since added, $191,248,199.

By Mr. Henderson:

Q. What was the average loan in 1955?—A. The average loan is given in the column to the far right. You asked about 1955? I am sorry. It was $222. We have a range from $203 in 1950 to $224 in 1954, and to $222 in 1955.

Mr. REGIER: I would like to ask a question on table 1.

The CHAIRMAN: Mr. Regier, the committee agreed that we would continue to complete each section before we began to ask questions. So would you mind deferring until he completes this part?

Mr. REGIER: In other words, all the tables?

The CHAIRMAN: Yes, before the next section dealing with delinquent accounts. After all, that was the understanding of the committee unless the committee wants to change it.

The WITNESS: Table 2 deals with small loans outstanding.

TABLE 2

SMALL LOANS OUTSTANDING

Small Loans Companies and Licensed Money Lenders

Data from reports of the Superintendent of Insurance at December 31

Year	*Number*	*Amount*	*Average Outstanding Balance*
1950	385,348	$58,606,932	$152
1951	442,959	69,259,906	156
1952	467,594	76,990,337	165
1953	482,976	81,840,415	169
1954	523,628	88,822,891	170

This data includes small loans companies and licensed money-lenders. It is taken from the report of the Superintendent of Insurance as at December 31, 1954, and with your permission I will add the figures at the end of 1955. We show a total in 1950 of 385,348 open accounts.

Mr. FULTON: Mr. Chairman, could I suggest that we dispense with the reading of the detailed figures to save Mr. Cawker a lot of reading?

Mr. FLEMING: Can they not go into the record without taking the time to read them?

Mr. HENDERSON: If Mr. Cawker has the 1955 ones—

The WITNESS: I can add the 1955 figure in each case. In Table 2, 1955, the number is 529,556 and the amount is $88,824,459, with an average outstanding balance of $168.

Tables 3 and 4 show the wide distribution of loans and balances through all sizes, indicating that lenders are providing a complete service in all loan brackets.

TABLE 3

SMALL LOANS MADE

Small Loans Companies and Licensed Money Lenders

Data from report of Superintendent of Insurance
1954

	Number	*Amount*	*Average*
(*a*) Loans of less than $50	7,305	$ 253,359	$ 34
(*b*) Loans of $50 to $99	84,038	5,577,616	66
(*c*) Loans of $100 to $199	273,229	37,447,288	137
(*d*) Loans of $200 to $299	232,522	54,742,987	235
(*e*) Loans of $300 to $399	146,442	49,039,787	335
(*f*) Loans of $400 to $500	88,185	39,635,862	449
Totals	831,721	$186,696,899	$224

TABLE 4

SMALL LOAN BALANCES OUTSTANDING

Small Loans Companies and Licensed Money Lenders

Data from report of Superintendent of Insurance
December 31, 1954

	Number	*Amount*	*Average*
(*a*) Original loans less than $50	3,344	$ 91,196	$ 27
(*b*) Original loans $50 to $99 ..	42,083	2,026,582	48
(*c*) Original loans $100 to $199	174,227	17,212,422	99
(*d*) Original loans $200 to $299	151,762	27,323,829	180
(*e*) Original loans $300 to $399	94,941	23,774,404	250
(*f*) Original loans $400 to $500	57,271	18,394,458	321
Totals	523,628	$88,822,891	$170

With regard to the figures opposite items C and D in table 3, I should mention that, of the total number of loans made in 1954—831,721—over half a million of these loans were between $100 and $299.

Table 4 portrays the small loan balances outstanding of the small loan companies and licensed money-lenders. This data is extracted from their reports to the superintendent of insurance at December 31, 1954.

Mr. FLEMING: Mr. Chairman, I presume these will go on the record, and that we are just dispensing with the reading of them as such?

The CHAIRMAN: The whole brief will go on the record.

The WITNESS: Many people think that borrowers from small loans companies are substandard, marginal families, and that they borrow in many cases for frivolous reasons, in amounts far beyond their capacity to repay. Such is not the case, as will be seen from tables 5, 6 and 7 which are based on the experience of the lenders compiling this information and which covers eighty-five per cent of the small loan business in Canada.

TABLE 5

Loans Classified by Occupation of Borrowers
Year — 1954

Occupation	*Number of Loans*	*Per Cent of Total*
Craftsmen, foremen and kindred workers	213,721	30·21%
Operatives and kindred workers	152,812	21·60
Clerical and kindred workers	74,808	10·57
Labourers (excluding farm)	62,394	8·82
Service Workers	35,582	5·03
Sales Persons	28,245	3·99
Protective Service workers	27,315	3·86
Members of Armed Forces	26,940	3·81
Proprietors, Managers, and Officials (excluding farm)	24,493	3·46
Professional and Semi-Professional Workers	20,095	2·84
Pensions or independent incomes	18,554	2·62
Farmers and Farm Managers	15,688	2·22
School Teachers	4,513	·64
Farm Labourers and Foremen	1,658	·23
Occupation not reported	712	·10
Total	707,530	100·00%

I think, incidentally, that table 5 emphasizes the need for our services in the urban districts. You will note that something less than 3 per cent of our loans are made to farmers, farm managers, and farm labourers. No doubt this low percentage reflects the fact that there is special legislation to assist farmers in their need, and also many of them have individual access to bank credit not ordinarily available to the industrial worker.

Mr. FOLLWELL: Mr. Cawker, you single out farm labourers.

The CHAIRMAN: Could we wait until the end of this?

Mr. FOLLWELL: Oh, I am sorry.

The CHAIRMAN: Just make a note of your question.

The WITNESS:

TABLE 6

* Loans Classified by Principal Use of Borrowed Money
Year—1954

	Number of Loans Made	*Per Cent of Total*
Consolidate Overdue Bills	154,199	21·79%
Medical, Dental and Hospital Bills	91,238	12·90
Moving and Travel Expenses	67,655	9·56
Repair Bills	65,407	9·24
House Furnishings	56,986	8·05
Clothing	54,964	7·79
Automobile Expenses	33,579	4·75
Fuel	26,885	3·80
Taxes	26,273	3·71
Miscellaneous	25,280	3·57
Assist Relatives	24,956	3·53
Business for Self	22,020	3·11
Real Estate, Mortgages and Interest	17,363	2·45
Insurance Premiums	10,674	1·51
Rent	9,071	1·28
Food Bills	6,721	·95
Miscellaneous Equipment	6,708	·95
Education	3,736	·53
Funeral Expenses	2,880	·40
Not Reported	935	·13
Total	707,530	100·00%

Table 6 recapitulates the loans classified by the principal use of the borrowed money. This is for the year 1954. I think this will give members a better idea of the many purposes for which our loans are made. As we said, the large proportions of the loans are used to pay for existing debt. In these cases I think it is significant that we do not create new debt obligation, but rather allow the customer to meet his existing obligation. Thus a service is performed not only for the customer, but for other suppliers of goods and services, who are, in many cases not equipped to handle, or carry a large proportion of credit outstanding.

* All loans were classified under the heading describing the use to which the larger part of the loan was applied. Where several bills were paid and no major purpose appeared, the loan was classified under the heading "To Consolidate Overdue Bills". A large proportion of the loans were used to pay existing debts or emergency expenses.

TABLE 7

Classification of Loans Made by Size of Family Income and Relation between Monthly Payments and Monthly Income Year—1954

Family Income Per Month	*Number of Loans Made*	*Per Cent of Total*
.00-100.00	20,111	2·84
100.01-200.00	160,938	22·74
200.01-300.00	326,846	46·20
300.01-400.00	130,791	18·49
400.01-500.00	43,265	6·11
500.01-750.00	22,489	3·17
Over 750.00	3,090	0·45
Total	707,530	100·00
Average monthly income of borrowers		$270
Average loan made		$224
Average required monthly payment (including principal and interest)		$ 18.55
Average per cent of borrower's income required for monthly payment		6·9%

Table 7 is a classification of loans made by the size of the family income and relation between monthly payments and monthly income, for the year 1954.

It is significant, I think, in analyzing the financial position of borrowers and the relationship of repayment to family income, and family income for these purposes does not include the total salaries earned by the family. It includes only that part of the salary which they contribute to the family pool, possibly in board or any other contribution which must be made. It is not the total of the family income.

This shows that repayment schedules are agreed upon between the borrower and lender so that the monthly payment is well within the borrower's ability to repay.

The CHAIRMAN: Are there some questions on that section, gentlemen?

By Mr. Cameron (Nanaimo):

Q. Mr. Cawker, on table 1 for the year 1954, you have 831,721 loans. Have you any figures to show what percentage of that number represent families and what percentage represent single persons? Have you any idea on that?—A. From my experience, and Mr. Oakes of the Household organization supports me in this, our loans are made mainly to families, but we do not have a breakdown.

Q. You do not have a breakdown of that?—A. We do not have a breakdown between families and single persons.

Q. I notice on table 7 that almost half your loans fall within one income bracket, that between $200 and $300 a month?—A. 46·2 per cent, yes.

Q. Which might indicate that those were families. Have you the figures for 1955 of the number of loans?—A. Under the heading of table 1?

Q. Yes.—A. Yes, 860,135; and the amount is $191,248,199.

By Mr. Regier:

Q. Mr. Cawker, on table 1, it shows very clearly that a growing number of Canadian families are patronizing small loans companies and licensed money-lenders. Table 2 substantiates that. Now, the years given are 1950 to 1955. Those were years of increasing prosperity and employment in Canada. I wonder if you would care to make an observation as to why, in a time of increasing prosperity and employment and wage rates, and even the net wage rates, there is a growth in the number of families who are going into debt?—A. I could answer that this way, Mr. Regier; number one—it is possibly the aftermath of war, and a long period of being without certain things. Those things became available, and people felt, as I said earlier, a need to refund their existing obligations on a little more workable basis, based on the confidence that was inspired by good wages, and reasonable job security. In many cases they took this means of refunding, as would appear to be the main purpose of their borrowing, from the tables; and from the results we have got from our membership this would seem to be a quite normal result of a better planned handling of the family budget, I think.

Q. Mr. Cawker, I am sure that your association has given some consideration to the fact that Canadians are going deeper and deeper into debt in ever growing numbers. Has your association ever given any consideration to the possible saturation point beyond which the Canadian public at large ought not to continue to increase borrowing, and that even members of your association might find that they had over-extended this credit that is being so freely used?

Mr. ENFIELD: Mr. Chairman, before Mr. Cawker answers that question, I would like to ask Mr. Regier what evidence he has to substantiate his statement that Canadians are going ever and ever deeper into debt? We might find that, despite the increase in the production of assets that the country and people have, the debt is not increasing proportionately. I do not think he should make a statement assuming that, unless he is prepared to show such is the case.

The CHAIRMAN: There are more people in Canada, Mr. Regier.

Mr. REGIER: Oh, I realize that the growth in the population is not anywhere near the growth of the number of people who are getting themselves involved.

Mr. ENFIELD: Those are just statements without any facts.

Mr. CAMERON (*Nanaimo*): The facts are here in the tables.

The CHAIRMAN: I would point out, Mr. Regier, that the growth seems to have levelled off a bit in 1955.

By Mr. Regier:

Q. Yes, I realize that. I think it is a very welcome sign. However, we have heard at some length from Mr. Cawker as to the responsibilities of the organization he represents. Therefore, I really thought that this committee should receive an opinion from him as to whether his association has ever considered the point that they, the lenders themselves, might suddenly get their fingers very severely burned?—A. I would like first of all to make very clear, Mr. Regier, that I am not an economist. I have received every indication from our membership that we are quite happy with the fact that we have a finance department. The Bank of Canada maintains very close watch on the instalment debt of the country. Our approach to the business of consumer debt, where it concerns our customers, has to be based on good common sense only. I think the over-all picture of decision that the Canadian people are going too far in debt is best left to those entrusted to obtain the statistics and make the decisions.

We have here some figures, which I would be very happy to ask Mr. Oakes to give you, on the relationship of personal income and disposal income. I would like to make it very clear that we do not profess to be economists to deal with such a very broad and controversial subject. Would you like to hear those figures?

Q. Yes, if you are going to reassure me that the situation is not as alarming as it appears on the surface. If you have any such statistics you might be able to make them available to the record.

Mr. OAKES: Yes, all those figures are available from the Dominion Bureau of Statistics, Mr. Regier. I have them here. Possibly, when speaking of our industry, you would be interested in the percentage of the instalments of consumer credit outstanding, that we handle? The total of consumer credit at present is in excess of $2 billion. This means that the licensed lenders with their business to $500 under the present act and the known operation over $500 represents approximately 12 or 13 per cent of our total consumer credit outstanding in Canada today and the remainder of that outstanding amount of approximately 87 per cent is represented by instalment sales, sales contracts, retail instalment credit and cash personal loans by banks and credit unions. To break that down further, on December 31, 1955, of the total personal loans as defined by the Bank of Canada, the small loan companies had $289·1 million; the banks had $440·6 million and the credit unions $100·3 million. That is the complete breakdown of the cash personal loans as defined by the Bank of Canada statistics.

The CHAIRMAN: Are there any further questions?

By Mr. Philpott:

Q. With regard to table 6 on page 13, I notice, looking at the first item, that by far the largest category of loans is to consolidate overdue bills. Does this indicate that a large percentage of the Canadian people are too optimistic about the debts they contract and are thereby forced to re-finance?—A. I would not say, Mr. Philpott, that it represents an excessive optimism. It does represent a desire for better planned payments; it simply represents a refunding in most cases of existing obligations to help a more orderly retirement of those obligations.

Q. Then this category which accounts for more than 20 per cent of all the loans made by small loans companies really indicates that a high percentage of the Canadian people who are in debt did not properly plan their payments when they contracted the debts. They had "bitten off more than they could chew"?—A. This, in my opinion, Mr. Philpott, rather reflects the fact that emergencies occur in any family unit as they do in business or government. I could give you an example of what happens in an average family when a reasonably planned schedule of monthly repayments is suddenly thrown into complete imbalance by an emergency such as unexpected medical expenses or a death which no one could possibly foresee. As a result the planned retirement of obligation gets all out of balance. I am glad to say that some of our larger companies are providing an excellent service to the consumers in assisting them to budget their incomes and their repayments even to the point of supplying budget forms giving them information from their research departments on what percentages of income should logically and intelligently be apportioned to each particular item of family expenditure.

Q. I do not want anyone to misunderstand the point of my question. I was not suggesting that you people were getting these borrowers further into debt. In fact, it seems to me that one of the great advantages of the small loans companies is that they do help advise people with regard to the better planning their budgets. A little earlier we have some discussion on the

period of retirement—whether the maximum should be 15 months or 20 months, and that would certainly indicate to me that a considerable percentage of the Canadian people are not properly planning their budgeting to repay their obligations, and perhaps one of the most valuable services you people do for them is to put them on a proper systematic basis.

By Mr. Cameron (Nanaimo):

Q. Have you any figures, Mr. Cawker, to indicate how many of these 154,199 people who have borrowed to consolidate overdue bills have been "repeat" borrowers when they finally came up against it?—A. I do not think we would have a breakdown on that category, Mr. Cameron. I would hesitate to refer the average of re-finances, let us say, the total number of re-finances, to the total number of loans made and then try to apply it to this. I do not think it would be fair and it would be error-ridden.

Q. It strikes me that you have outlined here almost every possible bill that people could incur except the grocery bill which I presume is included in the one at the top, because medical bills are included separately—

An Hon. MEMBER: Food bills are further down.

Q. Oh, food bills are here too. I wonder just how people can get out of debt—how you can lend them money if they are falling behind on their monthly living expenses?—A. The evidence in the industry, Mr. Cameron is not that they are getting too deeply into debt. We have an item here for food bills but certainly the consolidated overdue bills may be due to a combination of many of these items. This is not something we have just prepared; every borrower, when he comes into our office to apply for a loan, states the purpose of the loan and that is the basis of the table.

Q. I know that. That is the important thing about it—it is the basis of the table. That is the position that these people are in, as Mr. Philpott says.

By Mr. Philpott:

Q. It seems to me that there is no important point there. Obviously the small loans companies cannot think they are going deeper into debt or they would not lend them the money. The very fact that they do lend them the money indicates that they think they can carry the loan at that rate of monthly repayment; but it does seem to me to indicate that a very high percentage of Canadian borrowers are, in the first instance, too optimistic about their own capacity to repay, or at least, about the tempo of repayment.—A. In many cases this consolidation of overdue bills can "boil down" to another important category; it might be desirable for the borrower at some stage to have a little breathing space, but I would just like to emphasize what you said, Mr. Philpott, with respect to what function we can serve in this business. You will pardon me if I inject a personal note here but I was introduced to this business in 1935 and I became, by the time the war came along, convinced of the important social and economic functions it could play. Thanks to the training my country gave me I could have taken the choice of three professions on getting out of the service, but I chose this one because I am "sold" on the fact that it is a good business which discharges an important function, and I hope very soon the day will come when my company, for instance, will be able to provide the sort of service that our larger cousins provide for their cash borrowers in the form of budget assistance, consumer goods guidance and so on which certainly to me, aside from the business of operating properly and ethically, is one of the things that keeps most of us in the business.

The CHAIRMAN: Surely one of the reasons for consolidating overdue bills is that they are overdue? They are demanding their money and the loan companies provide an extension of the period for payment.

By Mr. Cameron (Nanaimo):

Q. The thought occurs to me that perhaps the original creditor might not require 24 per cent. I imagine that a lot of doctors, for example, might settle their bills for 10 per cent.

Could you tell us what proportion of your borrowers borrow more money before they have repaid their original loan?—A. Do you mean more than the original loan, or refinance at that time?

Q. Those who negotiate a new loan before they have paid the last one?—A. Roughly 65 per cent.

Q. I think that is the answer to this question. Eventually they will not be able to.—A. The Canadian borrower has been getting just a bit of a kicking around here. Out of loyalty, as I mentioned the other night, it is not pallatable to me; in many cases, and I think it is basic, the Canadian people want to keep their credit good. So, therefore, the rather heavy percentage under the notation of "consolidating overdue bills" does not, in my opinion, represent overindulgence in credit but, rather, represents an attempt to inject good management into the business of running the family.

The CHAIRMAN: Are there any further questions on that section?

By Mr. Follwell:

Q. In your table No. 5 on page 12 you list the loans classified by the occupations of borrowers and I notice you have farm labourers and foremen entered as 1,658 which, as a percentage of the total, is ·23 per cent. It so happens that I have a very considerable rural section in my riding and I would like an explanation as to whether or not—I tried to make the point the other day—loan companies are resisting borrowing by farm labourers because of the fact that they might be seasonably employed, or whether it is just because loan offices are not as easily accessible to farm labourers as they are to people working in towns—or is it because farm labourers do not require financing quite as much as urban dwellers?—A. Unfortunately, under the terms of the present act I think it is a little unfortunate—but we have not seen fit in the association brief to make an issue of it, though I have had had expressions of opinion from several of our members—that we are specifically prohibited from making a seasonal payment arrangement and we know that that is the prime requisite for the farm borrower, generally speaking, whether he be a proprietor or a labourer. I think that as the companies spread more into the rural areas we shall see some step-up in the proportion of loans made to farm labourers. It is something which, I think, has to come with growth. In my own case at the moment I am operating three offices in communities whose population is less than 4,000, I think, at the outside. Of course we are small and this does not make a great deal of impression on the national percentages but I think it might be the start of a trend, and that is why I mention it: we are finding now that in relation to our total loans under the heading of occupations the loans made to farmers and farm labourers are increasing quite considerably. I think this is something that has to come with growth; there is certainly no resistance to making loans to farmers or to farm labourers.

Q. There has been some discussion of an extended term of repayment beyond 15 months, comparable with the period allowed to certain other lenders—24 months, for example—If such a facility were given to the small loans companies would that put them in a better position to make loans to farm labourers?—A. I do not think I would like to venture an answer to that question. I think it would benefit the farm labourer exactly the same as it would benefit the industrial worker, for instance, or proprietor in business for self

who, for reasons of his own—maintaining his credit or planning his monthly expenditures—would prefer to have twenty or twenty-four months to repay his obligations. I think you could sum it up by saying, yes, it would benefit the farm labourer.

Q. The farm labourer who works for a season would have at least two seasons to pay it off.

On table 6 you have indicated as the second biggest item as to why people borrow money is for medical, dental and hospital bills. I see that the total number of loans made was 91,238 and the percentage of total was 12·90. This might be a leading question, but would you agree that that might be an indication that hospitalization and medical coverage on a national basis was about due or well overdue?—A. I think I would rather shy off that one, if I may, Mr. Follwell.

Mr. PHILPOTT: Mr. Paul Martin is going to answer that one tomorrow.

Mr. FOLLWELL: I am glad that somebody will answer it.

By Mr. Follwell:

Q. I notice, Mr. Cawker, in the last item but one, funeral expenses, that the total number of loans is 2,880 and the total percentage is ·40, which is a pretty small percentage. I presume the reason for that is that usually people are covered by life insurance and that the life insurance pays the funeral expenses?—A. I would think so.

Q. Mr. Chairman, there is one other question. In regard to the loans here, for instance, for house furnishings in particular, would the loans be made because of the fact that there might be a company in the house furnishing business who would have a sale, on a cash basis, and that an individual purchaser could probably buy at a very low price for cash from the particular company which had the sale? Would you find that they would borrow from a small loans company for the purpose of paying cash in buying items for the home?—A. It is quite common, yes, because in many cases they would effect a saving many times more than the charges which they would pay. Fortunately, in this country, we have not yet got to the point where a dealer, let us say, a furniture house, is more interested in his cut of the finance charges than he is in making a sale. That is the situation in the United Kingdom today—since we were on that subject earlier in my testimony—that in the purchase, or sale, of a car, or sale of furniture, because of the kick back—if you will excuse the expression—from the finance company to the dealer, the dealer would much rather have the sale on the instalment basis than have cash. But I am glad to say that that is not the situation here. Many times extensive savings are effected.

Q. You are saying this, that having the availability of, and being able to secure, a loan, would make it possible for a householder to be at better advantage by paying cash for whatever merchandise he might need?—A. Yes. There is one thing which I neglected. I think that this might sum up the American scene. This is from the National Consumers Finance Association facts and figures, from the 1955-56 edition: "This U.S. survey indicates that of consumer finance families—that is borrowers—38 per cent own their own homes, 52 per cent own their own automobiles, 71 per cent have life insurance, 28 per cent have savings accounts, 20 per cent have postal savings or bonds, and 26 per cent have checking accounts." I think that that is a rather important addition to some of the statistics which we have tried to give you, especially in table 7 on page 13.

The CHAIRMAN: We will now go on to "Delinquent Accounts".

The WITNESS:

DELINQUENT ACCOUNTS

Since the Small Loans Act came into force, Canada has experienced full employment during war time, followed by a period of expanding economy. It is natural that during this time losses have not been a major expense factor. However, the risk element is always present in this business and is reflected, not only in losses, but also in costly, time-consuming adjustment of those accounts requiring special attention. In the event of a downturn in the business cycle, both of these factors would affect costs much more severely than at present.

In many cases the lender finds it necessary to spend a great deal of time in helping the borrower work out a solution to the problem which caused the delinquency. It is not only good business for the lender to take the time and trouble necessary to achieve this result, but it also helps the borrower to regain a sound financial footing.

While write-offs in the industry in 1954 were $547,081 or ·64 per cent of the average amount of loans outstanding, table 8 shows that 105,283 or 20 per cent of borrowers required special attention over and above normal payment procedure. If one-tenth of the delinquent balances shown, had to be finally written off as bad debts, the write-off would then have been four times the actual write-off of ·64 per cent.

TABLE 8

Delinquent Accounts

Small Loans Companies and Licensed Money Lenders
Data from Report of Superintendent of Insurance
December 31st, 1954

	Number of Accounts	*Amount of Unpaid Principal Balances*	*Averages*
With instalments or portions thereof in arrears:—			
(*a*) Under one month.....	60,619	$10,393,740	$171
(*b*) One to two months.....	21,705	3,571,032	165
(*c*) Two to three months.....	7,627	1,128,952	148
(*d*) Three to four months.....	4,039	582,136	144
(*e*) Four to six months.....	4,067	585,721	144
(*f*) Over six months.....	7,226	998,416	138
Total	105,283	$17,259,997	$164

On page 20 of Mr. MacGregor's brief he has supplied the bad debt losses for the years 1934 to 1937. This example has been used as the depression period of the 30's, and between 1934 and 1937 the net amount written off was only about $\frac{1}{4}$ of 1 per cent of outstanding balances. Perhaps we could add to those statistics. As an instalment payment industry we were immediately affected by the reduction or loss of income of the consumer and, taking the years 1932 to 1933, of the largest and most efficient company at that time, the following percentages are bad debt write-off as a percentage of average loan account: 1931, ·98; 1932, 3·82; 1933, 1·02. It is significant that Mr. MacGregor states the net amount written off as being $\frac{1}{4}$ of 1 per cent of outstanding balances between 1934 and 1937. Earlier on that page he states that the net

amount written off annually, which we assume to be for the total period on which he has statistics, is ½ of 1 per cent of outstanding loan balances. The average write-off is just twice that of the so-called depression period, 1934-37.

The CHAIRMAN: The big loss was when the depression first started.

The WITNESS: That is right.

Dealing with table 8, delinquent accounts of small loans companies and licensed money-lenders, this data is taken from the report of the Superintendent of Insurance of December 31, 1934. It shows the state of the delinquencies expressed in months, number of accounts, unpaid principal balances and the averages.

The CHAIRMAN: Are there any questions on these delinquent accounts?

By Mr. Henderson:

Q. Have you the figures for 1955?—A. No. They have not become available except as in Mr. MacGregor's table.

The CHAIRMAN: Are there any further questions? If not, I would suggest that we adjourn. At 8.15 we will start on the next section.

EVENING SITTING

8.15 p.m.

The CHAIRMAN: I am sorry to be late, gentlemen. We now have a quorum.

Mr. FLEMING: Mr. Chairman, I should like to bring up a matter on which the steering committee found itself unable to agree, namely the matter of having extra or additional sittings of the committee. Last Tuesday in this committee I tried to say that I thought that we should all take what steps we could to make sure that this bill is not permitted to be left to die by the wayside. The house, after unanimously giving the bill second reading referred it to this committee and I am quite sure that the house was serious in expecting the bill to be reported back at this session in time for action—such action as the house might choose to take, and also the Senate.

While nobody now can be certain just when the end of the session is coming, it is evident that we are approaching it, but our task here is not yet completed. I am sure there is not one of us who contemplates with any degree of pleasure or satisfaction the undertaking of additional meetings at this late stage of the session. The house is sitting three times a day and the pressure of work is very, very heavy there; but whether we like it or not, it seems to me that we are going to have to take some heroic measures to make sure that our task is completed and that the bill is reported back in time for action by the house and the Senate.

Now we had arranged earlier to hear a number of other witnesses, but it may be that we can—as is often done in committees—allocate the time for these witnesses to be heard. In the case of those who have submitted briefs, I think we can help by reading those briefs ourselves, and while there have been some differences of opinion expressed in the committee which I do not wish to raise again, as to the earlier studies, nevertheless in all these committees it does take the committee a while to get into the heart of the problem. But now that we are well into this problem with the extensive testimony we have had from Mr. MacGregor, and now the testimony we are having from Mr. Cawker, I am quite certain that we can increase our pace as a committee without doing an injustice to any witness who wishes to be heard.

We are having four meetings a week at the present time and it is evident that if we are going to continue merely with the present number of meetings

we cannot complete this task in time for the House and Senate to take action on the bill at this session.

I think the house was serious in wanting this bill referred back at this session, and we want to see action on the bill. We are prepared to co-operate in any way we can to bring about action on the bill. With that end in mind, Mr. Chairman, I move that we increase our sittings of the committee. We are having four a week at the present time, two on Tuesdays and two on Thursdays. The schedule of meetings that I propose and that I move is: two meetings on Mondays, two meetings on Tuesdays, one meeting on Wednesdays, two meetings on Thursdays, and one on Fridays, so as to give us eight meetings a week, just double the present number. I think that would enable us to complete our task, and if we apply ourselves to it, as I am sure all members of the committee will, I think we can finish it; and I am quite satisfied that that is the wish of the house.

We do not want to see this bill left to die by the wayside in a last-minute rush toward prorogation.

I do not think we can defer a decision on this matter any longer because, looking at the arrangements that have been made earlier as to the reception of briefs and testimony, I think we are going to have to put such an increase in the number of our meetings into effect right away. Therefore I submit my motion.

The CHAIRMAN: Mr. Fleming, as you are probably well aware that it is a fact, with our type of government, that prorogation of a session is dependent upon the opposition.

Mr. MONTEITH: Oh no, no, that is not a fair statement.

The CHAIRMAN: As long as the opposition wishes to sit, parliament sits; and I am entitled to make a comment on the motion. Since the government has had no idea whatsoever from the opposition as to when we are likely to prorogue, it strikes me that Mr. Fleming's motion is one that is based on the assumption that we are going to prorogue shortly. Well, if we are going to prorogue shortly—if you can tell us that—I for one would be very interested in this motion. But if we are going to go on indefinitely, perhaps for another month or two, I cannot see the urgency of it at all. Perhaps you can give us an assurance that we are going to prorogue next week.

Mr. FLEMING: I wish I knew the date too, but I do not believe the man has been born yet who knows when parliament is going to prorogue. I only wish I knew. But all I can say about it is this: judging by the order paper—and it is the government's order paper—with the program of legislation and the estimates, I would not be at all surprised if prorogation comes down, let us say, in two and a half weeks or thereabouts. That is my personal and best estimate. But even if we are to have three or three and a half weeks I think the session is sufficiently advanced and the end of it sufficiently imminent that we should not defer any longer a decision in regard to undertaking now to embark on a program of additional meetings if we are going to get this study finished, and I cannot emphasize too strongly that we want to get it finished and get this bill reported back to the house.

The CHAIRMAN: If you can assure us when we are going to prorogue, I can then calculate how quickly we would have to do this.

Mr. FLEMING: I wish I could; nobody wishes it more than I; but I am afraid you have given me a super-human task, to ask me to give you assurance as to the date of prorogation, because I cannot tell you and I do not think anybody in this room or outside it can tell you.

Mr. HENDERSON: You might say that the government starts a session and the opposition determines when it shall be through; but as far as sitting every

day is concerned, some of us have obligations to other things than to this committee; and this leads to the point where probably it is tiring and boring, and we have other things to do. It seems to me that we should come to the best conclusion that we can. Mr. Fleming mentioned that in the agenda committee there was a non-agreement as to the number of sittings that we could have in this committee in order to conclude it. That, of course, has a question mark after it. There was also a non-agreement on a compromise to conclude this matter, a compromise perhaps which would have had in mind both the borrowers of Canada, that they would have a lower rate of interest in the first place, and in the second place it would be a marginal proposition, probably, that Canadian companies could stay in business. But that compromise could not be agreed upon.

So here we are to hear the evidence, and I would be the last man—and I am sure the other members of the committee, including Mr. Fleming as well, would not want to decide upon a problem or to interfere with anybody's stake in Canada, be he American, Canadian or what have you, without hearing both sides of the story.

As far as sitting every day is concerned, and every hour we can, I feel that is a little too much to ask. When some of us—I know—I think it would be true of Mr. Fleming and every member—each member has his constituents to look after. Also we must bear in mind that we have to have some consideration for the people who come before us to give evidence. But that is their business.

Our business is legislation; our business is to get the best evidence we can get upon which we may base our conclusions, and to give every opportunity possible to everybody to give us that evidence. If we are going to have more meetings—this week we are sitting on Saturdays, and that takes away a day when some of us could look after our constituency matters—I, for one, would feel that we should not go for too many more mettings.

It may be that if we could have reached a compromise it would possibly have been something with the two bases in mind, our service to the borrower and our service to Canadian companies, and to ensure that capital will remain in this business to keep us from going into the hands of loan sharks.

I think that Mr. Fleming's motion is a little premature today because we have not yet heard the other side of the story, or one side of this story. Mr. Cawker is still in the witness box and we have not heard him completely as yet. I suggest we wait until we finish with Mr. Cawker and then have another agenda committee meeting. This is a Thursday night and we have lots of time before Monday or Tuesday to do that, because we will be here on Friday and Saturday. That is just my opinion.

Mr. MONTEITH: There is a statement which you made, Mr. Chairman, that really bothers me; it was to the effect that the opposition determines when we get out. That may be so if the opposition should choose to ignore a reasonable examination of the estimates; then, I presume we would get out earlier. But I hope you are not suggesting that such be done by the opposition.

The CHAIRMAN: I would not care to advise the opposition. I think they are better off with the advice that they have.

Mr. MONTEITH: I think it is very obvious that the duty of the opposition is to examine the estimates, and I think that has been proven in the last two or three days to quite a degree.

Another thought is this: I believe the witnesses would prefer to sit here every day of the week rather than to come in for Tuesday and Thursday and to sit idle during Wednesday and do nothing, while they could be doing the business for which they are here. There is another thought: Mr. Henderson

intimated that there was a responsibility for the bill going through, and that possibly the suggestion for an increase in the number of sittings was premature. I think quite frankly that if we do not increase the number of sittings it is quite obvious we will not be able to complete the hearings and the bill will not be reported, and then the responsibility will be on the government.

Mr. CRESTOHL: I am somewhat distressed by Mr. Fleming's suggestion but for another reason altogether. This is a problem which in principle is a very serious one; it is a socialogical problem quite apart from it being an economic problem. I do not think that the committee should be expected to be "pressured" into a decision on a very important matter by sitting eight or ten times a week. I submit that would certainly be a form of pressure and we would have to be working in haste. I do not think that the committee would then be able to do justice to this very important problem. Moreover, Mr. Chairman, we have business in the house; and some of us want to be present when the estimates of certain departments in which we are particularly interested come up, on behalf of our constituents. If we are to accept Mr. Fleming's schedule, we would be here all the time, with no hours left for our attendance in the chamber.

Mr. FLEMING: Yes, in the mornings.

Mr. CRESTOHL: Well, perhaps in the mornings; but one third of the time allotted for the sessions in the chamber is, in my opinion, not sufficient. And as I said at the outset, to compel this committee to work under pressure would not give it an opportunity of studying the problem, and giving it the attention which it deserves. Therefore I would be opposed to the suggestion.

Mr. MACNAUGHTON: I would agree with the remarks of Mr. Henderson. Moreover, I think it is quite a physical strain—we might as well admit it—if we are to be here for five days a week with everybody working on this committee, when we have other things to do as well; we have our constituency business to attend to; but on the other hand I would be quite prepared to have an extra sitting on Wednesday. I think we need at least two days, Monday and Friday in which to attend to the various duties which we have outside of this committee.

Now, I do not know whether that would be acceptable or not. I agree that we should hear all the witnesses who want to come before this committee. But you cannot rush the witnesses; you must hear them and it takes a little time. Therefore I would suggest, if possible, let us compromise and sit on Wednesdays.

Mr. MONTEITH: Sit when?

Mr. MACNAUGHTON: On Wednesdays.

Mr. MONTEITH: One more meeting a week?

Mr. MACNAUGHTON: I do not care whether it is two meetings on Wednesday or not, but at least we would have a little time to attend to other important matters, too.

Mr. FULTON: Mr. Chairman, it is interesting to hear the comments that have been made by Mr. Crestohl and Mr. Macnaughton. I have been trying to remember, and I hope I do not do Mr. Crestohl an injustice, but I believe he was on the Estimates committee last year, and I know Mr. Macnaughton was, when, much earlier in the session than this, the suggestion was made by the chairman of that committee that we should sit every day. Because it was earlier in the session, we in the opposition suggested that perhaps we were rushing things a little. But, as I recall it, a unanimous decision of the government party on that committee, of which, of course, Mr. Crestohl and Mr. Macnaughton were members, was that we were taking the attitude which indicated that we did not want the committee to finish its work. That was very much earlier in the session than this.

The CHAIRMAN: Has that anything to do with the merits of this suggestion?

Mr. CRESTOHL: For the record, I should like to say that I was not sitting on the estimates committee last year, and that I have no knowledge of what Mr. Fulton just said with respect to rushing...

Mr. FULTON: I apologize, but as I said at the outset...

The CHAIRMAN: That is a good average, Mr. Fulton. You were 50 per cent right.

Mr. MACNAUGHTON: I do not think that calls for any comment.

Mr. MONTEITH: I do not know how it can help it.

Mr. CAMERON (*Nanaimo*): I think, Mr. Chairman, it is regretable that this move was not much earlier. There appears to be a determined opposition to the increasing of the number of meetings. I think that we have no alternative but to increase the number. I admit quite frankly that Mr. Fleming's plan is a very strenuous one. But, I would point this out with regard to the time in the house, and I think some members have overlooked the fact, that it has been mentioned that the house is sitting in the mornings, and the proposal is only for one meeting on Wednesday and one on Friday, and that the house is also, from now on, going to be sitting on Saturdays. The house business will be going on then, and members will be free then to attend in the house.

I cannot see any way that we can escape doing this. As for postponing it, that means we might just as well fold up now. I certainly would support this, very reluctantly from my own point of view. I do not relish the idea; but as Mr. Fulton said, two years ago, the first year the estimates committee was on, we sat every day for quite a while. This session I know the Agricultural committee has been sitting three times a day. So, I do not see that we are hard done by, and if we are hard done by it is entirely because we did not take action earlier to increase the number of sittings in a more moderate way, as we might have done before.

Mr. BENIDICKSON: Mr. Chairman, I think members will recall that earlier in the session I indicated some impatience about the progress of the committee on this bill, in which our department is interested. So, I think you can understand that I have sincere sympathy for the views that are being expressed about accelerating now, rather belatedly. However, it has been my experience that matters of this kind are usually best left to the agenda committee. Now, Mr. Fleming suggested that there was a disagreement in the agenda committee on this subject. I was a member of that committee and that was not my impression. I know Mr. Fleming was...

Mr. FLEMING: What I said was that they had not been able to arrive at an agreement.

Mr. BENIDICKSON: I want to be corrected, but my understanding was that is was a postponement of the consideration of changing the frequency of meetings, not a disagreement. What I am worried now about is this: supposing a motion is put forward that we have six meetings, or seven meetings per week, and somebody else wants five meetings, and somebody else wants nine.

Mr. THATCHER: And some three.

Mr. BENIDICKSON: You waste time at a meeting of this type...

Mr. FULTON: You can, of course, move an amendment.

Mr. BENIDICKSON: Yes, and my amendment would be to the effect that this matter be referred back to the agenda committee to meet, as we have done in the past week, at the conclusion of our present sitting.

Mr. HENDERSON: I thought the agreement was that we would play it by ear at this meeting.

The CHAIRMAN: That was my impression, Mr. Henderson, but apparently it was not a unanimous impression.

Mr. HENDERSON: I guess Mr. Fleming was not there at that time.

Mr. MONTEITH: I was present, and that certainly was not my impression, Mr. Henderson.

Mr. FLEMING: Mr. Chairman, if Mr. Benidickson has put that in the form of an amendment, I would like to urge the committee that they should not adopt that amendment.

In the first place, it would mean deferring the matter at least until next Tuesday, whereas I think the increase needs to be inaugurated now; because our regular schedule of meetings at present would call for the next meeting of this committee to be held next Tuesday afternoon. The agenda committee could only meet and make a recommendation to the next meeting. I think, with all respect, time is too precious now to warrant a deferment of that length of time in making a decision.

In the second place, I think that we in this committee are fully appraised of all the circumstances. The only effect is to stall action if you have it referred to the subcommittee. The subcommittee is not going to be able to arrive at an agreement. It was not able to do so today on this subject. I am not criticizing the committee or any member of it for that, but I am suggesting that it is much better, now that we have discussed the difficulty here, to reach a decision here. We are going to be no further ahead by referring it to the subcommittee, because the same situation, and the same views, will be simply reflected there in miniature. I would urge that we go forward now and make our decision at this meeting. We have had a full discussion; why should we not make the decision now?

Mr. BENIDICKSON: Mr. Chairman, I will only say that I have usually found that Mr. Fleming wants 100 per cent or nothing. As far as I am concerned, I thought we could arrive at a compromise by having another inter-party huddle on this matter, that would be more representative in a composite form of the best wishes of all. But, as I have found on some other occasions, if there is insistence, I am afraid I will have to go against his motion.

Mr. FULTON: If you remember, on Tuesday night we moved a similar motion, when the suggestion was made by Mr. Regier, that the matter be referred back to the steering committee for its consideration. You and your colleagues, of the Liberal party, all voted against that motion. That was another rather odd change of heart.

Mr. BENIDICKSON: The steering committee has been making very substantial progress, Mr. Fulton. I thought it might be able to make some more. It was with that thought in mind that I questioned whether or not I could vote for a motion that I know people would at this point disapprove of.

The CHAIRMAN: Have you a seconder for your motion, Mr. Benidickson?

Mr. BENIDICKSON: I do not know whether I have. I will move that this matter be referred to the steering committee.

The CHAIRMAN: The subcommittee on agenda and procedure. Is there a seconder?

Mr. ST. LAURENT (*Temiscouata*): I second it.

Mr. CAMERON (*Nanaimo*): Mr. Chairman, it seems to me that I recall you ruled a motion to defer out of order the other day. You said it was not a proper amendment.

The CHAIRMAN: You have a fantastic memory.

Mr. CAMERON (*Nanaimo*): I have a very keen memory of it.

Mr. MONTEITH: It certainly occurs to me that an amendment such as this, throwing it back to the steering committee, would stall the whole procedure.

The CHAIRMAN: I most decidedly did not rule it out of order. I ruled it in order. I said it may be ineffective, and that it might serve no useful purpose, but that the motion was in order. If you want to read the proceedings, there it is. Your memory, as usual, is very convenient.

This is an admendment moved by Mr. Benidickson and seconded by Mr. St. Laurent that the matter of frequency of sittings be referred to the subcommittee on agenda and procedure for their consideration and recommendation, later this day. All those in favour—

Mr. FLEMING: Mr. Chairman, there are some words added to that amendment. Mr. Benidickson has apparently added the words "later this day".

The CHAIRMAN: He did not add them; he put them right at the beginning.

Mr. FLEMING: I beg your pardon?

The CHAIRMAN: He put those words right at the beginning.

Mr. FLEMING: I did not hear them. When is this committee going to meet to receive the report of the agenda committee?

Mr. BENEDICKSON: As is customary, at the call of the chair. The clerk sends out notices.

Mr. FULTON: Are you able to guarantee any more success as a result of a meeting of that committee than was achieved the last time? The chairman was asking us to guarantee something a little earlier. Perhaps we would be entitled to ask him for a guarantee that there would be an agreement, and that we would not be wasting time.

The CHAIRMAN: And perhaps you would get exactly the same answer.

Mr. BENIDICKSON: I cannot think of any greater waste of time than a committee meeting of this kind.

Mr. FLEMING: May I resume my question? Ordinarily the next meeting of this committee, unless we do increase the frequency of our meetings, would not be held until next Tuesday afternoon. Even if the agenda committee met later this day, we would not have any report before this committee until Tuesday afternoon, and no action would be taken until then. Now, is the committee prepared to meet, say tomorrow morning, to receive a report of the agenda committee?

The CHAIRMAN: Mr. Fleming, I would like to be able to give you a guarantee. As you have already stated, you have not the faintest idea when we are going to finish this session. It is very difficult for me to give unequivocal answers when yours are so equivocal.

There is a motion before this committee—I am not proposing to give you any guarantee at all. Why should I; you people give us none.

Mr. FLEMING: The difference, of course, is this, Mr. Chairman: I think it must be apparent to all that it is not possible for any man to give a guarantee as to the length of the session or as to when prorogation is coming, but it is possible, surely, for the chairman of the committee to say when the next meeting of this committee will be called. It seems to me that the difference between those two propositions is the difference between day and night.

The CHAIRMAN: We have spent half an hour on this now. If you wish to bring up a new amendment—

Mr. FLEMING: That is why I think we ought to deal with the matter finally now instead of having it shelved by this amendment and sidetracked.

The CHAIRMAN: It has never been your opinion before that it was stalled by being sent to the agenda committee.

Mr. FLEMING: It certainly is in this juncture.

Mr. CRESTOHL: Could you give the backbenchers the benefit of your wisdom. I cannot hear what you are saying.

The CHAIRMAN: What were you saying, Mr. Crestohl?

Mr. MONTEITH: He said consult Mr. Fleming.

The CHAIRMAN: If you would speak up a little we would get it up here.

This is an amendment moved by Mr. Benidickson, seconded by Mr. St. Laurent, that the matter of the frequency of sittings be referred to the subcommittee on agenda and procedure for their consideration and recommendation later this day.

Mr. FLEMING: I would ask for a recorded vote, Mr. Chairman, both on the amendment and the original motion.

Amendment put.

Mr. HENDERSON: This is on the amendment?

The CHAIRMAN: This is on the amendment to refer the matter to the subcommittee on agenda and procedure.

Amendment carried.

Mr. FLEMING: What are the totals?

The CHAIRMAN: Yeas, 14; nays, 8.

I think we can get on with this brief.

The WITNESS: Mr. Chairman, toward the conclusion of this afternoon's sitting there was some discussion on some of the services provided by the small loans companies and licensees to the borrowers in the way of social services. I made some reference to various budget and purchasing circulars which are put out by the research department of one of our larger members. We do not have any big supply of them here,—I just had them gathered up from one of the offices. I would, however, be glad to leave them here in case anyone would care to examine them. I regret I have not enough copies for distribution to the committee.

The CHAIRMAN: I will just put them out here—if anyone wants to look at them, they are available.

Mr. FOLLWELL: We cannot hear what the witness is saying nor can we hear what the chairman is saying, if he is saying anything.

The CHAIRMAN: I can assure you he has not said very much.

Mr. CRESTOHL: What were you saying, Mr. Follwell?

The CHAIRMAN: For your benefit, Mr. Follwell, these are pamphlets pertaining to the management of budgets which are produced by certain of the loan companies to help people manage their budgets in a somewhat more scientific and systematic way. I do not know how you are situated but it may well be that one of these may benefit you, and I will be glad if you would look at them.

Mr. FOLLWELL: I can only agree with you—I am just a typical Canadian and in about the same position as every other member here; I feel sure we could get valuable information from these budget pamphlets.

The CHAIRMAN: In that case there are several different varieties here, Mr. Follwell. Perhaps we could get on with the brief. We have arrived at page 17.

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, recalled:

The WITNESS: Changed Conditions Call for Amendments to Small Loans Act.

In the post-war period there has been a constantly increasing demand for consumer loan service from salary and wage earners who comprise the large majority of our customers. Lenders have responded by opening branches in many communities in order to meet this demand. They have also added units as required to serve adequately the rapidly increasing populations of our metropolitan areas.

Important factors in this development have been:

1. Industrial expansion.
2. Higher salaries and wages.
3. Increased population.
4. Public recognition of the benefits to be derived from sensible use of consumer credit.

To meet the changed conditions, members of this association have been aware for some time that, if the Small Loans Act is to maintain its effectiveness, certain provisions should be amended.

While statistics are useful as a yardstick, the experience gained by lenders in their day-to-day dealings with customers, fills an essential role in gauging the requirements of borrowers and the industry which serves them. It is the sum of this experience together with the statistical record which provides the basis of this association's submission.

The CHAIRMAN: Are there any questions on this section of the brief?

By Mr. Henderson:

Q. Under "Higher Salaries and Wages", I would like to ask Mr. Cawker whether Canadian small loans companies pay any supervisory fee to the acceptance companies which they foster. I do not know whether this is the place or not at which this question should be asked. However, I would like to know about this supervisory fee, if any is paid.—A. I think this particular section refers generally to salaries and wages, but I would be glad to proceed to answer the question you raise...

Q. I do not know any other place at which I could ask it.

By Mr. Cameron (Nanaimo):

There must be some reference to expenses in the brief.—A. I do not think we actually deal with the point you have brought up, anywhere in our brief.

By Mr. Henderson:

Q. Then I would be pleased to have the question answered under this heading.—A. It is not the practice—let me make a division here—of the Canadian independent companies—I have not closely enough examined these larger Canadian chains—to operate a sales finance company side by side with their small loans business, and to pay any kind of supervisory fee or management fee to the sales finance company. I should say also, for the sake of the Canadian companies, that we were amazed at the information that was placed before this committee with respect to what I would call the ballooning of profits in the small loans field of the largest operator in that field. In effect it is the subsidization of the small loans earnings of that company by removing an item of expense, which evidently meets with the approval of another very important department of the government of Canada. We are, as Canadian companies, accused—I will not say "accused" but called to task—on many occasions for allotting costs which in the opinion of the department—

Mr. HENDERSON: Which department?

The WITNESS: —of the Department of Insurance are heavily weighted—too heavily loaded—on the small loans companies; in other words, the thought has been raised that there is a device being used in the allotment of costs as

between the sales finance business of the small loans company to load too much of the day-by-day cost of doing business on the small loans company. I was rather interested to hear Mr. MacGregor say that differences in the approach to costs as between the companies and their auditors and the department had been the subject of discussion, but never a matter where the department would change the figures. Therefore, I think we can only assume this raises the profits attributable to these small loans section of the business. I believe Mr. McGregor said in evidence—

Mr. BENIDICKSON: What page?

The WITNESS: No. 16, page 524:

> I should make it clear however that throughout the discussions the department never changed the statement. We never imposed our view in any respect.

I believe there was some other place in the evidence where a statement was made with respect to the general picture of the relationship with the companies. I think, in all fairness, that that particular statement refers to discussions between Household Finance Corporation and the department.

On March 11, 1949, Bellvue Finance Corporation received this letter from the Department of Insurance:

> Dear Mr. Cawker:
>
> I have yours of the 24th instant.
>
> In completing annual statements we would like to see preserved a continuity from the standpoint of our examiners' figures favouring action by companies to bring their books into line wherever possible where the department has seen fit to make changes.
>
> If you agree in this respect, I can see the difficulty with which you are confronted as expressed in the second paragraph of your letter. Possibly the continuity we would like to see could be accomplished in future years by your office by appropriate amending words in the verification itself; for example, after the words "made up from the books of the company" which appear in the verification there might be inserted immediately thereafter some qualification or modification to this effect, namely, "except as the statement has been amended to reflect alterations made in a previous year or previous years by officers of the Department of Insurance".
>
> Yours very truly,

My letter was dated February 24, 1949, and I said:

> Since the sworn verification makes reference to the contents of the statement as being made up from the books of the company, it is not possible to sign over the totals brought forward by the department.

Now the situation which bothers us as a result of this sort of thing is actually we feel we are confronted continually with a ballooning of profits in the small loans part of our business with a view simply to making a rate, and when we begin talking in terms, I believe, of $240,000 in the case of the largest lender and, therefore, the toughest opposition for the so-called marginal companies, it begins to assume rather sizeable proportions; and I think I should say here for the sake of the Canadian companies that we feel it is not a proper state of affairs to be permitted in a situation where parliament, or a committee such as this, is involved in making a very important decision on what the maximum rate should be and, of course, taking it further, just how many Canadian companies should survive in this business and give the large operators the type of competition I think they should have.

By Mr. Crestohl:

Q. What do you mean by the term "making a rate"?—A. Setting a rate, or determining a maximum rate.

By Mr. Macnaughton:

Q. Mr. Chairman, on page 17 of the brief at the beginning it says, "In the post-war period there has been a constantly increasing demand for consumer loan service from salary and wage earners..." What about borrowers who have seasonal employment, such as fishermen, lumbermen, and farmers to a certain degree? What would you think if the act provided for periodic payments instead of monthly payments? Would that be any help or would it be possible? I am thinking of seasonal employees who only work for certain months in a year, who naturally find themselves in a difficult position in respect to making monthly payments.—A. I feel that it would be most helpful to the borrower. We should also, I think, be completely honest and state that this does leave a bit of a loophole to be used as a device possibly in defeating the purpose of the act. However, I do not think that it is impossible to take an approach to this thing. For instance, in the Income Tax Act we have special considerations for farmers, fishermen and other people employed in a seasonal capacity. It would be most helpful to the borrower, and it certainly would make a manager's job in a loan office much simpler, if there were some clearly defined policy, and possibly some adjustment in the statement of rates or the availability of seasonal loans to those people who cannot make regular monthly payments such as industrial workers.

By Mr. Huffman:

Q. On page 17 I notice that it says, "Lenders have responded by opening branches in many communities in order to meet this demand." I know there has been reference previously to clustering of offices. Would you like to comment on that, Mr. Cawker?—A. With your permission, Mr. Chairman, there has been a reference, I agree, to the clustering of offices. It has something to do with advertising, and with your permission may I refer this question to Mr. Oakes.

The CHAIRMAN: Yes.

Mr. OAKES: This so-called clustering of offices results from the natural desire of business to locate its offices wherever it will be most convenient to permit the best service to the customer. Lenders are not unique in this respect. It is common to all types of business. Take the banks, insurance agencies, grocery stores, department stores and all other types of business. I think it is clearly demonstrated by the number of shopping centres which have sprung up across the country in recent years, and very frequently more than one of each type of shopping centre. In fact, there are cases where whole shopping centres have been located in close proximity to existing shopping centres, simply because people like to do their shopping and business as near as possible in one convenient location. All the lenders who are interested in establishing in any community naturally establish at these central points. In checking the Ottawa telephone directory we find 129 insurance agencies; 27 of these are located on Sparks street. It is just good business practice that they should be where the customer can get to them easily and conveniently and obtain the service which he needs.

By Mr. Huffman:

Q. Then, further, it says, "They have also added units as required..." It has been said that too many offices might tend to encourage people to borrow. Do you feel that that is true?—A. I do not think so, sir. Too many

shoe stores, for instance, do not make people buy too many pairs of shoes. I speak from my own company's experience that we open units when we arrive at a particular number of accounts. Usually where we find that in order to give good service to our customers, so that the people may be served quickly, it is necessary to open another unit, possibly quite nearby, just for the physical requirements of getting people in and not having them wait for an hour, or two hours, until they can be taken care of.

Again, it is just good business because, if we did not do that, possibly another company would make it more convenient for those people to get in. That has not always been the case. We keep a very careful record of the time a customer comes in and goes out of our office. We check it very closely to see that a person is not kept waiting unnecessarily. But in the old days it used to be that people would have to wait an hour, or two hours in some cases, at a busy lunch time. We think it is one of these intangibles of service which acts in the best interest of the borrower.

By Mr. Crestohl:

Q. Would that be the only motive? Would there not also be the expectation of attracting new customers?—A. Yes, sir. We hope to attract new customers.

Q. You would not open another centre solely for the purpose of accommodating existing customers?—A. In some cases we have done that. Of course, there are new customers who come into that office. The point is that you do not get the impulsive type of customer in this business. A man does not walk along a street, see a neon sign and say, "I will slip in and borrow some money." Families usually think it over. We know from our experience with them that they do a lot of discussing and planning; they do not rush to a loan office; they know about the 24 per cent per annum rate, and if they can obtain money elsewhere they will. It is not the impulse buying, as you may call it in some merchandise.

By Mr. Huffman:

Q. You spoke about "convenience and advantage" in connection with some of the small loans offices in the United States. What has been the experience under this type of legislation?—A. The "convenience and advantage" is a funny expression to use when you are reducing the number of licensees perhaps. This convenience in my interpretation covers these various things which I have mentioned; being conveniently located for the customer, for instance. But by limiting the number of licensees, I do not know how this really acts to the borrower's convenience. It is possible that he may live at the west end of town, and have to go to the east end in order to get the money, whereas he could, allowing the economic and competitive factors of business to come into play, have an office possibly a few blocks from his home.

As to the experience in "convenience and advantage" states, as they call them in the United States, I have a booklet here which gives some pertinent figures on "convenience and advantage". We find that the present dollar outstanding per capita of population in the United States, with the so-called "convenience and advantage" law, is $13·87. In the states without the "convenience and advantage" law they have a per capita outstanding of $13.83. I do not think there is very much difference in those figures. Again, you do not have that same "convenience and advantage" restriction in the field of the banks or the credit unions. We would not approve of it in that field any more than we approve of it in our own field. We believe that businessmen should be permitted to serve the customer to the customer's very best advantage. We think that business will serve the customer to the best of the customer's convenience if it is allowed to open offices wherever the businessman decides he can stay and make a living.

Q. Then, did I understand you to say that you did or that you did not think that more offices would tend to promote more borrowers?—A. No, I do not think that more offices tend to encourage people to borrow.

By Mr. Cameron (Nanaimo):

Q. Mr. Cawker, I am interested in your suggestion that one of the reasons for the expansion of the money-lending business has been the higher salaries and wages. It would seem to me that with higher salaries and wages people might be able to finance their own requirements without borrowing. Particularly I have in mind a country which is usually considered to have about the lowest per capita income, namely India, where the money-lender, sitting under the banyan tree, has been a feature of the landscape. I am not suggesting that you are sitting under the banyan tree. I do not understand how higher salaries and wages, if they are real higher salaries and wages, can increase the necessity for borrowing.—A. Of course, with respect to your reference to India, I do not believe that they have any workable small loans legislation.

Q. No; they have some very hard working money lenders though.—A. To get back to more practical considerations and to answer your question as to why, in view of the increasing salaries and so on, there is an increase in the business, I would simply say this: that people are willing to commit a wise portion of their future income to raising their standard of living under conditions of stable employment and good wages.

Q. I do not know how people can raise their standard of living above their effective income.

The CHAIRMAN: They get it more quickly. Is that not the situation?

The WITNESS: The fact remains that because of these very conditions which you have mentioned, people are better able to meet their obligations and lenders are thus more willing to extend credit. As I said before, I am not an economist, but it is rather peculiar that, if you take three countries, the United States, Canada and Great Britain, I have heard it said—I will not claim any pride of authorship in the statement—that the people of the United States have the highest standard of living in the world, and I think it is fair also to say that Canada has the second highest standard of living in the world, and I think that probably Great Britain is very close to a pretty firm third position. Now, relate that to instalment credit, and the ratio is maintained. The United States has the highest instalment debt per capita, Canada has the next, and I believe Australia and Great Britain are just about even, with 20 pounds per capita. You would expect me to agree with you that if you cannot buy a car on one week's wages you cannot buy it at all, or to have the necessary qualities of self-discipline that you can take away a certain amount each week until you have enough to buy a car. And then, quite frankly, I do not know what happens to the car and the appliance manufacturers, because they will be the first to agree—and the economists will be the first to agree—that the ability to build a careful plan from income and to apportion it and to keep your commitments is, frankly, what keeps people working.

By Mr. Huffman:

Q. In your last paragraph it says:

> While statistics are useful as a yardstick, the experience gained by lenders in their day-to-day dealings with customers, fills an essential role in gauging the requirements of borrowers and the industry which serves them. It is the sum of this experience together with the statistical record which provides the basis of this Association's submission.

What I would like to ask you is this: how far in advance can your officials determine the economic trends so that you will know what money you will

need to meet the demand for that money from the borrower?—A. I do not think my answer would be a very good one because my experience has been that I am always faced with the problem of raising money. So, on a little more stable basis, with your permission, I would like to refer the question to Mr. McClure who spends a great deal of his valuable time in meeting that problem. May I refer it to Mr. McClure?

The CHAIRMAN: Yes.

Mr. Donald F. McCLURE (*First vice-president, Household Finance Corporation (U.S.A.)*): Mr. Chairman, I would like to say that the companies in the United States are beginning to have the same trouble, namely, we are beginning to see the end of our ability to keep on trying to decide upon the amount of money that it has been possible to obtain up to this time. I do not say that the end is near, but the possibility is rising. The fact is that the ability to get it in, in time, is becoming more difficult. The business itself is getting so large and the demand is continuing to mount—I refer to the loans business—and coming at the very same time when other industries, manufacturing companies and governmental agencies are coming into the market demanding money. The result is that sources of capital are not even as plentiful as they were, relative to the demand.

Now, coming directly to your question: it was, if I remember correctly, in anticipating our financial needs, how far in advance can we see? Not very far; perhaps easily, six months; with greater difficulty, a year; beyond that, we are only guessing at trends; and as these factors can enter the picture they will alter the trend with the end of a twelve month period.

Why is that so? That is so because the demand for instalment cash credit, which is distinct from instalment sales credit, is somewhat different; it rests fundamentally upon millions of decisions being made in individual families as they sit around the supper tables in Canada and the United States. They are the kind of people who come to us and say: "Now, shall we fund these debts which we owe, let us say, to the coal dealer, to the merchant, to the landlord, which have become embarrassing to us, because of some interruption in our income? Shall we fund these debts into a single obligation with a creditor who is willing to carry us and pay him off out of our ability to pay, or shall we continue to hold them all, involuntary creditors that they are, until we can find ourselves in a better position?"

Now, the decision to fund and come to an instalment cash level is, curiously enough, made more often in conformity with their feeling that employment is secure, and they are confident that their pay envelope or salary will continue into the future. Then and then only does the average Canadian—and to some extent the average American, say "I am willing to obligate my future earning power", and he will therefore give his promise to pay. So the demand for cash credit is peculiarly dependent upon a certain pyschological factor, and that factor can change very quickly, and it has changed very quickly.

A dramatic example of it was during the war. This is an exaggerated example, but it is symbolic of what I am trying to say.

At the start of the war in Canada in 1939—and then in the United States in 1941—the demand for this business almost dried up overnight because of the sense of insecurity; people did not want to obligate themselves. It is true that the lender also began to be a little more cautions; but it was not very long until the lender was more than eager to lend, and he could not find a borrower. That was true in the United States in 1953.

I am sorry that I cannot give you any example more recently in Canada because I am not well enough acquainted with it; but in 1953 we had a tightening on the part of our "Federal Reserve Board" of credit in allowing people to keep employed, and the result was unemployment which commenced in August or September of 1953 and continued until well into the Spring of 1954.

The demand for cash credit in the United States also let up, but it did not dry up; however, it did let up. Consequently in the earlier months of 1954 the company which I represent received an outstanding supply for a few months. And the converse of that is true today, with my answer to some other question asked as to why it is that the demand for this cash credit increases when times are good?

It has always been so. I have been in this business for thirty years, and my company goes back beyond that time. Ours has always been a cyclical business, increasing with employment and good times, and curiously enough decreasing as people are laid off and as times are hard. That is contrary to what many believe. Why is this true? It is true because the average common man, the human being who does business with us, is a very thrifty handler of his affairs. I have great respect for the way in which he uses credit.

To come back now to the current situation, the demand in the United States and Canada since the beginning of the second quarter of 1954—there was no let-up in Canada, but in the United States since the second quarter of 1954, and prior thereto in Canada, there has been an increasing trend; I do not want to say it has been increasing every month, but there has been an increase in our outstandings—an increase over that amount, and the repayment trend is continuing, and it is continuing up to this moment of time. My believe would be that when the steel strike is settled many of these problems, which are currently before us, will be settled. People will continue to be well employed and feel secure in their jobs. When they are, then they come to the point where they have to make a loan and are willing to come to us to make it.

Now, remember this also about cash credit as distinct from sales finance—the reason people need cash credit as distinct from sales finance, which is usually to buy an automobile, or furniture or household equipment, and the credit is granted at the point of merchandising; in fact, the credit is a tool of the vendor. But there are a great many things which people need, in connection with which there is no creditor at the point where the vending is taking place, where he can get credit. A family suddenly finds itself confronted with the expense of moving to a new job, or paying medical, or dental or hospital bills, or assistance to consolidate debts due to some temporary lay-off, which piled up and became embarrassing; and he is now back and wants to consolidate them and get them paid. Now, when that happens the man says, if times are good, "I will go to a cash lender and get the money". That is where the demand comes from.

Now, you have the difference between that and sales finance. There are two differences, and it is quite important to keep them in point of view. From the social aspect the one is that the things he needs, when he comes to the cash lender, are usually intangible. I have been giving you some examples—doctors, hospitals, and so on. Now, those things have great value to the consumer. The importance to a man of his restoring his health and his availability to a job, holding his family together during a period of interrupted earning power, or taking care of his responsibilities to people he cherishes, can be most important things to him. If he is unable to make a payment to the man from whom he borrowed the money, those things have no value to the lender at all. So the result is that cash instalment lending is a very expensive and very difficult type of business to handle.

The other factor about this type of business which gives it special social significance is the fact that the reasons he has to borrow the money are usually urgent. You see, the things that arise from merchandising are very often postponable. We may want a car or a new refrigerator, but they can be postponed. But when a man is confronted suddenly with an inadequacy which has to be supplied, or a hardship to be relieved, his choice literally is between

cash credit or privation. So, those two factors urgency and intangible value, are what makes this type of business, which gives it its important social significance, and are the reasons you gentlemen are considering it today.

Those things can happen even in good times to the individual family. They do not happen to all families at the same time, but any one family is likely to run into one of these emergencies in good times as well as bad. In good times he will make use of it, and in bad times he may elect to take privation. So, when you say to me: how do you tell, how do you foresee the future for raising your money, and what time is good, my judgment would be that these decisions will be in favour of using cash credit. Therefore we had better well-know where we are going to get the cash to meet the demand which is surging up into our branch offices now.

The alternative is to say to these people, "We are sorry; we cannot make you a loan". But it is foolish to try to guess at much beyond six months or a year in advance.

Did I answer your question in a thousand words? I am sorry.

Mr. HUFFMAN: I take it then that you consider it, from the statement you just made, that in the foreseeable future, that is for the six to 12 months upon which you base your judgment, you can see no change from the present position.

Mr. MCCLURE: I see no change in the trend at the present time, sir, particularly in pattern.

The CHAIRMAN: Any further questions on this section, gentlemen?

By Mr. Follwell:

Q. Mr. Chairman, there was just one line I would like to draw to the attention of the witness and to ask his comments on it, and that is the paragraph on page 17 that says: "To meet the changed conditions, members of this Association have been aware for some time that, if the Small Loans Act is to maintain its effectiveness—", and this is the point I want to ask the witness about: "...certain provisions should be amended." Now, Mr. Cawker, what do you mean by that statement, and that word "amended"?—A. I will be dealing with most of them, Mr. Follwell, as we proceed to "loan ceiling", and of course, coincidental with "loan ceiling" there must be some consideration of rate, and one of the small matters that we have not dealt with particularly in our brief would be possibly the change of name for this act. We, of course, already have discussed the matter of limitations about where we are permitted to raise capital, and I feel that, of course, the maturity of the loan, both in the field now covered by the regulations of the act of 1939, and of course, in the field which we are recommending now, should come under the jurisdiction of the act.

Q. And when you speak about the term, it is the length of the term that is permitted for the borrower to pay back?—A. Yes. We would like to see the loan—I believe we touched on it briefly this afternoon—the maturities in the field up to $400 or $500 extended to 20 months, for the convenience of the borrower. We feel that in keeping with other instalment finance trends there should be an extension, a considerable extension of maturities in the higher fields—that is, the field outside of those now covered by the act.

The CHAIRMAN: Any further questions, gentlemen? If not, we will move on to the next section, "loan ceiling" at the bottom of page 17.

LOAN CEILING

The present ceiling under the Act is $500. Any increase will be solely for the protection of borrowers, since it will extend the area of regulation and supervision. At present, lenders are not limited as to rate of charge or period of repayment on loans over $500.

That there is a great need for cash credit over $500 is indicated by the following figures:

BALANCES OF LOANS OUTSTANDING—DECEMBER 31, 1954

Small Loans Companies and Licensed Money-Lenders

Year	Loans Under $500	**Loans Over $500
1954.....	$88,822,891.00	$117,384,849.00

**Includes figures for Household Finance Corporation Ltd.

The 1954 report of the Department of Insurance emphasizes this trend toward larger loans by pointing out that the balances of small loans increased only 15 per cent between year-end 1952 and 1954, while balances of large loans made by licensed lenders increased 76 per cent.

This is not surprising since Dominion Bureau of Statistics reports show that personal disposable income has risen from $4·8 billion in 1940 to $18·3 billion in 1955—a 281 per cent increase. In the same period, weekly wages have risen from $24.94 to $61.99—a 148 per cent increase.

Most consumer loan customers today have the same characteristics as those whom the act was originally designed to protect, but many of them now require larger loans to satisfy their needs.

While the majority of borrowers requiring loans above $500 use the services of lenders licensed under the Small Loans Act, some are at present being served by unlicensed lenders who commence their activities at $501 and therefore are not required to meet the qualifications of experience, character and general fitness required by the Act.

Of course, by unlicensed lender we mean an individual or company who does not hold a licence under the Small Loans Act or make loans below the $500 limit. Amending the act would eliminate this undesirable situation, curbing the possibility of abuses in the making of larger loans.

In view of these conditions, we support the proposed increase in the loan ceiling, provided that rates of charge permitted are sufficient to attract the necessary capital to service the extended area.

RATE OF CHARGE

The Canadian Consumer Loan Association believes the rates in Bill 51 are too low.

Had the rates in Bill 51 been in effect for the years 1954 and 1955, the earning power of the industry as a whole would have been reduced from a 6·2 per cent return on assets employed to 4·5 per cent. Of course, that is before interest on borrowed money. This is an average for all lenders. If from the figures are subtracted six of the companies which are known to be subsidiaries of other companies, the earning power of the Canadian independent companies would have been reduced in 1954 from 4·2 per cent on assets employed to 3·2 per cent and in 1955 from 3·6 per cent to 2·5 per cent. This is too severe a reduction; the purpose of the legislation is defeated when the rate is reduced to the point where commercial capital will not undertake to supply the demand.

To test this conviction, this association engaged Deloitte, Plender, Haskins & Sells, a leading firm of independent chartered accountants, to analyse the

reports of the industry and recommend a basis of measuring its earnings. They were also asked to estimate the effect upon the industry's earnings of the proposed changes in rates of charge set out in Bill 51. Their report follows this section.

This independent report forms part of this submission. The chartered accountants have recommended that earnings be stated as a percentage of assets employed in the business. Earnings are taken as the gross income earned less all expenses other than interest on borrowed money (with appropriate income tax adjustment). They estimate that the rates proposed in Bill 51 will reduce the earnings of the industry as follows:

In 1954 all companies had assets employed of $213,969,868. Six of the known subsidiaries—that includes, of course, the American subsidiaries and the Canadian subsidiaries of known parents—$184,305,629, and the remaining companies, which, I think, could be termed the Canadian independent companies, $29,664,239. Earnings for all companies amounted to $13,310,312; for six of the known subsidiaries, $12 million odd, and for the remaining companies, $1,252,344. Earnings expressed as a percentage of assets employed were, for all companies, 6·2 per cent; for six of the known subsidiaries they were 6·5 per cent, and for the remaining companies, 4·2 per cent. With the earnings adjusted to the rates proposed in Bill 51 the earnings of all companies would be reduced to $9,700,000 odd—

By Mr. Fleming:

Q. I was wondering, Mr. Chairman, whether it was necessary to read the figures when they are in the tables. They will go into the record anyway.—A. These figures are all important to us, Mr. Fleming.

Q. I quite realize that, Mr. Cawker.

The CHAIRMAN: I do not know how Mr. Cawker can emphasize his point without using his figures. Those other tables were not of such consequence—this is the meat of his argument, is it not?

Mr. FLEMING: I realize it is the meat of the brief.

The WITNESS: With earnings adjusted to the rates proposed in Bill 51, there would be a reduction from $13 million in the case of all companies to $9 million; for the known subsidiaries a reduction from $12 million to $8 million; and for the remaining companies a reduction from $1,200,000 to $941,000. The adjusted earnings as a percentage of assets employed would be as follows: for all companies, 4·6 per cent; for the known subsidiaries 4·8 per cent and for the remaining companies 3·2 per cent.

In 1955—and I will try just to hit the highlights; I know that these figures are before you—we see a reduction of earnings for the 41 reporting companies from $15,969,273 to $11,635,678 and for the remaining companies from $871,000 odd to $611,000 odd. I should point out that these figures do not include the losses of one company which commenced operations during 1955. We show here a reduction of earnings as a percentage of assets employed from 6·2 per cent for the 41 reporting companies to 4·5 per cent; from 6·6 per cent in the case of the known subsidiaries to 4·8 per cent; and for the remaining companies, from 3·6 per cent to 2·5 per cent.

1954	All Companies	Six of the known Subsidiaries	Remaining Companies
Assets Employed	$213,969,868	$184,305,629	$ 29,664,239
Earnings	13,310,312	12,057,968	1,252,344
Earnings as a % of Assets Employed	6·2%	6·5%	4·2%
Earnings Adjusted to the Rates Proposed in Bill 51	9,761,464	8,820,392	941,072
Adjusted Earnings as a % of Assets Employed	4·6%	4·8%	3·2%

1955	Forty-one Reporting Companies	Six of the known Subsidiaries	Remaining Companies
Assets Employed	$255,829,112	$231,150,498	$23,994,172*
Earnings	15,969,273	15,183,807	871,134*
Earnings as a % of Assets Employed	6·2%	6·6%	3·6% *
Earnings adjusted on the Rates Proposed in Bill 51	11,635,678	11,116,754	611,771*
Adjusted Earnings as a % of Assets Employed	4·5%	4·8%	2·5% *

*These figures do not include the losses of one company which commenced operations during 1955:

Concern has been expressed that so much of the capital employed in the instalment cash lending business is United States' capital. Canadian capital has been reluctant to enter the business when the permitted rates of charge produce over-all earnings of approximately 6·2 per cent on assets employed. How much more reluctant it will be if earnings are reduced to 3·2 per cent or 2·5 per cent. Special risks in this business must be recognized:

There is the legislative hazard. Capital fears legislative reduction of the rate to a point that would cause it to withdraw with the losses which accompany the liquidation of a business.

With a fixed limit on charges and no opportunity to multiply profits through turnover, the consumer loan business permits only reasonable earnings. In other words, the lender's gross return is tied to a percentage rate coupled with a burden so that his return does not increase through making more loans unless he also increases the numbers of dollars outstanding. The retailer is not so limited; by improving his turnover, he can make more sales with the same amount of capital and thus increase his return. It does have compensating stability, but even this is being undermined by continually rising costs. As the gross price is fixed, expansion of profits is strictly limited.

There is risk of substantial increase in bad debt write-offs. Whilst current write-offs for bad debts in Canada have been relatively small, it has been far different in the United States. In the 27 years from 1929 to 1955, the write-off of one large company has averaged 1·30 per cent annually and in 1933 that company was obliged to write-off 6·57 per cent of its total loan balances. In 1934 the write-off was 5·22 per cent. The trend in Canada is inevitably towards a higher average loss experience as the business matures.

Such hazards and contingencies in conjunction with the comparatively low rate of return has made Canadian capital seek other employment. The

prospect of a lower return will be a further discouragement to the investment of Canadian capital. While a 6·2 per cent average over-all rate of return was sufficient to attract United States' capital in 1954 and 1955, a substantial reduction in earnings may well operate in reverse.

At this point I would like to interject, if I may, that there have been substantial indications to this association of the number, not only of small Canadian companies, who may be forced to liquidate their small loans business. I believe the question was asked of Mr. MacGregor as to his opinion concerning how many companies would as a result of a reduction of rate, flee this business. I think that the statement was made by at least one of the small loans companies, that is, one of the four incorporated under dominion act, that under the rates of Bill 51 they could no longer continue to serve the field.

I submit to you also that in the case of the large American companies—I cannot speak for their policies—I think I can take an average business man's view of a yield reduced to the point where the rate in Bill 51 would reduce it, and to a point which would leave their capital employed in this business with all the inherent risks—and at the same time we should also consider the fact that the largest lender does not serve the field over $1,000, and the second largest company, I believe, has a top loan of $1,200. Now, the Canadian companies who have been a little bit late in getting into this business, I admit, have been serving the need as it exists in that field. They will not be able to continue to serve it. I have had no assurance nor advice whatsoever from the two large American companies that they have any intention whatsoever of increasing their limits, at a reduced rate together with all the inherent risks which go along with increasing the limits placed on their loan, from, let us say, $1,000 to $1,500.

To continue—it has been said that relating the earnings of the industry to assets employed is not the full story—that lenders are motivated by what they earn on invested capital and surplus. This statement ignores the following facts:

On December 31, 1954, reports of all companies showed $40,740,608 of invested capital and surplus and $170,056,702 of "borrowed money".

This is a ratio of "borrowed money" to invested capital and surplus of 417·4 per cent. Within this group the 59 independent Canadian companies that obtained their borrowed capital from outside sources under arm's-length conditions, averaged only $2.58 of borrowed capital for every $1 of invested capital and surplus.

In contrast, six companies included in the group that are subsidiaries of larger parent companies "borrowed" from these parents in ratios of $4.53 for each $1 of invested capital and surplus. None of the subsidiaries could borrow in ratios of $4.53 to $1 in arm's-length transactions from outside sources. Rather they are dependent upon their parent organization for capital advances in the form of loans.

However, these parents in turn must borrow from outside sources in arm's-length transactions similar to those of the 59 independent companies and on borrowing ratios that are similarly restricted to realistic proportions.

The excess in borrowing by the subsidiary companies over an average ratio of $2.58 to $1 represents a substantial investment by the parent companies carried in the form of debt rather than of stock.

Mr. FOLLWELL: Mr. Chairman, I cannot hear the witness on account of the clock striking 10 o'clock.

The CHAIRMAN: It is 10 o'clock. If there was only another paragraph we would continue, but there are several pages of this, and I think we should wait until the next meeting to complete this section. Would the members of the steering committee please remain?

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 22

BILL 51

An Act to amend the Small Loans Act

TUESDAY, JULY 31, 1956

WITNESSES:

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, and
Mr. Clem L. King, F.C.A., Chartered Accountant.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

77366—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Argue
Ashbourne
Balcom
Batten
Bell
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fulton
Gingues
Gour (*Russell*)
Hamilton (*York West*)
Hanna
Henderson
Hollingworth
Holowach
Huffman
Knight
Low
MacEachen
Macnaughton
Matheson
Meunier
Michener
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Rea
Regier
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Thatcher
Tucker
Viau
Vincent
Weaver
White (*Hastings-Frontenac*)
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
TUESDAY, July 31, 1956.

Ordered,—That the name of Mr. Argue be substituted for that of Mr. Stewart (*Winnipeg North*) on the said Committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

77366—1½

MINUTES OF PROCEEDINGS

TUESDAY, July 31, 1956.

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Batten, Benidickson, Cameron (*Nanaimo*), Deslieres, Fairey, Fleming, Follwell, Fulton, Hanna, Henderson, Hollingworth, Holowach, Hunter, Knight, Low, Macnaughton Michener, Monteith, Pallett, Philpott, Power (*Quebec South*), Regier, St. Laurent (*Temiscouata*), Tucker and Weaver.

In attendance: Messrs. C. M. Cawker, President, and F. C. Oakes, Vice-president, both of Canadian Consumer Loan Association; Donald F. McClure, First Vice-president, Household Finance Corp. (U.S.A.); Clem L. King, F.C.A.; senior Toronto partner, Deloitte, Plender, Haskins and Sells, Chartered Accountants, and other representatives of certain Small Loans Companies and interested organizations; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

The Chairman presented the Sixth Report of the Subcommittee on Agenda and Procedure, as follows:

> Your Subcommittee met at 10.00 o'clock p.m. on Thursday, July 26th and agreed to recommend:
>
> That the Committee continue its consideration of Bill 51, An Act to amend the Small Loans Act, at sittings as follows:
>
> on Tuesdays at 3.30 and 8.15 o'clock p.m.,
> on Wednesdays at 3.30 o'clock p.m., and, if the House sits on those evenings, also at 8.15 o'clock p.m., and
> on Thursdays at 3.30 and 8.15 o'clock p.m.
>
> Respectfully submitted.

Following debate the Sixth Report of the Subcommittee was adopted.

The Committee agreed that representations of Canadian Consumer Loan Association be completed not later than at the end of the first sitting on Thursday next; and that immediately thereafter other briefs and representations be heard, followed by consideration of the bill, clause by clause.

Mr. Cawker was again called; he continued the presentation of the brief of his Association, was questioned thereon, and was retired.

Mr. King was called; he presented that portion of the brief of Canadian Consumer Loan Association which had been prepared by Deloitte, Plender, Haskings and Sells, Chartered Accountants; and was questioned thereon.

Mr. King being still before the Committee, and the division bell having rung to summon Members to the House, at 5.27 o'clock p.m. the Committee adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Batten, Cameron (*Nanaimo*), Deslieres, Eudes, Fairey, Fleming, Follwell, Fulton, Hanna, Henderson, Hollingworth, Holowach, Hunter, Knight, Monteith, Pallett, Philpott, Power (*Quebec South*), St. Laurent (*Temiscouata*), Tucker and Weaver.

In attendance: The same as at the afternoon sitting.

Mr. King continued his evidence and was questioned thereon.

Mr. King being still before the Committee, at 10.00 o'clock p.m. it adjourned until 3.30 o'clock p.m. on Wednesday, August 1, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

TUESDAY, July 31, 1956
3.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum.

Your subcommittee on agenda and procedure begs leave to present its sixth report. (*For report, see Minutes of Proceedings of this day.*)

All those in favour of adopting this report.

Mr. FLEMING: Just a moment, Mr. Chairman. The report, of course, is not unanimous, as members will appreciate after discussions here last Thursday evening.

Mr. Monteith, Mr. Cameron and I urged the agenda committee, as we had urged the main committee earlier the same evening, to inaugurate a program of eight meetings a week, commencing at once. That was rejected and the agenda committee is now recommending that the committee sit five or six times a week, that difference depending upon whether the house sits on Wednesday evenings or not.

The CHAIRMAN: Which it does.

Mr. FLEMING: Has that been decided upon?

The CHAIRMAN: Yes.

Mr. FLEMING: Then the difference between the report of the subcommittee and the views that the opposition put forward is the difference between six meetings a week and eight meetings a week. Having regard to the fact that there seems to be evidence of an attempt to speed up in the house, and that the end of the session becomes closer all the time, I think it is not unreasonable that we should advance our meetings to eight per week.

The CHAIRMAN: Are you speaking on this report?

Mr. FLEMING: Yes, Mr. Chairman, I am going to move an amendment—

The CHAIRMAN: To the report? How can you amend the report?

Mr. FLEMING: You are asking for a motion for approval of the report. You were ready to put the motion to increase the number of meetings in accordance with that report.

The CHAIRMAN: Yes.

Mr. FLEMING: I am moving an amendment now.

The CHAIRMAN: The motion is to concur in the report.

Mr. FLEMING: I am moving an amendment, Mr. Chairman, that the committee proceed to hold eight meetings per week, two on—

The CHAIRMAN: You cannot change the report. If you wish to move that after the report—

Mr. FLEMING: No, Mr. Chairman.

The CHAIRMAN: Or, if you wish to vote against the report—

Mr. FLEMING: Mr. Chairman, this is the practice in these cases. You were putting to the committee a motion that the—

The CHAIRMAN: To concur in the report.

Mr. FLEMING: That the report be concurred in. Now, I am proposing that we shall not concur in the report, but that the committee proceed to hold eight meetings per week forthwith.

The CHAIRMAN: Mr. Fleming, that is nothing but a negative motion. If you wish to vote against concurring, and then to move a new motion, that is your privilege.

Mr. FLEMING: No, with respect, Mr. Chairman, that is quite wrong. This is the method used all the time in these committees in taking issue with reports of steering committees. What is the sense of voting against your motion and then after the motion is adopted—

The CHAIRMAN: Because you cannot change the report.

Mr. FLEMING: Mr. Chairman, we may not be able to change the report, but you are putting a motion for concurrence.

The CHAIRMAN: Yes.

Mr. FLEMING: I was moving an amendment that the committee do not concur in the report of the steering committee, but that the committee do now decide to hold eight meetings per week: two on Mondays, two on Tuesdays—we will make it nine now since we are sitting on Wednesday night—two on Mondays, two on Tuesdays, two on Wednesdays, two on Thursdays, and one on Friday. Now, none of us likes as stiff a program of meetings as that but, to finish the work that has been assigned to us, it seems to me that it is necessary, and our responsibility, it seems to me, is to report this bill in time for action by the house and the Senate at this session. It is not likely to be discharged unless we do press ourselves for this substantial increase in the number of meetings we are now holding, and I move accordingly, Mr. Chairman.

The CHAIRMAN: That is really a superseding motion you are making, Mr. Fleming.

Mr. FLEMING: This is an ordinary motion.

The CHAIRMAN: Is there a seconder for that?

Mr. FLEMING: We do not need a seconder in committee—standing order 59.

The CHAIRMAN: All those in favour of Mr. Fleming's motion—

Mr. FULTON: A recorded vote.

Mr. FLEMING: Yes, I think we ought to have this recorded, please.

The CHAIRMAN: It seems to me that in view of the fact that we are very far behind on this, that this is a motion which can well be acceded to by all of the committee. The fact is we must get this thing through, and we must get it through quickly. After the motion is over I am going to suggest to the committee how we can get it over quickly.

Mr. TUCKER: If I might be permitted, Mr. Chairman, it seems to me that this is more or less of an academic discussion, because, after we meet, as is agreed, twice tomorrow, and twice on Thursday, if it is quite clear we are not going to get our report in in time for the bill to go through the house, the whole committee will want to meet still oftener than we have already agreed to meet. So, it seems to me that we are taking a division about something that is very academic. Everybody agrees that we should meet again tonight, and everybody agrees that we should meet at least twice tomorrow. Everybody agrees we should meet at least twice on Thursday. Now, I am quite sure, Mr. Chairman, that if, by that time the cmmittee sees that it is not going to be finished its work in time for this bill to be acted upon in the house, our committee will be quite prepared to meet oftener than is now envisaged. So, why should we spend time on this particular matter?

The CHAIRMAN: I might explain to Mr. Fleming that if necessary I am going to call three meetings a day.

Mr. FLEMING: I hope you will, Mr. Chairman; I hope you will call them. But I have pointed out that the result of not passing the motion, as I introduced it in this committee last Thursday is that we have lost three meetings that we would otherwise have had. We lost one Friday and two yesterday. So, I think that this suggestion of mine should be dealt with now, and I would be very happy, Mr. Chairman, if further meetings are called to clean up this work. But I think we ought to be very sure while we are sitting here now that we are not going to lose the opportunity for meetings in the way that we have since Thursday.

The CHAIRMAN: I do not care if you put the motion or not; are far as I am concerned it is academic. Do you want the motion to go?

Mr. FLEMING: Yes.

The CHAIRMAN: All those in favour of the motion—

Mr. TUCKER: Mr. Chairman, I would move a further amendment to the amendment, that we meet as often as necessary to report this bill in time to be acted upon at this session of parliament.

Mr. HOLLINGWORTH: Carried unanimously!

Mr. CAMERON (*Nanaimo*): What is that again?

Mr. TUCKER: I move we meet often enough to get this bill reported in time to be enacted at this session of parliament, and that we do agree right now that we meet often enough, whether it is twice a day or three times a day, and that we meet in the mornings as well, if necessary.

Mr. FLEMING: This is a very refreshing statement to hear, and it is what we have been arguing for. As I pointed out, if that sentiment had been expressed last Thursday we would have been very much further ahead than we are at the moment.

Mr. PHILPOTT: Mr. Chairman, I support Mr. Tucker's amendment to the amendment. I think we should meet about six times, including on Saturdays, and in view of the fact that never before in history have Mr. Fleming and his colleagues been here for Saturdays, perhaps we might get through a lot of the work that we never got through before in the session.

Mr. FLEMING: Mr. Chairman, it is too bad that Mr. Philpott cannot tell the truth. I have been here on more Saturdays than he has on which the House sat.

The CHAIRMAN: Now, now—

Mr. KNIGHT: I would very much like to support Mr. Tucker's motion, but I do not think it is in order; because the fact that we are going to meet does not necessarily mean that the bill is going to be reported. As I understand it, the committee has been meeting for the last month, and we have not got ahead too far. The one thing is not contingent upon the other.

Mr. CAMERON (*Nanaimo*): Unless the government members are prepared to push it through, it will not go through.

Mr. KNIGHT: We have been going two weeks, night and day, but you cannot guarantee that the bill is going to be reported because we meet.

Mr. TUCKER: What I had in mind was to meet as often as we possibly can in order to get the bill reported in time to be acted upon.

Mr. FULTON: Mr. Chairman, I hesitate to advance anything that might take up more time, but I wonder if Mr. Tucker's motion is not out of order because it is indefinite and does not suggest any positive course of action, and so is not in order as an amendment to a motion which does suggest a positive course of

action? The one suggests nine meetings a week, and the other says we should meet as often as necessary. The whole point is that the opinion appears to be divided as to how often it is necessary. Therefore Mr. Tucker's motion, I submit, is morally all right, but literally has no meaning, and it is out of order for that reason.

The CHAIRMAN: I think the main reason it might have no meaning is that you people have not indicated when the session will end.

Mr. FULTON: We have indicated that we would like to sit nine times a week in this committee.

Mr. BENIDICKSON: It might not be that often.

Mr. FULTON: If that is not often enough, let us have somebody put forward a positive suggestion for more meetings.

Mr. BALCOM: Mr. Chairman, may I ask if we are racing to meet a certain date? I recall that last week we had a lot of child's-play over getting through, and today people are doing the same thing.

An hon. MEMBER: All from the Liberals.

The CHAIRMAN: The Liberals are not making these motions.

Mr. TUCKER: The Liberals have been working harder.

Mr. CAMERON (*Nanaimo*): They certainly have, very hard.

Mr. KNIGHT: They have had a change of heart.

The CHAIRMAN: There is an amendment here.

Mr. FLEMING: If Mr. Tucker will carry his suggestion to an appropriate point of specifying meetings we will be glad to welcome it, three times a day if necessary.

Mr. TUCKER: That is what I had in mind, Mr. Chairman.

Mr. FLEMING: Well, specify that in your motion then.

Mr. TUCKER: We do not know at this particular stage whether the meetings suggested by Mr. Fleming will get this bill through in time to be reported so that it may be acted upon, so I wanted to go further than Mr. Fleming and leave it in your hands, with the assistance of your subcommittee. If we found that, after meeting twice today and twice tomorrow, we were not going to get the bill reported in time to be acted upon, the subcommittee should then feel justified in instructing the chairman to arrange that we meet three times a day, and on Fridays, and three times a day, or twice a day on Saturdays. In other words the purport of my motion is to support what the subcommittee did, and say that the chairman should be authorized to go further than that, if necessary. Now then, if you want to be technical about these things and raise points of order, and so on, in order to carry out the view that the committee seems to have, that we should try to get the business through so that we can report the bill, then of course that is another matter. But I thought that we wanted to agree to meet as often as possible to get the bill reported in time to be acted upon. I felt that we should free the hands of the chairman, and if it seems clear that two meetings a day, as was envisaged, is not adequate, that he should be free to call three meetings.

Mr. KNIGHT: I think, Mr. Chairman, that if Mr. Fleming would withdraw his motion, and in accordance with the assurance that we appear to have from Mr. Tucker, that the business is going to be carried through expeditiously, we might watch things for a day or two. That will be for the best, and just leave it alone the way it is.

Mr. FLEMING: Mr. Chairman, will you indicate, in the light of what Mr. Tucker has said, that you are prepared to call additional meetings as required, even three in a day?

The CHAIRMAN: Mr. Fleming, you will have so many meetings you will not even like it. We are going to sit steadily on this, if necessary three times a day. You have my assurance on that.

Mr. FLEMING: We will watch, and then we can review the matter in a couple of days from now, and see just how many meetings are being called, in the light of what Mr. Tucker has proposed.

The CHAIRMAN: Will the report be concurred in then?

Mr. FOLLWELL: What is it, Mr. Chairman—if you would not mind reading it again?

The CHAIRMAN: It is the steering committee's report: that we sit twice on Tuesdays, twice on Wednesdays and twice on Thursdays.

Mr. TUCKER: It does not prevent us from having more meetings if necessary.

Mr. CAMERON (*Nanaimo*): It just adds the two Wednesday meetings to our present—

The CHAIRMAN: Yes. I have already stated to Mr. Cawker that in my opinion, and this is subject naturally to confirmation by the committee, in my opinion the brief of the Canadian Consumer Loan Association should be finished by the first meeting on Thursday of this week.

Mr. HOLLINGWORTH: You mean all the briefs, or just this one?

The CHAIRMAN: I mean the complete presentation of the Canadian Consumer Loan Association—which includes Mr. Cawker, Mr. King, Mr. Herington, Mr. Elliott and Mr. Picard—will be completed by the first meeting on Thursday of this week, if at all possible, and I think it is possible. That leaves us with the second meeting on Thursday either to hear any additional witnesses you may wish to hear, or to get on to the bill, depending on what the committee decides. I think that is possible; but I think it is only possible if the committee, recognizing the importance of making progress, restrains itself a little in its questions. I do not wish to dissuade anybody from asking questions which are vital in order to bring out some point which he feels he should bring out; but on the other hand, I think, possibly, that one question leads to another, sometimes more out of curiosity than from real necessity, and I do ask members of the committee to bear this in mind when they are questioning witnesses. Mr. Cawker has almost completed his evidence—he is at page 22 of the brief—and I would think we could get on with that very quickly.

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, called:

The WITNESS: With your permission, Mr. Chairman, I will begin at the second paragraph, if I may, in order to maintain continuity.

It has been said that relating the earnings of the industry to assets employed is not the full story—that lenders are motivated by what they earn on invested capital and surplus. This statement ignores the following facts:

On December 31, 1954, reports of all companies showed $40,740,608 of invested capital and surplus and $170,056,702 of "borrowed money".

This is a ratio of "borrowed money" to invested capital and surplus of 417·4 per cent. Within this group the 59 independent Canadian companies that obtained their borrowed capital from outside sources under arm's-length conditions, averaged only $2.58 of borrowed capital for every $1.00 of invested capital and surplus.

In contrast, six companies included in the group that are subsidiaries of larger parent companies "borrowed" from these parents in ratios of $4.53

for each $1.00 of invested capital and surplus. None of the subsidiaries could borrow in ratios of $4.53 to $1 in arm's-length transactions from outside sources. Rather they are dependent upon their parent organization for capital advances in the form of loans.

However, these parents in turn must borrow from outside sources in arm's-length transactions similar to those of the 59 independent companies and on borrowing ratios that are similarly restricted to realistic proportions.

The excess in borrowing by the subsidiary companies over an average ratio of $2.58 to $1 represents a substantial investment by the parent companies carried in the form of debt rather than of stock.

One cause of these unrealistic borrowing ratios is the limitation upon authorized capital imposed by the charters of the subsidiaries that are incorporated under the Small Loans Act. Only an act of parliament can authorize an increase in the amount of the authorized capital.

The measurement of net profit against these distorted and widely varying book figures of capital and surplus in such a situation produces a ratio which has no relationship to commercial reality. This is shown by the following figures. We have in the following table the figures of 65 reporting companies, bringing out the percentage of borrowed money to invested capital and surplus, mentioned earlier, of 417·4 per cent, and then we take off the six companies known to be subsidiaries—in all likelihood, as a matter of fact—involved in borrowing as between parent and child, and the total of these six companies percentagewise is 453·2; in other words, $4.53 to every dollar of invested capital, and the net for the 59 remaining companies, you will note, is reduced to 257·7.

	Borrowed Money	Invested Capital and Surplus	% of Borrowed Money to Invested Capital and Surplus
65 Reporting companies ...	$170,056,702	$40,740,608	417·4
Less 6 companies known to be subsidiary companies			
Canadian Acceptance ..	67,675	463,895	14·6
Household Finance Corporation	93,390,343	12,840,361	727·3
Personal Finance	32,122,530	13,938,335	230·5
Blake Pierce Finance ..	1,769,000	276,188	640·5
Niagara Finance	15,750,000	4,945,899	318·4
Trans Canada	7,750,000	821,949	942·9
Total 6 companies	$150,849,548	$33,286,627	453·2
Net for 59 remaining companies	$ 19,207,154	$ 7,453,981	257·7

This financial structure is the result of the parent company's election to lend money to the subsidiaries instead of putting the money into capital stock of the subsidiary. There is nothing about this to criticize. It reflects convenience, flexibility, and the fact that the subsidiary's capital may be limited by charter restrictions; yet it throws the ratios into an unreal pattern.

The chartered accountants point out in their reports that the 1954 earnings of the industry as reported by the superintendent of insurance do not include provisions for losses which may be incurred on loans presently outstanding. In other words, if I may just explain, it has been the practice of the department in producing its annual report to the minister to take out as operating expenses those provisions for bad and doubtful accounts presently on the books, which,

of course, is approved by modern accounting procedures and also approved by another department of the government, the Department of Income Tax. If the net profit is adjusted to reflect provisions for bad and doubtful accounts, the net profit for 1954 would be $9,616,735 rather than $10,597,945. Relating such net profit to the invested capital and surplus of (1) all companies, (2) the six companies known to be subsidiaries, and (3) to the remaining 59 independent companies, shows the following ratios before and after the rate reductions proposed in Bill 51. (These figures have been prepared by Deloitte, Plender, Haskins & Sells):

1954	All Companies	Six Known Subsidiaries	Remaining Companies
Invested Capital & Surplus	$40,740,608	$33,286,627	$7,453,981
Net Profits	9,616,735	8,840,458	776,277
Net Profits Percent of Invested Capital & Surplus	23·6%	26·6%	10·4%
Net Profits Adjusted to rates in Bill 51	$ 6,067,887	$ 5,602,882	$ 465,005
Invested Capital and Adjusted Surplus	37,191,760	30,049,051	7,142,709
Adjusted Net Profits Per Cent of Invested Capital and Adjusted Surplus	16·3%	18·6%	6·5%

(1955 ratios are omitted as the invested capital figures are not available.)

The ratios of net profits to invested capital and surplus for the six companies known to be subsidiaries is artificially high because the lack of arms' length bargaining between the subsidiaries and the parent makes possible an artificially low amount of invested capital and surplus. No company could borrow on a commercial basis as large a part of employed funds as they do. This is reflected in the ratio of all companies since the six companies known to be subsidiaries comprise such a large part of the total. The last column, showing the earning ratios of the independent companies, reflects normal amounts of invested capital and surplus to employed funds and therefore, the realistic earning power of invested capital and surplus under the present rates and under the rates proposed in Bill 51.

Eliminating the 6 known subsidiary companies from the 1954 figures the net profits of the remaining companies were $776,277 which was 10·4 per cent of invested capital and surplus. The rate reduction in Bill 51 would reduce such net profits to $465,000 or a 6·5 per cent return on invested capital and surplus.

In our economy where good first mortgages yield 6½ per cent, it hardly seems necessary to state that a 6·5 per cent return is inadequate on invested capital which is junior to borrowed money amounting to 2·58 times the invested capital.

The statistical summary of the Bank of Canada (November 1954) gives a summary of the financial statistics of 704 Canadian companies engaged in all fields of industrial activity, showing the following earnings on shareholders equity.

	1952	1953
Net income to shareholders	$ 607,900,000	$ 641,000,000
Shareholders equity	5,236,000,000	5,641,800,000
Net income as per cent of equity....	11·6%	11·4%

As this series of statistics has been discontinued by the Bank of Canada more recent figures on a comparable basis are not available.

The following were calculated from information included in the Financial Post Survey of Industrials—1955. It is a reasonable cross-section of the Canadian industrial economy and you will note that we have a range from a low of 15·25 to a high of 38·50 per cent.

Company	Percentage Return on Invested Capital and Surplus for the 1954 Fiscal Year
Easy Washing Machine Co. Ltd.	18·10%
Loblaw Groceterias Co. Ltd.	18·98
Canada Safeway Ltd.	22·47
Bird Construction Co. Ltd.	15·86
Standard Paving & Materials Ltd.	21·86
Catelli Food Products	19·08
Universal Cooler Ltd.	16·91
Industrial Acceptance Corporation Ltd.	16·69
Gypsum Lime & Alabastine Canada Ltd.	16·43
Toronto Brick Co. Ltd.	32·42
Quebec Telephone	15·25
Superior Propane Limited	15·50
General Bakeries Ltd.	15·76
Consolidated Mining & Smelting Co.	16·17
Asbestos Corporation Ltd.	20·83
Canadian Tire Corp. Ltd.	19·64
St. Lawrence Corporation Ltd.	16·89
Kerr-Addison Gold Mines Ltd.	38·50

The following percentages were calculated for 6 companies whose 1955 annual reports are available:

They range, you will note, from a low of 15·37 to a high of 22·70 per cent.

Company	Percentage Return on Invested Capital and Surplus for the 1955 Fiscal Year
International Nickel Company	22·70%
Steel Company of Canada Ltd.	16·16
Building Products Ltd.	15·51
Canada Cement Co.	16·34
Peoples Credit Jewellers Ltd.	15·37
Interprovincial Building Credits Ltd.	17·31

With the exception of the figures appearing in paragraph 4, page 21, all figures in this section are taken from reports certified by Deloitte, Plender, Haskins and Sells dated March 12, March 19 and April 5.

The rate recommendations which wind up my presentation, Mr. Chairman, will be found on the last page of the brief, if I may read it now. Then I will ask Mr. King to present his submission.

RATE RECOMMENDATION

It can be seen that the rates proposed in Bill 51 would reduce the earnings of lenders to an unreasonably low level in relation to industry generally and would have a particularly adverse effect on the earnings of the Canadian independent companies.

This result would in turn, adversely affect the service presently available to Canadian families.

Generally the current charge for all loans is 2 per cent per month for loans under and over $500.

We recommend that consideration be given to amending Bill 51 to the following rates:

(a) two per cent per month on any part of the unpaid principal balance not exceeding five hundred dollars,

(b) one and one-half per cent per month on any part of the unpaid principal balance exceeding five hundred dollars but not exceeding one thousand dollars, and

(c) one per cent per month on any remainder of the unpaid principal balance exceeding one thousand dollars.

This results in a 25 per cent reduction in the rate on the portion of any loan balance between $500 and $1000 and a 50 per cent reduction between $1000 and $1500.

By Mr. Macnaughton:

Q. Mr. Cawker, would you refer to the bill, paragraph one, which is really a provision against the sale of credit insurance—at least that is envisaged in the proposed amendment. Would you tell us whether you, as an individual or as head of your association, agree with that amendment?—A. We have not dealt with insurance in the brief of the association. I suppose, possibly—you ask me to speak as an individual—I have more of a feeling of resistance to this clause because it would appear to anticipate some desire to seek a device—to perfect some sort of act in the handling of credit insurance which would be bad for the borrower, and I simply cannot feel, looking over the record of the lenders in the field for the past 16 years—and I have looked over it very carefully—that we should be assumed to be looking for a device or something which we could use and which would be a hardship on the borrower. However, some of the people in our association—many people in the industry—feel this is a very unfair prohibition. I know that sitting on my immediate right there is a representative of one of the two largest lenders who is, among other things, an expert in credit insurance. He has studied the question for a number of years and if it would please the committee to have someone who is possibly better qualified than I to answer that question I would be very happy to have him answer it against the background of more experience than I possess.

The CHAIRMAN: Does the committee wish to hear this witness on the subject of insurance? All those in favour? Contrary if any? I declare it the wish of the committee that we do not hear this witness.

Mr. MACNAUGHTON: Mr. Chairman, I do not wish to say anything—I have no axe to grind one way or the other. But this is an important change in the set-up of this proposed bill. It seems to me that we may believe we know enough about it to make a decision, but personally I do not. Credit insurance is one of the basic things which you either uphold or attack, and I do not know which way we should go. Therefore, in the face of the decision, there is not much I can say. I wonder if we were wise in reaching that decision.

Mr. BENIDICKSON: We have an order of business which has been agreed to by this committee. I did not particularly approve of the motion, but I do not see why we should interefere with the plans. Mr. King was to be the next witness.

The CHAIRMAN: I think that perhaps we should limit Mr. Cawker's questions to things concerning the brief. If the committee has time later to hear somebody else, then we may hear other witnesses at that time.

Mr. MACNAUGHTON: That is fair, except that if we run short of time there will not be any hope of hearing this witness.

Mr. FLEMING: Is it not a fact that this witness does not have the answer? It is not in his brief. However, we have decided to finish with Mr. Cawker's evidence.

The WITNESS: I certainly would recommend to this committee that if we can cut some corners, and if I can speed up my evidence and the evidence of the association witnesses, I think it would be most interesting and informative if the gentleman of whom I speak could be heard.

The CHAIRMAN: The committee can decide later on. We will see how we make out with respect to time. Are there any other questions of Mr. Cawker?

By Mr. Monteith:

Q. At the end of page 28 of his brief the statement is made:

> This results in the 25 per cent reduction in the rate on the portion of any loan balance between $500 and $1000 and a 50 per cent reduction between $1000 and $1500.

Reduction from what?—A. As I mentioned, I think, in the third paragraph on the top of the page, generally the current charge for all loans is 2 per cent per month for loans under and over $500. Now, of course, we have learned here in previous evidence that actually there is a considerable percentage of the industry presently operating in the field over $500 at rates something less than 2 per cent. But, we assume 2 per cent per month to be the going rate in the field, let us say, between $500 and $1500; that is the approach which we took.

By Mr. Cameron (Nanaimo):

Q. Mr. Cawker, I was wondering if you could explain something to me with respect to this alleged 6 per cent on equity capital which you claim has been the experience of the companies? Is that correct?—A. These figures, as I mentioned, were taken from the report of Deloitte, Plender, Haskins and Sells. Mr. King is the next witness and I would prefer to have him explain his method and answer questions on the results.

Q. Perhaps you could explain something with respect to your own company, as I assume you are acquainted with its own business. I notice in 1952 you had a total of $60,774 which was your average paid up capital surplus, general reserves and balance of your profit and loss account. The following year you had $74,235. Am I right in assuming that that difference of $13,461 was profit?—A. In the main. There was a small amount, I believe, of contributed surplus in that period. I would have to check the statement.

Q. There was about $5,000, according to these figures, contributed, but apart from that it would be considered as profit?—A. Yes.

Q. That would be something like 22 per cent of this $60,744 for that year?

By Mr. Cameron (Nanaimo):

Q. Now, the following year you had employed $74,235 and in 1954 it had increased to $94,508. Am I right in assuming that the $20,000 difference must be regarded as profit on your enterprise?—A. I would not be prepared to say, Mr. Cameron, that it should be reported, or that the conclusion should be drawn, that it is profit on the enterprise.

Q. Then, where would it come from?—A. A considerable portion of it came from the formula which we had been guided to use in the determining of cost as between our small loans business and our large loans and conditional sales business, if there was any during the period of which you speak—I do not believe there was.

Q. You did not inherit it from a maiden aunt; it came from your business, did it not?—A. It came because of the required suppression of costs in the small loans business. It does not reflect the reserves for losses which the Department of Insurance disallows as an expense in arriving at a profit.

Q. I know; but your reserves are here.—A. Reserves for what?

Q. For bad and doubtful accounts?—A. I believe I had better get the book.

Q. It is at page 46 of the report of the Superintendent of Insurance—A. For 1954?

Q. Yes, 1954, page 46.—A. I am not prepared to say, in trying to follow this line of figures, whether, in arriving at the profit maintained in the business, this has due regard for reserves for bad and doubtful accounts; but I will be glad to get the information from our accountant on that subject if you would care to have it.

Q. Yes. There seems to be such a discrepancy here between your claim that you only get 6 per cent.—A. I did not claim that I only get 6 per cent. Those are the earnings for the industry.

Q. I am speaking of you as a representative of the industry. Now, I am pointing out that there is one firm which by some strange means has this great discrepancy—22 per cent one year, 27 per cent for the next, and the following year seems to have dropped to 18 per cent. I think, Mr. Chairman and Mr. Cawker, that I am in order to ask the question, because I believe it is fair to find out just what is the profit position of these companies. You told us, Mr. Cawker, I believe, that you were the majority shareholder in this company. Can you tell us, in addition to this increase of average capital surplus paid in and so forth, how much did you draw in dividends, how much did your fellow shareholders draw in dividends, and what did you draw as a director's fee?

Mr. HOLLINGWORTH: And as salary.

By Mr. Cameron (Nanaimo):

Q. Yes, as salary?—A. I will be glad to get those figures for you. However, I could not answer the question of salaries without reference to the accountants.

Q. I do not like to ask it as a personal question, but we have been told that a great deal of the profits are reflected in salaries paid to the owner or part-owner of the companies?—A. With respect to my own salary, I will be glad to give it to you, but as to the dividends—

Q. I do not want to pry into your private affairs but I would like to know what amounts are taken out in that way?

By Mr. Fulton:

Q. May I ask a couple of questions with relation to the rates of earnings which you gave us on page 24 of your brief. With respect to the last figure in the table on page 24, "Remaining Companies—6·5 per cent", is that calculation made before taxes or after taxes?

The CHAIRMAN: Mr. King will cover all this. These are his figures.

Mr. FULTON: That will be perfectly satisfactory.

The CHAIRMAN: Are there any other questions, gentlemen? If not, we will move on to Mr. King.

The WITNESS: The association engaged the firm of Deloitte, Plender, Haskins and Sells to do various studies. I mentioned earlier in my brief that I hoped we would not present repetitious statistics, and I trust we will not. Deloitte, Plender, Haskins and Sells have been practising in Canada for many years. It now has offices in Montreal, Toronto, Winnipeg, Regina, Calgary, Edmonton, Vancouver and Prince George. Its clientele covers the whole range of Canadian business, and this was one of the important considerations which lead us to ask them to prepare the studies pertinent to the matter at hand.

The senior partner is Mr. Walter J. Macdonald, M.C., M.M., F.C.A., who is a past president of the Canadian Institute of Chartered Accountants and of the Institute of Chartered Accountants of Manitoba.

Mr. C. L. King, F.C.A. is the senior Toronto partner of the firm. He was admitted to the Institute of Chartered Accountants of Alberta in 1940. From 1943 to 1946 he was executive assistant to the president of the University of Alberta and in that capacity in charge of all non-academic departments of the university. In 1946 he joined the staff of the Canadian Institute of Chartered Accountants as research director and executive secretary. In that post he participated actively in the development of accounting and auditing practices in Canada as witnessed by the pronouncements on these subjects issued by the research committee of the C.I.C.A., numerous articles in professional literature and speaking engagements throughout Canada.

He was admitted to the Institute of Chartered Accountants of Ontario in 1947 and in 1950 was elected a Fellow of the Institute for distinguished service to the profession.

Mr. King resigned his post with the C.I.C.A. to join the firm of Deloitte, Plender, Haskins and Sells as senior Toronto partner in 1954.

Mr. King has prepared studies, in addition to some other studies on the Canadian companies, which appear immediately following page 26 of our brief, which I have read. So with your permission I would ask that Mr. King be permitted to read and to comment upon his report.

The CHAIRMAN: Is that concurred in?

Agreed.

Clem L. King, F.C.A., Senior Toronto Partner, Deloitte, Plender, Haskins & Sells, Chartered Accountants, called:

The WITNESS: Mr. Chairman and hon. members: as you may have gathered from looking at the material which forms part of the association's brief and from what Mr. Cawker has just said, my presentation will be in two basic parts. The first part relates to the brief which I shall call the brief of March 12, 1956, which relates to a special report that was made as requested as to what we considered a fair basis of measurement against which the earnings of small loans companies might be measured or compared.

The second section of my presentation, part of which forms the material which you have before you, will relate to the projections, which we made as to the possible impact of the rate proposed in Bill 51 on the small loans industry.

As I have suggested, I have several other studies, copies of which I have here and which may be distributed, but I suggest, Mr. Chairman, that we defer distribution until I reach that point, if that is satisfactory to you.

The CHAIRMAN: Very well.

The WITNESS:

Canadian Consumer Loan Association,
55 York Street,
Toronto 1, Ontario. March 12, 1956.

Dear Sirs:

As you requested, we have reviewed available information in an attempt to arrive at a fair standard of measurement against which the earnings of companies subject to the Small Loans Act might be compared. For this purpose we have used the information appearing in the annual reports of the Superintendent of Insurance on small loans companies and money-lenders for the years ended December 31, 1949 to 1954 inclusive, plus those of Household Finance Corporation, Ltd., a company making loans of over $500 which is not required to report under the Small Loans Act. Our study was restricted to these years because of the material growth in the volume of business since the end of world war II. The year 1949 was selected as the starting point only because it was thought that by that time the industry generally would have overcome the problems and restrictions of war and its aftermath.

Since the information reported by the companies has been reviewed by the Superintendent of Insurance and since we did not have access to background information we have accepted the figures as appearing in these reports as being valid.

There are wide variations in results of operations and in the financial organization of the various companies. Several of the companies are known to be subsidiaries of United States companies operating in the small loans field in that country. Others are known to be subsidiaries of Canadian companies operating in other financial fields. It is reasonable to assume that a number of the remaining companies are subsidiaries of other companies or owned by persons with financial interests in fields other than small loans.

With a few exceptions, the companies operating under the Act were also making a substantial (for each individual concern) volume of loans (loans over $500) not subject to the provisions of the Act and many of the companies were financing conditional sales agreements and other like contracts.

As Mr. MacGregor pointed out and we were certainly in a similar position, we had no knowledge whatsoever of the volume of business or of the number of companies operating in the area above $500 which did not report to the Superintendent of Insurance, and naturally in any of these figures they are not taken into account.

Recommendation

In the case of the small loans industry, "earnings" should be regarded, in our opinion, as meaning the return secured upon the total assets used in the small loans business.

We recommend that the basis of measuring the earnings of small loans companies be that of the relationship of "earnings" to an appropriate percentage of the average small loans outstanding.

Earnings should be regarded as the gross income from small loans less all operating expenses (excluding interest on borrowed money) and applicable income taxes.

The average of small loans outstanding should be calculated as 1/12 of the sum of the outstanding balances as at the beginning of each month of the fiscal year under review.

We believe this concept is appropriate as a fair measure for the present purpose, not only because we consider it to be valid in theory but also because there appears to be no other standard that would produce reasonable comparability between companies or between periods of time. The two following sections of this report serve to illustrate the difficulties that would be involved in attempting to measure the "earnings" of the small loan business by other methods.

Lack of Comparability of Figures for Reported Equity Capital

Upon reviewing the circumstances known to exist and those considered likely to exist in relation to the financial structure of the companies reporting under the act, we believe that the figures for invested equity capital as appearing in the annual reports should not be accepted without adjustment. As shown by the attached schedule "B" (*See Appendix "A"*) the relationship of equity capital to total balances of loans and other contracts outstanding varies from a high of 1103·5 per cent to a low of 1·1 per cent as at December 31, 1949 and from a high of 214·5 per cent to a low of 8·5 per cent as at December 31, 1954. And in the tables following immediately on this section of the report —that is, following page 10, you will find schedules "A", "B", "C" and "D". (*See Appendix "A"*)—Schedule "A" is a listing of the dollar amount for the various companies, for total assets—that is, gross assets; total loans and other contracts outstanding, and borrowed money and invested capital and surplus of the various companies reporting to the Superintendent of Insurance.

Included in this report for the years 1949 to 1954 somewhat further on, we come to schedule "B" which sets out the various relationships in terms of percentages. At the moment the relationship of equity capital to total balance of loans and other contracts outstanding varied in 1949 from a high of 1103·5 per cent—and if you will notice in column A on page 10 you will see Commercial Securities with a high of 1131·5 to a low of 1·1 per cent for that year; and looking at the various columns in this particular schedule B you will find that in 1950 the percentages varied from 111·8 to 0·7 per cent; in 1951 from 108·3 per cent to a low of 3·7 per cent; in 1952 from a high of 868·3 per cent to a low of 3·5 per cent; in 1953 from a high of 146·3 per cent to a low of 6·6 per cent; and as at December 31, 1954, from a high of 214·5 per cent to a low of 8·5 per cent.

The averages for all companies were 18·2 per cent and 18·6 per cent for 1949 and 1954. Eliminating six of the companies known to be subsidiaries of other companies, the averages for all remaining companies were 30 per cent and 26·6 per cent, respectively as shown by schedule "D".

These variations in the relationship of equity capital to loans and other contracts outstanding appear to indicate that in a number of the companies the equity capital is unusually low. It seems logical to assume that this would be so where the loan company was a subsidiary of another company or owned by a person, or persons, who had other business interests. Since the particular company reporting under the act constituted only part of the business interests of the larger organization, management requirements would dictate that the financial structure of the various companies making up the whole organization be such as to provide the greatest possible flexibility in the movement of funds from one section of the organization to another as changing conditions required. Funds provided to a subsidiary company by way of equity capital cannot be withdrawn without conforming to the requirements of the act governing its incorporation. Funds provided by way of loan may be repaid without such formality. It thus appears likely that the equity capital in such companies is maintained at a lower level than would be possible were the company a completely independent entity.

The companies incorporated under the Small Loans Act must apply to the parliament of Canada for permission to increase their authorized capital and thus are not in a position to provide readily for such increases as their volume of business expands. If the management of these companies can obtain readily the additional funds by other means, it follows that they would do so. Companies incorporated under other legislation are not so restricted.

Since it is known that several of the companies reporting under the Act are subsidiaries of other companies and since these companies have a substantial proportion of the total loan business reported, an analysis of the reports in respect of reported equity capital should take the foregoing circumstances into consideration.

Also, where reporting companies are engaged in other activities, the reported equity capital has not been allocated between the small loans and other section of their businesses. Thus any assumptions as to "normal" equity capital requirements for the small loans sections of each company would require this apportionment to be made.

Lack of Comparability of Figures for Borrowed Money

A number of the companies obtain additional funds for operations by borrowing from parent or related companies, whereas the remaining companies must obtain such funds through the usual commercial channels. Naturally, in the latter case, the amount that can be borrowed will depend upon the credit record of the company and upon the quantum of equity investment. The rate of interest paid for such funds will vary for the same reasons. For these reasons the figures for borrowed money should not be accepted as reported and thus the figures for interest on borrowed money are not comparable as between the companies.

Schedule "B"—that is again the schedule that has relationships shown in terms of percentages rather than figures—shows the relationship of borrowed money to equity capital for the various companies. As shown therein borrowed money varies from a high of 8844·6 per cent of equity capital to a low of 0·1 per cent as at December 31, 1949.

As at December 31, 1950 from a high of 14,246·0 to a negligible amount; as at December 31, 1951 from a high of 2,488·2 down to a negligible amount; as at December 31, 1952, from a high of 2,734·5 per cent to a negligible amount; as at December 31, 1953 from a high of 1,310·2 per cent to a negligible figure; and as at December 31, 1954, from a high of 942·9 per cent to a low of zero.

Incidentally, I might say that in order to find those extremes, which I have just been mentioning, you will have to take column B for the respective year—that is borrowed money as a percentage of invested capital and surplus, and you will have to run your eye down the various pages for the respective years and pick up the high figure and the low figure. Having worked on this for some time I have some advantage over you.

As shown by Schedule "D"—that is our summary schedule at the end of this particular report—the averages for all companies were 443·3 per cent for 1949; 541·6 per cent for 1950; 612·5 per cent for 1951; 762·0 per cent for 1952; 380·2 per cent for 1953; 417·4 per cent for 1954. If I might interject here, the figure appearing on page five—443·3 per cent of the report itself is the correct figure. I must confess to a typographical error which appears on Schedule "D", for December 31, 1949. There it reads "444·3" and it should be "443·3". (*Revised in Schedule "D" in Appendix "A".*)

Eliminating six of the companies known to be subsidiaries of other companies, the averages for all remaining companies were 215·3 per cent as at December 31, 1949; 238·8 per cent as at December 31, 1950; 290·0 per cent as at December 31, 1951; 243·4 per cent at December 31, 1952; 271·6 per cent as at December 31, 1953, and 257·7 per cent as at December 31, 1954.

Because of these wide variations and the various underlying reasons therefor, it is obvious that numerous assumptions would have to be made even to estimate the costs of borrowed money of the companies in comparable terms.

As to variations, I have mentioned credit history, assets, credit ratings and other affiliations such as parent companies, or what you might call brothers, or sisters, or cousins in the same family, and the extent to which borrowed money is already in use, and whether this is long-term borrowed capital. There are numerous other factors, but most of them have been touched upon to one degree or another.

Mr. CAMERON (*Nanaimo*): Mr. King, I wonder if I could ask a question on this question of borrowed money before you go on to the other, would that be all right?

The CHAIRMAN: Is that the way you want to handle this, gentlemen?

Mr. CAMERON (*Nanaimo*): He seems to be moving into another aspect of it now.

Mr. HOLLINGWORTH: I would suggest, Mr. Chairman, that we hear the whole brief.

Mr. CAMERON (*Nanaimo*): Right you are.

Mr. FLEMING: What would Mr. King prefer to do himself in regard to questions? Would he prefer to go through his brief, or take questions sections at a time?

The WITNESS: Sir, it makes no difference to me one way or the other. I am completely at your pleasure. If you would prefer to take each section at a time, then I am quite satisfied but, if you would prefer to wait until the end of this particular brief, I would prefer to deal with the questions on this one not later than at the end of this particular brief. But, if you wish to interject, that is fine.

The CHAIRMAN: Let us finish this particular one and then have the questions. Is that agreeable to everybody?

Agreed.

The WITNESS:

Assets Employed in the Small Loan Business

Since the business of all companies is that of lending money, the balance outstanding on loans and other contracts appears to be the logical basis by which to compare the relative volume of business of one company with another and against which to relate earnings. The balance of loans outstanding is considered preferable to gross income as a basis since the latter is affected not only by volume of operations, but also by the rates of interest charged.

In the public utility field in this country the policy of fixing the rate of charge for services on the basis of a specified rate of return upon the assets employed in providing the services is firmly established. In such cases, assets used to provide other services or produce other income have been excluded from the "rate base" and conversely all assets used in providing the services have been included. A similar philosophy appears applicable in determining a basis of measurement for the "earnings" of small loan companies. To do so requires the calculation or derivation of the "assets employed" in carrying on a "small loan" business subject to the Act.

Now, I would like to point out here that while I think a similar philosophy is applicable in arriving or determining a basis of measurement, I do not think it is safe to assume that the small loan companies and public utilities are comparable operations. The public utilities are usually in a monopoly, or quasi-monopoly position in their particular area. The small loan companies, on the other hand, are competitive. But, perhaps more important

than that, the public utility, by its very nature, is a company which has, for all practical purposes, the vast bulk of its assets invested in the equipment required to provide the service. That is the inherent reasoning behind the rate cases and the monopoly. It is so expensive to provide the service it has been decided that, in the interest of the community as a whole, it is advisable to provide for the operation of a monopoly under regulation. But, the particular point I want to make is this: the public utility, once having been granted a monopoly has its assets in service, and in many cases they are literally, as well as figuratively speaking, buried in the ground, and certainly firmly planted in the ground. So that once set up a public utility cannot move its assets, physically, to another location, or switch them to another activity. I do not think the same thing can properly be said of the companies reporting under the Small Loans Act at the moment. Their basic asset is money, and as we all know, money flows very rapidly. Money, in the form of capital will flow in the long run, I believe, to those areas of the economy where it receives, what it considers to be a fair return. So that, while I think the philosophy is comparable, I do not think the two particular industries are comparable.

Now, in Canada, just to mention a few of the circumstances to substantiate my statement that such a philosophy is firmly established, it is established to some degree in legislation throughout the country. There are at least four provinces in which the provincial legislators have enacted public utility acts. British Columbia has a Public Utilities Act, the revised statutes of British Columbia, 1948, Chapter 277. Under this act a commission has been appointed for the purpose of determining rates, and it is empowered to consider distinct areas served by the public utility with a view to ensuring, so far as the commission thinks it proper so to ensure, that the rates applicable to various areas are adequate in that they yield a fair and reasonable return on the appraised value of the property of public utility used, or prudently and reasonably acquired for the purpose of furnishing its service in that area. The act provides that the commission may, if necessary, appraise the assets involved. In the province of Alberta the Public Utilities Act, the revised statutes of Alberta, 1952, provide, by section 65, clause (b), that the public utilities board has the power to appraise and value the property of any public utility whenever, in the judgment of the board, it shall be necessary so to do. New Brunswick has a somewhat similar statute. Nova Scotia has a similar statute. There, the board shall fix a fair and separate rate base for each type or kind of service furnished, and each public utility shall be entitled to earn annually such return as the board deems is reasonable.

There are a number of cases in Ontario in which the rate that a public utility can charge to the consumers for its services has been determined by reference to the assets employed; the cost of rendering the service; and a fair return on the assets employed in the providing of that service. That is basically a fair return on the total assets employed. There are a number of other cases throughout Canada of public utility commission hearings which I think establish the philosophy and that contention that it is generally accepted in this country.

As stated previously practically all companies reporting make other loans as well as "small loans". In such circumstances the total assets of the companies used in the various sections of their business must be apportioned as between the "small loans" section and other section of their business. A reasonable basis for such an apportionment appears to be the balances of small and of other loans and contracts outstanding.

That word "small" can, I think, be interpreted to include small loans however the act may define them—whether less than $500 under the present "ceiling" or greater if the "ceiling" be raised.

In addition to funds to finance loans made, a company must have a working fund to cover operating expenditures and must also provide funds for necessary furniture and equipment with which to carry on business. Also, adequate funds must be readily available to each loan office to make approved loans, and additional funds must be available to take care of unforeseen upsurges in demands for loans.

Schedule "B" also shows the relationship of total reported assets to balances of loans outstanding of the various companies for the years included in the data. As will be seen, total assets vary from 1333·2 per cent to 100·4 per cent of loans outstanding as at December 31, 1949; as at December 31, 1950 they vary from a high of 155·3 per cent to a low of 100·2 per cent; in 1951 from a high 142·3 per cent to a low of 100 per cent; in 1952 from a high of 954·7 per cent to a low of 100 per cent; in 1953 from 331·5 per cent to 100·3 per cent, and as at December 31, 1954 from 333·5 per cent to 100·4 per cent.

It is believed that the unusually low ratio in the case of some companies results from their being subsidiaries of other organizations. In such cases these reporting companies need not retain funds themselves to meet unforeseen situations. In addition, funds which may otherwise be idle in their hands at any time may be withdrawn for use by other companies in their organizations. In all cases of very high ratios the companies are small, new companies with assets not yet invested in loans.

As shown on Schedule D the average relationship of total assets to total loans outstanding for all the remaining companies, except six of the known subsidiary companies, was 108·7 per cent, 106·2 per cent, 106·9 per cent, 106·5 per cent, 105·8 per cent and 106·9 per cent for each of the years 1949 to 1954. The average for these six years is 106·7 per cent.

A study in the United States some years ago suggested that the total assets of small loan companies, used in the small loans section of the buiness, should be determined as 115 per cent of the balance of loans outstanding. I refer there to the report: Earnings of Small Loan Licensees 1929 to 1933 by Rolf Nugent, Harvard Business Review, January, 1935. If I may, I will refer a little later to a couple of other paragraphs from that report.

The variation between this ratio and the ratio stated above for Canadian companies is attributable to several factors. A considerable portion relates to an intangible asset, the appraised cost of development of small loans offices, which was based on prices paid at that time in the United States for small loans businesses. A portion of the variation may be due to differences in the general terms upon which money are borrowed from banks in the two countries. This Nugent report covers a number of sections but I would like to read one or two paragraphs which I think are pertinent to the area with which we are dealing. In one paragraph of the report Mr. Nugent stresses the point I made a moment ago about the amounts invested in loans. He says:

> The amounts invested in other assets are minor compared with the investment in loans, but they are nonetheless essential. Each small loan office must carry some idle funds in its till and in the bank in anticipation of future demand for loans and for meeting current expenses. Each office also must be equipped with furniture, filing cabinets, adding machines, typewriters, interest calculators, a safe, printed forms, and other office supplies; and certain expenses such as license fees, insurance premiums, and rent must be paid in advance.

Things certainly are the same today, and the same in Canada as in the United States. The author goes on:

> Since the amount of idle cash and the amount of equipment necessary to the maintenance of a small loan office vary roughly with the amount of outstanding loans, it was decided to appraise these assets as relatives of the average amount of loans receivable. The item of cash was estimated at 5 per cent of the average amount of loans receivable. All other tangible assets, including furniture and fixtures, equipment, supplies, and deferred charges, were estimated at 4 per cent of the average amount of loans outstanding.

Further down he says:

> The true value of a loan balance of sufficient size for profitable operation is therefore greater than the actual amount of outstanding loans. The difference is represented in the reports of many small loan licensees as the cost of organization or cost of development. Many accountants for small loan companies assert that 10 per cent of the amount of loans receivable is a fair value for this item. Although the propriety of including some allowance for this intangible asset item is beyond dispute, its appraisal is essentially arbitrary. After considering the prices paid for going small loan offices in the open market, we have determined upon an appraisal of the cost of development at 6 per cent of the average amount of loans receivable. We believe this to be a conservative estimate.

That is the 115 per cent of loan balances outstanding which Mr. Nugent refers to as his standard against which to measure the earnings; it is thus made up of 5 per cent of the loan balances outstanding which they feel to be necessary to have on hand to operate; 4 per cent to cover tangible assets and charges such as rent and insurance; and 6 per cent, which at that time he based on the going price being paid for small loans companies when they were purchased by another making 15 per cent. Further down he says:

> These allowances for cash, other tangible assets, and cost of development amount in total to 15 per cent of the average amount of loans receivable. We believe this figure to be conservative. Appraisals of these items might vary without justifiable criticism from 12 per cent to 20 per cent of the average amount of loans receivable depending upon the opinion and policy of the appraiser. This variation, however, would have but a slight effect on the resulting rates of earnings. By adopting a standard formula, on the other hand, we are able to overcome differences in reported values between states which are much more likely to represent the "leaven of opinion" than differences in fact.

One small point of my own: as you will gather from having looked at schedule A, and then schedules "B" and "D" the average for these six years of 106·7 per cent in the figures I have referred to is the relationship of gross assets of the companies as reported to the loans and other contracts outstanding as at the same date.

The question may arise, in connection with measuring the earnings of the companies, whether assets other than loan balances should be taken at the amounts actually reported or upon the basis of a fair and reasonable allowance calculated in the light of the needs of the business. This phase of the subject is not considered to be within the scope of this report. For purpose of a reasonable standard of measurement we have used the actual amounts of such assets held by the reporting companies in their loans business.

Here the basic thought is that, because of general economic conditions, or the economic conditions of the particular licensees, or because the company is closely controlled by persons who wish to use it as a depository for their personal savings, as opposed to their investment for business purposes, all the

assets in the company may not be required for the loan business. From our study of the figures such does not appear to be the case in Canada, at least to the extent that appears obvious from a scrutiny of the figures. It would not be reasonable to have such funds, which are not used in small loans operations, included in the asset base against which is measured the result of small loan operations or which is used to compare the results of one company with another. You would not be in a position of comparing like creatures; they are not comparable.

Although, as shown by the foregoing comparisons relating to the companies, other than the six known subsidiaries, the relationship between total reported assets and the loan balances outstanding varies to some extent between periods, the range of variation in the 1949 to 1954 period from the overall average for the period as a whole has not been significant in any year. Therefore, it appears that, for purposes of a base against which the earnings of reporting companies may be measured at the present time, the total reported assets of the companies employed in the small loans business may be assumed to be approximately 107 per cent of the average balances of small loans outstanding during the year. However, the percentage should be reviewed from time to time and reaffirmed or revised in the light of prevailing conditions.

Because business conditions do change, and when they change the circumstances under which the companies live and operate change too, some change will undoubtedly arise in the relationship of their assets to loan balances. Thus if any standard of measurement is to be used with regard to this particular type of company it must be reviewed periodically in order to ensure that the proper standard of measurement is being used and that circumstances have not altered. Again, this 107 per cent, as you will see from the centre paragraph on the preceding page, is the average of the percentages for the six years of all remaining companies, other than the subsidiary companies, which form the basic data on which this report rests.

Since the total loans outstanding vary within each year as well as from year to year, the balance of loans outstanding for use in the above formula should take such changes into account. The average of small loans outstanding should be determined as 1/12 of the sum of the outstanding belances at the beginning of each month of the fiscal year under review.

That, as you will recognize, co-relates the income earned on loans directly to the balance outstanding at the beginning of the month which is the balance which produces the income for that month. If you take the sum of those 12 monthly balances—however they might vary—we then arrive at the closest practicable relationship between loan balances which produce the revenue and income earned on loans, which is the revenue.

Intangible Assets

In addition to the tangible assets reported by the companies, it must be recognized that intangible elements also are employed in the business. Generally, those elements may be collectively characterized as "going value", or the value derived from the expenditures made in creating an organization and establishing the business. Included also in this category is the advantage to subsidiaries, as beneficiaries of the accumulated experience of their parent companies in small loan operations.

There has not yet been developed within the industry in Canada a generally accepted standard for the valuation of these intangible elements in the small loans business although there has been elsewhere. It appears, therefore, impracticable, for the purpose of this report, to provide for the inclusion of intangible assets as a part of the assets employed in small loan activities. When acceptable valuation standards are developed for the inclusion of intangible assets in the total assets used as the earnings base, expenditures recognized as elements of "going value" should be excluded from the costs of operations.

Determination of Return

Since the base against which we propose that earnings be measured is total assets in the small loans business, it follows that "earnings" will correspondingly consist of the return upon such assets.

The return is a net amount, reflecting gross income less operating expenses and applicable taxes. It recognizes such factors as the effects of volume and variations in efficiency and in rates charged to borrowers. An appropriate provision for potential losses on outstanding accounts should be deducted in determining the return since it is a truism that all balances of small loans outstanding will not be collected in full.

Inasmuch as the basis of measuring the return is total assets, interest upon borrowed capital should not be deducted in arriving at the amount of the return. However, such interest is allowable as a deduction in providing for income taxes payable. Therefore, in computing "applicable income taxes" for purposes of determining the return, it is necessary to adjust the actual provisions for income taxes by the reporting companies so as to compensate for the tax effect of the interest and thus to determine the tax deemed to be applicable to taxable net income before interest.

The computation of the adjustment presents a problem of apportionment. The most reasonable method of adjustment appears to be that which would increase the income tax expense by the amount of tax reduction applicable to the interest. This tax adjustment should be arrived at by recomputing the tax on the basis of taxable income *before* interest. If necessary, a similar adjustment should be made to equalize the tax effect with respect to provisions for losses on outstanding accounts.

In other words, under Canadian income tax law, whether the taxpayer is an individual or a corporation, interest on borrowed money used in earning income is an allowable expense; that is, it may be classed as an expense and acts to reduce what otherwise would be the taxable income. Therefore, as we suggest, we should delete the interest on borrowed money from the return because the base is assets employed, and these assets may be acquired by either investment capital or borrowed money. If we delete that interest on borrowed money, then we must adjust for the tax impact of that borrowed money, that is, adjust the reported income tax, or income tax calculated for the company's purposes by what they are actually going to pay to the income tax department, to the figure against which we are attempting to measure earnings, that is income before interest and taxes by the applicable income tax.

I would like to go back to page 2 and restate and summarize the recommendations.

We recommend that the basis of measuring the earnings of small loans companies be that of the relationship of "earnings" to an appropriate percentage of the average small loans outstanding.

Earnings should be regarded as the gross income from small loans less all operating expenses—excluding interest on borrowed money—and applicable income taxes.

The average of small loans outstanding should be calaculated as 1/12 of the sum of the outstanding balances as at the beginning of each month of the fiscal year under review.

We believe this concept is appropriate as a fair measure for the present purpose.

The CHAIRMAN: Are there any questions, gentlemen?

By Mr. Cameron (Nanaimo):

Q. Mr. King, I wonder if you could explain your schedule "B" on page 10. I find it a little puzzling. Would you look at the "B" column for the Commercial Credit plan. Am I right in saying that this 1572·7 is the percentage

of borrowed money as a percentage of investment capital?—A. "B" is the percentage of borrowed money as a percentage of invested capital and surplus.

Q. Yes. Well now, will you turn to the report of the Superintendent of Insurance for 1954, page 46, and look at item 12, 1,590,000 borrowed money; and then turn to Mr. MacGregor's report—if you have it before you—of licensees under the Small Loans Act, table 4, where you will see set out the average paid up capital general reserve, balance of profit and loss account, for 1954 of $356,136. Now, there may be something which I have not understood in this, but how is it that you calculate that the $1,590,000 of borrowed money is 1572·7 per cent of $356,136? It would appear to me to be more like 500 per cent?—A. You are quite right, Mr. Cameron. It is much closer to 500 per cent. As at December 31, 1954—taking the figures as at the end of each year, that is December 31—Mr. MacGregor's figures will differ slightly from mine because he has used an average of opening and closing figures for the year, and in this particular case I have used the figures as of December 31st.

Q. There seems to be a very great discrepancy?—A. I will attempt to illustrate. Commercial Credit Plan, as at December 31, 1954, according to my figures, had $1,590,000 borrowed money outstanding, and according to my figures had invested capital and accumulated surplus of $385,745; that shows on page 3 of schedule "A". Then, moving over to schedule "B", which translates that into percentage figures, if you look at column *B* and move over to the page marked 10-A, whereas for December 31, 1949, you saw the figure 1572·7, in the right hand column on page 10-A it is 412·2, which is the relationship of borrowed money to invested capital and surplus of Commercial Credit Plan as at December 31, 1954.

Q. I see it now. I am sorry; I had the wrong year.

The CHAIRMAN: Are there any further questions, gentlemen?

By Mr. Fulton:

Q. May I go back to one question which I wanted to ask about the per cent of net profit expressed in percentage as shown on page 24. What I want to do, Mr. King, is to compare the rates arrived at there, after the application of the new rates proposed in the bill which I understand is your calculation, with Mr. MacGregor's calculation on page 40 of his brief, which in the fourth line says: "It is estimated that the total net profits after interest and taxes would be reduced to about 6 per cent of the total of the lenders' own funds". You show a net profit expressed in percentages of 6·5 per cent—or it does on page 24 of the brief and those are quite close. I wanted to ask you to comment on this, because I understood you to say the new method of calculating profit, which you suggest, is quite important to an understanding of this; and yet it seems to me that you arrive at percentage figures which are very close, whether you use your method or the method which Mr. MacGregor suggest?—A. You are quite right. It is what you might call a coincidence of figures. I might explain, perhaps, how I have come to arrive at my computations and projections, but I would prefer, Mr. Fulton, to leave it to my report which is published in here following this, dated March 19th. Mr. MacGregor has mentioned the basis for his estimates, and then I think you will agree that basically our estimates are approximately the same, although we have come at them from a different concept altogether. This particular figure at page 24 is our net profits as a percentage of invested capital and surplus that is net profit in the usual and normal connotation of the term. It is the net after interest on borrowed money and after income tax, and after all charges. In other words, coming right down to the net profit percentage of 10·4 which would be reduced to 6·5 for these remaining companies.

The basis of measurement which I am suggesting here in my March 12 report gives it in a different manner. What I have said in this report is that in our opinion you cannot compare the various companies or businesses in the small loans business on the basis of net profit, because there are so many factors in the variations in the percentage of the borrowed money to invested capital which may come into play. Usually the first variation is what is the credit standing of the company which wants to borrow money to lend out, and that is usually based upon past experience and size because a small company cannot go out and get money as easily as a large company. That fact is well known.

It will also be affected by whether or not it is one company of a group or the sole activity of the proprietor. If it is a subsidiary company with a larger parent which in turn has borrowing power, the parent may use the borrowing power of the organization as a whole to borrow funds; and in that case the amount of money which the parent can borrow or the organization as a whole will be related to the concept or to the opinion of the investors as to whether or not it is a proper investment to make in that particular company or in their bonds.

As we have seen for the remaining companies—that is, if I may use the term independent companies, Canadian independents—we find that on the average over this period they have borrowed about $2.50 for every $1 of invested capital, whereas the six companies—which are six of the known subsidiaries, but not all have been able to borrow over 400 per cent, or 450 per cent of invested capital, and some of them go higher. There are variations among the individual companies. Therefore, because of the vast differences which they have in relationship to their small loans operations as such, and in the financial setup of these particular companies, whether they are or they are not one company or a larger group, and for various other reasons, we feel that it is not appropriate to attempt to measure these companies one with the other, and to say this company is more efficient or less efficient, or so forth by reference to net profit, because it can vary so widely.

If I may, I shall now ask the clerk to distribute the schedule which appears in package number three. I think it might be useful at this time to utilize these two schedules which I have drawn up, one for small companies and the other for large companies. The "small company" is more or less an approximate or average of the small companies in our data, while the "large company" is approximate to the average of large companies in our data. In these schedules I have attempted to illustrate—assuming all other factors being equal—what would be the impact of variations in the ratio of borrowed money to invested capital alone.

Now, if we may, I think it would be helpful if we could utilize these schedules because I think it might help me to answer Mr. Fulton's question. As you will see when they have been distributed to you, they are as follows:

PREPARED BY CANADIAN CONSUMER LOAN ASSOCIATION

SCHEDULE SHOWING EFFECT OF VARIATIONS IN RATIO OF BORROWED MONEY TO INVESTED CAPITAL AND SURPLUS ON NET PROFITS AND EARNINGS OF SMALL LOANS COMPANIES AND EFFECT ON NET PROFITS AND EARNINGS OF REDUCTION IN GROSS INCOME

LARGE COMPANIES

	Example A		Example B		Example C	
RATIO OF BORROWED MONEY TO INVESTED CAPITAL AND SURPLUS	8 : 1		4½ : 1		1 : 1	
LOANS OUTSTANDING	$ 28,000,000		$ 28,000,000		$ 28,000,000	
BORROWED MONEY	$ 24,800,000		$ 22,800,000		$ 13,900,000	
INVESTED CAPITAL AND SURPLUS (ASSUMING EXCESS OF LIABILITIES OVER OTHER ASSETS OF $200,000)	$ 3,000,000		$ 5,000,000		$ 13,900,000	
	Present Rates	Reduced Rates*	Present Rates	Reduced Rates*	Present Rates	Reduced Rates*
GROSS INCOME EARNED ON LOANS	$ 6,300,000	$ 5,292,000	$ 6,300,000	$ 5,292,000	$ 6,300,000	$ 5,292,000
OPERATING EXPENSES	2,961,000	2,961,000	2,961,000	2,961,000	2,961,000	2,961,000
GROSS EARNINGS	$ 3,339,000	$ 2,331,000	$ 3,339,000	$ 2,331,000	$ 3,339,000	$ 2,331,000
INTEREST ON BORROWED MONEY	1,364,000	1,364,000	1,254,000	1,254,000	764,500	764,500
	$ 1,975,000	$ 967,000	$ 2,085,000	$ 1,077,000	$ 2,574,500	$ 1,566,500
INCOME TAXES—AT 20% ON FIRST $20,000 AND 47% THEREAFTER	922,850	449,090	974,550	500,790	1,204,615	730,855
NET PROFIT	$ 1,052,150	$ 517,910	$ 1,110,450	$ 576,210	$ 1,369,885	$ 835,645
INVESTED CAPITAL AND SURPLUS	$ 3,000,000	$ 2,465,760	$ 5,000,000	$ 4,465,760	$13,900,000	$13,365,760
NET PROFIT AS A % OF INVESTED CAPITAL AND SURPLUS	35·1%	21·0%	22·2%	12·9%	9·9%	6·3%
GROSS EARNINGS	$ 3,339,000	$ 2,331,000	$ 3,339,000	$ 2,331,000	$ 3,339,000	$ 2,331,000
INCOME TAXES	1,563,930	1,090,170	1,563,930	1,090,170	1,563,930	1,090,170
NET EARNINGS	$ 1,775,070	$ 1,240,830	$ 1,775,070	$ 1,240,830	$ 1,775,070	$ 1,240,830
ASSETS EMPLOYED (107% OF AVERAGE LOANS)	$29,960,000	$29,960,000	$29,960,000	$29,960,000	$29,960,000	$29,960,000
NET EARNINGS AS A % OF ASSETS EMPLOYED	5·9%	4·1%	5·9%	4·1%	5·9%	4·1%

*Reduction of income has been estimated at 16%, based on computations for small loans companies in 1954 and 1955 which showed reductions in loan income of 15·9 per cent and 16·4 per cent respectively.

PREPARED BY CANADIAN CONSUMER LOAN ASSOCIATION

SCHEDULE SHOWING EFFECT OF VARIATIONS IN RATIO OF BORROWED MONEY TO INVESTED CAPITAL AND SURPLUS ON NET PROFITS AND EARNINGS OF SMALL LOANS COMPANIES AND EFFECT ON NET PROFITS AND EARNINGS OF REDUCTION IN GROSS INCOME

SMALL COMPANIES

	Example A		Example B		Example C	
RATIO OF BORROWED MONEY TO INVESTED CAPITAL AND SURPLUS	8 : 1		2½ : 1		1 : 1	
LOANS OUTSTANDING	$ 1,000,000		$ 1,000,000		$ 1,000,000	
BORROWED MONEY	$ 840,000		$ 680,000		$ 475,000	
INVESTED CAPITAL AND SURPLUS (ASSUMING EXCESS OF LIABILITIES OVER OTHER ASSETS OF $50,000)	$ 110,000		$ 270,000		$ 475,000	
	Present Rates	Reduced Rates*	Present Rates	Reduced Rates*	Present Rates	Reduced Rates*
GROSS INCOME EARNED ON LOANS	$ 200,000	$ 168,000	$ 200,000	$ 168,000	$ 200,000	$ 168,000
OPERATING EXPENSES	120,000	120,000	120,000	120,000	120,000	120,000
GROSS EARNINGS	$ 80,000	$ 48,000	$ 80,000	$ 48,000	$ 80,000	$ 48,000
INTEREST ON BORROWED MONEY	50,400	50,400	40,800	40,800	28,500	28,500
	$ 29,600	$(2,400)	$ 39,200	$ 7,200	$ 51,500	$ 19,500
INCOME TAXES—AT 20% ON FIRST $20,000 AND 47% THEREAFTER	8,512	—	13,024	1,440	18,805	3,900
NET PROFIT	$ 21,088	$(2,400)	$ 26,176	$ 5,760	$ 32,695	$ 15,600
INVESTED CAPITAL AND SURPLUS	$ 110,000	$ 86,512	$ 270,000	$ 249,584	$ 475,000	$ 457,905
NET PROFIT AS A % OF INVESTED CAPITAL AND SURPLUS	19·2%	Loss	9·7%	2·3%	6·9%	3·4%
GROSS EARNINGS	$ 80,000	$ 48,000	$ 80,000	$ 48,000	$ 80,000	$ 48,000
INCOME TAXES	32,200	17,160	32,200	17,160	32,200	17,160
NET EARNINGS	$ 47,300	$ 30,840	$ 47,800	$ 30,840	$ 47,800	$ 30,840
ASSETS EMPLOYED (107% OF AVERAGE LOANS)	$ 1,070,000	$ 1,070,000	$ 1,070,000	$ 1,070,000	$ 1,070,000	$ 1,070,000
NET EARNINGS AS A % OF ASSETS EMPLOYED	4·5%	2·9%	4·5%	2·9%	4·5%	2·9%

*Reduction of income has been estimated at 16 per cent, based on computations for small loans companies in 1954 and 1955 which showed reductions in loan income of 15·9 per cent and 16·4 per cent respectively.

( ) denotes loss.

The CHAIRMAN: Has everybody now got a copy of the sheets? If so, let us carry on!

The WITNESS: May we take the sheet which bears the sub-heading "Large companies" as a starter. Now, here I have made up three examples of companies A, B, and C.

In company A we have a ratio of borrowed money to invested capital and surplus of 8 to 1 or 800 per cent, the figure I was using a while ago.

By Mr. Fleming:

Q. Are these actual or hypothetical examples?—A. These are hypothetical examples.

As I have said, I have made up the figures for the large companies as approximating the loans outstanding on the average of what you might call the large companies in the data, while in the case of the small companies it is approximately the average of the small companies in the data. These figures do not purport to be the actual figures of a company. They are simply designed to illustrate one point only, and that is the impact or the effect of leverage, that is variations in the amount of borrowed money on the reported net profit of the company.

They illustrate, for companies in the same line of business with the same gross revenue and the same level of operating efficiency, how the net profit stated as a percentage of the invested capital and surplus will vary between any limits that you wish to set, merely because of the variations in the ratio of borrowed money to invested capital.

Company A has what might be termed a high ratio of borrowed money to invested capital, of 8 to 1; while company B has an average ratio of borrowed money to invested capital of 4½ to 1, or 450 per cent. Example C has a low ratio of $1 of invested capital for each $1; or $1 of borrowed money for each $1 of invested capital and surplus.

By the Chairman:

Q. Should not that figure be $22,500,000 in example B?—A. We did maintain a slight differential. The figures are a close approximation, but we wanted to maintain a realistic differentiation taking into account that there are other liabilities and other assets, other than loans.

The CHAIRMAN: The division bell is ringing so we shall now adjourn to meet again at 8.15 tonight.

EVENING SITTING

8.15 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. Mr. King was speaking about these two tables which had just been distributed to the members. Would you carry on, Mr. King?

Clem L. King, F.C.A., Senior Toronto Partner, Deloitte, Plender, Haskins & Sells, Chartered Accountants, recalled:

The WITNESS: Mr. Chairman and honourable members, as the chairman mentioned at the conclusion of this afternoon's session I was just beginning to comment on the schedule, which is headed "Large companies". As I mentioned, these have been prepared to illustrate the effect of leverage, that is the relationship of borrowed money to invested capital upon the net profits of companies,

particularly to illustrate why, in our opinion, net profits in themselves are not a workable basis for the measurement of the results of operations of various companies.

Now, as I have pointed out, example "A" was a company where we might say the relationship of borrowed money to invested capital and surplus is high. Example "B" where the ratio is 4½ to one is one which we might call average, having regard to the data on which our report of March 12 is based. Example "C" is where the ratio is lower.

Now, in all three cases, of course, the loans outstanding are $28 million. The borrowed money, of course, varies. In example "A", $24,800,000; in example "B", $22,800,000 and in example "C", $13,900,000.

Invested capital and surplus have been set assuming that we have an excess of other liabilities over other assets of $200,000. Keeping that figure in mind we then balance off to the loans outstanding. So in example "A" we have $3 million of invested capital; in example "B" we have $5 million of invested capital, and in example "C" $13,900,000 of invested capital.

Dropping down one more line to "Gross income earned on loans", and for the present at least if you will take the alternative headings, the column headings marked "present rates" you will see the first, the third and the fifth columns. We will assume that each of these companies earns the same rate on an annual basis on the loans that they have outstanding. We will further assume, dropping down to the next line, that these companies have the same standard of efficiency, that the operating expenses in each case are $2,961,000, leaving us a figure for gross earnings in each case again of $3,339,000.

So far, the variations in ratio of borrowed money to invested capital have not had any effect. The companies are securing revenue at the same rate with the same gross assets. They are operating at the same level of cost and efficiency. The next column is "interest on borrowed money", and here again for each of the three cases we have calculated the interest at the same rate. In other words $1,364,000 is the same rate on $24,800,000 as $1,254,000 is on $22,800,000. Similarly for the third example, $764,500 on $13,900,000.

We then come down to a figure, which I have not labelled because it has no particular significance, of gross earnings after interest and before taxes. You will see here the variations. Income taxes have been taken at the rates currently in effect in Canada on a company: at 20 per cent of the first $20,000 of income, and 47 per cent on the income in excess of $20,000. Income tax, naturally, according to the act, is calculated on the income after all ordinary expenses and, after interest on borrowed money, because that is the provision of the act. We thus find the income tax figures as stated.

We then come down to what might be said "net profit" in these examples. This is the net profit of the various companies to their presumed equity capital. In the first case where the ratio of borrowed money to invested capital is high—$1,052,150; in example "B" where the ratio of borrowed money to invested capital may be said to be average—$1,110,450; in example "C" where the borrowed money is low, thus the interest expense on borrowed money is low, our net profit is $1,369,885. If we relate this net profit for the period to the invested capital and surplus employed in the particular business we find that in example "A" the net profit stated as a percentage of invested capital and surplus is 35·1 per cent; in "B" 22·52 per cent; in "C", 9·9 per cent.

Since these examples have been constructed so that there is only one variable in the example, that is the quantum of borrowed money in relation to the invested capital, the variations in the net profits stated as a per cent of invested capital and surplus are due solely to the variations in the borrowed money.

Next we illustrate the standard of measurement referred to in our report dated March 12, where we have said that in our opinion we believe a proper standard of measurement for the earnings of small loan companies is the relationship of earnings, as defined in that report, to, for the present at least, 107 per cent of the average loans outstanding. Because as I went on further to say, it appears that it is the only method by which we arrive at figures which are truly comparable as between the various companies. In other words, the only figures where the revenues and expenses of carrying on a small loan business per se have an impact on the figures, and where we exclude the impact of certain variables, which may exist, not because it is a small loans company, but because there is perhaps a parent and child, or a brother-sister relationship. Where the variations in the ratio of borrowed money to invested capital are due to some factor, which can truly be said to be outside the scope of the small loans business.

Now, applying that same concept in that same fashion—again to these same figures, we come down to the line "gross earnings". That is income earned on loans, less all operating expenses except interest on borrowed money and income taxes. You will notice that is the same figure as appears in the third line of the income tabulations—$3,339,000, in the case of each of the three companies regardless of their relationship of borrowed money to invested capital.

Earlier this afternoon in our report I stated that earnings should be gross income less ordinary operating expenses, except interest on borrowed money, and less applicable income taxes. I use the term "applicable" because, as I mentioned a moment ago, under Canadian income tax law interest on borrowed money is an allowable expense in determining taxable income. Therefore the income tax figures that you see above on the sixth line "income taxes" have been computed by taking into account interest on borrowed money as an expense.

Now then, if we are going to say that interest on borrowed money is not an applicable item in respect of these companies because the outside factors have such a high impact, and we are going to extract that interest from the return figure or the earnings figure, it follows, I think quite logically, that since income taxes were calculated taking interest into account, if we take the interest out we must adjust the taxes accordingly. So the figures that you see for income taxes, $1,563,930, are the taxes that would be levied, assuming no interest on borrowed money whatsoever.

We then come down to the figure which we describe as "net earnings", $1,775,070 for each of three companies.

The next step is to calculate assets employed. If we can assume that 107 per cent of the average loans outstanding is, as suggested in the report of March 12, an applicable figure, then the assets employed for producing these earnings for each of these companies have been $29,960,000 in each case. Therefore, expressing that earning as a percentage of assets employed, we find that in example A net earnings as a percentage of assets employed is 5·9 per cent; in example B it is 5·9 per cent and the same in example C. This is the case in each example and as it should be because we have assumed that each of the three companies has had the same amount of money outstanding in loans receivable. We have further assumed that they each earned the same rate on their loan balance outstanding and further that their expenses were exactly the same. Therefore in the circumstances their earnings should be comparable and the same, which they are at 5·9 per cent, and, as I suggested earlier, contrast that with the variation that comes into play when net profits are stated as a percentage of invested capital and surplus. One conclusion you might draw if you look at net profit is that company A is 3½ times as efficient as company B because its net profit as a percentage of invested capital exceeds

by 3½ times that of company C whereas the loan balances outstanding are exactly the same. I do not think that is an appropriate conclusion in these particular circumstances, but to say that the net earnings of company A by the formula of 5·9 per cent is the same as that for company C is, I think, a valid conclusion.

Now if we may proceed to the next example, small companies, you will see that again this is a hypothetical example designed to show the impact of variations in the ratios of borrowed money to invested capital on what might be called a small loans company.

Mr. CAMERON (*Nanaimo*): One moment, Mr. Chairman; may I ask Mr. King whether the same principle—if there is a principle—applies in this as in the other one? Is it going to add to our knowledge of your thesis if you read this one out to us? It is the same proposition is it not, except you have illustrated it on a smaller scale—you have 2½ to 1 instead of 4½ to 1. I cannot see where we would learn any more if we went through this.

The CHAIRMAN: Mr. King, are there some lessons to be learned from this table that would not be learned from the previous table?

The WITNESS: Mr. Chairman, what I propose to do here is simply to point out that this has been prepared on the same basis as the preceding table—the same loans outstanding, the same rate earned on loans as between companies, the same efficiency; and we have net profits in these cases of 19·2 for company A, 9·7 for company B and 6·9 for company C.

By Mr. Pallett:

Q. May I ask one question? In your gross income of the large and small companies there seems to be a discrepancy—is there any explanation?—A. Yes, there is. For gross income, on the basis of the tabulations you have already had before you, it would appear that the larger companies earn on an annual basis a slightly higher rate in relation to the average loans outstanding than do the smaller companies. While I do not suggest that this is typical of a small company or the average of the large companies we did try to set up the example relatively close to circumstances as we find them in the small loans business in Canada where we do find that the small companies have in fact been earning a slightly lesser rate when related to loans outstanding than have the large companies. Similarly, with regard to expenses, the expense ratio, perhaps only by reason of size, is slightly higher than for the large companies. Again, the cost of borrowed money is set at a slightly higher rate than for the large companies. So that when you come down to the last line, that is net earnings as a percentage of assets employed for small company A, small company B and small company C, we find that in each case it is 4·5 per cent compared with the example of the large company of 5·9 per cent. Now I have explained that the variations are, first, the small companies do in fact—and in this example we have so provided—earn a slightly smaller rate on loans outstanding than do the large companies. Also, smaller companies have a slightly higher expense to income ratio than the larger companies. Bearing these two factors in mind it would appear natural to assume that the small company in this case would in fact have lower net earnings as a percentage of assets employed than would the large companies and in the example given that is what is shown. With the smaller companies, as with the large companies, the variations in the ratio of borrowed money to invested capital and surplus produce wide variations in the net profit when it is stated as a percentage of invested capital and surplus, in this case from 19·2 to 9·7 to 6·9. As I mentioned before I do not think it is fair to suggest that large company A is many times more efficient than small company C, for

instance, because its net profit is 35·1 compared with 6·9 of small company C. The difference lies in two factors, first, large company A has a high leverage factor—the ratio of borrowed money to invested capital is high. Small company C has a low leverage factor—borrowed money is less, dollar for dollar, on the invested capital. True, large company A is more efficient and pays a slightly higher rate than small company C or any of the small companies, but the earnings formula does indicate that; it is slightly higher at 5·9 compared with 4·5.

By Mr. Hollingworth:

Q. Do these companies pay income tax on gross earnings or on net?—A. The companies in fact pay income tax on net earnings or, at least, on net profit after taking into account interest on borrowed money and any company's net profit is so computed, because that is what the law calls for. To arrive at an earnings figure on a comparable basis, where we have to extract or take out of the return the interest on borrowed money, it appeared that since income tax was calculated with reference to that amount, correspondingly we should in turn adjust income tax by the amount we take out of expenses. That is the reason for the adjusted income tax figure.

To illustrate the effect of leverage or a high ratio of borrowed money: If in the large company you start out with a situation where for every dollar you put out you can borrow one dollar, your net profit is 9·9 per cent, as you progress and are able to borrow more money, assuming the shareholder is prepared to take the additional risk involved, by increasing his ratio of borrowed money on invested capital and surplus but basically without increasing the volume or efficiency of the service, you step that up from 9·9 to 32·2, and so on. The reverse, of course, also operates.

Mr. TUCKER: Mr. Chairman, we are quite familiar with the fact that the small companies need money at a low rate of interest and the cheaper they can borrow the more profit they make on their capital. I think we are all fully aware of that, and there is no need for us to go into this great detail. We have a lot of work to do, and I submit that if the witness is not going to prove any more than that, he should move on to the next point. All he is proving now is that the more they can borrow at certain rates of interest the more they will make, proportionate to the amount of invested capital in the business. That is quite clear.

The CHAIRMAN: I do not think that is the point he is trying to make.

Mr. TUCKER: If that is not the point, I do not see any other.

Mr. CAMERON (*Nanaimo*): Neither do I.

The CHAIRMAN: I think the point he is trying to illustrate is simply that it is a question of how you should calculate net profit—whether it should be on invested capital or on the total assets employed. At least, I gather that.

Mr. TUCKER: The suggestion is that the smaller company cannot make as big a percentage of profit on the money invested by way of capital and reserves as the big company. That is quite clear—we understand that. I do not see that this proves anything other than that the large company and the subsidiaries borrow a great deal of money and have less active capital invested on their own.

The CHAIRMAN: I think the whole question is an accounting problem—whether it is a suitable accounting practice to calculate net profits on the capital and surplus employed, or on the total assets employed; and I think that, simply, is what Mr. King is trying to do.

Mr. HOLLINGWORTH: I think the witness has made his point very clear; I think he has explained it well. Perhaps I could suggest that we might now go on to hear the next witness, if Mr. King has finished.

The CHAIRMAN: I think he has another case to present—By the way, where are those great battlers for more meetings?

Mr. FULTON: They are taking part in the debate on the income tax bill, which is of interest to all members of this Banking and Commerce Committee; they are in the house doing their duty in the chamber. Would you care to arrange with Hon. Mr. Harris to have the income tax bill held over so that they could come back here?

The CHAIRMAN: I was just interested in where they were; I thought perhaps they were dangerously ill.

Mr. CAMERON (*Nanaimo*): I suggest that the pot should stop calling the kettle black.

The CHAIRMAN: If you wish to call yourself a pot, that is your privilege.

The WITNESS: I was within two sentences of completion. What I am trying to show by an example where the variations are controlled is that, because of this borrowed money factor, you get wide variations in net profit whether a company be large or small; whereas on earnings we get a factor which indicates rate of return in terms of efficiency and excludes this factor of borrowed money which is beyond the small loans business.

Mr. Fulton asked a question this afternoon. I have had an opportunity, between the afternoon's session and this evening's session, to have a quick look at the figures. As I recall it, Mr. Fulton asked this afternoon if I could explain the difference between the net profits stated as the percentage of invested capital, on page 24 of the association's brief, where they were stated as being adjusted to 6·5 per cent for the remaining companies, compared with the estimate set out on page 40 of Mr. MacGregor's brief where, if I recall it correctly, the term he used was to the effect that the companies would be the remaining companies in the "all others" group and would be about 6 per cent. Now, the main difference in those figures—

By Mr. Fulton:

Q. My interest in this was that I understood you to say that it was important to use your basis of comparison because it enabled you to compare a more realistic basis, and yet I was interested to find that, whether you use your basis or Mr. MacGregor's basis, the figures are quite close, 6·5 per cent as against 6 per cent?—A. Mr. Fulton, on page 20 of the association's brief is set out the earnings as a percentage of the assets employed for "all companies", six of the known subsidiaries, and the remaining companies, and in there it is 4·2 per cent on the basis of the 1954 results. On the basis of the earnings proposed in the bill for the remaining companies that drops to 3·2 per cent.

The 6·5 per cent is a net profit figure stated in the same terms as Mr. MacGregor's "about 6 per cent". But, there is a factor in there. You will notice that the adjusted net profits, after taking into account the revised rates in the bill, are $465,000 and that figure has been related to a base of invested capital and adjusted surplus. In other words, the book figures for capital and surplus have been adjusted by this difference in net profit because presumably if they get less money they would have less accumulated surplus. If the revised net profits were related to the original base, you would state it about 6·2 something per cent. If there is any remaining difference between the 6·5 and Mr. MacGregor's 6 per cent, I cannot undertake to explain it because I am not familiar with Mr. MacGregor's computation.

Q. In other words, what you are saying is that you would suggest that the figures given on page 20 are the realistic figures rather than the figures in Mr. MacGregor's brief, or the association's brief, as the reduced rate?—A. Yes. I think that is a fair summary, that the earnings are the only figures with which you can rate one company with another—large or small—on a

comparable basis; but net profits figures have been produced, because in most cases that is what we would normally think of; but, in this case, I think the earnings base is the appropriate base for measurement.

The CHAIRMAN: Are there any further questions on this part of Mr. King's brief? If not, I would ask Mr. King to go on to the other portion.

By Mr. Cameron (Nanaimo):

Q. I wonder if Mr. King could explain this to me: I notice in the example A for the small companies that the invested capital surplus of $110,000 and the $840,000 of borrowed money, which makes up a total of about $1 million, is almost precisely the figures given for the Bellvue Finance in the 1954 report of the Department of Insurance, at page 46, and yet the other figures do not seem to quite tab there properly. I notice that you have interest on borrowed money of $50,400, but the Bellvue Finance only paid $42,855. The same is true of a lot of the other figures; they do not jibe, and yet it is almost precisely a question in point.

Q. Mr. Cameron, if I might answer you in general terms, as I mentioned with respect to the larger companies, $28 million is roughly the average outstandings, when you take the number of the large companies and total their total outstandings and divide by the number of companies. Similarly with the small companies, when you take the remaining companies, total their loans outstanding, and divide by the number of companies you come to approximately $1 million. Thus, on that basis, we set our loans outstanding at $1 million, in easy round figures. Then the next figure which we picked—and this was without reference to any individual company at all—

Q. I did not think it had been.

A. —was that in our report of March 12. We pointed out that for the independent companies—that is the 58 companies other than the six known subsidiaries—the ratio of borrowed money to invested capital was approximately 2·50 per cent. That was the next figure. We said that example "B" will be an average company roughly in line with the experience of the 1949-1954 period. So, that was set at 2½. You will notice in the large companies that the average company is roughly 4½ to 1. The next figure we set was the high ratio of borrowed money to invested capital. Just looking down, and scanning it by eye, we thought that 8 to 1 was a fair figure to use for the large companies. Therefore, we also used the 8 to 1 for the small companies to put large company "A" and small company "A" on a comparable basis. It was purely with reference to the average figures for the companies included in the data, and there was so attempt in any shape or form to make the figures appear like or different to any individual company. Rather it was to get the loans outstanding in the first instance roughly comparable for the average small company to the average of the industry.

Q. I have one more question, Mr. King; I do not know whether or not it is a fair question to ask. What would your answer be as a chartered accountant, if I, or someone, were to come to you, and say that we had $100,000 and that we wished to invest it in large company "A", and asked you about how much we might expect to make on our money, would you say 35·1 or 5·9?—A. Mr. Cameron, I am not an investment counsellor at all, so I will deliberately avoid saying whether or not I would invest the money. But I would make this comment: as an investment, I do not think it would be fair for me to expect that any company would pay out its total earnings in the form of dividends to me as an investor. There is a wide variation in the policy of companies as to the percentage they pay out.

Q. But that would not affect the position of the investor. He might not get it in immediate dividends, but he would get it in his share of the earning surplus by this capital account.—A. To a degree, yes; but again, as I pointed

out in the report of March 12, the average company that is a completely independent entity, be it large or small, appears to have a borrowing power of about 2·5 dollars for each dollar of invested capital and it also appears where a company has borrowing power of 8·1—that is borrowed money to invested capital—the large companies at least all appear to have a parent in the background which does the borrowing.

Q. I know that. But can you tell me this: which figure would you say represents the earnings an investor could expect, 35·1 or 5·9? That is what we wish to find out; just what are the real earnings of these companies? What are the investors making out of them?—A. I think, Mr. Cameron, that there is perhaps more than one context in which we may want to look at earnings; as an investor; as a lending company; and from the standpoint of this committee here. From the standpoint of measurement, or as a guide-post, which you will utilize in determining whether or not any rate set is a fair rate, here, there, or some place else, regardless of the company, I think that you must utilize an earnings concept as opposed to a net profit concept, because in the net profit concept, as we are speaking today, if an investor, along the lines of your particular question, wished to invest in that company, even though it has a high rate of return, he first of all has to assess very carefully the extra element of this risk involved because of the higher proportion of borrowed mony, and what could happen because of a decline in business. As an investor I have one concept of doing business; another when I am trying to determine what is the rate, in this case a rate to be allowed on loans, and whether that rate is a fair rate; how it will affect the small loan companies and large companies, how it will affect companies with a small or high ratio of borrowed money. Unless I utilize the earnings, or some such comparable basis, variations, having nothing whatsoever to do with the income rate, produce wide variations in this net profit, I do not know where I stand.

Q. You certainly do not, Mr. King. I certainly would like something more definite from you. You have put down figures here on the basis of which an ordinary simple person like myself considers profits on the return of the money put into a firm and told us that the rate in this sample company of yours would be 35·1 per cent; then you ask us to take another basis altogether which produces the extraordinary figure of 5·9 per cent. What I want is something which more clearly reflects the facts of the case.—A. First of all, in the net profit as a percentage of invested capital and surplus, the same amount of net profit is related in this particular case to $3 million of invested capital and surplus. Net earnings on the other hand are related to the assets used in producing the gross income of those net earnings. And the net earnings, in this case the $1,775,000, are related to the almost $30 million. In other words, I am trying to indicate that if you place on the one hand assets that are doing the work you might measure by a comparable and fair basis the return that those assets have secured...

By Mr. Hollingworth:

Q. You seem to have your cake and you are eating it at the same time! No matter how you deduct your interest on borrowed money, in the first instance, with the income tax you are paying it is a relatively small income tax in comparison to the net earnings the income tax would be much greater, and with respect, I think that is begging the question.—A. Well, Mr. Hollingworth, I can assure you that there is no attempt as far as I am concerned to beg the question. What I attempted to do in this first report was to devise a basis whereby we might fairly measure and compare the results of one company with those of another, having in mind that the key to the comparability of the companies in this case is the loans outstanding; that is the common denominator...

Q. I see your reason.—A. And after reviewing the situation of the various companies this factor of parent and subsidiary relationships came into view. On looking over the varying relationships between the 60 and some odd companies over the six year period, which I admit was rather arbitrarily chosen. This 1949 to 1954—roughly, 1954 was the latest date on which the figures were available, and 1949 seemed to be reasonably far removed from the impact of the war. From parent and child relationship in respect to the variations in borrowed money—it thus become quite apparent that the figures for borrowed money and invested capital did not mean the same in a parent-child relationship that they do when you are talking about a completely independent entity where there is no parent-child factor. As I mentioned in the report, when reading the report of March 12, there are obviously some cases where the parent company has invested money in the particular company that is included in this data to carry on business and for one reason or another—and those reasons I do not pretend to know—but for one reason or another which in their judgement seemed to be valid, apparently they put up a high proportion of the total fund in the form of borrowed money rather than in the form of invested capital, and thereby they produced an artifical relationship.

And this 8·1, the $8 of borrowed money to the $1 of invested capital in the larger companies—it has an effect only in the case where the Canadian company to which we are referring is a subsidiary of another company.

I was going to mention for Mr. Cameron's benefit that the question of investment in that type of company is an academic one because you, as an investor, have an opportunity to invest in the parent company where more likely the ratio of borrowed money to invested capital is perhaps two to one. I do not think I am begging the question in attempting to vary the percentage of net profit on invested capital or surplus at all. Really it is an attempt to develop a basis whereby this extraneous factor, which is a management decision, in the small loans field of operations is eliminated. What appears is the result of what I mentioned before, of adopting somewhat the same philosophy as applies in public utilities where again this same universal factor applies, because they normally have a high relationship or ratio of borrowed money to invested capital in relation to the ordinary manufacturing business. There again over the years the various legislatures, courts, commissions, and various bodies have finally come to feel that the only common denominator, the only reliable base on which to measure or to calculate the earnings is the assets employed.

Admittedly it is not followed in 100 per cent of the cases, but it is followed in the electrical utilities field in Canada. In the field it is followed almost without exception. And then finally it comes back to this base: what are the assets that are used to produce the interest? What is their true and reasonable current value, and therefore to measure these earnings by the relationship we have to refer to these particular assets.

That is the same type of philosophy that is used in this appendix. I have put in profit figures here in attempting to bring about some guide as to how, with the variations in borrowed money you might expect to find, the net profit varied even though the earnings did not vary or when as suggested in this next report, the projection is made as to what income there would have been had these rates been in effect. To illustrate that fact I can give you some figures by which you can correlate the normal concept of profit of these earnings, a concept which is not normally used but which is used in the public utilities field.

The CHAIRMAN: Are there any further questions on this part of Mr. King's brief?

By Mr. Henderson:

Q. As I understand it, Mr. King, in his brief on page 20 has shown the gross earnings of 1954 as 6·5 per cent, and 4·2 per cent, and the same has been shown in 1955 where they are 6·2 and 6·6 per cent, and on the estimate it is 3·6. On the other hand Mr. MacGregor in his statement has arrived at 12·5 and 5·2 in 1954, and for 1955 he has arrived at 11·8 and 3·1. I would like to know what is the right of this? Or did you arrive at it by different methods? These seems to be a discrepancy in the result.—A. I presume, Mr. Henderson, that you are referring to the figures compared with Mr. MacGregor's table 8?

Q. That is right.—A. For the total of small loans companies for 1955, the gross earnings is 11·8, and for all others, the small companies which are roughly comparable but not quite to the remaining companies, is 5·2.

As pointed out on the heading of this column, gross earnings is before income tax and before interest on borrowed money, whereas the earnings figures referred to on page 20 are before interest but after applicable income taxes, that is, taxes having regard to the quantum of borrowed money that has been taken out of the profit figure; and therefore while gross earnings as pointed out in Mr. MacGregor's tables would be referable, in my own way of thinking, to the assets employed or 107 per cent of outstandings, I would not think that they would be referred to the gross figure because at least income taxes would have to be paid by the companies before there was any amount left for the company, or any for the shareholders themselves.

Q. How is the tax situation in determining the net profit? What is the variation in the tax situation between the larger companies and the small companies? Is there any advantage or disadvantage to the small company or advantage or disadvantage to the large company?—A. The tax rates provide the same rate for the small and the large companies; proportionately, of course; the smaller company with a smaller net income subject to tax pays a lesser percentage of tax than the larger company, because the tax on the first $20,000 of taxable income is 20 per cent, and on the remainder it is 47 per cent. When income gets into a high figure the tax rate approaches 47 per cent of the income subject to tax; whereas in the company where the taxable income is $20,000 or less, the company in fact has only to pay the 20 per cent on its taxable income.

Q. I am not sure it is fair to ask you this, but when did you make up this table to arrive at this conclusion?—A. The first report is dated March 12 that is the date that the report was rendered. The second report is dated March 19, and that was the date the report was rendered.

Q. Did you take into account the higher rate as far as you were concerned when you made up your account? Was this done before or after the increase in the bank rate?—A. Oh, the projection as to what would have been the impact of these rates on 1954 or 1955 income—I will explain that in more detail in the next report—was computed without making any change whatsoever except the change in the rate to be earned on the loans outstanding. The rate of interest on borrowed money has not been taken into account and it would not be in the earnings figure. On the other hand it certainly would be in the net profit figure; and presumably the recent rise in the bank rate will have a tendency to depress the net profit which might in fact have some impact on the borrowing power of the companies, and then on the total funds they may have. What the ramifications of that may be I would hesitate to suggest, but they could well be extensive, and it might result as a snowball going down hill.

The CHAIRMAN: Are there any further questions? If not we shall go on to the next part of Mr. King's report.

The WITNESS: Report dated March 19: it appears in the association's brief, and immediately following the large series of tables. That is the March 12th report, reasonably close to the end of this particular brief.

By Mr. St. Laurent (Temiscouta):

Q. Mr. Chairman, on these tables it shows that the small companies pay interest at 6 per cent and the larger companies at 5½ per cent.—A. As I recall, yes, Mr. St. Laurent.

Q. That would be due to the fact that the credit is easier for the larger corporations, or for American capital?—A. No. In the examples that we utilized, the small and large company examples, we did take a half of one point higher for the smaller companies, because it was our opinion, in looking at the figures, that probably a much greater proportion of their total borrowings were from the banks, and thus subjected to the immediate effect of the change in the current bank rate. So that in that particular example we did. The larger companies, on the other hand, as has been mentioned already, usually have a parent in the background which does the borrowing for the organization and, in many cases, that borrowing is on a larger term basis; on the basis of debentures and so forth, and therefore a change in the current bank rate would not necessarily have an immediate impact. Apart from deliberately inserting the half of one per cent point spread between the large and small company, that was all that we used it for.

Q. Yes.—A. The following was addressed to the Canadian Consumer Loan Association by Deloitte, Plender, Haskins and Sells, on March 19, 1956.

Dear Sirs:

As you requested we have reviewed the results of operations for the years 1954 and 1955 of companies subject to the Small Loans Act in order to estimate the effect of the changes in the levels of permitted charges (as proposed in Bill 51) on the operating results of the industry. For this study we have accepted the figures as they appeared in the annual reports of the superintendent of insurance on small loan companies and money-lenders or as supplied to us by various companies including Household Finance Corporation Ltd., a company making loans of $500 which is not required to report under the Small Loans Act.

Incidentally all companies supplying us with the information are, with the exception of this company, licensees or small loans companies incorporated under the act. Again we have no information as to non-licensees and to the extent of their operations, thus these projections, when referring to the industry, talk only of the industry whose figures are included in the data you already have.

In order to estimate the effect of changes in the level of permitted charges we have taken the reported results for the years ended December 31, 1954 and 1955 and calculated the probable change in income earned on loans in those years that would have resulted from the use of the charges as proposed in Bill 51 on the assumption that any change in rates of charge would not have affected the number or size of loans made in those years. We have also assumed that such changes in rates would not have resulted in any changes in other income and expenses of the companies. In order to show income taxes in fair relation to the figures for estimated income earned on loans, we have adjusted the reported figures for income taxes by the marginal corporate income tax rate (49 per cent for 1954 and 47 per cent for 1955) applicable in each year in respect of the differences between actual and estimated income earned on loans.

Schedule "A" indicates that the 1954 earnings would have been 73·3 per cent of the 1954 actual earnings had charges been 2 per cent per month on loan balances up to $300, 1 per cent per month on loan balances from $300

to $1,000, and ½ per cent per month on balances in excess of $1,000, instead of the rates actually in effect in that year. Schedule "A2" indicates that on such a rate schedule the 1955 earnings of 41 companies, which supplied us with information on their 1955 operations, would have been 72·9 per cent of their 1955 actual earnings. (*For Schedules "A1" and "A2", see Appendix "B"*).

In the attached schedules we have indicated the probable effect of changes in permitted charges with reference to "earnings". Earnings has been regarded as the gross income from operations less all expenses, except interest on borrowed money, and applicable income taxes. We believe this is the concept of earnings that should be used because it expresses the results of operations of the various companies in comparable terms.

Now, as I mentioned to Mr. Henderson in reply to his question a moment ago, from the standpoint of the small companies, those whose taxable income is $20,000 or less, this blanket adjustment results in understanting the impact of any downward adjustment in rates on a small company. Because, for every dollar that it loses in income it only adjusts its tax downward by 20 cents. Whereas if the taxable income is in excess of $20,000, where they pay a higher tax rate, then when there is a reduction of $1 in gross income their taxes are adjusted by 47 per cent and, thus a net adjustment of 53 cents on the dollar, compared with the small company of 80 cents on the dollar. So that in these estimates, which we will come to in a moment, the impact is understated from the standpoint of these small companies; but not having complete access to their figures and their tax base we felt the only thing to do was to approach it on the industry basis and take a marginal adjustment.

Schedule A-1 attached to this report, which is the first of the two pages attached following the end of page five, indicates that 1954 earnings on the total businss of these companies would have been 73·3 per cent of the 1954 actual earnings. The charges used were 2 per cent per month on loan balances up to $300; one per cent per month on loan balances from $300 to $1,000; and one-half of one per cent per month on balances in excess of $1,000, instead of the rates actually in effect in that year. As is mentiond on the preceding page there were no other changes. Schedule "A-2" which is the next page, indicates that on such a rate schedule the 1955 earnings for 41 companies which supplied us with information on their 1955 operations would have been 72·9 per cent of their 1955 actual earnings.

In the attached schedules we have indicated the probable effect of changes in permitted charges with reference to "earnings". Earnings have been regarded as the gross income from operations less all expenses, except interest on borrowed money, and applicable income taxes. We believe this is the concept of earnings that should be used because it expresses the results of operations of the various companies in comparable terms.

In Schedules "A1" and "A2" we have shown the 1954 and 1955 earnings and adjusted earnings as percentages of the "assets used in the business". We are of the opinion that 107 per cent of the loans outstanding is a reasonable measurement of the tangible assets used in the small loans business. It appears reasonable, therefore, that such is a fair standard to use in this case. Schedule "A1" indicates that the adjusted 1954 earnings would have produced a return of 4·6 per cent on the assets used in the business.

And that compares with 6·2 actually earned in 1954—and Schedule "A2" indicates that the return for 1955 of the 41 companies would have been 4·5 per cent compared with actual return again of 6·2 per cent.

Method of Calculation of Adjusted Earnings

To arrive at the dollar balances of loans in the various rate categories, i.e. under $300, from $300 to $1,000, from $1,000 to $1,500, and over $1,500, and thus subject to varying rates of charge, we used analyses of loan balances as

of current dates of 21 companies which compute charges on all loans on a per cent per month basis. These 21 companies account for approximately 60 per cent of the volume of business represented in Schedules "A1" and "A2". While these analyses were made as of current dates—with reference to the date of this report—it appeared that the proportions of loan balances in the various rate categories thereby obtained were reasonably approximate to those which prevailed in 1954 and were closely approximate to those which prevailed in 1955. Because of the considerable computational difficulties involved, no attempt was made to analyse the loan account balances of the companies which did not compute charges on all loans on a per cent per month basis. A review of the loan account balances of such companies indicated that their loan balance distributions approximated those of the 21 companies referred to above.

Using the figures obtained for loan balances in the various categories, i.e. up to $300, from $300 to $1,000, from $1,000 to $1,500, and over $1,500, and the stated permitted rates of charge the theoretical annual rate on loan balances was obtained. Since we did not have information as to income earned on loans in excess of $1,500 for all companies, we used rates of 2 per cent per month on balances up to $300, 1 per cent per month on balances from $300 to $1,000, and ½ per cent per month on all balances in excess of $1,000, whereas Bill 51 proposes to govern rates on loans up to $1,500 only. However, in the loan balance distributions reported by the 21 companies, the balances of loans originally made for amounts in excess of $1,500 constituted slightly more than 1 per cent of the total balances outstanding.

On the basis of the experience of some companies we estimated the effective annual rate as being 99 per cent of the theoretical rate. This is somewhat above the percentage secured by some, at least, of the smaller companies.

Having arrived at the estimated effective annual rate applicable to the 21 companies we then computed their estimated 1954 and 1955 income earned on loans, using these rates and the balances of loans outstanding for those years. As a result of this computation we arrived at an estimate of the income earned on loans in 1954 and 1955 stated as a percentage of the reported income earned on loans for those years. In Schedules A1 and A2 we have adjusted the income earned on loans of all companies included therein correspondingly.

As previously stated, other income and expenses were assumed to remain as reported except for income taxes. We have adjusted the reported figures for income taxes by the marginal corporate income tax rate (49 per cent for 1954 and 47 per cent for 1955) prevailing in respect of the differences between actual and estimated income earned on loans.

In calculating the average loans and other contracts outstanding for the various companies we used the simple average of the balances at the beginning and end of the years under review except in those instances in which we had received information as to the balances of loans outstanding as at the beginning of each month in the year under review. In these latter cases, the average outstandings were calculated as 1/12 of the sum of the twelve monthly balances.

Thus, referring to schedules "A-1", the first column is as indicated, composed of the figures reported by the superintendent of insurance with the addition of those of the Household Finance Corporation Limited which are supplied to us. The second column shows the translation of those figures into the earnings, that is, taking earnings as being gross income less expenses, except interest on borrowed money, and applicable income tax. There is one further adjustment in this case. You will see readily that interest on borrowed money has been deleted and also you will see that income taxes have been increased correspondingly by 49 per cent of the amount of the interest on borrowed moneys. You will also notice that we have included as an expense a provision for bad and doubtful debts and have deleted the recovery of

amounts and the write-off of ledger values in the treatment and handling of bad debts because from an accounting stand point we believe that an appropriate provision has to be made for losses on accounts outstanding in determining that profit or earnings. We understand from the reports of the companies which have been given to us that, with one or two exceptions for which we adjusted, the figures reported as expenses or provisions for bad or doubtful debts were the figures they used in their income tax returns to the Department of National Revenue. We therefore felt, having in mind our experience with the attitude of the Income Tax Department toward the provision for bad debts, that this was probably a reasonable basis to utilize in this case. Nevertheless I do not think that that particular point is too pertinent to the case because the comparison of the third column with the second column is the significant point. You will notice that our estimate for income earnings on large and small loans is $35,471,000. You will see that the pertinent figures are a comparison of column 3 with column 2 where the income earned on loans is estimated to be 83·6 per cent of the income actually earned on the loans by these companies in 1954. The reduction on the basis of the bill rate is estimated as $6,958,000. Then there is a reduction with the related adjustment of income tax in column 3 to make it comparable by reason of this reduction in income with column 2, which brings the adjusted earnings for the year 1954 down to $9,761,464 compared with $13,310,312 actually earned—in other words a reduction of 26·7 per cent in earnings. To use our factor of earnings to 107 per cent of assists employed, they were actually 6·2 for the year ended December 31,, 1954 for the various companies referred to and on the basis of this projection they would have dropped to 4·6 per cent. Similarly for 1955 the 41 companies on which we had information at the time this report was prepared—and actually they were in the process of preparing a report for the Superintendent of Insurance; we did not have them all in—the gross earnings of small and large loan companies totalled $51,425,121. We estimate that had these rates been in effect in 1955 and had no other changes taken place in income or expenses or in the numbers or size of the loans that the income would have been reduced by $8,176,000 to $43,248,000. Correspondingly the adjusted earnings would then be reduced to $11,635,678 compared with actual earnings of $15,969,273 or again on our earnings ratio-actually earned 6·2 per cent—the same as in 1954—would in 1955 have dropped to 4·5 per cent, in other words a 27·1 per cent reduction.

As I mentioned earlier I would like to point out that we believe because of the use of the marginal tax rate the impact on the smaller companies is somewhat heavier than the impact shown here, because we have adjusted taxes in respect of the projected decrease in gross income by a blanket 49 or 47 per cent depending on the year, 1954 or 1955, instead of individually for each individual company, because we did not have that detail. From an industry standpoint it is our opinion that, if these assumptions are valid that is that there would not be any other changes in income and loans outstanding if these rates had been in effect in 1954 or 1955 they would have produced a reduction of net earnings in 1954 of not less than 26·7 per cent and in 1955 not less than 27·1 per cent.

The CHAIRMAN: Are there any questions, gentlemen?

By Mr. Knight:

Q. I would like to ask one question. On page 3 you say:

> Because of the considerable computational difficulties involved, no attempt was made to analyze the loan account balances of the companies which did not compute charges on all loans on a per month basis.

Might I ask how they would compute the charges on loans on those other cases which were not computed on the basis of per cent per month.—A. Mr

Knight, with respect to the loans of an original amount up to $500, to the best of our information, all the companies did compute it on a per cent per month basis because, as I understand it, that is the requirement of the act. As soon as we get into the area above $500—and this bill proposes to go to $1,500—we find variations in practice, since there were no laws, rules or agreements governing the practice of various companies. Some companies carried right through and, in their loans where the original amount was more than $500 they still utilized the per cent per month basis on balance of principal outstanding no matter what rate they may have used. Other companies used what I believe is called a pre-computed rate. That is a case where if a borrower comes in to borrow, say, $1,000, and he agrees that he will pay it back over a period of 24 months at an agreed rate of interest—

Q. Agreed rate of interest per cent per month or how?—A. Let us say an agreed annual rate of interest. Then they say, you will pay back this particular loan in 24 equal monthly instalments. Then they say, at the stated rate of interest it will require "X" dollars per month to pay back the loan. In the first month the interest element of that payment will be considerably higher than it is in the last payment and, therefore, they have a scale of charts for their own use which set out all these rates per month.

Q. I thank you for simplifying it. I think you are over-simplifying it. Is the answer to my question that these amounts are computed on a per cent per month basis or computed on an annual or per cent per annum basis?—A. Mr. Knight, I presume in most cases they are. For our purposes we scanned the loan distributions, leaving in mind what the companies said, and the rates seemed to be comparable to the per cent per month rates. Since we were making a projection of stated rates which were lower than the going rates we did not need to concern ourselves with what rates the various companies charged on these larger loans because we were scaling it down to the rates set out in the bill. Then we said the difference has to be the reduction because they would not be more than the bill permitted.

Q. In this hypothetical case which you put before us, you made your calculations as if the amount of business in the hypothetical case would have been the same as it actually would if the bill were in fact in existence. Do you consider that your reduced rate of interest to the advantage of the borrower, if this bill had passed, would have increased the business of the loan companies perhaps not to that amount, but to a certain percentage of that amount?—A. We considered all those factors and decided from our point of view the only projection that we could make as accountants which would be meaningful and we hope helpful in understanding the situation, would be one whereby we said, we will freeze every other aspect of the business in 1954 and 1955 except the rates of charge because we did not want to make, as accountants, any assumptions as to what might have been, perhaps, the effect on borrowers, or as to whether or not a reduced rate would have produced a higher demand, nor did we want to make an assumption that a reduced rate, would produce a reduced volume. This might have some effect on the amount of money the companies could borrow. We thought that any assumptions we made on that line would be hypothetical.

Q. If I could be more concise, and put my question more simply you might be able to answer it more simply. Is it your opinion that if the provisions of the bill had been in existence over the past year that the amount of the gross business which the loans companies would have done would have been in excess of what in fact was done. In other words, if you reduce the price of tea, do you sell more tea?—A. The simple answer is as accountants, we felt it was not our business to make any estimates.

Q. What you are telling me is that you are not prepared to express an opinion on the matter?—A. Because I feel that is more in the field of economists and business men.

The CHAIRMAN: Perhaps we should ask Mr. Cawker; he is in the practical field.

Mr. KNIGHT: He is not on the stand.

The CHAIRMAN: The Canadian Consumer Loan Association is on the stand.

Mr. CAWKER: I feel quite sure that it would not have been reasonable for anyone to assume that the volume of business would have increased as the result of the effect of the rates included in Bill 51. The bill itself anticipates supervision of the field up to $1,500. The two largest lenders in the Canadian field or not, as a matter of policy, make loans to $1,500. Therefore, the servicing of the field from $1,000 to $1,500 remains the responsibility of the Canadian lenders. Now, I will not speak for a couple of the larger firms who are subsidiaries, but I will speak for the small lenders. I have seen some of the projections which Mr. King has done, dealing with individual companies, and they simply, as a matter of economics, would not be able to survive in the field. Therefore, if we make an assumption that the loan balances would increase, we also have to assume that the larger lenders would change their policy and service the field between $1,000 and $1,500 and the indications I have had are not that they intend to increase the field which they service at the present time.

Mr. KNIGHT: I want to get this clear in my own mind. It is clear that the loans up to $300 would not have been affected in either case? The legislation does not affect loans up to $300?

Mr. CAWKER: It does not affect the rates to the borrower but the fact of the matter is that it would certainly affect the availability to this degree, that is that we smaller Canadian companies would find ourselves locked in the business and faced with the problem of digging ourselves out of it because we could not service the field anticipated by Bill 51.

By Mr. Knight:

Q. As you may have suspected, I am somewhat interested in the borrower. Is it correct that somewhere around 70 per cent of the business done by small loans companies is in the brackets of $300 or thereabouts—up to $300?—A. In table 3 on page 11—

Q. Is that the right percentage?—A. In table 3 on page 11 of my brief we do not set it out as a percentage. On a very rough computation in the table on page 11 it would seem that the loans up to $299 run to approximately 50 per cent.

Q. It is more than 50.

Mr. FULTON: Are you talking about the number of loans or dollars outstanding?

Mr. KNIGHT: Is 72 per cent approximately the figure? Excuse me, the gentleman is again nodding his head. I would like him to answer the question audibly.

Mr. CAWKER: It is related to numbers of loans.

Mr. KNIGHT: I want to get the approximate percentage of the number of loans which are between $1 or $299, if that is the extent.

The CHAIRMAN: You want the number of loans, not the dollars?

Mr. KNIGHT: That is right.

The CHAIRMAN: They vary quite a bit, those two figures.

Mr. CAWKER: It is slightly in excess of 50 per cent.

Mr. KNIGHT: No, I think it is much more than that.

Mr. CAWKER: It is about 70 per cent in the number of loans, or close to 60 per cent in dollar value.

Mr. KNIGHT: Is it not true that about 30 per cent of the loans which will be made under the legislation will be loans upon which there will be any loss as compared with the state of affairs if the legislation were not passed?

Mr. CAWKER: Well, this table, of course, of the 70 per cent figure which we finally arrived at here is related only to loans up to $500; we have the figures from $500 to $1,500 with some limitations. That is only for the companies which are licensed under the act presently. We know the number of accounts and the dollar volume of their loans over $500, and also we have the figures for Household Finance Corporation Limited; but as to the field outside of that we have no idea—I mean the unlicensed ones.

Mr. KNIGHT: I am glad to have that now, and thank you. Now I shall ask you if it is your opinion that the number of loans would increase if the interest rate were to come down, or did you answer that question before?

Mr. CAWKER: Yes, I think I answered it. I cannot see that it would increase from the standpoint of the lenders serving the field now because we are aware that a certain number of lenders would have to withdraw. Now, what might happen in the event that we ended up literally with a monopoly in the hands of the American companies, I would hesitate to hazard a guess.

Mr. KNIGHT: On that basis I shall ask you my final question: if in your opinion people do not borrow money—more people do not borrow money because the interest rate is low? Are you aware that what you are saying is that these people, under the circumstances in which people go to these small loan companies, are simply prepared to borrow no matter what it costs them? Isn't that a logical conclusion to draw from your earlier answer?

Mr. CAWKER: Very definitely, Mr. Knight. They borrowed from the loan sharks.

Mr. KNIGHT: All right; thank you.

The CHAIRMAN: Are there any further questions?

Mr. FOLLWELL: I thought you were finished.

The CHAIRMAN: Have you some questions you wish to ask this witness? The other two witnesses who will be following Mr. King are not here tonight but they will be available tomorrow. We have only three minutes left to go, so I thought that if you only had a question or two we might conclude with Mr. King and go on with the next witnesses tomorrow.

Mr. FOLLWELL: I think with all these figures it would be well—even if we are concluded with his evidence, to have Mr. King here tomorrow in case we came upon something which we did not have a chance to look over previously.

The CHAIRMAN: Well, in that case I suggest we now adjourn until tomorrow at 3.30.

SCHEDULE "A"

SUMMARY OF TOTAL ASSETS, TOTAL LOANS AND OTHER CONTRACTS, BORROWED MONEY AND INVESTED CAPITAL AND SURPLUS OF CANADIAN SMALL LOAN COMPANIES AND LICENSED MONEY-LENDERS AS AT DECEMBER 31, 1949 TO 1954 INCLUSIVE AS SHOWN IN REPORTS OF SUPERINTENDENT OF INSURANCE

—	December 31, 1949				December 31, 1950			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Canadian Acceptance	$ 658,809	$ 561,882	$ 322,624	$ 304,142	$ 681,015	$ 576,667	$ 309,328	$ 334,843
Community Finance	2,349,587	2,289,269	982,941	1,150,045	2,790,885	2,685,624	1,383,032	1,196,706
*Household Finance	50,143,898	48,141,567	40,060,389	7,738,274	59,363,615	57,005,272	48,584,468	7,750,196
Personal Finance	6,116,929	4,864,919	5,097,849	563,690	11,534,830	9,100,489	10,097,849	652,549
Associates Budget Plan	—	—	—	—	—	—	—	—
Atlas Thrift Plan	239,509	228,697	127,181	100,322	284,081	283,136	159,688	108,909
H. Bell Finance	—	—	—	—	—	—	—	—
Bellvue Finance	232,338	223,664	161,000	57,043	257,268	244,159	180,923	58,592
Blake Pierce	1,276,136	1,235,465	950,000	156,031	1,542,884	1,509,787	1,135,000	136,963
Bradley Finance	319,665	316,572	256,265	17,933	301,779	295,182	251,389	26,931
Budget Financing	45,035	43,545	24,100	20,646	91,790	89,622	68,575	22,040
Canadian Personal	322,383	313,707	169,118	110,806	329,958	321,717	159,182	126,031
Capital Finance (Edmonton)	83,110	81,746	25,000	48,878	75,448	68,319	15,699	52,990
Capital Finance (Toronto)	808,896	803,808	657,000	57,911	1,291,831	1,271,516	1,032,000	79,499
Century Credit	150,913	134,125	87,000	33,986	181,024	165,020	114,847	28,231
City Loan and Finance	—	—	—	—	—	—	—	—
Cobourg Acceptance	59,658	57,860	33,000	16,334	88,555	87,945	49,419	23,896
Commercial Acceptance	802,739	782,601	517,672	111,614	906,852	878,488	560,000	54,468
Commercial Credit Plan	1,408,168	1,312,005	1,210,000	76,937	1,666,953	1,572,268	1,385,000	124,040
Commercial Finance	62,092	58,518	24,731	36,757	113,323	109,299	54,037	52,931
Commercial Securities	486,876	36,548	26,699	403,307	—	—	—	—
Consolidated Finance Western	—	—	—	—	—	—	—	—
Coupland Finance	372,142	369,027	227,458	90,559	507,777	502,500	284,150	102,636
Crescent Finance	438,163	398,853	132,711	249,803	515,335	465,369	188,679	253,108

—	December 31, 1951				December 31, 1952			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Canadian Acceptance	$ 700,848	$ 589,274	$ 290,114	$ 365,133	$ 729,094	$ 628,888	$ 295,640	$ 398,214
Community Finance	2,989,719	2,909,229	1,532,948	1,225,753	3,386,481	3,290,846	1,876,141	1,273,148
*Household Finance	70,455,391	68,791,870	58,403,736	7,742,850	81,926,349	79,818,830	69,655,860	6,634,663
Personal Finance	17,630,560	15,570,583	15,597,849	965,667	27,281,846	24,181,444	24,317,849	1,500,770
Associates Budget Plan	—	—	—	—	—	—	—	—
Atlas Thrift Plan	405,293	403,426	271,711	117,544	369,514	367,914	223,414	121,670
H. Bell Finance	—	—	—	—	—	—	—	—
Bellvue Finance	318,010	296,365	240,992	58,789	530,873	507,535	448,023	62,758
Blake Pierce	1,480,949	1,451,633	1,044,000	223,682	2,031,722	1,985,762	1,525,600	181,404
Bradley Finance	302,580	291,866	245,389	25,612	254,310	245,827	175,515	21,042
Budget Financing	86,809	85,289	59,989	24,092	76,559	74,840	48,753	25,748
Canadian Personal	353,478	342,563	158,646	138,823	307,652	240,098	113,655	143,685
Capital Finance (Edmonton)	—	—	—	—	—	—	—	—
Capital Finance (Toronto)	1,159,687	1,129,140	718,500	287,939	1,882,135	1,872,135	1,285,000	293,172
Century Credit	152,246	147,348	99,300	27,238	191,659	184,757	133,282	22,328
City Loan and Finance	157,768	131,310	100,171	56,614	271,304	266,656	169,000	57,787
Cobourg Acceptance	97,879	97,087	55,287	26,293	106,473	98,811	52,000	26,443
Commercial Acceptance	1,010,300	987,494	663,115	158,298	1,161,146	1,135,393	683,548	182,279
Commercial Credit Plan	1,749,446	1,639,263	1,410,000	171,556	2,054,490	1,951,053	1,560,000	239,970
Commercial Finance	173,640	163,909	95,376	57,508	190,020	181,448	97,986	61,483
Commercial Securities	—	—	—	—	—	—	—	—
Consolidated Finance Western	—	—	—	—	1,274,067	1,256,316	866,927	220,828
Coupland Finance	339,771	238,694	156,474	123,062	336,676	160,101	166,635	135,262
Crescent Finance	503,451	461,576	180,001	260,873	573,498	521,848	229,160	263,582

—	December 31, 1953				December 31, 1954			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Canadian Acceptance	$ 718,600	$ 483,370	$ 253,062	$ 432,891	$ 557,941	$ 363,122	$ 67,675	$ 463,895
Community Finance	3,746,081	3,631,581	2,184,013	1,330,674	4,164,784	4,017,240	2,536,949	1,390,866
*Household Finance	94,836,165	92,718,082	76,286,635	12,458,403	112,600,369	110,295,140	93,390,343	12,840,361
Personal Finance	38,592,059	36,235,746	23,948,529	12,174,383	48,898,798	46,466,935	32,122,530	13,938,335
Associates Budget Plan	—	—	—	—	100,000	—	—	99,302
Atlas Thrift Plan	343,136	341,745	199,748	131,242	327,351	270,762	172,711	142,810
H. Bell Finance	—	—	—	—	36,468	36,277	—	35,754
Bellvue Finance	954,820	915,809	791,803	85,711	980,537	907,561	818,393	103,306
Blake Pierce	2,274,382	2,232,627	1,699,700	219,909	2,432,463	2,376,932	1,769,000	276,188
Bradley Finance	381,701	371,003	283,000	44,866	406,995	397,522	276,000	67,894
Budget Financing	69,021	66,273	40,690	27,978	66,198	64,207	35,769	29,908
Canadian Personal	273,938	266,441	86,178	148,178	370,167	364,511	157,072	147,644
Capital Finance (Edmonton)	—	—	—	—	—	—	—	—
Capital Finance (Toronto)	3,502,786	3,489,298	2,695,500	336,779	3,227,621	3,200,723	2,378,000	386,298
Century Credit	190,243	188,287	128,100	21,785	181,089	177,476	115,200	22,529
City Loan and Finance	347,521	342,175	207,300	64,332	466,411	448,584	277,000	71,157
Cobourg Acceptance	127,194	124,966	72,000	27,727	—	—	—	—
Commercial Acceptance	1,432,063	1,408,961	852,708	201,414	—	—	—	—
Commercial Credit Plan	1,993,090	1,912,843	1,480,000	326,528	2,147,265	2,083,963	1,590,000	385,745
Commercial Finance	196,570	185,175	84,908	64,882	196,113	189,836	83,583	66,957
Commercial Securities	—	—	—	—	—	—	—	—
Consolidated Finance Western	129,210	125,615	82,861	36,658	398,506	395,677	293,000	68,983
Coupland Finance	360,775	108,845	196,689	139,781	470,185	140,966	267,048	166,434
Crescent Finance	660,994	630,846	285,475	270,844	732,901	668,115	328,878	284,189

* The figures for Household Finance include those of Household Finance Corporation, Ltd., a company making loans in excess of $500.

—	December 31, 1949				December 31, 1950			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Danforth Finance	$ 306,707	$ 269,099	$ 193,750	$ 75,998	$ 382,147	$ 355,251	$ 231,750	$ 86,261
District Finance	—	—	—	—	—	—	—	—
Dollar Finance	77,588	74,314	60,609	12,776	125,143	120,620	92,470	22,849
Eastern Finance	92,266	90,296	83,000	8,322	97,301	95,162	85,500	10,841
Empire Finance	—	—	—	—	—	—	—	—
Equitable Finance	—	—	—	—	—	—	—	—
Excel Finance	329,293	317,768	215,383	52,860	400,115	384,638	231,378	99,982
Fairway Finance	—	—	—	—	—	—	—	—
Family Loan	163,653	126,876	132,544	28,795	169,119	129,853	134,296	30,823
General Finance Eastern	91,475	74,694	—	72,684	77,986	—	—	76,629
General Finance Kentville	51,741	50,440	18,284	29,474	53,207	51,662	16,763	32,936
General Finance Toronto	109,791	105,645	73,030	20,971	117,008	109,774	73,113	27,618
General Finance Winnipeg	182,538	138,693	107,635	71,647	205,545	160,762	121,147	74,654
Globe Mortgage & Loan	140,730	138,019	97,099	30,995	144,887	142,557	89,266	48,010
Home Finance	—	—	—	—	174,167	164,989	86,608	59,266
Independent Finance	—	—	—	—	—	—	—	—
Insurance & Discount	1,137,823	1,123,890	769,885	167,158	1,388,174	1,356,041	969,012	191,069
Lucerne Finance	—	—	—	—	—	—	—	—
Maritime Finance	462,238	367,315	20,000	402,598	483,559	391,643	19,000	410,151
Merchants Finance	340,558	336,336	221,371	74,482	446,506	438,343	303,121	91,201
Mercury Finance	—	—	—	—	—	—	—	—
Merit Finance	102,299	99,853	95,964	1,085	121,281	117,111	109,631	4,187
Montreal Acceptance	234,483	205,685	82,300	109,004	268,060	231,933	96,200	125,377

—	December 31, 1951				December 31, 1952			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Danforth Finance	$ 396,272	$ 389,565	$ 215,350	$ 120,208	$ 348,994	$ 330,944	$ 150,176	$ 132,499
District Finance	—	—	—	—	—	—	—	—
Dollar Finance	112,809	106,129	67,824	32,615	137,104	133,115	92,211	31,736
Eastern Finance	104,528	102,119	96,500	7,346	107,656	104,370	103,500	3,775
Empire Finance	—	—	—	—	—	—	—	—
Equitable Finance	—	—	—	—	—	—	—	—
Excel Finance	382,342	377,000	215,551	104,242	385,741	381,490	206,343	109,013
Fairway Finance	36,404	35,207	25,085	7,347	183,618	174,366	148,400	6,137
Family Loan	157,567	114,389	119,051	33,048	160,302	108,910	117,475	34,372
General Finance Eastern	—	—	—	—	—	—	—	—
General Finance Kentville	50,065	48,495	10,948	35,689	53,340	51,569	12,408	37,570
General Finance Toronto	153,574	144,642	100,599	31,527	182,988	164,626	109,875	42,634
General Finance Winnipeg	223,431	178,478	144,757	76,156	262,800	216,752	167,472	83,757
Globe Mortgage & Loan	145,951	144,224	82,131	55,222	209,361	189,419	138,937	62,294
Home Finance	183,656	174,704	83,953	57,881	206,867	196,515	96,786	56,472
Independent Finance	—	—	—	—	141,826	139,198	91,150	50,244
Insurance & Discount	944,044	856,057	611,885	170,386	1,063,512	1,019,121	691,648	188,333
Lucerne Finance	—	—	—	—	—	—	—	—
Maritime Finance	486,712	395,373	29,000	408,057	496,531	406,421	44,000	404,959
Merchants Finance	456,865	435,772	299,878	103,936	505,087	501,046	326,587	118,075
Mercury Finance	—	—	—	—	—	—	—	—
Merit Finance	98,636	97,722	81,984	9,676	100,758	98,980	79,205	14,458
Montreal Acceptance	286,073	217,541	67,400	150,300	249,601	202,120	28,600	162,770

—	December 31, 1953				December 31, 1954			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Danforth Finance	$ 323,219	$ 322,355	$ 128,179	$ 132,658	$ 331,590	$ 328,004	$ 125,650	$ 139,031
District Finance	151,715	120,305	85,000	54,868	176,435	167,966	95,929	58,235
Dollar Finance	168,949	161,882	121,062	31,361	161,117	151,583	103,454	39,855
Eastern Finance	60,055	57,608	51,500	8,269	56,442	55,035	50,000	6,193
Empire Finance	—	—	—	—	278,175	267,244	202,000	31,467
Equitable Finance	—	—	—	—	117,149	112,940	71,705	29,428
Excel Finance	389,407	375,127	207,591	112,048	311,927	298,124	135,248	114,428
Fairway Finance	253,488	229,486	194,000	19,865	345,695	320,899	264,000	30,303
Family Loan	165,813	119,117	124,149	33,582	134,112	104,729	109,526	15,121
General Finance Eastern	—	—	—	—	—	—	—	—
General Finance Kentville	66,391	64,605	21,649	41,146	72,801	70,730	24,113	44,443
General Finance Toronto	202,321	190,396	106,875	53,633	178,544	162,681	80,977	66,430
General Finance Winnipeg	274,308	228,022	178,136	87,493	270,172	222,470	169,922	91,828
Globe Mortgage & Loan	219,785	206,472	132,663	76,056	212,036	201,641	116,561	84,881
Home Finance	286,599	269,056	142,969	74,380	255,936	240,114	124,350	71,125
Independent Finance	308,667	035,236	224,791	75,182	322,470	316,976	314,200	92,279
Insurance & Discount	1,339,333	1,278,521	885,922	209,787	1,219,083	1,151,073	761,536	232,850
Lucerne Finance	—	—	—	—	255,031	231,931	165,000	63,315
Maritime Finance	556,576	461,802	106,000	409,899	548,848	463,178	100,000	415,214
Merchants Finance	535,551	524,605	324,519	141,745	578,087	568,050	334,843	166,695
Mercury Finance	209,429	204,628	176,220	31,948	264,059	256,848	207,745	44,616
Merit Finance	81,678	75,709	59,799	18,778	92,771	87,116	67,514	21,229
Montreal Acceptance	312,952	284,121	49,751	188,484	284,621	257,947	—	207,385

—	December 31, 1949				December 31, 1950			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
National Finance	$ 169,027	$ 168,352	$ 111,415	$ 42,047	$ 184,390	$ 183,622	$ 117,432	$ 49,777
National Plan	f 564,338	549,814	340,896	169,564	434,341	411,646	192,923	201,183
Niagara Finance	3,732,316	3,636,331	2,750,000	649,244	4,860,761	4,535,753	3,350,000	743,311
North West Mortgage	320,600	318,575	214,226	75,304	293,266	282,843	185,329	84,174
O'Neill Finance	22,280	18,436	14,300	7,731	32,347	24,413	13,700	18,560
P F Credit								
Peoples Finance	36,564	29,149	3,875	17,924	40,516	36,204	17,234	18,426
Preferred Credit	74,109	71,968	42,411	21,369	76,739	73,700	43,000	23,845
Power City Finance								
Public Finance	2,149,944	1,936,988	1,553,191	165,810	1,733,708	1,539,585	1,342,075	191,262
Regal Finance	49,978	27,284		46,516	54,208	50,161		43,882
Reliance Finance	77,731	75,935	68,710	8,509	145,787	142,581	108,802	33,749
Rideau Finance								
Saguenay Finance								
Schioler & Co	98,028	73,263	69,149	20,001	93,635	78,122	62,160	23,241
Security Loan	80,854	80,303	19,149	43,502	79,369	62,914	14,000	54,414
Service Finance	205,326	202,638	149,800	38,755	210,293	206,959	142,000	47,675
Standard Credit	336,520	318,388	193,185	61,169	314,708	293,116	154,999	75,777
Standard Finance	25,083	23,003	18	21,771	22,436	21,546		21,771
Star Discount	22,650	22,567	8,823	6,285	9,606	6,184		6,911
Sterling Finance	478,272	463,656	326,510	71,382	561,909	552,870	402,374	74,395
Strand Finance	174,286	162,993	66,439	92,316	197,249	189,903	77,648	103,706
Superior Finance	57,806	51,392		48,279	75,540	70,354	20,599	47,102
Toro Finance	166,340	162,874	161,490	(5,577)	183,184	180,233	170,240	1,195
Trans Canada	3,971,918	3,880,804	3,675,000	45,984	4,623,613	4,507,653	4,150,000	118,005
Trenton Finance	114,776	107,612	68,254	41,756	125,494	110,309	76,255	43,305
Union Finance								
Victory Finance	129,511	126,755	74,110	42,761	149,041	146,601	89,217	43,602
Walker, D.A	14,446	14,306		14,151	11,623	11,597		11,403
TOTALS	$ 83,272,932	$ 78,296,687	$ 63,174,543	$ 14,250,447	$101,693,171	$ 95,201,587	$ 79,382,507	$ 14,658,084

	December 31, 1951				December 31, 1952			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
National Finance	208,239	$ 207,624	$ 132,855	$ 56,426	$ 231,645	$ 231,022	$ 140,310	$ 67,377
National Plan	464,697	453,730	210,159	211,892	537,190	504,140	250,000	229,109
Niagara Finance	8,091,157	8,002,068	6,195,000	875,019	15,042,258	14,864,425	10,250,000	1,485,432
North West Mortgage	282,875	278,501	165,284	92,528	301,893	292,302	179,105	93,470
O'Neill Finance	23,215	20,447	13,700	9,431	24,265	18,667	15,717	8,513
P F Credit								
Peoples Finance	113,208	107,993	80,566	17,783	212,747	206,352	158,453	18,103
Preferred Credit	98,767	94,772	68,258	22,588	109,152	106,733	68,000	22,343
Power City Finance								
Public Finance	1,987,785	1,710,487	1,465,278	313,695	2,786,689	2,467,848	2,079,038	358,959
Regal Finance	55,014	52,946		43,027	62,646	60,142	7,200	44,948
Reliance Finance	109,434	105,083	67,413	34,393	181,641	174,013	138,542	36,482
Rideau Finance								
Saguenay Finance								
Schioler & Co	93,485	76,970	64,092	21,644	99,329	80,211	61,780	26,881
Security Loan	86,480	86,480	15,493	54,979	113,832	112,211	22,928	65,632
Service Finance	235,086	230,651	157,143	56,548	270,663	263,406	181,942	65,558
Standard Credit	325,313	309,330	172,053	83,153	505,995	480,449	300,851	90,785
Standard Finance	21,218	19,493		21,104	19,929	18,241	29	19,790
Star Discount	8,666	6,860		5,948				
Sterling Finance	531,861	519,757	368,018	67,972	592,343	582,099	399,650	75,173
Strand Finance	179,901	147,547	61,983	103,711	215,437	211,367	80,727	106,523
Superior Finance	72,558	70,125		46,568	69,965	67,419	19,975	49,589
Toro Finance	185,534	178,077	163,540	9,772	202,992	200,511	174,323	18,431
Trans Canada	4,639,674	4,504,030	4,125,000	165,784	7,812,622	7,659,590	6,750,000	362,382
Trenton Finance	84,270	80,218	35,500	43,333	47,733	5,000		43,413
Union Finance					98,371	93,998	53,600	42,160
Victory Finance	152,055	149,939	85,756	44,863	168,024	165,370	97,249	46,227
Walker, D.A.	9,538	9,518		9,318	10,259	10,256		10,039
TOTALS	$122,306,784	$116,967,982	$ 97,222,585	$ 15,872,441	$159,449,614	$152,265,236	$127,958,180	$ 16,792,663

	December 31, 1953				December 31, 1954			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
National Finance	277,544	$ 276,368	$ 176,698	$ 72,234	$ 259,331	$ 257,715	$ 158,477	$ 75,429
National Plan	531,058	516,644	225,000	253,309	490,754	471,790	170,000	273,840
Niagara Finance	18,534,945	18,197,425	12,250,000	4,268,047	23,239,991	22,766,586	15,750,000	4,945,899
North West Mortgage	378,573	366,427	234,101	101,228	414,440	411,313	260,665	109,470
O'Neill Finance	36,293	22,130	18,029	18,225	40,945	26,519	20,551	20,372
P F Credit					141,673	54,803		117,565
Peoples Finance	304,158	293,825	212,255	23,228	393,131	375,402	237,739	31,792
Preferred Credit								
Power City Finance					159,935	153,137	111,739	47,832
Public Finance	3,241,707	2,844,131	2,455,784	403,008	2,927,879	2,604,181	2,146,785	436,973
Regal Finance								
Reliance Finance	203,685	199,538	142,045	38,368	281,612	277,672	202,932	40,878
Rideau Finance	129,994	124,901	96,000	32,886	178,085	172,477	138,200	38,159
Saguenay Finance	136,273	130,117	87,615	46,014	207,939	198,022	150,000	53,865
Schioler & Co	109,604	89,863	68,688	31,139	136,991	118,840	92,358	38,064
Security Loan	24,612	12,160	5,417	17,788	20,603	10,557		19,335
Service Finance	430,998	425,797	342,703	70,337	465,441	450,511	364,800	72,502
Standard Credit	547,623	523,320	338,886	105,420				
Standard Finance	16,645	16,151	22	16,569				
Star Discount								
Sterling Finance	589,519	577,822	364,900	89,972	444,750	435,578	268,317	80,136
Strand Finance	209,861	203,446	59,625	105,349	154,620	145,190	87,304	49,137
Superior Finance	95,105	92,105	43,563	49,700	156,393	155,757	101,033	51,718
Toro Finance	231,570	228,782	193,657	27,532	236,289	230,023	186,970	36,397
Trans Canada	8,916,294	8,737,566	7,550,000	576,247	9,449,603	9,157,763	7,750,000	821,949
Trenton Finance								
Union Finance	652,500	645,001	403,242	231,659	1,798,319	1,780,595	1,491,517	258,783
Victory Finance	242,855	240,346	153,617	49,310	282,758	280,430	164,891	56,456
Walker, D.A.	8,924	8,892		8,704	9,421	9,283		9,201
Totals	$192,886,925	$186,031,498	$140,601,521	$ 36,982,420	$227,120,166	$219,446,972	$170,056,702	$ 40,740,608

SCHEDULE "B"

CANADIAN SMALL LOAN COMPANIES AND LICENSED MONEY-LENDERS AS AT DECEMBER 31, 1949 TO 1954 INCLUSIVE AS SHOWN IN REPORTS OF SUPERINTENDENT OF INSURANCE **A**—INVESTED CAPITAL AND SURPLUS AS A PERCENTAGE OF TOTAL LOANS AND OTHER CONTRACTS **B**—BORROWED MONEY AS A PERCENTAGE OF INVESTED CAPITAL AND SURPLUS **C**—TOTAL ASSETS AS A PERCENTAGE OF TOTAL LOANS AND OTHER CONTRACTS

	December 31, 1949			December 31, 1950		
	A	B	C	A	B	C
Canadian Acceptance	54·1	106·1	117·3	58·1	92·4	118·1
Community Finance	50·2	85·5	102·6	44·6	115·6	103·9
Household Finance	16·1	517·7	103·4	13·6	626·9	103·3
Personal Finance	11·6	904·4	125·7	7·2	1,547·4	126·7
Associates Budget Plan	—	—	—	—	—	—
Atlas Thrift Plan	43·9	126·8	104·7	38·5	146·6	100·3
H. Bell Finance	—	—	—	—	—	—
Bellvue Finance	25·5	282·2	103·9	24·0	308·8	105·4
Blake Pierce	12·6	608·9	103·3	9·1	828·7	102·2
Bradley Finance	5·7	1,429·0	101·0	9·1	933·5	102·2
Budget Financing	47·4	116·7	103·4	24·6	311·1	102·4
Canadian Personal	35·3	152·6	102·8	39·2	126·3	102·6
Capital Finance (Edmonton)	59·8	51·1	101·7	77·6	29·6	110·4
Capital Finance (Toronto)	7·2	1,134·5	100·6	6·3	1,298·1	101·6
Century Credit	25·3	256·0	112·5	17·1	406·8	109·7
City Loan & Finance	—	—	—	—	—	—
Cobourg Acceptance	28·2	202·0	103·1	27·2	206·8	100·7
Commercial Acceptance	14·3	463·8	102·6	6·2	1,028·1	103·2
Commercial Credit Plan	5·9	1,572·7	107·3	7·9	1,116·6	106·0
Commercial Finance	62·8	67·3	106·1	48·4	102·1	103·7
Commercial Securities	1,103·5	6·6	1,332·2	—	—	—
Consolidated Finance Western	—	—	—	—	—	—
Coupland Finance	24·6	251·2	100·8	20·4	276·9	101·1
Crescent Finance	62·6	53·1	109·9	54·4	74·5	110·7
Danforth Finance	28·2	254·9	114·0	24·3	268·7	107·6
District Finance	—	—	—	—	—	—
Dollar Finance	17·2	474·4	104·4	18·9	404·7	103·7
Eastern Finance	9·2	997·4	102·2	11·4	788·7	102·2
Empire Finance	—	—	—	—	—	—
Equitable Finance	—	—	—	—	—	—
Excel Finance	16·6	407·5	103·6	26·0	231·4	104·0
Fairway Finance	—	—	—	—	—	—
Family Loan	22·7	460·3	129·0	23·7	435·7	130·2
General Finance Eastern	97·3	—	122·5	—	—	—
General Finance Kentville	58·4	62·0	102·6	63·8	50·9	103·0
General Finance Toronto	19·9	348·2	103·9	25·2	264·7	106·6
General Finance Winnipeg	51·7	150·2	131·6	46·4	162·3	127·9
Globe Mortgage & Loan	22·5	313·3	102·0	33·7	185·9	101·6
Home Finance	—	—	—	35·9	146·1	105·6
Independent Finance	—	—	—	—	—	—
Insurance & Discount	14·9	460·5	101·2	14·1	507·2	102·4
Lucerne Finance	—	—	—	—	—	—
Maritime Finance	109·6	5·0	125·8	104·7	4·6	123·1
Merchants Finance	22·1	297·2	101·3	20·8	332·4	101·9
Mercury Finance	—	—	—	—	—	—
Merit Finance	1·1	8,844·6	102·4	3·6	2,618·4	103·6
Montreal Acceptance	53·0	75·5	114·0	54·1	60·8	115·6
National Finance	25·0	265·0	100·4	27·1	235·9	100·4
National Plan	30·8	201·0	102·6	48·9	95·9	105·5
Niagara Finance	17·9	423·6	102·6	16·4	450·7	107·2
North West Mortgage	23·6	284·5	100·6	29·8	220·2	103·7
O'Neill Finance	41·9	185·0	120·9	76·0	73·8	132·5
P F Credit	—	—	—	—	—	—
Peoples Finance	61·5	21·6	125·4	50·9	93·5	111·9
Preferred Credit	29·7	198·5	103·0	32·4	180·3	104·1
Power City Finance	—	—	—	—	—	—
Public Finance	8·6	936·7	111·0	12·4	701·7	112·6
Regal Finance	170·5	—	183·2	87·5	—	108·1
Reliance Finance	11·2	807·5	102·4	23·7	322·4	102·2
Rideau Finance	—	—	—	—	—	—
Saguenay Finance	—	—	—	—	—	—
Schioler & Co	27·3	345·7	133·8	29·7	267·5	119·9
Security Loan	54·2	44·0	100·7	86·5	25·7	126·2
Service Finance	19·1	386·5	101·3	23·0	297·9	101·6
Standard Credit	19·2	315·8	105·7	25·9	204·5	107·4
Standard Finance	94·6	·1	109·0	101·0	—	104·1
Star Discount	27·9	140·4	100·4	111·8	—	155·3
Sterling Finance	15·4	457·4	103·2	13·5	540·9	101·6
Strand Finance	56·6	72·0	106·9	54·6	74·9	103·9
Superior Finance	93·9	—	112·5	66·9	43·7	107·4
Toro Finance	—	—	102·1	·7	14,246·0	101·6
Trans Canada	1·2	7·991·9	102·3	2·6	3,516·8	102·6
Trenton Finance	38·8	163·5	106·7	39·3	176·1	113·8
Union Finance	—	—	—	—	—	—
Victory Finance	33·7	173·3	102·2	29·7	204·6	101·7
Walker, D. A	98·9	—	101·0	98·3	—	100·

December 31, 1951			December 31, 1952			December 31, 1953			December 31, 1954		
A	B	C	A	B	C	A	B	C	A	B	C
62·0	79·5	118·9	63·3	74·2	115·9	89·6	58·5	148·7	127·8	14·6	153·7
42·1	125·1	102·8	38·7	147·4	102·9	36·6	164·1	103·2	34·6	182·4	103·7
11·3	754·3	101·4	8·3	1,049·9	101·4	13·4	612·3	100·8	11·6	727·3	100·4
6·2	1,615·3	113·2	6·2	1,620·4	112·8	33·6	196·7	106·5	30·0	230·5	105·2
—	—	—	—	—	—	—	—	—	—	—	—
29·1	231·2	100·5	33·1	183·6	100·4	38·4	152·2	100·4	52·7	120·9	120·9
—	—	—	—	—	—	—	—	—	98·6	—	100·5
19·8	409·9	107·3	12·4	173·9	104·6	9·4	923·8	104·3	11·4	792·2	108·0
15·4	466·7	102·0	8·9	841·0	102·3	9·8	772·9	101·9	11·6	640·5	102·3
8·8	958·1	103·7	8·6	834·1	103·5	12·1	630·8	102·9	17·1	406·5	102·4
28·2	249·0	101·8	34·4	189·3	102·3	42·2	145·4	104·1	46·6	119·6	103·1
40·5	114·3	103·2	59·8	79·1	128·1	55·6	58·2	102·8	40·5	106·4	101·6
—	—	—	—	—	—	—	—	—	—	—	—
25·5	249·5	102·7	15·7	438·3	100·4	9·7	800·4	100·4	12·1	615·6	100·8
18·5	364·6	103·3	12·1	596·9	103·7	11·6	588·0	101·0	12·7	511·3	102·0
43·1	176·9	120·1	21·7	292·5	101·7	18·8	322·2	101·6	15·9	389·3	104·0
27·1	210·3	100·8	26·8	196·6	107·8	22·2	259·7	101·8	—	—	—
16·0	418·9	102·3	16·1	375·0	102·3	14·3	423·4	101·6	—	—	—
10·5	821·9	106·7	12·3	650·1	105·3	17·1	453·3	104·2	18·5	412·2	103·0
35·1	165·8	105·9	33·9	159·4	104·7	35·0	130·9	106·2	35·3	124·8	103·3
—	—	—	—	—	—	—	—	—	—	—	—
—	—	—	17·6	392·6	101·4	29·2	226·0	102·9	17·4	424·7	100·7
51·6	127·2	142·3	84·5	123·2	210·3	128·4	140·7	331·5	118·1	160·5	333·5
56·5	69·0	109·1	50·5	86·9	109·9	42·9	105·4	104·8	42·5	115·7	109·7
30·9	179·1	101·7	40·0	113·3	105·5	41·2	96·6	100·3	42·4	90·4	101·1
—	—	—	—	—	—	45·6	154·9	126·1	34·7	163·0	105·0
30·7	208·0	106·3	23·8	290·6	103·0	19·4	386·0	104·4	26·3	259·6	106·3
7·2	1,313·6	102·4	3·6	2,734·5	103·2	14·4	622·8	104·2	11·3	807·4	102·6
—	—	—	—	—	—	—	—	—	11·8	641·9	104·1
—	—	—	—	—	—	—	—	—	26·1	243·7	103·7
27·7	206·8	101·4	28·6	189·3	101·1	29·9	185·3	103·8	38·4	118·2	104·6
20·9	341·4	103·4	3·5	2,418·1	105·3	8·7	976·6	110·5	9·4	871·2	107·7
28·9	360·2	137·7	31·6	341·8	147·2	28·2	369·7	139·2	14·4	724·3	128·1
—	—	—	—	—	—	—	—	—	—	—	—
73·6	30·7	103·2	72·9	33·0	103·4	63·7	52·6	102·8	62·8	54·3	102·9
21·8	319·1	106·2	25·9	257·7	111·2	28·2	199·3	106·3	40·8	121·9	109·8
42·7	190·1	125·2	38·6	199·9	121·2	38·4	203·6	120·3	41·3	185·0	121·4
38·3	148·7	101·2	32·9	223·0	110·5	36·8	174·4	106·4	42·1	137·3	105·2
33·1	145·0	105·1	28·7	171·4	105·3	27·6	192·2	106·5	29·6	174·8	106·6
—	—	—	36·1	181·4	101·9	24·6	299·0	101·1	29·1	232·1	101·7
19·9	359·1	110·3	18·5	367·2	104·4	16·4	422·3	104·8	20·2	327·1	105·9
—	—	—	—	—	—	—	—	—	27·3	260·6	110·0
103·2	7·1	123·1	99·6	10·9	122·2	88·8	25·9	120·5	89·6	24·1	118·5
23·9	288·5	104·8	23·6	276·6	100·8	27·0	228·9	102·1	29·3	200·9	101·8
—	—	—	—	—	—	15·6	551·6	102·3	17·4	465·6	102·8
9·9	847·3	100·9	14·6	547·8	101·8	24·8	318·5	107·9	24·4	318·0	106·5
69·1	44·8	131·5	80·5	17·6	123·5	66·3	26·4	110·1	80·4	—	110·3
27·2	235·4	100·3	29·2	208·2	100·3	26·1	244·6	100·4	29·3	210·1	100·6
46·7	99·2	102·4	45·4	109·1	106·6	49·0	88·8	102·8	58·0	62·1	104·0
10·9	708·0	101·1	10·0	690·0	101·2	23·5	287·0	101·9	21·7	318·4	102·1
33·2	178·6	101·6	32·0	191·6	103·3	27·6	231·3	103·3	26·6	238·1	100·8
46·1	145·3	113·5	45·6	184·6	130·0	82·4	98·9	164·0	76·8	100·9	154·4
—	—	—	—	—	—	—	—	—	214·5	—	258·5
16·5	453·1	104·8	8·8	875·3	103·1	7·9	913·8	103·5	8·5	747·8	104·7
23·8	302·2	104·3	20·9	304·3	102·3	—	—	—	—	—	—
—	—	—	—	—	—	—	—	—	31·2	233·6	104·4
18·3	467·1	116·2	14·5	579·2	112·9	14·2	609·4	114·0	16·8	491·3	112·4
81·3	—	103·9	74·7	16·0	104·2	—	—	—	—	—	—
32·7	196·0	104·1	21·0	379·8	104·4	19·2	370·2	102·1	14·7	496·4	101·4
—	—	—	—	—	—	26·3	291·9	104·1	22·1	362·2	103·3
—	—	—	—	—	—	35·4	190·4	104·7	27·2	278·5	105·0
33·8	296·1	121·5	33·5	229·8	123·8	34·7	220·6	122·0	32·0	242·6	115·3
63·6	28·2	100·0	58·5	34·9	101·4	146·3	30·5	202·4	183·1	—	195·2
24·5	277·9	101·9	24·9	277·5	102·8	16·5	487·2	101·2	16·1	503·2	103·3
26·9	206·9	105·2	18·9	331·4	105·3	20·1	321·5	104·6	—	—	—
108·3	—	108·8	108·5	108·1	109·3	102·6	·1	103·1	—	—	—
86·7	—	126·3	—	—	—	—	—	—	—	—	—
13·1	541·4	102·3	12·9	531·6	101·8	15·6	405·6	102·0	18·4	334·8	102·1
70·3	59·8	121·9	50·4	75·8	101·9	51·8	56·6	103·2	33·8	177·7	106·5
66·4	—	103·5	73·6	40·3	103·8	54·0	87·7	103·3	33·2	195·4	100·4
5·5	1,673·6	104·2	9·2	945·8	101·2	12·0	703·4	101·2	15·8	513·7	102·7
3·7	2,488·2	103·0	4·7	1,862·7	102·0	6·6	1,310·2	102·0	9·0	942·9	103·2
54·0	81·9	105·1	868·3	—	954·7	—	—	—	—	—	—
—	—	—	44·9	127·1	104·7	35·9	174·1	101·2	14·5	576·4	101·0
29·9	191·2	101·4	28·0	210·4	101·6	20·5	311·5	101·0	20·1	292·1	100·8
97·9	—	100·2	97·9	—	100·0	97·9	—	100·4	99·1	—	101·5

SCHEDULE "C"

SUMMARY OF TOTAL ASSETS, TOTAL LOANS AND OTHER CONTRACTS, BORROWED MONEY AND INVESTED CAPITAL AND SURPLUS OF CANADIAN SMALL LOAN COMPANIES AND LICENSED MONEY-LENDERS OTHER THAN SIX OF THE KNOWN SUBSIDIARY COMPANIES AS AT DECEMBER 31, 1949 TO 1954 INCLUSIVE

—	December 31, 1949				December 31, 1950			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Total for all companies—per Schedule "A"	$ 83,272,932	$ 78,296,687	$ 63,174,543	$ 14,250,447	$101,693,171	$ 95,201,587	$ 79,382,507	$ 14,658,084
Less:								
Canadian Acceptance	$ 658,809	$ 561,882	$ 322,624	$ 304,142	$ 681,015	$ 576,667	$ 309,328	$ 334,843
*Household Finance	50,143,898	48,141,567	40,060,389	7,738,274	59,363,615	57,005,272	48,584,468	7,750,196
Personal Finance	6,116,929	4,864,919	5,097,849	563,690	11,534,830	9 100,489	10,097,849	652,549
Blake Pierce	1,276,136	1,235,465	950,000	156,031	1,542,884	1,509,787	1,135,000	136,963
Niagara Finance	3,732,316	3,636,331	2,750,000	649,244	4,860,761	4,535,753	3,350,000	743,311
Trans Canada	3,971,918	3,880,804	3,675,000	45,984	4,623,613	4,507,653	4,150,000	118,005
	$ 65,900,006	$ 62,320,968	$ 52,855,862	$ 9,457,365	$ 82,606,718	$ 77,235,621	$ 67,626,645	$ 9,735,867
Net for remaining companies	$ 17,372,926	$ 15,975,719	$ 10,318,681	$ 4,793,082	$ 19,086,453	$ 17,965,966	$ 11,755,862	$ 4,922,217

—	December 31, 1951				December 31, 1952			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Total for all companies—per Schedule "A"	$122,306,784	$116,967,982	$ 97,222,585	$ 15,872,441	$159,449,614	$152,265,236	$127,958,180	$ 16,792,663
Less:								
Canadian Acceptance	$ 700,848	$ 589,274	$ 290,114	$ 365,133	$ 729,094	$ 628,888	$ 295,640	$ 398,214
*Household Finance	70,455,391	68,791 870	58 403 736	7,742,850	81,926,349	79,818,830	69,655,860	6,634,663
Personal Finance	17,630,560	15,570,583	15,597,849	965,667	27,281,846	24,181,444	24,317,849	1,500,770
Blake Pierce	1,480,949	1,451,633	1,044,000	223,682	2,031,722	1,985,762	1,525,600	181,404
Niagara Finance	8,091,157	8,002,068	6,195,000	875,019	15,042,258	14,864,425	10,250,000	1,485,432
Trans Canada	4,639,674	4,504,030	4,125,000	165,784	7,812,622	7,659,590	6,750,000	362,382
	$102,998,579	$ 98,909,458	$ 85,655,699	$ 10,338,135	$134,823,891	$129,138,939	$112,794,949	$ 10,562,865
Net for remaining companies	$ 19,308,205	$ 18,058,524	$ 11,566,886	$ 5,534,306	$ 24,625,723	$ 23,126,297	$ 15,163,231	$ 6,229,798

* The figures for Household Finance include those of Household Finance Corporation, Ltd., a company making loans in excess of $500.

	December 31, 1953				December 31, 1954			
	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus	Total Assets	Total Loans and Other Contracts	Borrowed Money	Invested Capital and Surplus
Total for all companies—per Schedule "A"	$192,886,925	$186,031,498	$140,601,521	$ 36,982,420	$227,120,166	$219,446,972	$170,056,702	$ 40,740,608
Less:								
Canadian Acceptance	$ 718,600	$ 483,370	$ 253,062	$ 432,891	$ 557,941	$ 363,122	$ 67,675	$ 463,895
*Household Finance	94,836,165	92,718,082	76,286,635	12,458,403	112,600,369	110,295,140	93,390,343	12,840,361
Personal Finance	38,592,059	36,235,746	23,948,529	12,174,383	48,898,798	46,466,935	32,122,530	13,938,335
Blake Pierce	2,274,382	2,232,627	1,699,700	219,909	2,432,463	2,376,932	1,769,000	276,188
Niagara Finance	18,534,945	18,197,425	12,250,000	4,268,047	23,239,991	22,766,586	15,750,000	4,945,899
Trans Canada	8,916,294	8,737,566	7,550,000	576,247	9,449,603	9,157,763	7,750,000	821,949
	$163,872,445	$158,604,816	$121,987,926	$ 30,129,880	$197,179,165	$191,426,478	$150,849,548	$ 33,286,627
Net for remaining companies	$ 29,014,480	$ 27,426,682	$ 18,613,595	$ 6,852,540	$ 29,941,001	$ 28,020,494	$ 19,207,154	$ 7,453,981

* The figures for Household Finance include those of Household Finance Corporation, Ltd., a company making loans in excess of $500.

SCHEDULE "D"

CANADIAN SMALL LOAN COMPANIES AND LICENSED MONEY-LENDERS
AS AT DECEMBER 31, 1949 TO 1954
AS SHOWN IN REPORTS OF SUPERINTENDENT OF INSURANCE

A—Invested Capital and Surplus as a Percentage of Total Loans and Other Contracts
B—Borrowed Money as a Percentage of Invested Capital and Surplus
C—Total Assets as a Percentage of Total Loans and Other Contracts

	Dec. 31, 1949	Dec. 31, 1950	Dec. 31, 1951	Dec. 31, 1952	Dec. 31, 1953	Dec. 31, 1954
A—RELATIONSHIP OF INVESTED CAPITAL AND SURPLUS TO TOTAL LOANS AND OTHER CONTRACTS OUTSTANDING						
	%	%	%	%	%	%
All companies	18·2	15·4	13·6	11·0	19·9	18·6
Companies other than six of the known subsidiary companies	30·0	27·4	30·6	26·9	25·0	26·6
B—RELATIONSHIP OF BORROWED MONEY TO INVESTED CAPITAL AND SURPLUS						
All companies	443·3	541·6	612·5	762·0	380·2	417·4
Companies other than six of the known subsidiary companies	215·3	238·8	209·0	243·4	271·6	257·7
C—RELATIONSHIP OF TOTAL ASSETS TO TOTAL LOANS AND OTHER CONTRACTS OUTSTANDING						
All companies	106·4	106·8	104·6	104·7	103·7	103·5
Companies other than six of the known subsidiary companies	108·7	106·2	106·9	106·5	105·8	106·9

SCHEDULE "A-1"

EARNINGS OF SMALL LOAN COMPANIES AND MONEY-LENDERS FOR THE YEAR ENDED DECEMBER 31, 1954 AND ADJUSTED EARNINGS AFTER CALCULATING INCOME EARNED ON LOANS AT 2 PER CENT PER MONTH ON BALANCES UP TO $300, 1 PER CENT PER MONTH ON BALANCES BETWEEN $300 AND $1,000, AND ½ PER CENT PER MONTH ON BALANCES IN EXCESS OF $1,000

	As reported by Superintendent of Insurance For Canada[1]	Earnings (after eliminating interest on borrowed money and adjusting bad debts expense and income taxes)	Earnings Adjusted for above stated rates
INCOME:			
Income earned on small and large loans...	$ 42,430,040	$ 42,430,040	$ 35,471,513
Income earned on conditional sales agreements and other contracts.....	1,925,111	1,925,111	1,925,111
Recovery of amounts written off.....	216,061	—	—
Other income.....	27,656	27,656	27,656
TOTAL INCOME.....	$ 44,598,868	$ 44,382,807	$ 37,424,280
EXPENSES—OTHER THAN INCOME TAXES:			
Interest on borrowed money.....	$ 7,242,308	—	—
Written off ledger values.....	969,783	—	—
Advertising.....	1,674,453	1,674,453	1,674,453
Salaries and directors' fees.....	9,091,843	9,091,843	9,091,843
Other expenses.....	6,204,023	6,204,023	6,204,023
Provision for bad and doubtful debts[2].....	—	1,734,932	1,734,932
TOTAL EXPENSES OTHER THAN INCOME TAXES.....	$ 25,182,410	$ 18,705,251	$ 18,705,251
GROSS PROFIT.....	$ 19,416,458	—	—
GROSS EARNINGS.....	—	$ 25,677,556	$ 18,719,029
INCOME TAXES.....	8,818,513	12,367,244	8,957,565
NET PROFIT AS REPORTED[3].....	$ 10,597,945	—	—
EARNINGS (after applicable income taxes but before interest).....	—	$ 13,310,312	—
ADJUSTED EARNINGS.....	—	—	$ 9,761,474
ADJUSTED EARNINGS AS A % OF 1954 EARNINGS.....	—	—	73·3%
NET EARNINGS AS A % OF 107% OF AVERAGE OUTSTANDINGS.....	—	6·2%	4·6%

[1] Included in these figures are those for Household Finance Corporation, Limited a company which makes loans in excess of $500. [2] These figures comprise bad debts written off, net increases in reserves for bad debts less recoveries of amounts written off. [3] These figures do not take into account any increase or decrease in reserves for bad debts.

SCHEDULE "A-2"

EARNINGS OF FORTY-ONE SMALL LOAN COMPANIES AND MONEY-LENDERS FOR THE YEAR ENDED DECEMBER 31, 1955 AND ADJUSTED EARNINGS AFTER CALCULATING INCOME EARNED ON LOANS AT 2 PER CENT PER MONTH ON BALANCES UP TO $300, 1 PER CENT PER MONTH ON BALANCES BETWEEN $300 AND $1,000, AND ½ PER CENT ON BALANCES IN EXCESS OF $1,000

	As reported to Superintendent of Insurance For Canada[1]	Earnings (after eliminating interest on borrowed money and adjusting bad debts expense and income taxes)	Earnings Adjusted for above stated rates
INCOME:			
Income earned on small and large loans	$ 51,425,121	$ 51,425,121	$ 43,248,527
Income earned on conditional sales agreements and other contracts	1,731,460	1,731,460	1,731,460
Recovery of amounts written off	209,038	—	—
Other income	43,355	43,355	43,355
TOTAL INCOME	$ 53,408,974	$ 53,199,936	$ 45,023,342
EXPENSES—OTHER THAN INCOME TAXES:			
Interest on borrowed money	$ 9,179,919	—	—
Written off ledger values	1,172,987	—	—
Advertising	1,928,922	$ 1,928,922	$ 1,928,922
Salaries and directors' fees	10,069,888	10,068,888	10,068,888
Other expenses	8,687,606	8,687,606	8,687,606
Provision for bad and doubtful debts[2]	—	2,414,487	2,414,487
TOTAL EXPENSES OTHER THAN INCOME TAXES	$ 31,039,322	$ 23,100,903	$ 23,100,903
GROSS PROFIT	$ 22,369,652	—	—
GROSS EARNINGS	—	$ 30,099,033	$ 21,922,439
INCOME TAXES	9,815,198	14,129,760	10,286,761
NET PROFIT AS REPORTED[3]	$ 12,554,454	—	—
EARNINGS (after applicable income taxes but before interest)	—	$ 15,969,273	—
ADJUSTED EARNINGS	—	—	$ 11,635,678
ADJUSTED EARNINGS AS A % OF 1955 EARNINGS	—	—	72·9%
NET EARNINGS AS A % OF 107% OF AVERAGE OUTSTANDINGS	—	6·2%	4·5%

[1] Included in these figures are those for Household Finance Corporation, Limited a company which makes loans in excess of $500. [2] These figures comprise bad debts written off, net increases in reserves for bad debts less recoveries of amounts written off. [3] These figures do not take into account any increase or decrease in reserves for bad debts.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 23

Bill 51

An Act to amend the Small Loans Act

WEDNESDAY, AUGUST 1, 1956

WITNESSES:

Messrs. Clem L. King, F.C.A., Senior Toronto Partner, Deloitte, Plender, Haskins and Sells, Chartered Accountants; H. P. Herington, F.C.A., Senior Toronto Partner, Price Waterhouse & Co., Chartered Accountants; Courtland Elliott, C.B.E., Investment Counsellor; and Fernand S. Picard, President, Lucerne Finance Corp. Ltd.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

77557—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Argue
Ashbourne
Balcom
Batten
Bell
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fulton
Gingues
Gour (*Russell*)
Hamilton (*York West*)
Hanna
Henderson
Hollingworth
Holowach
Huffman
Knight
Low
MacEachen
Macnaughton
Matheson
Meunier
Michener
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Rea
Regier
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Thatcher
Tucker
Viau
Vincent
Weaver
White (*Hastings-Frontenac*)
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

WEDNESDAY, August 1, 1956

The Standing Committee on Banking and Commerce met at 3.30 o'clock p.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Batten, Bell, Benidickson, Cameron (*Nanaimo*), Deslieres, Enfield, Eudes, Fairey, Fleming, Follwell, Fulton, Hanna, Henderson, Holowach, Hunter, Knight, Matheson, Michener, Monteith, Pallett, Power (*Quebec South*), St. Laurent (*Temiscouata*), Tucker and Weaver.

In attendance: Messrs. C. M. Cawker, President, and F. C. Oakes, Vice-president, both of Canadian Consumer Loan Association; Clem L. King, F.C.A., Senior Toronto Partner, Deloitte, Plender, Haskins and Sells, Chartered Accountants; H. P. Herington, F.C.A., Price Waterhouse & Co., Chartered Accountants; and other representatives of certain Small Loans Companies and interested organizations; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. King was again called; he continued his evidence on that portion of the brief of Canadian Consumer Loan Association which had been prepared by Deloitte, Plender, Haskins and Sells. He was questioned thereon, and was retired. Mr. Cawker answered questions specifically referred to him.

Mr. Herington was called; he presented that portion of the brief of Canadian Consumer Loan Association which had been prepared by Price Waterhouse & Company.

Mr. Herington being still before the Committee, at 5.30 o'clock p.m. it adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Bell, Benidickson, Cameron (*Nanaimo*), Deslieres, Enfield, Fairey, Fleming, Follwell, Fulton, Hanna, Hunter, Knight, Macnaughton, Matheson, Michener, Pallett, Robichaud and St. Laurent (*Temiscouata*).

In attendance: The same as at the afternoon sitting with the addition of Messrs Courtland Elliott, C.B.E., Investment Counsellor, and Fernand S. Picard, President, Lucerne Finance Corp. Ltd.

Mr. Herington continued his evidence, was questioned and was retired.

Mr. Elliott was called; he addressed the Committee on aspects of Canadian equity investments.

At 9.05 p.m. Mr. Hunter withdrew from the meeting and the Vice-chairman, Mr. Deslieres, took the Chair. At 9.12 p.m. Mr. Hunter having returned, resumed the Chair.

Mr. Elliott was questioned and was retired.

Mr. Picard was called; he read in French a brief, copies of which, in English and French, had been distributed to members of the Committee.

Mr. Picard being still before the Committee, at 10.05 o'clock p.m. it adjourned until 11.30 o'clock a.m. on Thursday, August 2, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

WEDNESDAY, August 1, 1956,
3.30 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. We will continue with the evidence of the Canadian Consumer Loan Association.

Mr. C. M. CAWKER, (*President, Canadian Consumer Loan Association*): Mr. Chairman, as the concluding part of Mr. King's evidence, which forms part of the Canadian Consumer Loan Association's brief, he will in a few moments indicate the effect of this legislation on the individual Canadian companies. Yesterday he dealt with broad and theoretical problems concerning the whole field; today he will give his estimate of the impact of the bill on certain individual companies which he will name.

Mr. MacGregor in his evidence said that some companies will and some will not go out of business. I have been quite definite in my statements regarding the effect on those companies, other than the six known subsidiaries, and the likelihood of monopoly and the withdrawal of a phase of the service from the borrower. I will ask Mr. King now to give you the reasons why I have been so definite.

Mr. Clem L. King, F.C.A., Senior Toronto Partner, Deloitte, Plender, Haskins and Sells, Chartered Accountants, called:

The WITNESS: Mr. Chairman and hon. members: these estimates as to the impact of the proposed legislation are in two sections, the first, relating to all the Canadian independent companies, has been prepared recently in response to a question directed to Mr. Cawker during his presentation; the second group of figures is included in three reports, copies of which are available, which relate specifically to 12 Canadian companies. They were prepared in order to estimate the impact of this legislation on typical local companies. If you will turn to the association brief, on page 20 thereof you will see set out the earnings as a percentage of the assets employed for all companies, for six of the known subsidiaries and then for the remaining companies. You will notice that in 1954 the actual earnings were, for the remaining companies, 4·2 per cent. It is estimated that on the basis of the rates proposed in Bill No. 51 applied to the proposed revised area of regulation the earnings on the remaining companies will drop to 3·2 per cent. The corresponding figures for 1955 are 3·6 per cent and 2·5 per cent. If you will turn to page 24, the 1954 results have been stated with reference to invested capital and surplus and there you will notice that for all companies the 1954 actual return, related to the book invested capital and surplus, is 23·6 per cent for six of the known subsidiaries and, for the remaining companies, 10·4 per cent on the invested capital and surplus.

Further down in that same right hand column it has been estimated that, on the basis of the proposed bill, the profits in 1954, had these rates of charge been in effect, would have resulted in a return of 6·5 per cent on the invested capital and adjusted surplus.

It is in respect of these remaining companies that the ensuing figures are significant. In our report dated March 19, 1956, which was presented last

evening, it was estimated that, for the industry as a whole, the proposed legislation would produce a reduction of 16·4 per cent in gross income earned on loans. We now take that industry estimate and apply it to the figures reported by each of the licensees for the year 1954. The figures for 1954 are the most recent I am able to use because they are the only ones that are at present, at least, published; the data included in Mr. MacGregor's presentation is not quite complete enough to permit me to make this adjustment. We applied this estimated reduction of 16·4 per cent in the gross income earned on loans to the income actually reported by these 58 licensees in all aspects of their business, that is, the area previously known as the small loans business up to $500, and other loans and, in some cases, on conditional sales agreements—and those factors have been taken into account in the estimate for the industry as a whole. Without going into technical details, if the same basis of reduction as used for the industry is applied to the individual companies, we would find that of 58 companies—and I exclude one because it had not started business—had these rates been in effect in 1954, 44 of these companies would have had a return of less than 10 per cent of net profit on invested capital and adjusted surplus.

To run down the list—I will read that specific computation in respect of each of these 44 companies—we find that the results would have been as follows: Bellvue Finance, 9·5; Saguenay Finance, 8·7— If I might make a suggestion, members of the committee who wish to tabulate these results might care to take table 4 presented by Mr. MacGregor which sets out an alphabetical list of the companies. You can, if you wish, take that tabulation and place the figures opposite the names of the company in each case.

To repeat, the results would have been: Bellvue Finance, 9·5; Saguenay Finance, 8·7; Bradley Finance, 8·7; Insurance and Discount, 8·3; City Loan and Finance, 8·1; Union Finance, 7·3; Rideau Finance, 7·2; General Finance, Kentville, 7·0; National Plan, 6·9; Atlas, 6·7; Public, 6·6; Sterling Finance, 6·6; O'Neill Finance, 6·4; Security Loan, 6·1; Coupland Finance, 6·0; District, 6·0; Service, 5·8; Peoples Finance, 5·5; Danforth Finance, 5·4; Budget, 4·6; Superior, 4·5; Crescent Finance, 4·4; Maritime, 4·4; Montreal Acceptance, 4·2; Century, 4·2; Commercial Finance, 4·0; Merchants Finance, 3·5; Community, 3·3; Globe, 3·1; H. Bell Finance, 2·6; North West Mortgage, 2·2; Reliance, 1·7; General Finance, Winnipeg, 0·6; National Finance, 0·3. The following ten companies did show a loss: Canadian Personal, Eastern, Empire, Equitable, Excel Finance, Family Loan, Home Finance, Power City, P. F. Credit and Victory Finance. These do not take in all the companies listed on Mr. MacGregor's table because there are some further companies recently formed. These percentages are the percentage of net profit to adjusted equity capital; that is, the actual return to the proprietor calculated as a percentage of his investment.

By Mr. Fulton:

Q. What would the average of those be?—A. I am sorry, Mr. Fulton, but I have not calculated a specific average for these 44 companies.

In summary, of the 44 there are 8 that had a 7 per cent or more return; ten had a loss; leaving 26 with between a fraction of one per cent and something over 6 per cent return on invested capital.

Because of significant variations in conditions in the small loans industry in Canada, it appears appropriate to attempt to ascertain the effect of this legislation upon a representative Canadian company. To this end we reviewed the operations of those same companies and, out of those which had supplied us with information as to their 1955 and 1954 results, a number of the companies which had a significant proportion of their total business in the area proposed to be regulated by this legislation, we selected a random sample.

The three reports to which I referred a moment ago deal with 12 specific companies which were selected on this basis. Mr. Chairman, if it would be possible to have the copies of each of the three sets of statements distributed to the members I think it would be helpful.

First of all, would you please take the report dated April 17? We will deal with the reports dated April 24 and April 30 together in a moment. In reference to the report dated April 17, as the first stage in reviewing this problem to determine the possible impact of the bill on what might be termed a few typical Canadian companies, after studying the problem involved it readily became apparent that there was a very considerable amount of computational work involved were we to try to make the calculation for every company reporting. Therefore we thought that it would be sufficient for this purpose if we used what might be called a fair sample. We thought that 20 per cent probably was a reasonable sample. The closest round figure 20 per cent of 58 companies is 12. So we went down the list and picked 12 companies with the first criteria being that they should have a reasonable and substantial portion of their total volume of business in the area proposed to be regulated by Bill 51. On that basis, and that basis alone, were these 12 companies selected with the thought that here were roughly 20 per cent of the companies involved, all of which had a reasonable portion of their business in the area to be regulated and all of whom might be said to be Canadian companies.

The following letter is addressed to the Canadian Consumer Loan Association and is dated April 17, 1956.

Dear Sirs:

In our report dated March 19, 1956, we set out our estimate of the effect of the rates of charge as proposed by Bill 51 upon the earnings of the companies reporting under the Small Loans Act (including Household Finance Corporation Ltd., a company making loans of over $500 which is not presently required to report). Using the same basic approach as was followed in estimating the effect of this level of permitted charges on the industry, we have estimated the effect upon a number of individual reporting companies. Each of these companies has a substantial volume of its total business in the area (loans up to $1,500) which is proposed to be brought within the scope of the Small Loans Act.

In each case we have arrived at our estimate using information supplied by each company as to the character of their individual loan business and rates of charge. The schedules attached hereto, numbered 1, 2, 3, and 4 contain the following information:

Schedule 1 shows the percentage of business which we estimate that the loans of an original amount of under $1,500, and the remainder of the business, bore to the total business. The percentages shown against "Total" of 82 per cent and 18 per cent respectively are based on the total dollar value of business of these companies and are not a mean of the other percentages.

Schedule 2 shows the percentage comparisons of actual earnings and estimated earnings (using the rates proposed in Bill 51) for the years 1954 and 1955 to the assets employed (107 per cent of loans and other contracts outstanding) in those years.

Schedules 3, and 4 show the percentages comparisons of actual net profits and estimated net profits for the years 1954 and 1955 to the invested capital and surplus.

Yours truly,

(Signed) DELOITTE, PLENDER, HASKINS & SELLS.

SCHEDULE 1

CANADIAN CONSUMER LOAN ASSOCIATION

PERCENTAGE OF BUSINESS OF TWELVE COMPANIES AS AT DECEMBER 31, 1955

SUBJECT TO REGULATION UNDER PROPOSALS IN BILL 51

	Percentage of Business	
	Loans of an Original Amount of Under $1,500	Remainder
	%	%
Bellvue Finance Corporation Limited	71	29
Community Finance Corporation Limited	90	10
Dollar Finance Corporation Limited	86	14
General Finance Corporation Limited—Toronto	39	61
Independent Finance Corporation Limited	67	33
Lucerne Finance Corporation Limited	84	16
Mercury Finance Limited	59	41
National Plan Corporation Limited	54	46
Niagara Finance Company Limited	92	8
Power City Finance Company Limited	94	6
Trans Canada Credit Corporation Limited	58	42
Union Finance Company Limited	88	12
Total	82	18

SCHEDULE 2

CANADIAN CONSUMER LOAN ASSOCIATION

EARNINGS OF TWELVE COMPANIES FOR THE YEARS 1954 AND 1955
COMPARED WITH ESTIMATED EARNINGS BASED ON RATES OF CHARGE PROPOSED IN BILL 51

—	Earnings as a Percentage of Assets Employed			
	1954		1955	
	Actual	Estimated	Actual	Estimated
	%	%	%	%
Bellvue Finance Corporation Limited	4·7	3·6	4·0	2·5
Community Finance Corporation Limited	3·9	2·7	3·6	2·5
Dollar Finance Corporation Limited	9·2	5·8	8·2	4·9
General Finance Corporation Limited—Toronto	9·0	7·1	9·5	5·4
Independent Finance Corporation Limited	7·5	5·8	5·6	4·4
Lucerne Finance Corporation Limited	6·2	5·0	3·5	2·7
Mercury Finance Limited	7·1	6·1	7·9	6·3
National Plan Corporation Limited	5·0	4·6	5·0	4·6
Niagara Finance Company Limited	4·6	3·2	4·5	3·0
Power City Finance Company Limited	—	—	8·8	4·2
Trans Canada Credit Corporation Limited	4·9	4·2	5·6	4·2
Union Finance Company Limited	4·1	3·3	4·1	3·4

SCHEDULE 3

CANADIAN CONSUMER LOAN ASSOCIATION

NET PROFIT OF TWELVE COMPANIES FOR THE YEAR 1954
COMPARED WITH ADJUSTED NET PROFIT BASED ON RATES OF CHARGE PROPOSED IN BILL 51

	1954		1954	
	Reported		Estimated	
	Net Profit	Per cent return on Capital and Surplus	Net Profit	Per cent return on Capital and Estimated Surplus
	$	%	$	%
Bellvue Finance Corporation Limited	23,773	23·0	8,811	9·5
Community Finance Corporation Limited	90,192	6·5	44,751	3·3
Dollar Finance Corporation Limited	10,245	25·7	4,575	13·4
General Finance Corporation Limited—Toronto	12,797	19·3	8,733	14·0
Independent Finance Corporation Limited	18,577	20·1	10,810	12·8
Lucerne Finance Corporation Limited	9,447	15·4	6,986	11·5
Mercury Finance Limited	12,668	28·4	8,426	20·9
National Plan Corporation Limited	20,531	7·5	18,728	6·9
Niagara Finance Company Limited	677,852	13·7	357,244	7·7
Power City Finance Company Limited	(Commenced business February 1954)			
Trans Canada Credit Corporation Limited	245,703	29·9	182,089	24·0
Union Finance Company Limited	27,123	10·5	18,208	7·3

SCHEDULE 4

CANADIAN CONSUMER LOAN ASSOCIATION

NET PROFIT OF TWELVE COMPANIES FOR THE YEAR 1955
COMPARED WITH ADJUSTED NET PROFIT BASED ON RATES OF CHARGE PROPOSED IN BILL 51

—	1955 Reported		1955 Estimated	
	Net Profit	Per cent return on Capital and Surplus	Net Profit	Per cent return on Capital and Estimated Surplus
	$	%	$	%
Bellvue Finance Corporation Limited	19,903	16·6	(3,025)	Nil
Community Finance Corporation Limited	84,992	6·1	33,518	2·5
Dollar Finance Corporation Limited	7,858	19·1	3,157	8·7
General Finance Corporation Limited—Toronto	12,223	15·5	4,273	6·0
Independent Finance Corporation Limited	17,487	12·2	9,274	6·9
Lucerne Finance Corporation Limited	5,385	7·8	2,880	4·4
Mercury Finance Limited	15,843	28·9	9,589	19·7
National Plan Corporation Limited	20,620	7·0	18,689	6·4
Niagara Finance Company Limited	827,669	14·3	405,388	7·5
Power City Finance Company Limited	13,622	20·2	3,776	6·6
Trans Canada Credit Corporation Limited	387,103	32·0	219,226	21·1
Union Finance Company Limited	51,508	16·6	34,180	11·7

( ) denotes loss.

Schedule 1 shows, by companies, for these Canadian companies, the percentage of business that is proposed to be subjected to regulation, and the percentage of business which will still remain outside the scope of the regulation, either because it is made up of loans of an original amount greater than $1,500 or because it is derived from the financing of conditional sales agreements and other income. They vary from a high of 94 per cent for Power City Finance Company Limited to a low of 39 per cent for General Finance Corporation Limited, Toronto.

Schedule 2 sets out the earnings of these companies as a percentage of the assets employed; that is the formula developed in our report dated March 12 for each of these companies for the two years, 1954-1955.

Schedule 3 sets out the reported and adjusted net profits of their total business. The two succeeding reports will deal only with the area of business which is the subject of regulation. The figures in this report deal with their total business, including income from other sources which will not be subject to the proposed legislation for 1954.

Schedule 4 contains the same information for each of these 12 companies for 1955.

As I mentioned last night our earnings base is a basis for comparison. It indicates that for Bellvue Finance Corporation Limited in 1954 the earnings dropped from 4·7 per cent to 3·6 per cent; for Community Finance Corporation Limited they dropped from 3·9 to 2·7; for Dollar Finance Corporation Limited they dropped from a high of 9·2 to 5·8.

This might be corrolated or compared—they cannot be correlated, but they may be compared—with variations in the net profits stated as a percentage of the equity capital.

For 1954 you will notice that for Bellvue Finance Corporation Limited the net earnings go down from 4·7 per cent to 3·6 per cent. In other words, the drop is relatively small in terms of percentage points. The net profits as a percentage of equity dropped from 23·0 per cent to 9·5 per cent.

For Community Finance Corporation Limited the net earnings dropped from 3·9 to 2·7, and the net profits dropped from 6·5 to 3·3; and similarly for the other companies and similarly for the 1955 figures.

Now, if you will turn to the next two reports, the one bearing the date of April 24 and that bearing the date of April 30. The first report, dated April 24, deals with the impact of the bill upon that area of the company's business which is subject to control—which will be subject to the control of the Small Loans Act if the proposed amendments go through, and it gives the return and adjusted return stated in terms of percentage of net profit on invested equity.

The report dated April 30 gives these adjustments in terms of earnings. With the report of April 30 the figures may be compared with the report dated April 24 in the same fashion as I have outlined for the report dated April 17.

"April 24, 1956.

Dear Sirs:

In our report dated April 17, 1956, we set out our estimate of the effect of the rates of charge as proposed by Bill 51 upon the earnings of a number of individual companies. These computations showed the effect upon the business of the companies as a whole. The rates of charge as proposed by Bill 51, however, would only affect the business carried on in loans of an original amount of under $1,500.

We have, therefore, computed estimates for the companies concerned, arriving at the net profit obtained by separating income and expenses on loans up to $1,500, from other income and expenses for the years 1954 and 1955, and attach hereto a schedule showing the percentage return of such net profit to the related invested capital and surplus, and the estimated percentage return obtained by applying the rates proposed by Bill 51 to the operations of those years.

For purpose of separating income and expenses we used the figures reported by the companies as relating to their business on loans up to $500, and added to this amount our estimate of the portion of income and expenses of the remainder of the business which applied to loans between $500 and $1,500.

As a basis for this estimate we used analyses of loan balances of the individual companies as of current date, which, as mentioned on page 3 of our report of March 19, 1956, we consider were reasonably aproximate to the rate categories prevailing in 1954 and were closely approximate to those which prevailed in 1955. We then computed the percentage which the total of the balances of the loans of an original amount of over $1,500, added to the balances of other contracts, bore to the total balances of the large loan business. Using this percentage obtained, we separated that portion of the income and expenses (including income tax) which related to business outside the proposed scope of Bill 51.

The figure of net profit resulting by adding together the profit on loans up to $500 and the estimated profit on loans from $500 to $1,500, was related to that figure of invested capital and surplus obtained by deducting from the whole, the percentage which business outside the scope of the bill, as arrived at above, bore to the total business. This return of net profit is shown in the attached schedule in the columns headed "Reported" for the years 1954 and 1955.

The rates as proposed by Bill 51 were then applied to the income to arrive at the estimated reduction of profit. This amount was deducted from the net profit before taxes, and taxes were recalculated at the applicable income tax rate for the year. The estimated net profit, as a percentage of invested capital and reduced surplus (i.e. earned surplus as calculated, from which was deducted the reduction in net profit) appears in the columns headed "Estimated on Adjustment" for the years ended 1954 and 1955.

Yours truly,

(Signed) DELOITTE, PLENDER, HASKINGS & SELLS"

CANADIAN CONSUMER LOAN ASSOCIATION

REPORTED NET PROFITS OF SMALL LOANS COMPANIES
ESTIMATED APPLICABLE TO LOANS UP TO $1,500 FOR 1954 AND 1955
AND ESTIMATED ADJUSTMENT TO BILL 51 RATES

Company	1954		1955	
	Percent Net Profit to Invested Capital and Surplus		Percent Net Profit to Invested Capital and Surplus	
	Reported	Estimated on Adjustment	Reported	Estimated on Adjustment
	%	%	%	%
Bellvue Finance Corporation Limited	20·7	Loss	10·7	Loss
Community Finance Corporation Limited	5·8	2·2	5·0	0·1
Dollar Finance Corporation Limited	25·1	10·3	19·0	6·6
General Finance Corporation Limited—Toronto	12·3	Loss	12·6	Loss
Independent Finance Corporation Limited	19·9	7·6	10·9	2·2
Lucerne Finance Corporation Limited	18·1	14·0	9·6	5·8
Mercury Finance Limited	24·2	9·6	23·5	4·2
National Plan Corporation Limited	8·7	7·3	7·2	5·9
Niagara Finance Company Limited	13·4	6·9	14·0	6·7
Power City Finance Company Limited	—	—	20·1	5·4
Trans Canada Credit Corporation Limited	29·5	18·4	30·2	8·2
Union Finance Company Limited	9·7	5·5	15·6	9·9

The report dated April 30 makes a similar calculation stated in terms of earnings.

"April 30, 1956

Dear Sirs:

In our report dated April 24, 1956, we set out our estimate of the net profits and adjusted net profits of twelve small loans companies applicable to business in loans up to $1,500 for the years 1954 and 1955, detailing the percentage return obtained on the appropriate portion of invested capital and surplus.

We have now computed our estimate of the earnings and adjusted earnings of the same twelve companies applicable to business in loans up to $1,500 for the years 1954 and 1955, and we attach hereto a schedule detailing the percentage return obtained on the appropriate portion of assets employed. This schedule can be compared with Schedule 2 of our report dated April 17, 1956 which shows our estimate of earnings and adjusted earnings of the twelve companies on the whole of their business (i.e. loans under $500, loans over $500 and conditional sales agreements) for the years 1954 and 1955.

To arrive at the estimates of earnings and adjusted earnings it was necessary to add back to the net profit before taxes, obtained for purpose of our report of April 24, 1956, the percentage proportion of interest on borrowed money that business on loans up to $1,500 bore to the whole of the business. An estimate of income taxes, calculated at the appropriate income tax rate was then deducted, and the resulting figure of earnings was applied to the same percentage proportion of assets employed (i.e. 107% of balances outstanding on loans and other contracts) as was used for allocating interest.

Yours truly,

(Signed) DELOITTE, PLENDER, HASKINS & SELLS"

CANADIAN CONSUMER LOAN ASSOCIATION

EARNINGS OF TWELVE SMALL LOANS COMPANIES ESTIMATED APPLICABLE TO LOANS UP TO $1,500 FOR 1954 AND 1955, AND ESTIMATED ADJUSTMENT TO RATES OF CHARGE PROPOSED IN BILL 51

—	Earnings as a Percentage of Assets Employed			
	1954		1955	
	Actual	Estimated	Actual	Estimated
	%	%	%	%
Bellvue Finance Corporation Limited	4·4	2·9	3·3	1·3
Community Finance Corporation Limited	3·7	2·5	3·2	2·1
Dollar Finance Corporation Limited	9·0	5·1	8·2	4·4
General Finance Corporation Limited—Toronto	6·5	1·7	8·1	Nil
Independent Finance Corporation Limited	7·5	4·5	5·2	3·3
Lucerne Finance Corporation Limited	6·9	5·5	4·1	3·0
Mercury Finance Limited	6·3	4·1	7·0	3·8
National Plan Corporation Limited	5·6	5·0	5·5	4·8
Niagara Finance Company Limited	4·6	3·0	4·5	2·8
Power City Finance Company Limited	—	—	8·8	3·8
Trans Canada Credit Corporation Limited	4·9	3·7	5·4	3·0
Union Finance Company Limited	3·9	3·1	4·0	3·1

As I mentioned, these reports of April 24 and April 30 are related only to the portion of the business to be subject to the provisions of Bill 51, for the 12 Canadian companies. They may be compared with the figures set out in the report of April 17 which covers the operations of the whole of their business, that is, the portion which will be subject to the bill and the portion which will be beyond the scope of the bill; no matter from what source.

Similarly, in these reports the earnings may be compared with the results stated in the form of net profits.

The CHAIRMAN: Are there any questions, gentlemen?

By Mr. Cameron (Nanaimo):

Q. Yes, Mr. Chairman, I would like to ask Mr. King some questions. On your schedule 2, taking the first company, the Bellvue Finance Corporation Limited—I refer to your April 17 report and your schedule No. 2. This 4·7 per cent for 1954: on what total of assets is this 4·7 per cent? What is the figure, do you know?—A. The figures in the report dated April 17 cover the whole of the operations of the company, whether or not it relates to loans up to $1,500. So the 4·7 per cent is calculated with reference to 107 per cent of the total loan balances and other contracts, if any, outstanding.

Q. And what was that figure, do you know? Do you have it there? Would it be the $980,537 in the report to the Department of Insurance?—A. I do not have my working papers here, but I assume that would be the case.

Q. Page 46.—A. Mr. Cameron, as I say, I do not have my detailed working papers here, so literally I would have to have those to be exact. But, on the basis which we used,—and I am sure this would be it,—we would start with the total balances of small loans $277,843, as at December 31, 1954; we would

add to that the balance of large loans, $425,544, and we would have the balances of conditional sales agreements and other contracts. Then we would also take the corresponding figures for December 31, 1953. By adding them and dividing by two we would get the average balances of outstandings for the period, and 107 per cent of that would be the base against which the earnings would be computed to arrive at the 4·7 per cent actual earnings.

Q. In the insurance report of December, 1954, on page 46, it gives the figures for the borrowed money employed of $818,393, for Bellvue and it gives also the paid up capital of $56,100, and the earned surpluses in the two types of businesses of $22,249, plus $21,707, making $43,456. Now, I have not added that, but I presume that comes to that figure of $980,537, and that would be the total assets employed, would it not? That is the borrowed money plus the paid-up capital, plus the accumulated surpluses?—A. Mr. Cameron, as I outlined in the report, the basis against which we have referred earnings, as developed in our report dated March 12 which was presented last night, has been 107 per cent of the average loan balances outstanding. For these earnings figures, that is the basis that we have used. It was 107 per cent of the money out in the hands of the borrowers, whether they be in this particular case we are talking about or all companies, or whether they be in the small loans, large loans, or conditional sales contracts.

Q. You have no figures at all from which you can tell us what the percentage is, as you say here, of assets employed? I mean, what is your definition of "assets employed"? Is it not what I have outlined?—A. Our report dated March 12th I think outlines the philosophy of assets employed and earnings, Mr. Cameron, and I would hesitate to try to repeat that report at this stage.

Q. The reason I am asking this, Mr. King, is that I frankly do not understand how you can get your later estimates in schedules 3 and 4 from anything that could be called a realistic estimate of the postion because, with the assets employed, your 4·7 per cent of assets employed, and as far as I can understand the meaning of the term "assets employed" would be $46,085, and if that were reduced to 3·6 of assets employed, which you suggest it would be if the bill passed, that would be reduced to $35,299, and on the equity capital —that is the paid-up capital plus the surplus of $94,508, as set out in Mr. MacGregor's table 4, those figures would be 48 per cent and 37 per cent of the equity capital respectively.—A. Mr. Cameron, perhaps I might try, in a few sentences, to recapitulate our approach to earnings. As I mentioned last night, in attempting to devise and develop a yardstick which might be used to compare the results of operations of these various licensees, after reviewing the information available, we decided that there was one common denominator which would be important in this particular business. That common denominator was loans outstanding. Also, that common denominator of loans outstanding is the asset basically which produces the revenue for these companies.

Q. Just a minute, when you say "is the asset basically" you mean to say it is identical with the assets?

The CHAIRMAN: He did not say that, Mr. Cameron.

By Mr. Cameron (Nanaimo):

Q. What do you mean it is the same basically?—A. For all practical purposes the main revenue producing asset of these companies is the loans outstanding, and for all practical purposes the revenue of these companies is derived from charges on loans outstanding. Now, as I also explained, because of various reasons—one of which may be a parent-child relationship, and there are many others—the investment in these companies comes from different sources and may be reflected in the financial statements and in the reported figures under different categories for the independent companies. Most of the

Canadian independents, to which we have been referring, are independent. That is, they are the sole company in the organization. For these companies the investment is represented by capital plus accumulated earnings. For some companies, which are only one of the companies in the organization, the investment is represented by capital, accumulated earnings, and borrowed money—borrowed from the parent. Therefore we were of the opinion that the only reasonable and workable common denominator between the companies was loans outstanding. Since loans made must have only been made if there were funds to give to the borrowers, we felt that loans outstanding were really the real assets employed. On looking over the results of the companies reporting to the department for the years 1949 to 1954, and taking the independent companies, we found that their gross assets averaged for six years—107 per cent, approximately, of loans outstanding. Therefore, on a practical basis we came to the conclusion that 107 per cent of the loan balances outstanding represented, at any one time, a fair yardstick of the assets employed for producing the revenue of the various companies. That is why we have used that as a basis of assets employed. That is why earnings have been related to that base. When you come to net profits, naturally they have been related to invested capital and surplus.

By Mr. Argue:

Q. Mr. Chairman, I wonder if Mr. King would say whether or not, if this bill goes through, on the basis of his study, whether any of the 12 companies, to which he has referred, will be forced out of this field?—A. Mr. Argue, that is a point on which I disclaim competence. I have tried to make my estimate of what the impact of the bill would be. I would prefer to leave it to others who are expert in that particular field to assess what the ultimate results would be.

Q. Could you tell the committee what proportion of the total business in this field is done by the 12 companies you have listed here?—A. Mr. Argue, I do not have that percentage computed at the moment, but it could be done.

Mr. BENIDICKSON: Could it be done very quickly? I do not mean by you, Mr. King, but somebody from your staff, while you carry on? I think you could carry on and either Mr. MacGregor and his staff, or Mr. King and his staff, could get that before we adjourn.

The WITNESS: Mr. Hawthorne will make that computation based on the balance of outstanding loans and conditional sales contracts, which again, I think probably is the most reasonable one, being the common denominator.

By Mr. Argue:

Q. In taking these 12 companies, you did not make any calculation as to whether or not, if this bill went through, these particular companies would show a lower rate of return than the companies that you excluded from the computation?—A. Mr. Argue, as I mentioned at the outset, we decided on reviewing the problem, that it presented a very large task from the standpoint of computations. As a result we did decide that, in order to assess the possible impact on a typical Canadian company, to take a reasonable sample, and arbitrarily selected 20 per cent as being the portion of the companies for which we would perform this computation, those are the only companies for which we have performed this similar computation.

Q. In taking the 20 per cent—your random sample—did you put all the names in a hat and pull them out? How did you chose the 20 per cent? A random sample, I take it, is something very definite—you produce it by a random method such as I have suggested, or, perhaps, on an alphabetical basis; you do not look at the general field first to see what the impact of this legislation would be and then take the 12 companies on which the impact might

be most severe.—A. Mr. Argue, we did not literally or figuratively put the names of the companies into a hat because we knew that some of the companies reporting to the Superintendent of Insurance were part of an organization that did business in the field of loans over $500 but which did not report the figures, and thus the figures were not available to us. Therefore, to insure that the estimates would relate with some reasonableness to the proposed area of the bill we did just pick the companies by name purely on the basis of the proportion of their business which would be subjected to the scope of regulation as set out in the proposed bill. While that is not, strictly speaking, a random sample that was the only criterion used in picking the 12 companies.

Q. Then these 12 companies are the 12 companies whose business Bill 51 will most affect—in other words the impact of the bill on the percentage or area of business done would be most severe in the case of these 12 companies?—A. I do not think that is a fair statement. I know one or two cases where there are other companies with a comparable proportion of their business within the area to be subjected to regulation, and, while we did not compute that percentage in the case of all the companies after we had arrived at the 12, we do know there are a number. It might well be a large majority of the remaining companies—I do not know at the moment. I have assumed, and I believe reasonably so, that these 12 companies represent relatively small and relatively large Canadian companies and constitute a reasonable sample of the 58 Canadian independent companies.

The CHAIRMAN: Are there any further questions?

By Mr. Benidickson:

Q. In connection with schedules 3 and 4, I wonder if it would be possible fairly readily to inform the committee somewhat further by, for instance, supplying another two or three columns which could be placed alongside these figures stating the number of branches involved in each of the 12 companies? Would it be possible, for instance, to indicate the total of directors' salaries in connection with each of these companies together with the net profit figures that are shown?—A. Mr. Benidickson, in asking these 12 companies for the additional information that was required in cases when we did not already have it, we asked only for the information as to the detailed make-up of their loan balances which they had already supplied us—for we already had copies of the 1954 return from the office of the Superintendent of Insurance. They supplied us with copies of the figures which they had submitted for the 1955 return to the Superintendent of Insurance, but we did not ask, and we do not know, the details of any of the detailed operations of these particular companies. We felt it was sufficient if we got that key as to the make-up of the loan balances from which we could estimate the effect of the bill.

Q. Has the witness replied yet to the question asked by Mr. Cameron yesterday with respect to one company about which he was inquiring?

Mr. CAMERON (*Nanaimo*): That was with regard to the Bellvue company.

Mr. CAWKER: There are a couple of points, Mr. Cameron, on which I am still trying to get information from my accountants, but I think this discussion at the moment concerns directors' salaries, dividends and directors' fees. The other main shareholder in Bellvue Finance, who is active in the business in a

supervisory capacity and in the field, received a salary of $3,925 in 1952. In 1953 it was $8,263, and in 1954, $10,356. My own salary in 1953 was $11,938 and in 1954 it was $14,400. My dividends in 1953 were $1,218, and in 1954, $1,518.

The CHAIRMAN: And director's fees?

Mr. CAWKER: There were no director's fees in 1953 and 1954.

By Mr. Cameron (Nanaimo):

Q. Can I ask you another question, Mr. King? I wonder if you would turn to page 45 of the department's report. Have you the report before you? Would you look at the Bellvue Finance Company's figures there—the third one? You will notice that there it says: balances of small loans, balances of large loans, balances of conditional sales agreements, etc., bonds, debentures, cash, and other assets, totalling $980,537. That would be what you have termed the balance of loans outstanding, would it? That would conform to your definition of assets employed?—A. No, Mr. Cameron, my "loans outstanding"—to use it in the broad sense—would include only the amounts in the first three columns—balances of small loans, balances of large loans and balances of conditional sales agreements and other contracts; it is the money out in the hands of the borrowers. As the basis for assets employed, again we have fixed it, on the basis of the average experience of the Canadian independents in the years from 1949 to 1954 inclusive as 107 per cent of those figures.

Q. One hundred and seven per cent of those three items added together? —A. I think, actually, referring to schedule B in the report dated March 12, 1956 the actual relationship for Bellvue Finance of total assets to loans outstanding was 108 per cent but, as I say, we had arrived, for the purpose of the yardstick, at the figure of 107 per cent to loans outstanding, and that is the basis we used all the way through.

The CHAIRMAN: Are there any other questions, gentlemen?

By Mr. Cameron (Nanaimo):

Q. Mr. King, I am still at a loss to understand your figures. I notice you have here, also, in schedule 3 for April 17, the figure of $23,773 as a net profit. I do not know whether it is a coincidence or not, but I see that Mr. MacGregor in his table 4 gives the figure of $23,774, which is $1 more than you have as a net profit, but only the net profit on the small loans business, whereas the assets which you are including cover, it seems to me, some of this, other than the assets on which this sum of $23,774 was earned. —A. Mr. Cameron, as I understand table 4 it refers to licensees under the Small Loans Act, and this is total profits, paid capital, surplus paid in, general reserves and balance of profit and loss account experienced from 1952 to 1955. That interpretation, I believe, ties in with the presentation for the years 1954 and earlier in the published report issued by the office of the Superintendent of Insurance, so that the figure of $23,773 or $23,774 is the net profit of the company, Bellvue Finance Corporation Limited, for the year 1954, according to these reports, on all its business.

My reports dated April 24 and April 30 segregated the portion of the business relating to loans of an original amount of $1,500 and less, and there you will see—actually you cannot see the exact figure but I believe it is approximately $15,000 with reference to loans on an original amount not exceeding $1,500.

Q. Then I come to this, Mr. King—I do not want to trust Mr. Argue's arithmetic or my own, but I cannot myself find out how you arrive at this figure of 4·7 per cent of the assets employed. Are we to relate that to the

figures of earnings in the subsequent tables you have given us? What would be the figure representing that 4·7 per cent that you have in your schedule 2? —A. I will try and explain it in general terms because I do not have with me at the moment the detailed working papers. The starting point is the report I presented last night dated March 12, 1956 in which I set out the reasoning behind the method of operation of this yardstick used for the measurement of earnings and the basic philosophy behind it. So, calculating those earnings we have a comparable basis on which to compare the result of one company with another and, incidentally to the exclusion of factors outside the small loans business. Now, to apply it specifically to this company —and it applies equally to the others—the basis of computation is as follows: as I mentioned at the outset, the starting point in these figures is 1954, which figures appeared in the reports issued by the office of the Superintendent of Insurance. To illustrate, the 1954 report sets out for Bellvue Finance, on pages 48 and 49, for the year ended December 31, 1954, the gross income earned on small loans, large loans, conditional sales agreements, the recovery of amounts written off, other income, and total income. Correspondingly, pages 50 and 51 set out interest on borrowed money, written off ledger values, taxes other than income taxes, advertising, salaries and directors' fees, other expenses, and income taxes. On pages 52 and 53 of that report is set out the increase or decrease in the reserves for bad debts and contingencies.

Therefore, our starting point was the income of the company and the expenses, whatever they may have been as reported in this book. Then, to arrive at earnings, we take the gross income earned on loans and other income, deduct from that the expenses of taxes other than income tax, advertising, salaries, directors' fees and other expenses.

We deducted in addition the net charge or expenses for the year in respect of bad and doubtful loan accounts. It can be computed from here, but it is an accounting computation and I am afraid that it might involve extra technicalities. We then arrive at the figure which might be called gross earnings, that is income less expenses, except interest on borrowed money, and income taxes. We then deduct, for the purposes of earnings, not the income taxes which you would deduct in arriving at net profit but the actual taxes as booked plus the amount of the tax reduction applicable to the interest that we have taken out of the expenses. That is for earnings.

Then, to arrive at the balances of loans outstanding for this company, and for the purposes of these particular reports, we took the total balances outstanding as at the first of each of the twelve months included in the calendar year 1954 of small loans, large loans, conditional sales agreements and other contracts. We added those balances and divided by 12 to get the average in that period. We then applied to that the 107 per cent, again the figure referred to in our report of March 12, and thus we arrived at assets employed.

Then taking earnings previously computed as a percentage of assets employed, you arrive at 4·7 per cent for 1954. To arrive at 3·6, which is the estimated earnings under the bill rates, you would adjust the gross income and taxes accordingly.

The concept of the yardstick of earnings is, I admit, difficult. But I do believe it is spelled out in our report dated March 12. The figures, I believe, are in agreement with those reported by, or to, the Superintendent of Insurance for 1954-55.

Q. Well, Mr. King, I am probably very stupid but I do not quite get you yet. According to your own statements now and earlier these figures which appear in the department's report—this $907,561, or rather 107 per cent of that—would be the assets employed as referred to in your schedule 2.

The CHAIRMAN: Mr. Cameron, I think that if he did say that he corrected it, because he said he took the monthly balances, added them up and divided by twelve.

Mr. CAMERON (*Nanaimo*): But I imagine there would not be any appreciable difference. The figures I have worked out do not include that 107 per cent. 4·7 per cent of the $907,561 is, if my arithmetic is accurate, $46,929. Now, the average paid up capital surplus, paid in general reserves and balance of profit and loss account for the Bellvue Finance Company in 1954 was $94,508. Of that $94,508, $43,629 is, if my calculations are correct, about 46 per cent.

The CHAIRMAN: Mr. Cawker thinks that he might be of some help on this.

Mr. CAMERON (*Nanaimo*): That is all right.

Mr. CAWKER: Mr. Cameron, do I understand that your question is, what is the difference between 100 per cent of loans outstanding; in other words, the loan accounts, small, large and conditional sales contracts, and the 107 per cent which is the formula which Mr. King has taken. Are we trying to find out what is the 7 per cent?

By Mr. Cameron (Nanaimo):

Q. It is not that at all. It is the figures of this 4·7—these earnings—which are on this basis of calculating the assets employed which give me this figure of $43,629. I cannot relate that to the percentage or the total of the capital and surplus, the net profit, that is set out in schedule 4 unless these estimated earnings of 4·7, for which we have no specific figure, include a great many costs before profit. What costs are included there? What have you besides net profit in that 4·7?—A. Mr. Cameron, I believe I know the exact reason for the difference between the figures. Net profit of a corporation, or individual, engaged in business—certainly for tax purposes—is after including interest on borrowed money. Again, as I have set out before, earnings, because they are related to the money out in the hands of the borrowers without reference to where it came from, are related to the loans producing the income, and we have excluded from the figure for earnings interest on borrowed money. We have also adjusted the figure for taxes in respect of the income taxes applicable to that interest on borrowed money. Thus, in essence, in all of these companies the earnings figure which we use is always a higher figure than net profits by the amount of the net after tax figure for interest on borrowed money. This is because of the yardstick formula, not because of any income or expenses not included in the report. So that the earnings figure in terms of dollars is always higher than the net profit figure in terms of dollars. That is why here we have stated earnings as a percentage of the assets employed.

Now, as for the 107 per cent figure. Over the six years, it covers all loan balances outstanding, plus cash in the offices to pay borrowers the amounts they borrow, cash in the banks, office furniture, and so forth, and the necessary working assets of the company.

Q. Could you give me any idea what ratio there is between what you classify as earnings in your schedule 2 and what you classify as net profit in your schedule 3? Is it twice or three times the net profit, or one and one-half, or what? Have you any idea for this particular company?—A. It is, as I have just explained it, the amount you arrive at by taking the interest for the borrowed money for any particular company, and then the tax impact on that interest on borrowed money, and the difference is that differential. I do not think that the figures themselves are significant. It is the percentage.

Mr. WEAVER: Mr. Chairman, you mentioned yesterday that the time alloted for the Canadian Consumer Loan Association would be used up by tomorrow morning. Would that mean that all other members of the association who wish to be witnesses will have to be heard by that time?

The CHAIRMAN: I think that I said, "by tomorrow afternoon". If necessary, we will have to hold a morning meeting tomorrow as well as meetings in the afternoon and evening, because we are certainly going to try to clean this up by tomorrow.

Mr. WEAVER: Who else will have to be heard?

The CHAIRMAN: I have the names of the witnesses here. Messrs. Herington, Elliott and Picard.

Mr. WEAVER: What companies do they represent?

The CHAIRMAN: Mr. Herington is the senior Toronto partner of Price Waterhouse and Company, and you will notice they have a brief, part of the Association brief. Mr. Courtland Elliott is an investment counsellor. Mr. Picard has asked the committee for the privilege of presenting a brief which would take into account the special problems which they have in the province of Quebec.

Mr. BENIDICKSON: What about some of the other companies who have a special presentation?

The CHAIRMAN: When we are through with the Canadian Consumer Loan Association brief, we will have to decide what time we will allocate to the other people who have asked to be present or whom we have asked to be present.

Mr. BENIDICKSON: There is the Credit Union, I suppose.

The CHAIRMAN: The committee have asked them to appear; they did not ask to appear.

Mr. MICHENER: Mr. Chairman, has any witness given the figure of the comparison of the amount of personal loans outstanding as made by banks, credit unions, and small loans companies? Could anyone give us that as from the end of last year if it is available?

Mr. CAWKER: May I answer that question, Mr. Chairman?

The CHAIRMAN: Yes.

Mr. CAWKER: At the end of 1955, Mr. Michener, the total of cash personal loans was $830 million. That incidentally was out of the total consumer credit figure of $2,193,000,000.

Mr. MICHENER: You say $2,193,000,000?

Mr. CAWKER: Yes, $2,193,000,000; and of the $830 million figure for cash personal loans, the small loan companies—I shall mention the banks first; they had $440·6 million; they were the largest suppliers. The small loan companies had $289·1 million. Credit unions had $100·3 million, and incidentally the figures for the small loans companies, the $289·1 million, included both small and large loans of the Household Finance Corporation Limited.

Mr. MICHENER: What is the definition? How are small loans defined, or what is the source of your material?

Mr. CAWKER: These were personal loans, as defined by the Bank of Canada.

Mr. MICHENER: It is their report?

Mr. CAWKER: Yes, and I should say this: we have no figures available to tell us about the credit union figures of $100·5 million as to which would be personal loans, let us say, because there is no breakdown.

Mr. FLEMING: I have one question about the figure for the banks. According to the definition of small loans, the Canadian Bank of Canada is the only one of the chartered banks in the small loan field, and with the figure of $440·6 million for the banks, that amount must include more than small loan lending by the Canadian Bank of Commerce?

Mr. CAWKER: I would think it would; that would of course include all the banks. While all the banks, let us say, do not have an active personal loan department, still we all know that they do make some personal loans, and I think they would be a percentage in this figure. I think it is safe to assume

that. I do not know if I have made myself clear in this breakdown of the $830 million, but we were able to obtain the figure from the Bank of Canada figures for the small loan business, and the bank had deducted it from the total as defined by the Bank of Canada to arrive at $100·3 million for the credit union. We were told by the Bank of Canada that that was a fair assumption to take to determine the balance.

Mr. MICHENER: Does the consumer credit figure which you gave us include personal loans, or is that in addition to personal loans?

Mr. CAWKER: No, that is all-inclusive, the $2,193,000,000 includes personal loans.

The WITNESS: Mr. Cameron the profit as stated in schedule 3 is $23,773, and included in expenses in arriving at that profit is interest on borrowed money, totalling $42,855, income tax at 49 per cent, the applicable rate, the 1954 rate on that specific amount of $42,885 at 49 per cent is $21,000; so to convert the profits to earnings we add the difference between the interest on borrowed money and the income tax; so we add $21,835, so that the earnings then became $45,628.

Mr. CAMERON (*Nanaimo*): Thank you.

The WITNESS: If you take the balance outstanding of all loans as at December 31, 1953, they total approximately $916,000; for 1954 they total about $908,000, and the average is $912,000. 107 per cent of this accounts to approximately $64,000. This states the assets employed at $976,000. $45,628 is 4·7 per cent of $976,000.

The CHAIRMAN: Are there any further questions? If not, we shall now move on to the next witness. I call Mr. Herington.

Mr. H. P. Herington, F.C.A., Senior Toronto Partner, Price Waterhouse and Co., Chartered Accountants, called:

Mr. CAWKER: Mr. Chairman, it seems only reasonable in a presentation of the condition of the small loans industry today that we should look for a comparison of the earnings of the small loan industry with the earnings of other industries in Canada. Therefore, the association engaged Price Waterhouse and Company to conduct a separate study the results of which are contained in the last study in our brief immediately after page 27.

The witness is Mr. H. P. Herington, who is a partner in the firm of Price Waterhouse and Company of Canada. He became a member of the Institute of Chartered Accountants of Ontario in 1926, and a fellow in 1939, and president in 1947. He was treasurer of the Canadian Institute of Chartered Accountants for four years from 1948 to 1952; and he is a member of the Board of Governors of the Canadian Tax Foundation, and was vice chairman in 1948. Now, Mr. Herington will you kindly proceed.

The WITNESS: Mr. Chairman and members of the committee. You have been burdened a great deal I understand with percentages which are very useful things provided they are properly understood.

With your permission I shall refrain from reading the first page and the greater part of the second page of my memorandum. It merely sets out the circumstances which gave rise to this study and I know that these circumstances are all familiar to you.

Before proceeding with reading the remainder of the memorandum I would like to have the privilege of giving you two explanations of my particular position here. I was asked by the Canadian Consumer Loan Association to make a study of the earnings of the four companies and of the 61 licensees and to compare them with other companies.

In the first phase of my study I naturally paralleled to a great extent the work which Mr. King has done and about which you have been hearing a great deal this afternoon.

Now, Mr. King and I purposely did not collaborated in this work. I did not see what he was writing until after it was delivered to his client and he in turn did not see what I was writing until it was delivered to my client.

I found in reading his material and comparing it with my own that it might save some confusion in the minds of this committee because you are dealing in percentages and we do not seem to jibe. There are particular reasons for that and I would like for a moment to explain a few of those reasons.

We have different objectives. First, Mr. King, was seeking to find a permanent base for fixing a rate for the industry and he arrived at a base of 107 per cent of the average loans outstanding. I take no exception to that conclusion.

But in my case I looked at that particular phase of it and I found that the actual assets employed in these companies nearly approximated a reasonable percentage. It has been said that 115 per cent is a reasonable figure. I found that it was somewhere in the neighbourhood of Mr. King's figure, around 107 per cent, and I saw no point in making any adjustment of the figures in the report which has been presented in this regard, so I accept his figures without change.

It would be interesting to you to know that the only difference between his figure and mine is the total for the loan industry, or some $213 million. The actual figure as reported in the blue book is $216 million. I need not tell you that that difference is something slightly over one per cent and it has no material bearing on the conclusions which you may draw in determining the rate of earnings.

We then come to the question of the earnings themselves related again to assets. Here again Mr. King and I differed in our results. I attempted to find a common denominator with which to compare this industry with other industries. I found, first speaking of the small loan companies, that there was a great number of them which were enjoying the benefit of the low rate of 20 per cent for income tax. Other companies in the medium size field were enjoying 20 per cent as they all do, but the impact was not so great on the medium sized ones, and naturally on small companies with earnings over $20,000 where they paid 47 per cent, or, as it was in 1954, 49 per cent on the excess.

Now when you come to the industries you find a great many circumstances which are affected by what is charged for income tax. One of them is capital cost allowances. Companies are permitted to charge for tax purposes a great deal more than they usually regard as an appropriate charge for depreciation. Consequently, in some of the primary industries such as oil and metals, you have allowances for depletion which are not on the record at all. So you have a very wide variation in the impact of income tax in the case of other companies which I have selected for comparison.

In order not to introduce variables, which would be very difficult to assess, I stopped short of the earnings before deducting either interest or income tax. On the face of it they appear higher than that of Mr. King. To give you again a proper perspective—just to show you how close we were, I picked my figure

which appears on page 8, and at this point I am afraid I must make a confession. There is a typographical error on page 8 of my brief I would like at this point to correct. The figure of 14·95 should read 12·95. Now, if we take the 12·95 reported profits before interest and income tax—12·95 for subsidiaries, 7·71 for independents, we can average those on a weighted basis, and we get 12·29. In using Mr. King's adjustment for income tax of 49 per cent, I arrived at 6·26. He refers in his brief to 6·2. I think you will agree that that is a very close relationship.

On the after adjustment—at this point I might say that our approach to the probable effect of Bill 51 was different. He had access to a number of companies and their records which I did not have. In fact, my approach was to take the information that was available to the ordinary investor, the person who would try to assess the relative merits of this type of investment with other types of investment. He would know nothing about some of the things that were made available to Mr. King. So this particular problem was perhaps the most difficult of all. There was nothing that I could see in the blue book which would permit me even closely to estimate the probable effect of these proposed amendments to the permissive rates.

Finally I had to resort to, and I was furnished with, the trial balances of the two Household companies, and reference is made in my memorandum to that effect. Mr. King, in his entirely independent approach, came to within —and the adjustment was of the order of over $6 million—came within $13,000 of the adjustment which I arrived at through the use of this pattern. So, there again the figures, after adjustment, which averaged 9·59, and the 5·48 giving the weighted average of 9·07, and I arrived at 4·62, and Mr. King at 4·6. Again a very close relationship in the two approaches.

There are other differences. I do not know whether, Mr. Chairman, you wish me to go into any greater detail than that. Some of them have been spoken to earlier this afternoon.

Perhaps one difference ought to be mentioned because of that. Ordinarily equity capital in a company does not include provisions or reservations for doubtful accounts. I noticed that the superintendent of insurance apparently considers the provisions as being appropriations of profits rather than expenses. He in turn charges as expenses the amounts written off, which in the accounts would have been written against the provisions. In other words, he puts the profit account on a cash basis. I had no information which would permit me to take exception to the treatment accorded by the superintendent to the income accounts of these companies, so I accepted his judgment on the matter, and assumed that he had satisfied himself that these provisions were perhaps more than were required in the circumstances. For that reason I excluded them in equity, as he did too.

Here again the difference is not as great as you would think because, while the equity, which I thus arrived at, is greater than Mr. King's, the income was also greater because I do not charge income with these provisions. It is a counter-balance in effect.

I go now, Mr. Chairman, after that brief explanation, to page 2, and I would like to start to read at the second paragraph.

As Household Finance Corporation Ltd. would be brought under the act if the proposed amendments are adopted, a combining of its experience with the collective experience of the reporting companies adds considerably to the usefulness of the information contained in the reports of the Department of Insurance, and for the purpose of this report that company is considered to be a reporting company.

The reports of the superintendent of insurance do not contain information from which the probable effect of the proposed new rates on individual companies may be determined. In order to estimate the effect within reasonable

limits of error it is necessary to know the size of the balances outstanding at the end of a typical month. The Household companies have prepared an analysis of the balances outstanding at January 31, 1956, according to size (including both small and large loans) from which we have computed the interest for the month on such balances at a uniform rate of 2[1] per cent—and that, by the way, is the uniform rate used by these companies in regard to all loans—as well as interest at the maximum rates proposed in the amendment with the following results:

I will not read those figures, Mr. Chairman, but, if you will take a look at the column headed "interest for one month at present rates", that would be the amount which the Household companies would accrue for that month in respect of its outstanding loans at the beginning of that month. In the last column is the entry they would have to make in respect of the accrual if the new rates come into force. In other words, on loans up to $300 they would accrue the same amount. In the next four or five categories, the accrual would be just exactly half of what they would now be doing. That is, they do not loan anything in excess of—I think it is down to about $1,021, and the effect in that area is negligible. It sums up that at present they are accruing 2 per cent. Under the new rates the average accrual would be 1·6714 per cent a reduction of 16·43 per cent from the 2 per cent monthly rate permitted under the present law.

Range	Percent	Portion of outstanding balances falling within range indicated	Interest for one month present rates	Interest for one month proposed rates
$300 and under	67·16	$ 97,181,855	1,943,637	1,943,637
$300-$400	10·99	15,905,064	318,100	159,050
$400-$500	8·27	11,958,372	239,166	119,583
$500-$600	5·33	7,717,964	154,358	77,179
$600-$750	5·07	7,332,313	146,646	73,323
$750-$1,000	3·14	4,542,620	90,852	45,426
Over $1,000	·04	61,759	1,234	308
Totals	100·0	$144,699,947	2,893,993	2,418,506
Average rate of charge on outstanding balances			2%	1·6714%

The proposed rates represent an over-all reduction of 16·43 per cent from the 2 per cent monthly rate permitted under the present law.

We believe it is reasonable to assume that the gross income from small and large loans of the other companies will be affected to about the same extent as the Household companies for a number of reasons.

I note that the superintendent in his report of 1954 made a remark concerning the fact that the companies for the most part charge 2[2] per cent.

1. It appears that the reporting companies have been charging, for the most part, about 2 per cent per month regardless of the balance outstanding.

2. The number of loans, namely 475,478, included in the Household Finance balances outstanding at January 31, 1956, assures a representative assortment of balances in various ranges up to $1,021, the limit of the loans made by the Household companies.

I suggest that this is somewhat analogous to life insurance. It has a certain actuarial quality about it.

To illustrate the probable effect of the proposed rate reductions on some of the companies, we submit the results of a recomputation of their net profits. We have selected for this purpose those of the reporting companies whose gross income in 1954 from small and large loans was in excess of $100,000.

I have the figures, Mr. Chairman, for all the companies, if any members of the committee are interested in them.

We have not included in the selection the companies which later on in this report are referred to as subsidiaries. The computation in each case consists merely in a reduction of gross income from these loans by 16·43 per cent accompanied by an appropriate adjustment in income taxes.

At this point I would like to pause and explain that again there was a different approach on the subject of income tax between Mr. King and myself. Mr. King approached the thing from the point of view that the earnings for 1954, had the changes been in effect in that year, would have had a given effect on the earnings of that year. For that reason he used the rate of income tax, 49 per cent, in effect at that time. My approach was different. I simply said if in all other respects the business of the loan companies is maintained in 1955, these are the new rates, then we have a new rate of income tax, we would have a certain effective adjustment in that profit. Both approaches, I think are perfectly rational but, they are different, and they produce different figures. The calculations should not be regarded as a determination of the precise effect of the proposed rate reductions on these particular companies. What that effect may be will only be known after some experience under the new permissive rates. I suggest that there may be a different approach to to the business of lending money itself. We believe, however, that the probable effect will be substantially as shown and should be helpful in the present deliberations. We then tabulate these six companies but, in a sense, it is not a random selection, as that term is usually understood. It happens to be six companies, other than subsidiaries, whose gross income exceeded $100,000. You will note the Community, and the reduction is 79 per cent; Bellvue Finance, 62 per cent; Commercial Credit, 42 per cent; Merchants Finance, 48 per cent; National Plan, 57 per cent; and Union Finance, 67 per cent.

	Present net profit	Adjusted net profit	Reduction as percentage to present net profit	Equity capital	Rate of profit to equity capital
Community Finance ..	$90,192	$18,286	79·73%	$1,578,803	1·16%
Bellvue Finance	29,264	11,117	62·01	124,997	8·89
Commercial Credit ...	57,861	33,459	42·17	407,380	8·21
Merchants Finance ...	29,298	15,084	48·52	176,695	8·54
National Plan	20,531	8,789	57·19	285,640	3·08
Union Finance	52,106	16,895	67·58	297,956	5·67

It is apparent from the above results and our review generally that rate reductions of the dimensions contemplated would seriously impair the financial position of the smaller companies and would materially affect the credit rating of the larger companies.

It is believed that the interests of the borrowers would be best served by the establishment of a scale of charges which assure the continuance of the services they now enjoy. It is conceded that the extension of the small loan business to loans in the range above $500 has developed to a point where some reduction in charges in that range could be made.

On the other hand, the proposal to reduce from 2 per cent to 1 per cent the rate applicable to outstanding balances in the range $300 to $500 should be given most careful consideration. The consequences of such an impairment of earnings are difficult to foresee. It is not unlikely, however, that an impairment of the order indicated would lead present or potential creditors of the small loans companies to review their respective positions. Any restriction in credit at this level must of necessity extend to the individual borrowers.

The savings which the proposed rates are designed to bring about will not seem so important to the individual borrower if he is unable to borrow the amount he requires. It is well to remember that it is not the small loans companies that determine the funds available for this purpose but rather the real lenders, those who are willing to extend credit or to invest in the securities of the companies.

The CHAIRMAN: It is 5.30, gentlemen. We will meet again at 8.15 p.m.

EVENING SESSION

8.15 p.m.

The CHAIRMAN: Gentlemen, there is a quorum. We are on page 5 of Mr. Herington's brief.

Mr. H. P. Herington, F.C.A., Senior Toronto Partner, Price Waterhouse and Company, Chartered Accountants, recalled.

The WITNESS: Mr. Chairman I think I read to the end of the second paragraph on page 5. Continuing:

In any consideration of the earnings of the reporting companies a comparison should be made with the earnings of other business enterprises. Before making such a comparison we wish to direct attention to a circumstance in the reporting companies which has an important bearing on this problem. Six of the sixty-five reporting companies are subsidiaries of United States and Canadian parent companies. Because of their relationship these six companies apparently find it convenient to obtain a large proportion of the funds they require from their respective parent companies in the form of interest-bearing indebtedness, and being subsidiaries there is probably no limit on the amount of such indebtedness in relation to the total funds employed. The remaining fifty-nine independent companies must of necessity be on an arms length basis in any borrowing arrangements which they make. The extent to which such companies may resort to borrowing money for the funds they require is therefore dictated not by their own desire but rather by the investment or lending policies of those from whom they procure such funds. The following summary, prepared from the reports of the Superintendent of Insurance for 1954, shows how these two groups of reporting companies differ in this respect:

The six subsidiaries had borrowed money amounting to $150,849,000 and equity capital of $38 million, a ratio of 3·9 to one. Independents, on the other hand had borrowed money of some $19 million and equity capital of $8¼ million, or a ratio of 2·3 to one.

Companies	Borrowed money	Equity capital	Ratio borrowed money to equity capital
Subsidiaries	$150,849,548	38,671,740	3·9 to 1
Independents	19,207,154	8,250,344	2·3 to 1
Together	$170,056,702	46,922,084	3·6 to 1

Equity capital for the purpose of this report is deemed to include reserves for bad and doubtful accounts and profits have not been charged with the provisions therefor because the Department of Insurance apparently considers such reserves to be appropriations of net profits rather than expenses incurred. Had the information been available we would not have included such reserves in equity capital except to the extent they are not required, and would have charged profits with the appropriate provisions.

In the comparisons of earnings that follow the reporting companies will be distinguished as between subsidiaries and independents.

The manner of selecting other business enterprises for comparison as to earnings with the reporting companies is of the utmost importance. To be completely objective the selection had to be a random one made without any concern for the resulting conclusions. In March 1956 the Dominion Securities Corporation Limited prepared as a guide to potential investors particulars of sixty-six companies. It is believed that this list, which represents a complete cross-section of Canadian public business, satisfies the requirement of independent random selection.

In order to compare the reporting companies with other business enterprises it is necessary to find some common basis of income measurement. A number of bases have been considered and we selected two which we believe would produce results which are appropriate for comparison with other business enterprises. The first is a conversion of dollar earnings into rates of return on assets employed in the business and the second establishes rates of return on capital invested in the business by the equity shareholders.

The first method relates income before deducting interest on borrowed money and income taxes to the amount of the assets employed. This is a useful method for purpose of comparison because the results are not affected by the variety of financial arrangements found in modern business. Small loans companies particularly, and in common with banks and other like financial institutions, resort to borrowed money to a much greater extent than other types of business.

The second method recognizes the effect of the use of borrowed money and the consequent allowance for income tax purposes of interest on borrowed money by relating the net profits after all charges, including interest and income taxes, to the net assets attributed to the common shares. Under this method the preference stock, unless of the participating type, is not considered to be equity capital and preference dividends are deducted from income but without advantage taxwise. The results of our study are set out below. The profit ratios in the case of the small loans companies are based on the earnings for the year ended December 31, 1954, and those for the sixty-six selected companies are taken from annual reports for the fiscal years ending in 1954, or, where the reports were available, from the annual reports for the fiscal

years ending in 1955. In the case of small loans companies two profit ratios are shown, first the rate of earnings as reported by the companies and secondly the rate of earnings adjusted to give approximate effect to the proposed amendments for revision of the permissive rates:

Profits, before deducting interest on borrowed money and income taxes expressed as a percentage of total assets, less liabilities other than borrowed money

	No. of companies	Reported profits before interest and income taxes	After adjustment to give effect to rate reductions proposed in Bill 51
Small loans (reporting) companies:			
Subsidiaries	6	12·95%	9·59%
Canadian independents	59	7·71	5·48
Sixty-six selected companies:			
Banks	3		
Public utilities and transportation	8	6·61	
Steel and construction	10	21·92	
Foodstuffs	6	15·89	
Beverages	3	16·66	
Newsprint and forest products	5	27·37	
Petroleum	9	14·56	
Base metals	13	25·36	
Golds	2	17·40	
Miscellaneous	7	11·28	

The foregoing comparisons place all companies on a common footing with those companies which have no borrowed money and only one class of stock. When this basis of income measurement is used it is not customary to allow for *the income taxes which of course would be payable.* No percentage is shown for banks. Because of the nature of their business this basis of income measurement has no particular significance.

Net profits less dividends on preference stock expressed as a percentage of total assets, less liabilities including borrowed money and preference stock, i.e. net assets attributed to the common shares

	No. of companies	Reported net profits	After adjustment to give effect to rate reductions proposed in Bill 51
Small loans (reporting) companies:			
Subsidiaries	6	25·30%	16·36%
Canadian independents	59	9·87	5·41

At this point I would like to pause for a moment to deal with what has been a rather troublesome problem, namely this question of the leverage factor. In the case of these six subsidiaries I find on looking at the annual report of the Household Finance Corporation of Chicago which includes in consolidated form the accounts also of the Canadian companies, their borrowing ratio is 1·85 to one. In the case of Industrial Acceptance—another large consumer credit company, it is 1·80 to one, and in the case of Traders Finance it is 3·88 to one. I struck an average of those three figures of 2·33 to one, sometimes described as 70 per cent leverage, which means simply that 70 per cent of the assets employed is represented by borrowed money. Using that 70 per cent figure and applying it to these six Canadian subsidiaries on the assumption that that would be, perhaps, the most favourable borrowing position they could have at arms length in the financial market I find that instead of 25·30 per cent the over-all margin is 17·98 per cent and, after adjustment, instead of 16·36 per cent it becomes 12·06 per cent. I think those figures are more nearly comparable to those of the 66 selected companies. This, keep in mind, is the net return on shareholders equity after all charges including income tax.

	No. of companies	Reported net profits	After adjustment to give effect to rate reductions proposed in Bill 51
Sixty-six selected companies:			
Banks	3	6.30	
Public utilities and transportation	8	5.56	
Steel and construction	10	14.32	
Foodstuffs	6	10.09	
Beverages	3	10.06	
Newsprint and forest products	5	17.17	
Petroleum	9	11.93	
Base metals	13	15.98	
Golds	2	12.19	
Miscellaneous	7	14.01	

By Mr. Fleming:

Q. I notice that public utilities and transportation are listed. What kind of utilities are those? Obviously we are dealing only with privately owned ones and the particular type of transportation might have a bearing on this.—A. The eight companies in that group were the Bell Telephone, The British Columbia Power, Calgary Power, Consumers Gas, Gatineau Power, International Utilities, Shawinigan Water and Power and the Canadian Pacific Railway.

Attention has already been drawn to a difference between two groups of reporting companies. Six companies, which have been referred to as subsidiaries, have been able to obtain a very large proportion of the funds they require in the form of borrowed money from their respective parent companies. The fifty-nine Canadian independents, on the other hand have had to make their financial arrangements on an arms length basis and in their case it has not been possible to borrow to nearly as great an extent. This is an artificial situation so far as the subsidiary companies are concerned and explains the rate of return which they earn on equity capital.

Mr. Chairman, that ends my presentation unless there are some questions.

The CHAIRMAN: Are there any questions gentlemen? If there are no questions we shall proceed to hear the next witness.

By Mr. Fulton:

Q. I would like to ask this witness a question relating to some discussion which took place last night; I wish I knew more about finance and balance sheets and rates of return and so on than I do, but it has been suggested that those companies which operate on a large proportion of borrowed money show enormous profit or return to their shareholders over and above those which operate mainly on their own invested capital. I would like an explanation of that, because it seems to me that while it is true that the years' profit expressed in terms of return on invested capital may be at a very high ratio in the case of those companies which operate largely on borrowed capital, which I will call group A, nevertheless if you look at the balance sheet of liabilities and assets, that annual profit in the form of return on investment is not available to be distributed among the shareholders because you still have all your liability with regard to the initial indebtedness. I wish you would say a word about that, because it has been bothering me. —A. If I may suggest this, Mr. Chairman, the next witness is Mr. Courtland Elliott who is more competent, I think, to deal with your question than I am. I understand he will be called next and I suggest that that question be deferred until he takes the stand.

The CHAIRMAN: I think that would be satisfactory to the committee and to Mr. Fulton—to put that question to the next witness—unless he in turn is going to send the ball on.

Mr. FULTON: It seems to me that as Mr. Herington's brief dealt with this question of the relationship of companies with the sources from which they borrow money he might have dealt with it. However, I do not want to press him.

The WITNESS: I would prefer to leave it to Mr. Elliott; I think there would be less confusion.

The CHAIRMAN: Are there any other questions?

By Mr. Fulton:

Q. Yes, one more question. On pages 8 and 9 of the brief you have made this table of comparison between small loans companies and 66 selected companies. Could you give us an indication as to what might be the average percentage of borrowed capital to total capital employed for those other sixty-six selected companies?—A. I have not specifically tabulated that.

Q. I should not have said borrowed capital; I meant borrowed money.—A. I understood the term in its broader sense. What gives you the higher return of equity where you have a lot of borrowed capital is this, that if the interest you pay on the borrowed money falls below the average earned on your total assets employed, the excess naturally accrues to the benefit of the equity holder. That gives the best explanation. Any of you who have dealt on margin on the stock exchange know how this works.

Q. You are talking right outside the depths of anyone here.—A. I would prefer to leave that question. I think it would be duplication.

Mr. ENFIELD: On page 9 the witness gave us various figures and reductions for six subsidiaries. That seems to be a pretty important set of figures and the reductions seem quite important. Are we to understand that they represent an error in your thinking in the first instance?

The CHAIRMAN: No, no. He simply explained that if their borrowing power had been at arm's length, taking a certain borrowing power, that that would be their profit rather than when they were not dealing at arm's length.

The WITNESS: That is right. There is no error involved. I simply took the tota lassets employed, substituted for the actual borrowings a figure of 70 per cent of that figure and then had to assume a rate of interest which I did at 4 per cent and substituted that interest for the actual interest.

The CHAIRMAN: If there are no other questions, we will proceed to the next witness.

Mr. CAWKER: Mr. Chairman and members, a question quite properly I think, was brought up this afternoon about the relationship between investors and the members of our industry. It is important to us because you have already realized, I am sure, the importance of borrowed money to the successful operation of the companies. We, I think, anticipated that some interest would be shown in this problem, and have asked Mr. Courtland Elliott, president of Elliott and Page Limited, investment counsellor of Toronto, to appear before the committe. Mr. Elliott is a graduate in economics of Queen's University and has done post-graduate work in economics in France and Washington, D.C. For twenty-six years he was with A. E. Ames and Company Limited, investment dealers, in Toronto and New York, and for the past six years has been a director of that company. He then founded his own company and for the past seven years has been an investment counsellor specializing in common stocks. I might add that he was a member of the board of referees under the Excess Profits Tax Act, and is a past president of the Toronto Board of Trade.

Mr. Elliott has no formal brief but will speak on the earnings of various types of Canadian companies and will be glad to answer any questions which result from his remarks.

Mr. Courtland Elliott, C.B.E., President, Elliott and Page Limited, Investment Counsellor, Toronto.

The WITNESS: Mr. Chairman and gentlemen, as has been noted, I have no brief prepared to present to you. It was only a week ago, as a matter of fact, that it was suggested to me that I might come down here to speak off the cuff on the subject of general investment, particularly in equity common stocks. I must confess that, due to the short time, I have not had an opportunity to read the brief or the bill and I make no pretence that I have any knowledge particularly as to the operation of small finance companies.

I have, for the past thirty years or more, been brought up in an investment atmosphere and literally for up to twelve years I have been consultant to a number of Canadian corporations in connection with their pension fund investments, a portion of which have gone into Canadian common stocks. In the course of that experience, perhaps more out of experience than out of statistics, I have developed some conclusions as to what may be successful common stock investment. The investor in common stocks looks primarily, I think, for a prospective dividend out of the earnings of the corporation.

It is a very difficult subject on which to generalize, but there are some general rules of thumb which we follow in making recommendations for investment in common stocks. They all have exceptions but it might be of interest to the members of this committee to know what they are—some of the secrets of the trade. One is that actually or prospectively we are always looking ahead and relying on the past to give us some guidance as to what is

the future. One of the rules of thumb is, we may say, interest and dividends, after taxes, earned twice over. A company that has been able to do that has been able to build up surplus, expand the operation, and in the course of time in propitious periods add to their surplus, which is investment in a plant in the productive way. We like to have financial security in the investments we make. We like to have some cushion of reserves that can be drawn upon to provide uninterrupted dividends in period of adversity.

Another rule of thumb is that we like to see in the net current assets, the liquids of the company, the receivables, inventory, cash and so forth less current liabilities, four years' dividends available, so that the company will not suddenly, in the case of a strike, fire or other hazard, cease paying its dividends to the detriment of the income of their shareholders. We like to see four years' dividends represented by earned surplus, on the liability side of the balance sheet to which the dividends that are paid can be charged.

Now, as a rule of thumb again, and without presenting to you the statistical background, it has been my experience that for the bulk of investments we like to have borrowed capital amount to no more than 25 per cent of the total capital employed, the total invested capital employed being the borrowed capital, the preferred stock, the common stock and the surplus, and sometimes the reserves. That is a rough rule of thumb.

If we can find a company that is earning its interest and dividends twice over that has a satisfactory financial position and has a relatively low leverage factor—leverage factor meaning what the percentage of debt is of the capital employed—then we look into it very carefully and if it is a type of bsuiness that is susceptible of growth, then you have the secret, at least in good times, of a satisfactory common stock investment. The leverage factor, which I think is of paramount concern in this, varies a good deal in different companies.

I believe—although I have not seen Mr. Herrington's brief nor have I had an opportunity to discuss the matter with him—that the figures which he has drawn up and which are before you rather reinforce the contention and the experience that I formed that finance companies, pipe line companies and public utilities are characterized by a very high leverage factor. In the case of public utilities, operating income after expenses translated into income available for interest and dividends is usually quite stable and susceptible of growth in certain cases. That means that, irrespective of changes in business conduct, generally speaking the earnings of utility companies are stable and they can support a larger amount of debt than can a highly volatile type of business such as the steel business, the car equipment business, building construction and so forth. Similarly the experience has been in gas transmission lines and oil pipe lines that their business is not subject to great interruption, under changing business conditions, and there too you find there is an unusually large proportion of debt in comparison with industrial companies or merchandise companies or other types of industrial operations which are more subject to the vicissitudes of change which come in the business cycle, if the business cycle still exists.

On the other hand, I do not know too much about the changes that come in finance company operations. I remember one time, perhaps eight or nine years ago, suggesting that a conservative pension fund should purchase the shares of a finance company. We finally decided against it because, characteristically, finance companies have such a large amount of debt under favourable circumstances—rising earnings in a finance company with fixed charges, with a very large amount represented by the interest on the debt. In rising, the impact of the rising earnings is to enlarge the funds available for the benefit of the common shareholders. And in good periods the dividends can increase the impact of rising earnings. In a finance company the impact is on the common stocks, on the junior equity. Conversely, lacking the stability

in public utility companies and oil pipe lines and other stable types of enterprise, in a period of adversity the declining earnings are also reflected in a sharp counteraction in the net profits available for common stock and produce a volatility in the market movement that is not helpful to conservative common stock investment. In other words, and in brief—and I am hoping to answer the question that was asked—the degree of risk absorbed by a common stockholder in a finance company is considerably higher than that to which an investor in a public utility or in an oil pipe line or in a gas transmission line is exposed. He can be the beneficiary of a rise in net profit per share in a period of rising earnings, but conversely he is exposed to what I regard as excessive risk in a period of adversity.

If you will look at the financial statistics of selected Canadian companies which have been drawn up haphazardly—let me explain, I suppose there are between 400 and 500 listed Canadian industrial stocks which are listed and actively traded on the unlisted market. I simply picked out, willy-nilly, 63 companies as being representative of good companies, bad companies, and indifferent companies, some of which are experiencing prosperity and some of which are experiencing successive depressive conditions. I picked out names that I thought would be well known to the members of the committee. That was the only criterion that was used. And of the 63 companies I find that predominantly the typical company in the list has between 30 and 35 per cent senior capital, and that is possible with a figure of 25 per cent of borrowed funds that I gave you a few minutes ago, because as part of senior capital you will see that I have included preferred stock. So that there is nothing in the list of Canadian common stocks that forces me as an investment counsellor to recommend to my clients that they should go into finance companies, that they should invest their money in finance companies and expose themselves because of the high leverage factor to what I regard as perhaps unusual benefits in a period of rising earnings and also to unusual losses in a period of falling earnings.

There is nothing in the figures for the group that forces me in, because I can meet my requirements from the best list of Canadian corporations whose debt ratios are 25 per cent or less, unless it be that I come into the exceptions that I have mentioned.

If then that is a fact, and my experience has all been to substantiate the fact that the risk does exist, then if I do in fact go into finance companies to invest, I expect compensation for the additional leverage risks that there are in finance company operations and to which Mr. Herington has been exposed and which he has expounded.

How much more do I want to get actually or appreciably from finance company stocks? I look at the earning power of these well-known listed Canadian stocks with a ready marketability, to be traded in reasonable quantities, some favoured by investors and some not so favoured, and I find that generally speaking the net income after all charges including taxes and before interest and all other charges such as operating expenses, administration expenses, depreciation, depletion and so forth, and the current rate of corporate income, but before interest, I find that in the frequency distribution of these net incomes which are subtracted from the larger sheet which provides all the figures, I find that this concentration of earning power is between 5 and 10 per cent; that 27 of the 63 companies show an earning power on their total capital employed included borrowed money and preferred stock of between 5 and 10 per cent; but 19 of the companies show an earning power between 10 and 15 per cent. So for all practical purposes if this is a representative sample, and I think it is, the typical Canadian company is earning today somewhere between 5 and 15 per cent on its total capital employed after all charges including taxes, but before interest on borrowed money.

By Mr. Pallett:

Q. With respect to the last column on the large page you have a heading "Common Stock Payout".—A. Yes, that is the percentage of net profits that are paid out by the company. But I will be coming to that in just a minute.

Well then, out of experience and I think out of statistics in which I have diminishing confidence as the years go on—

By Mr. Fulton:

Q. There seems to be some confusion in the paging of the exhibits we have been given.—A. Perhaps I should read you the heading. I am looking now at what is my second page "Net Income (After all charges) earned on Total invested capital Employed".

Q. That is my third page.—A. My second wind is always my freshest; it is a common complaint. Now we have summarized two points: one, that if the leverage factor is higher than 25 per cent, there is a qui vie to watch your step. That is a secret of the trade and I pass it along.

And in finance companies it is higher than 25 per cent so we must have some special risks. We find in the companies which range around 30 per cent that the earning power on the total invested capital employed is somewhere around 5 to 15 per cent. Now, depending upon the business itself and depending upon the amount of capital, the percentage of capital represented by borrowed funds, the leverage factor will raise or lower the residual amount available by way of net profits for common stock dividends. If you will turn to the last page, "net profits (after all charges) earned on total junior equity capital employed—which consists of common stock, surplus and free reserves", you will see what representative Canadian companies have been earning.

The first five, six, or seven companies are over depressed or are subject to public regulation.

By the Chairman:

Q. This is for what? For 1955?—A. This is all for 1955. The year-ends are stated in the large sheet which you have. I think all of them are for 1955 with the exception of Algoma Steel and Atlas Steel.

The earning power on the equity rises to 31 per cent in the case of Hudson's Bay, but typically 20 of the companies earned between 5 per cent on their total equity capital which consists of common capital stock plus free reserves and surplus. Typically they are earning 5 to 10 per cent; but almost as many as between 10 and 15 per cent; actually out of 63 companies 20 earned between 5 and 10 per cent, 18 earned between 10 and 15 per cent; and 13 earned between 15 and 20 per cent on their equity capital; so that 41 out of the 63 companies earned between 5 and 20 per cent.

Now the point is this: there is a wide selection of companies in this country in which an investor can place his funds, knowing that a satisfactory earning power can be derived both on the total capital employed and on that portion of the total capital employed which is represented by the junior equity capital.

And the further point arises therefore that in a dispassionate and cold-blooded analysis of companies and of financial segments, there does not seem to me to be any reason to believe that common stock investment must be made in finance companies stock unless the attraction of the returns are very large, at least as large, and presumably larger because of the risk factor involved, than is available in the open market quotations on the Toronto and Montreal stock exchanges.

I think, Mr. Chairman, that my off-the-cuff statement probably includes all that I have to say. I have merely tried to express to you and through you

to the members of the committee some of the considerations that are involved in the recommendations and in the selection of the common stocks. Now, if there are any questions that I can be helpful with I would be most happy to try to answer them.

The CHAIRMAN: Before we go on to the questions I have an appointment. So I wonder if Mr. Deslieres would kindly take the chair for a few minutes.

[*At this point Mr. Deslieres took the chair as vice chairman.*]

The ACTING CHAIRMAN (Mr. J. L. Deslieres): Gentlemen, in taking the chair for the first time I would like to express to the members my appreciation of their confidence in electing me their deputy chairman. I fully realize that this is a very important committee composed mostly, or in large part, of lawyers. Therefore I know that their time is valuable and they want to report progress. It is useless for me to ask their cooperation, but I will ask their indulgence. I sincerely want you to know at this time that I will discharge my duties to the best of my ability.

Now, gentlemen, questions have been called. Are there any questions?

By Mr. Pallett:

Q. One question I would like to ask, if I may. When you refer to capital employed, you refer to the actual money introduced in the company, and it has no bearing on the quotation of the stock on the stock market?—A. That is right.

Q. It is the actual money working within the company itself?—A. That is right. There could be great variation between the market price of the common stock and the book equity of capital.

Q. Now, under your heading of finance, was there any reason—I suppose there is an explanation, and I would be interested in hearing it—why the banks were not included under that heading?—A. The explanation of that is very simple, I think. The reported net profit of banks are under deduction of special reservations, which distorts the financial results. In other words we do not know the whole earning factor of the banks, as we think we know the whole earning factor of a corporation. If a corporation starts its accounts with net sales you can trace it right through. There could be special deductions for reserves and so forth, but in the banks inner reserves are deducted under the supervision of the Minister of Finance, I believe, and a distortion results there. So that ordinarily banks are not included in statistical tabulations of this kind. They report net profits without reporting the inner reserves that have been deducted.

Perhaps Mr. Herington could speak to that better than I can.

Mr. MONTEITH: Perhaps, Mr. Chairman, the witness could tell us why these inner reserves are created, which he said result in distortions?

By Mr. Cameron (Nanaimo):

Q. Because they are not disclosed?—A. The inner reserves, I believe, are to provide special funds for which unexpected losses can be charged, without having an effect on surplus or capital employed.

By Mr. Fulton:

Q. Can you tell us, Mr. Elliott, what is the meaning of the last column on the large sheet, "total common stock payout"?—A. Yes. I neglected to mention that, and I am very glad indeed that you brought it up. We have seen what net profits after taxes, interest and all charges, have been made in these companies, both in dollar amounts, on the big sheet, and in percentage of junior equity, in these tables. I merely put in the common share pay-out

there to indicate to the committee, which would know it anyway, that the company does not ordinarily pay out all that it makes. There is a great variation in the dividend paying policy practices in corporations. Some corporations, which have completed their expansion and have no particular need for the funds are very generous in their pay-outs and will pay out more than 50 per cent of their profits by way of dividends. Other corporations, which have expansion plans in sight, or have additional needs for working capital, for cash, and to finance receivables and inventories may be very much more conservative in their pay-outs. In other words, there is quite a variation in the policy of corporations as to how much they will pay out, and occasionally you will find dividend yields very low in the case of corporations that are paying out only a small percentage of their earnings.

I mentioned earlier that we like to see interest on dividends earned twice over. You can get a distortion of values, a distortion of your estimate of the common stock situation in a high leverage company. For instance, in a finance company, due to the high amount of interest that is being paid out you can find that the interest and dividends are only being earned 1.25 times, and yet because of the impact of rising profits or high profits in the company, you may find that the common stock dividend is being earned twice over. But, if you have diversity, then not only does the coverage for interest and dividends go down quite sharply but, the earning power for the common dividend also goes down very quickly. In other words, you might find a strange situation where a finance company earning its dividend three times over is not as highly regarded on the market as a merchandising concern that is only earning its dividend twice over. I hope I have made myself clear on that.

Q. But in order that we can understand the significance of that column and the relationship of common stock pay-out of the two finance companies, which you have listed, to the common stock pay-out of the others, would you tell me what that column represents? Is that an index figure, or a percentage figure, or what?—A. It is the percentage of total net profits that are paid out by way of common dividend.

Q. Percentage of total net profits that are paid out?—A. The total net profits. And total net profits I defined as being the residual after payments of interest and taxes.

Q. How can a company pay out 120 per cent of its total net profit?—A. By drawing on its reserves.

The CHAIRMAN (*Mr. Hunter*): Have they a special charter?

The WITNESS: They have what is called a renewal reserve.

By Mr. Michener:

Q. Mr. Chairman, I would like to ask Mr. Elliott's opinion on another aspect of the financing of lending companies, finance companies. He has dealt with the considerations that the prudent investor would have in mind investing in the common stocks of these companies. Now, he has also explained that the lending companies have a large ratio of borrowed capital as against the equity capital. I wonder whether he would express an opinion as to whether the same considerations, which an investor in common stocks of these companies would have in mind, would also affect the person or company, who intended to lend the fixed capital, the senior capital to these finance companies—would have in mind in making loans, and in providing funds to the lending companies through loans?—A. Let me give you an explanation in this way: anyone who possesses the investable funds has, as you can see, an almost endless variety of outlets available to him. I suppose we poor investment counsel would starve if they all decided to invest only in government bonds.

They want more than they can get from government bonds, and so they look over the senior securities, and look over junior securities, and so forth, and look at these factors that I have mentioned. There used to be an adage in the stock exchange that common stocks should sell at ten times their net profits. That was the rule of thumb. Sometimes they sell at six times, and sometimes they sell at 15, or 20 times, but, when I was a boy there was a rule of thumb, and that was held out. It is not quite indiscriminate as that, as you can see. If you are willing to buy some things at six times the earnings and on others you are willing to pay 20 times earnings, when it comes to investing in a smaller company, irrespective of the kind of company it is, whether it is a finance company, or whether it is any other company, there is an expectation of a higher rate of return than you get in a listed company. Let me express it this way: I can go in and buy any one of these good listed companies, and all I have to do is take the certificates and put them down in a box. I know I have got the right kind of industry, I have got good management, I have got the right leverage factor, I have coverage for interest and dividend, I get financial position, and I am a happy man; I do not have to worry. But, you come along to me, or somebody comes along to me with a small company, whether it is a finance company or not, and I may have these things, or I might not. If I do have I lack two things: I lack marketability. Maybe I will be locked in. If I am going to be locked in I think I am going to want higher returns than are expressed in listed securities. Secondly, because this is a small company, I may have to oversee the management much more carefully than I would in the case of United States Steel or General Motors. I have got to know what kind of men I am dealing with. I want statements from them if I have a substantial investment. As frequently happens, I find that instead of just putting the certificates in the box and forgetting about it, I have to undertake management responsibilities, and I have to sit down with the management and talk over labour problems and their tax problems and how we are going to meet the next payroll and a lot of other things. Because of that possibility I am going to want a higher rate of return. That applies to a small finance company, as I think it applies to most other small companies. Does that answer the question?

Q. Yes. But, let me follow it up with another question: supposing I have a sum of money to invest in a lending company, and I have to choose between buying equity stock, or lending the money to the company, so that in one case it becomes part of the equity capital and in the other case part of the senior or fixed capital of the lending company; are the considerations the same, from the investor's point of view, of putting money in either branch of the securities of that lending company?

The Witness:

No. In one case you are a creditor in a company; in the other case you are a risk taker. If you take a position in the senior capital for a lower stated return than in the equity you are presumably going to as for the pledge of some of the assets of the company to protect your investment. If you are putting capital into the equity of the company you have no specific pledge—you occupy a very junior position for which you will expect to be adequately compensated.

Q. In one case, then, you have security and in determining whether you are prepared to accept that security and the value of that security would not the consideration be somewhat similar to the general rule of thumb you have outlined for the usual course of investment in equity capital?—A. I do not know that I am getting the full purport of your question. If it is a good company and I am a conservative type of investor I am not particularly concerned about increasing my rate of return; I am going to get the same rate

of return if I invest in the senior capital. As I say, if I am a conservative investor and not particularly concerned about rising dividends, sure I will go into the senior capital; I will take an institutional rather than an individual approach.

Q. What I was really trying to get at is the relationship of the earnings, reserves and so on in these companies which the committee is considering—the money lending companies—to their potentiality of getting the capital which they want to lend to their borrowers.—A. I would suspect that small loan companies have very little access to the public market. A large finance company can afford to issue well secured bonds, as they have, and receive a good public response but there we are talking in millions. When you come to talk in terms of a hundred thousand or a couple of hundred thousand dollars then there is available, I would say, for all practical purposes no public issue market in this country.

By Mr. Fulton:

Q. Are you speaking of bonds and debentures?—A. Bonds, debentures and common stock.

Q. All three?—A. All three, and if I decide that this is a profitable business and I think I can work on three or four hundred thousand dollars or a million dollars I will try to get my funds partly from the bank and partly from my friends, but I think I would have great difficulty in interesting any underwriter in sponsoring an issue even on good security of less than half a million dollars in Canada. For all practical purposes that is a very difficult proposition. If an individual does buy into a small issue it is possible he may lock himself into an issue for which there is no market and, of course, there are occasions when individuals by reason of succession duties and so on may very well want to find a market. In that case the shares will be on offer, but there may or may not be a demand for them. My experience is that in the case of small issues of $500,000 or less by the time you want to raise your money you find there is no way of doing so.

The CHAIRMAN: Are there any further questions, gentlemen? If not we will go on to hear the next witness.

Gentlemen, while the brief which Mr. Picard is going to present is being distributed I would like to remind you that we are holding three meetings tomorrow. The first will be immediately upon the calling of orders of the day after the question period; the second and third will be held at the usual times of 3.30 p.m. and 8.15 p.m. I should also point out that this room will not be available tomorrow and we shall be in room 118 which is in the basement.

Mr. FOLLWELL: When was it decided we were having three meetings tomorrow?

The CHAIRMAN: Earlier today. I decided it. If you have any objection I would be glad to hear it.

Mr. FOLLWELL: I have no objection; I just wanted to know who decided it.

The CHAIRMAN: That is why I am announcing it now—in case you might sleep in, Mr. Follwell.

This brief has, I believe, been prepared both in English and in French. I understand that Mr. Picard prefers to give his evidence in French—although he can also speak English—because he feels more at home in that language and can make his points better in French. We have brought in an interpreter for the convenience of people like myself who are so stupid that they do not understand French.

Mr. CAWKER: Mr. Chairman, the evidence of the Consumer Loan Association has been maintained, we hope, within the broad field of a review of the industry for the past 16 years since the passage of the act and the problems

whose examination was, we felt, necessary to the committee in their deliberations. However it was made quite plain to us by the group of membership operating in the province of Quebec that there were some special problems which they felt could hardly be covered in a brief submitted as the presentation of a nation-wide association. We therefore suggested that Mr. Pinard prepare the story of the problems attending the operation of the small loans business in the province of Quebec and the committee was kind enough to agree to hear him. He is the president of the Lucerne Finance Corporation, a business which originated through his father and which, I believe, has been operating in the city of Montreal since 1925. I would ask Mr. Picard if he would proceed with the reading of his brief.

The CHAIRMAN: Before we start on this I have a suggestion to make—I do not know whether it is agreeable to the committee or not, but as I understand it Mr. Picard will be speaking in the French language and those of us who have the English copy could probably follow him in the translation. When he has any comment to make I think the interpreter should step in and interpret those comments to the English speaking people on the committee, but I cannot see any purpose in having the interpreter interpret every sentence as he reads it when it is set out in English before us; that would only hold up our proceedings. So I think anything extraneous to the brief should be interpreted into English for the benefit of the English members and perhaps also, from time to time, the interpreter could tell us what paragraph we are at in case we get lost.

Mr. F. S. Picard, President, Lucerne Finance Corporation Limited, called.

The WITNESS: Mr. Chairman, I would like you and the hon. members of this committee to bear with me as I present my brief in French for I am considerably more at ease in my mother tongue. For the convenience of the English speaking members of the committee an English translation has been provided.

Messieurs, je tiens à remercier le président du comité de la Banque et du Commerce pour l'occasion qu'il me fournit de venir vous exposer le point de vue des compagnies de petits prêts faisant affaires uniquement dans une province, et en l'occurrence uniquement dans la province de Québec.

Quoique faisant partie de l'association Canadienne du Prêt au Consommateur, dont vous avez récemment eu l'avantage d'étudier le mémoire que j'endosse pleinement, il existe des problèmes très particuliers à un commerce de petits prêts faisant affaires exclusivement ou en grande partie dans la province de Québec. Ces problèmes peuvent être divisés en cinq grandes catégories.

1) *Loi du lien sur les biens-meubles:*

Il n'existe pas dans la province de Québec, comme vous le savez peut-être, de loi qui permet à un prêteur de prendre un lien sur des biens-meubles, servant à garantir un prêt. Une loi fédérale permet aux banques de prendre comme garantie dans certains cas l'équipement ou des animaux de la ferme, mais les prêteurs licenciés n'ont aucun moyen pour ajouter une garantie autre que le billet à ordre. Les neuf autres provinces ont une loi concernant le "Chattel Mortgage" qui permet cette prise de garantie, ce qui facilite l'obtention et la négociation de prêts.

Le prêteur au Québec se trouve donc placé dans une position difficile. Il lui reste un choix peu attrayant. Ou bien il demandera des endosseurs et alors son chiffre d'affaires sera diminué sensiblement. L'expérience montre en effet que les emprunteurs tout naturellement hésitent à discuter de leurs problèmes financiers avec des amis ou encore avec des membres de leur famille. En plus, l'emprunteur qui aura réussi à obtenir un ou plusieurs endosseurs se sera créé une obligation envers celui qui l'aura endossé. A son tour, il sera peut-être forcé plus tard à rendre le même service dans des circonstances qui ne lui seront pas toujours aussi favorables. Cette situation est souvent néfaste et pour l'emprunteur et pour le prêteur.

Il peut aussi consentir des prêts sans endosseurs, mais alors il prend un risque qui ne se compare pas au risque encouru dans les autres provinces étant donné que le lien sur les meubles ne nous est pas permis au Québec. Les compagnies importantes dont les opérations, dis-je, s'étendent d'un océan à l'autre, peuvent beaucoup plus facilement se permettre de prendre le risque additionnel que comporte le prêt sans endosseurs dans la province de Québec, car le risque ne porte que sur un faible pourcentage de leur commerce global.

Une légère diminution dans l'activité économique frapperait beaucoup plus durement un prêteur dont la grande partie des exigibilités serait au Québec; par conséquent beaucoup moins garantie que les compagnies à chaîne plus importantes dont les bénéfices réalisés dans le reste du pays pourraient compenser pour une diminution des profits dans le Québec.

2) *Loi concernant le statut légal de la femme mariée:*

Le coût du fonctionnement d'un bureau de prêts est à la base du taux permis par la loi. Ce coût peut varier d'une province à l'autre selon l'application de certaines lois ou certaines conditions locales. La négociation des prêts, pour ne prendre qu'un aspect de la situation, est simplifiée dans la plupart des provinces car là, la femme peut s'engager personnellement pour venir en aide à son mari et elle est en mesure de signer les documents nécessaires à la transaction. Chez nous, dans bien des cas, la femme doit avoir l'autorisation de son mari pour transiger. Elle ne peut s'engager personnellement pour son mari. On doit quelquefois établir si les époux sont mariés en communauté de biens ou non, etc., etc., ce qui comporte des dépenses additionnelles.

Ces considérations rendent la négociation des prêts plus difficile et par conséquent plus coûteuse, car il faut souvent y mettre considérablement plus de temps que pour de semblables discussions dans d'autres provinces. Là où un prêt pourra se bâcler dans une seule visite au bureau du prêteur, cet état de choses à l'occasion nécessitera plusieurs visites pour l'emprunteur au Québec, ce qui en augmente d'autant le coût.

3) *Le grand nombre des faillites personnelles:*

Quoique la loi concernant les faillites soit une loi fédérale, les statistiques prouvent que la province de Québec hérite d'au delà de 73 p. 100 de toutes les faillites du Canada, et je répète, 73 p. 100. En 1955, il y eut 2,412 faillites au Canada (ces chiffres sont sujets à revision, mais ils ont été fournis par l'office du Surintendant des faillites à Ottawa). Plus de 73 p. 100 de ces faillites ont eu lieu dans la province de Québec. Les statistiques ne font pas la distinction entre les faillites commerciales et les faillites personnelles, et ce sont les faillites personnelles qui nous concernant particulièrement. Nous avons cependant le nombre des faillites dont le règlement est sujet à l'Administration Sommaire. Il est convenu que presque toutes les faillites personnelles sont classées sous cette rubrique. En se basant sur cet énoncé, le pourcentage des faillites personnelles au Québec par rapport au total s'élèverait à

84 p. 100, soit 1,058 sur un total de 1,252 pour tout le Canada. Toute erreur causée par cet énoncé arbitraire, si corrigée ne ferait qu'augmenter davantage le pourcentage car il existe à ma connaissance quelques faillites personnelles dont le règlement ne relève pas de l'Administration Sommaire mais par contre très peu et peut-être aucune faillite commerciale n'est réglée de cette façon. Le problème est angoissant car le nombre augmente d'année en année et il s'ajoute aux autres problèmes qui nous sont très particuliers. Les causes de cet état de choses importent peu dans les considérations qui nous occupent, mais le fait demeure que la faillite personnelle est un facteur très important dans la perception des comptes de tout prêteur faisant affaires dans la province de Québec. Depuis quatre ans le problème s'est accentué et il représente une sérieuse entrave au développement de toute compagnie de petits prêts dont les opérations sont limitées à la province de Québec.

La Chambre de Commerce de Montréal, altertée par ses membres, récemment, a fait faire une étude du problème dans le but de recommander, s'il y a lieu, quelques changements à la loi aux gouvernements fédéral et provincial. Le résultat de cette étude à ma connaissance n'a pas encore été rendu public.

Dans la plupart des cas, les montants en cause quoique très élevés au total, ne sont pas suffisamment élevés individuellement pour justifier la dépense en frais légaux nécessaires à la revendication des droits des créanciers. Conséquemment, ces sommes éventuellement deviennent des pertes totales, ajoutant au coût de notre service.

4) *Le caractère bilingue de notre province.*

A cause du caractère bilingue de notre population, nos formules de contrat, de billet, de demande d'emprunt, enfin à peu près toute notre papeterie doit être imprimée dans les deux langues. Ceci constitue une autre dépense additionnelle qui ne figure pas dans les dépenses d'autres compagnies indépendantes dans d'autres provinces. Une compagnie de publicité, par exemple, pour être efficace à Montréal ne peut réellement pas ignorer l'un ou l'autre des groupements ethniques.

Souvent une pièce publicitaire défie toute traduction ce qui double le coût de production. Le recrutement d'un personnel complètement bilingue est très difficile et prend considérablement plus de temps et vient s'ajouter à nos autres problèmes.

5) *Restriction sur les méthodes d'obtention de capital.*

La loi concernant les petits prêts ne permet pas, d'après l'article 16, l'émission de débentures et d'obligations. Quoique l'article 16 ne vise que les compagnies de petits prêts, M. McGregor vous a expliqué qu'en pratique le département des assurances empêcherait tout prêteur d'avoir recours à cette méthode de financement. J'en ai eu personnellement l'expérience.

Une compagnie désireuse de financer l'expansion de son commerce est restreinte dans ses méthodes de finance. Il ne lui reste que deux alternatives. Elle peut augmenter son capital ou trouver un prêteur qui se contentera d'un billet garanti par la compagnie sans priorité et sans garantie spécifique.

Quoique cette condition s'applique à toutes compagnies peu importe où elles font affaires, elle devient plus encombrante au Québec en vertu de l'absence de garantie qui caractérise ce commerce dans notre province. Quoique semble en penser le Surintendant des Assurances, en évaluant le risque que comporte un commerce de prêts de petites sommes d'argent, les sources de capital ou les prêteurs, (banques, groupements financiers, etc) estiment que le risque est considérable. L'apport d'argent nouveau est très difficile à obtenir et même lorsque le capital est disponible, dans certains cas on demande des garanties personnelles additionnelles.

For my own case for the money I borrow I pay more for the small loans business than I do for my acceptance business, and in addition I have to provide personal guaranty.

Les banques demeurent toutefois la principale source de crédit, et elles sont influencées par les directives de la Banque du Canada. Selon le cas, et pour des raisons d'ordre économique la disponibilité des fonds varie considérablement d'une période à l'autre. Bien osé celui qui se fie trop sur un crédit bancaire car en plus des considérations économiques visant à controler l'inflation, les banques comme tout le monde, ne peuvent prêter plus que ce que leur permettent leurs ressources individuelles. Depuis quelques années, les banques sont appelées à financer une partie toujours grandissante de l'activité économique, et les demandes augmentent continuellement. Le prêt hypothécaire leur étant maintenant permis, ils ont moins de ressources disponibles pour d'autres commerces en quête de soutien financier.

Il serait peut-être approprié de faire remarquer que le coût d'un prêt de banque peut varier rapidement. Récemment les charges des banques dans le cas de Lucerne Finance ont augmenté d'à peu près 10% soit de 5½ à 6% par année. Le privilège d'un coût fixe pour une période d'années, que nous garantirait une émission de débentures nous étant refusé, nous ne pouvons contrôler le coût de notre argent avec certitude d'un mois à l'autre et encore moins la disponibilité de cet argent.

Il y a d'autres facteurs qui tendent à augmenter les difficultés et, par conséquent, le coût de l'opération d'un commerce de prêts personnels dans la province de Québec... Je vous ai cependant donné un bref aperçu des principaux problèmes auxquels nous avons à faire face et qui nous sont particuliers.

Examinons maintenant les conséquences de cet état de choses sur le fonctionnement d'un bureau de prêts et vous constaterez avec moi que le facteur "coût" peut être différent d'une province à l'autre, et même d'une zone à l'autre dans une même province.

Est-il nécessaire de comparer avec d'autres commerces pour vous convaincre de ce point? Une automobile manufacturée à Oshawa ne coûte-t-elle pas plus cher à Montréal qu'à Toronto—et à Val d'Or plus cher encore?—Le coût du pouvoir électrique varie considérablement d'une province à l'autre et dans la même province on constate des différences. Pourquoi? Parce que le facteur "coût" en définitive décide du prix de tout service ou de tout produit.

Nos frais sont plafonnés à un taux de 2% par mois sur le solde impayé à chaque mois comme partout ailleurs au Canada. Ces frais nous permettent de défrayer les dépenses nécessaires pour maintenir le service donné à l'emprunteur, assurer une investigation adéquate des demandes d'emprunt et permettre la perception des versements mensuels. Le coût de ces opérations diverses est plus élevé dans la province de Québec que dans les autres provinces et en voici les causes.

1) *Coût de l'investigation:*

Une conséquence évidente de ces remarques a été une investigation beaucoup plus serrée de chaque demande d'emprunt afin de compenser pour le manque de garantie, par une diminution du risque encouru.

Le consommateur dont les faveurs sont sollicitées par tant de magasins et de services de toute sorte généralement agit avec prudence mais ses plans bien tracés sont parfois dérangés par une interruption imprévue de son travail causée par la maladie ou pour d'autres raisons. C'est alors qu'il se présente chez le prêteur et grâce à ce dernier son fardeau est allegé, l'ordre est remis dans le budget familial et la diminution, je dis bien, systématique de ses dettes est rendue possible.

La nature humaine veut que l'emprunteur essaye de présenter le meilleur bilan possible afin d'augmenter ses chances d'obtenir le prêt. Il est donc nécessaire pour le prêteur de veiller à ce que toutes les dettes soient mises à jour, autrement un jugement sûr devient impossible. Cet état de choses nous forcera à avoir recours plus souvent qu'ailleurs aux services de Bureaux de Crédit ou d'autres agences dont les dossiers nous permettront de vérifier les avancés du demandeur. Comme partout ailleurs, nous devons faire face ici à une augmentation récente du coût. Un rapport écrit du bureau de crédit de Montréal par exemple coûte 1.75. Depuis quelques années cette dépense seule a augmenté de 50%. L'investigation plus poussée requiert l'usage de plus de téléphones, de temps et de personnel.

Comme résultat, il s'ensuit logiquement que le nombre des demandes refusées est plus élevé dans la province de Québec qu'ailleurs. Les chiffres d'une compagnie importante, faisant affaires dans tous les coins de ma province montrent que leurs refus sont 10% plus élevés dans Québec qu'en Ontario et 14% plus élevés qu'en Saskatchewan. Et ceci dans une compagnie qui peut se permettre de plus grands risques. Comme il est impossible de recouvrer les frais encourus dans l'investigation des demandes qui sont refusées, il s'ensuit que cette dépense est plus forte pour nous.

2) *Le montant prêté est plus bas:*

Il est convenu qu'une partie des dépenses s'appliquant à la négociation d'un prêt ne varie pas beaucoup peu importe le montant prêté. Il semble donc évident que plus le montant du prêt est élevé, plus la marge de profit sera haute. A cause des facteurs déjà énumérés, il a fallu dans la province de Québec, non seulement diminuer le risque individuel mais aussi nous avons été forcés de réduire la somme prêtée à chaque individu.

J'ai ici les chiffres de deux compagnies dont les opérations sont bien différentes. L'une faisant affaires en Ontario et au Québec exclusivement, me confie que 70% de l'argent prêté en dehors de la province de Québec, est prêté dans des montants dépassant $500. Dans la province de Québec le pourcentage des prêts d'un montant original dépassant $500 tombe à 45%. Vous pouvez constater la marge. Une des compagnies plus importantes me fournit l'information suivante. Dans la province de Québec moins de 55% du chiffre d'affaires est consenti dans des prêts dont le montant original dépasse $500—tandis que pour le reste du pays ce pourcentage est près de 70%.

Je ne vous inonderai pas de statistiques, mais ces chiffres montrent bien qu'il est impossible d'arriver à un bénéfice égal d'un bout à l'autre du pays.

Le taux permis par la loi sur les petits prêts doit être assez élevé pour permettre à toute compagnie, peu importe sa position géographique et son importance, de faire un profit raisonnable. Il ne devrait pas être nécessaire pour une compagnie d'étendre ses activités dans tous les coins du pays afin de réaliser un bénéfice adéquat. M. McGregor a, semble-t-il, cherché à donner au commerce des prêts personnels, un taux minimum auquel les compagnies à chaîne peuvent opérer à profit et cela à un moment où l'activité économique au pays connaît un essor sans pareil et où la grande majorité des salariés, nos clients habituels, n'ont aucune difficulté à se trouver un emploi.

Doit-on conclure que là où les dépenses sont plus fortes on doit se résigner à priver certaines communautés du service offert par les compagnies de petits prêts ou encore à laisser le champ libre aux compagnies qui jouissent d'un capital illimité souvent de provenance étrangère. Sûrement, toutes les familles canadiennes, peu importe leur location géographique, ont droit au service accordé par les compagnies de petits prêts!—Ceci n'est pas un privil!ge accordé à quelques uns.

Bien au contraire, le taux maximum doit être réaliste. Autrement la seule conséquence sera un retour du prêteur illégal exigeant des taux usuriers.

Je voudrais, si vous me le permettez, dire quelques mots sur le taux maximum, car c'est bien d'un taux maximum dont il est question. Les remarques de M. McGregor nous portent à croire qu'il a voulu établir le taux le plus bas possible en regard des conditions économiques actuelles. Il pose par le fait même une sérieuse entrave à la compétition au sein de l'industrie, car les quelques compagnies dont le chiffre d'affaires est assez élevé pour leur permettre d'accepter un revenu brut considérablement réduit, chargeront toutes nécessairement le taux maximum. Il n'y aura donc aucune différence entre le minimum et le maximum.

Le commerce de petits prêts a besoin d'un taux maximum qui rendra possible une compétition saine, à l'avantage de l'emprunteur et qui assurera la stabilité pour un service, rendu vital pour un grand nombre de familles canadiennes.

En créant un taux maximum qui n'est autre que le taux minimum il en résultera ce qui suit:

1) Les compagnies de moindre importance, ou encore les compagnies dont le commerce est limité a une partie du pays ou les dépenses sont plus fortes devront abandonner le domaine des prêts personnels.

2) Même les compagnies plus importantes devront sans aucun doute réduire leurs opérations aux endroits devenus sans attrait pour le capital.

En ne laissant aucune marge pour une augmentation des dépenses du prêteur, il s'ensuit que d'année en année les membres de ce comité seront appelés à considérer des demandes pour une hausse dans le taux. Si les salaires, les loyers, le coût de l'obtention de l''argent, etc., augmentent encore, comme ils le font depuis plusieurs années, le problème serait à l'étude 12 mois par année. Aucune industrie ne pourrait efficacement continuer ses opérations dans pareille circonstance.

Permettez-moi de terminer en insistant sur un point qui, me semble-t-il, à été à peine abordée durant vos délibérations. Quel serait le résultat de l'application des taux tels que recommandés dans le projet de loi du point de vue de l'emprunteur. Car, dans le fond, c'est lui qui est en cause en ce moment.

A mon sens, l'emprunteur jouit aujourd'hui dans presque tout le pays de grands avantages dans ses relations avec le prêteur et ceux-ci peuvent se diviser en deux parties distinctes.

1) *Le choix entre plusieurs compagnies.*

Une saine compétition dans tout commerce assure pour le client le choix entre plusieurs sources de crédit dont les services ne sont pas nécessairement de valeur égale. Depuis 1940, date effective de la législation présentement à l'étude, un bon nombre de compagnies ont à différentes reprises sans aucune contrainte de la part du Département des Assurances, réduit les taux à un moment ou à un autre. Dans le moment même, plus de 40% des soldes prêtés dans des montants d'au delà de $500 portent un taux d'intérêt moindre que les 2% par mois permis pour les petits prêts.

Un taux qui ne permettrait qu'à une ou deux des plus importantes compagnies de continuer à offrir ce service ne ferait qu'encourager ces quelques compagnies à diminuer leur risque encore davantage au point ou l'emprunteur serait à la merci d'un monopole. Les besoins de l'individu seraient petit à petit mis de côté. Si tel est le résultat, la législation originale aura complètement manqué son but.

2) *Un traitement juste en cas de difficulté:*

L'emprunteur actuellement est assuré de toute la considération possible en cas de maladie, chômage ou interruption quelconque dans le revenu familial. Le comité reconnait sans doute qu'un compte ne devient pas une mauvaise créance du jour au lendemain. Il y a, la plupart du temps, une détérioration progressive souvent facile à observer. Une intransigeance dans nos relations avec l'emprunteur en défaut, dès le début de la délinquence, facilite la perception, car la garantie, apparente ou réelle, est plus facilement sujette à une action légale à ce moment-là.

Un taux adéquat nous permet de prendre le temps qu'il faut pour trouver une solution au problème du client et aussi nous permet d'assumer le risque d'une détérioration accrue du compte et de l'effritement de son actif. Une réduction irréaliste du taux nous forcerait à réaliser vite notre exigibilité afin de nous protéger contre une perte accrue en mauvaises créances, ou encore pour diminuer les dépenses encourues pour ajuster les comptes. Ceci ne servirait aucunement les intérêts de l'emprunteur.

Le choix de compagnies qu'a maintenant tout emprunteur est une garantie de bon traitement, car une compagnie n'ayant que très peu de considération pour l'emprunteur verra ses clients la délaisser pour une autre plus compréhensive. Si le taux est réduit au point ou à peine une ou deux compagnies plus importantes pourront maintenir le service, maintenant à la disposition du public, grâce à leur chiffre d'affaires et à l'étendue de leur opération, la garantie de considération disparaît par le fait même.

Les compagnies, en général, sont conscientes de leur responsabilité sociale mais s'il devient économiquement impossible, dis-je, de le rester, il en résultera un état plus désavantageux pour les emprunteurs malgré un coût réduit.

D'après le dernier rapport disponible du Surintendant des Assurances pour l'année 1954, on peut constater que 787 actions légales ont été instituées par toutes les compagnies de petits prêts et les prêteurs licenciés durant l'année. Si l'on considère que, pendant cette même année, ces compagnies, au total, ont consenti 831,721 prêts et que, encore d'après ce même rapport, 20,950 comptes, dont le total des soldes était $2,941,411 sont plus de quatre mois en retard, il devient évident que l'emprunteur, en général, est loin d'être maltraité. Il ne faudrait pas que cette situation change.

Pour les raisons que j'ai énumérées plus haut, je soumets que le taux, tel qu'exprimé dans le projet de loi présentement à l'étude, est trop bas et je vous recommande respectueusement de donner à l'amendement proposé par l'Association Canadienne du Prêt au Consommateur toute l'attention qu'il mérite, non seulement en vertu des arguments contenus dans leur mémoire, qui s'appliquent au commerce des petits prêts en général, mais aussi afin d'assurer pour le public un service indispensable à un taux raisonnable, et un traitement honorable dans ses relations avec le prêteur, peu importe son lieu de résidence.

The CHAIRMAN: Gentlemen we will leave the questioning of Mr. Picard until tomorrow morning. As you know, we will be meeting as soon as orders of the day are called, in room 118. The order the committee had set was that the next group to be called would be the Canadian Bankers Association and the Bank of Commerce. The President of the Canadian Bankers Association could not be available tomorrow but he will make himself available on Friday, and the Canadian Bank of Commerce also on that day. What I am proposing is that as soon as we have finished with the Canadian Consumer Loan representation tomorrow morning we will get on to Personal Finance, Niagara Finance and the Caisse Populaire, which we should finish by tomorrow night easily. Then on Friday we will hear from the Canadian Bankers Association, the Bank of Commerce, the Credit Union National Association and the Merchants Finance Limited.

If we can finish in time on Friday we can then get on to the bill itself on Saturday. If that is agreeable to the committee I think that is as much as can be done in the circumstances.

Some Hon. MEMBERS: Agreed.

The CHAIRMAN: If we could finish on Saturday I could report the bill on Monday morning and it can get on the order paper for passage on Tuesday.

The following is the English translation of the Proceedings conducted in French on this date.

GENTLEMEN:

I would like to thank the chairman of the Banking and Commerce Committee for giving me the opportunity of presenting to the members of this Committee, the points of view of small loans companies or money lenders operating only in the one province, and in my case, solely in the Province of Quebec.

Although I am an accredited member of the Canadian Consumer Loan Association, whose brief you have had the opportunity to study and which I fully endorse, I have to face up to many problems which relate to a small loans operation whose business is restricted mainly to the Province of Quebec. These problems can be divided into five categories:

1. *Chattel Mortgage Law*

There is no law in the Province of Quebec, as you probably know, which permits a lender to take a chattel mortgage as security for a loan. A federal law allows banks to take as security the farm equipment or animals in certain cases but licensed money lenders have no means at their disposal of taking physical guarantees in addition to the note. The other nine provinces have a "chattel mortgage" law which authorizes the taking of chattels as security and this helps in the negotiation of loans.

The lender in Quebec, is, therefore, in a difficult situation. He has an unenviable choice. His first choice is to request endorsers and then his volume of business will drop off considerably, for experience has shown that the borrowers quite naturally hesitate to discuss their financial problems with their friends or with their family. Furthermore, the borrower who has been successful in obtaining one or more endorsers has created for himself an obligation towards his benefactors and he may be called upon at a later date to render a similar service under vastly different circumstances possibly not quite so favourable. This situation often leads to trouble for both the lender and the borrower.

His second choice is to make the loans without endorsers but then he assumes a risk which cannot be compared to the risk taken under similar circumstances in the other provinces as we have no chattel mortgage law in Quebec. The large companies whose operations extend from coast to coast can far more easily take the additional risk of personal loans without endorsers in Quebec, as the risk affects only a small part of their total volume.

A slight decline in economic activity would have a much more severe effect on the lender whose receivables are for the most part in the Province of Quebec, and, therefore, less secured, than on the larger chain organizations whose reduced earnings in Quebec could be compensated for by profits in the other parts of the country.

2. *Law having regard to rights and privileges of married women*

The cost of operation of a small loan office is basically the determining factor in setting a legal permissible rate. This cost may vary from one province to the other depending on local laws or local conditions. The negotiations of the loans, to take only one aspect of the situation is made easier in most provinces where the wife can obligate herself to assist her husband and is in a position to sign the necessary documents. In Quebec, a wife needs the authorization of her husband to enter into many types of contracts. For example, a wife cannot obligate herself for her husband. It is sometimes necessary to establish whether the couple are married common as to property or separate as to property etc., and all this adds to our cost.

These considerations render the negotiation of the loans more difficult and therefore more costly for it is often necessary to spend far more time than in similar transactions in the other provinces. Where a loan in one province might have been completed in one visit to the lender's office, it could require more in Quebec and this is a definite item increasing the cost.

3. *The large number of personal bankruptcies*

Although the Bankruptcy Act is a federal law, statistics show that the Province of Quebec accounts for about 73 per cent, I repeat, 73 per cent, of all Canadian bankruptcies. (These figures are subject to correction but have been supplied by the office of the Superintendent of Bankruptcies in Ottawa). In 1955 out of a total of 2,412 bankruptcies in Canada, over 73 per cent were in Quebec. The statistics do not segregate personal bankruptcies from business or commercial bankruptcies and our main concern is with personal bankruptcies. However, it is generally agreed that most personal bankruptcies come under Summary Administration and we do have available the number which are handled by Summary Administration. Based on this fact, the Quebec total of Summary Administrations is 1,058 out of a total of 1,252 for all of Canada or about 84 per cent of all personal bankruptcies. Any inaccuracy in figures would tend to darken the picture even more as there are a number of personal bankruptcies which are not handled through Summary Administration whereas few, if any, business or commercial bankruptcies are so handled.

This is a very serious problem, for the number of these personal bankruptcies is increasing by leaps and bounds every year and it is one more problem peculiar to this one area. The causes of this state of affairs are of little concern to this Committee in its present deliberations but the fact remains that the incidence of personal bankruptcies is a very definite factor in the collection of the accounts of any lender who does business in the Province of Quebec. Within the past four years this problem has increased considerably and today it represents a serious impediment to the development of any small loans company whose operation is restricted to the Province of Quebec.

La Chambre de Commerce de Montréal, recently alerted to the problem by its members, has initiated a comprehensive study in order to recommend changes in the law to the various governments according to the findings of the study Committee. The report of this study Committee has not yet been made public to my knowledge.

In the majority of these bankruptcy cases, the amounts involved, while quite high as a total, are not individually large enough to warrant the expense required in legal fees that would be necessary to insure that the creditors' rights are fully protected. Consequently, these amounts eventually become total losses thus adding to the cost of our service.

4. *The bilingual character of the Province of Quebec*

Because of the bilingual character of our population, all our contracts, notes, application forms and just about all our stationery must be printed in both languages. This constitutes an additional expense that does not enter into the calculations of other independent companies operating in other provinces. An advertising campaign, for example, to be effective in Montreal, must not ignore either one of our ethnic groups. Quite often, a publicity release defies any translation which immediately doubles the cost of production.

The recruiting of fully bilingual personnel is more difficult and time consuming, thus adding again to our problems.

5. *Restriction on raising of capital*

Section 16 of the Small Loans Act forbids the issuing of debentures and bonds for financing the operations of small loans companies. As explained by Mr. MacGregor, although the prohibition applies only to the Small Loans companies, the Department of Insurance has made sure that money lenders also conform to this regulation. I have had personal experience of this.

Any company desirous of financing the expansion of its business is restricted in the methods it can use to finance this growth. Only two alternatives are available. It can increase its paid-up capital or it can find a lender who will be satisfied with a straight note guaranteed by the company without priority or specific security.

Although this condition applies to all companies, regardless of where they do business, the prohibition is far more of a problem in Quebec because of the complete lack of security which is inherent in the small loan business in our province. Despite the apparent opinion of the Superintendent of Insurance concerning the evaluation of the risk which is associated with a business of lending small sums of money, the source of capital or the suppliers (banks, financial institutions etc.) judge the risk to be pretty high. The finding of new capital is very difficult and even when it is available, some additional form of personal security is often required.

The banks are still the main source of credit and are subject to the directives of the Bank of Canada. Depending on the circumstances and for reasons relating to the Canadian economy, the availability of funds can vary considerably from one period to another. It would not be safe to rely too much on bank credit for in addition to the economic considerations which are designed to control inflation, the banks like everybody else can not lend more than their individual resources permit. In recent years, the Canadian chartered banks have been asked to finance an ever increasing part of our economic expansion and the demand for funds has continually increased. In addition, the home mortgage field now open to the banks has further increased the demand for loans so that there appears to be less and less money available for others in search of financial support.

It might be the appropriate time to bring to the attention of this Committee that the cost of bank borrowings may also vary rapidly. Recently my bank interest rates on loans went up from 5½% to 6%, or an increase of about 10% in the cost. The advantage of a fixed price on borrowings over a period of years which a debenture issue would provide, is not available to us. Therefore, not only can we not control the availability of the money supply but its cost can be increased at any time.

There are other factors which tend to increase the problems and therefore the cost of operating a small loans business in the province of Quebec, however, I have given you a brief outline of the main factors which we have to face and which are strictly local in their nature.

Let us now examine the consequence of this situation in the actual operation of a small loan office, and you will agree with me that the cost factor can

be very different from one province to the other and even from one district to another within the same province.

Is it necessary to compare with other industries to convince ourselves of this point? Is not the price of an automobile manufactured in Oshawa greater in Montreal than in Toronto? Greater still in Val d'Or? The cost of electricity varies considerably from one province to the other and even within the same province some differences in price are evident. Why all these differences? Because the cost factor is the final yardstick which determines the price of any service or manufactured product.

Our charges are ceilinged at 2% per month on the unpaid balance each month as everywhere else in Canada. These charges cover the necessary costs of maintaining our service to the borrower, insuring a proper investigation of requests for loans, and the cost of collecting monthly payments—the cost of these various operations is higher in the province of Quebec than in the other provinces and the main reasons are:

1. *Investigation cost*

An immediate consequence of the increased risk has been a more strict investigation of each loan application so as to compensate for the lack of adequate security by a reduction in the risk.

The consumer whose business is being solicited daily by so many stores and services of all kinds is generally prudent. However, his well intentioned plans are sometimes completely upset by an unforeseen interruption in his work caused by sickness or other reasons. He then has recourse to the lender and thanks to him, the burden of his debts is lightened. The budget is rearranged and an orderly, systematic debt reduction is made possible.

Human nature is such that the borrower tries to present the best possible statement of his affairs in order to increase his chances of obtaining the loan. It is, therefore, necessary for the lender to ensure that all existing debts be brought to light, otherwise an accurate appraisal of the situation is impossible. This has caused us to use to a greater extent than elsewhere, the services of Credit Bureaux or other agencies whose function is to compile credit information that helps us to verify the prospective borrower's statement; as everywhere else we have to face a higher cost in this field also. A written report from the Montreal Credit Bureau for example costs $1.75. Over the last few years the cost of this service alone has increased 50%. The necessity for more thorough investigation has increased the number of telephones required and the added time and personnel needed to service the demand has all added to our cost.

It follows logically that the number of applications refused is higher in the province of Quebec than elsewhere. One of the larger companies whose operations extend to all parts of my province made its statistics available to me. They show that rejected applications are 10% higher in Quebec than in Ontario and 14% higher than in Saskatchewan. I may add that the large volume of business done by this company permits the company to take a greater degree of risk.

When one remembers that the investigation costs of all rejected applications cannot be recovered, it follows that this cost of doing business is greater for us.

2. *The lower average amount of loans*

It is agreed that part of the expense involved in the negotiation of a loan does not vary much regardless of the amount involved. It would, therefore follow that the margin of profit would increase as the amount of the loan increases. Because of the various factors already mentioned, we have had to not only reduce the individual risk but also we have had to reduce the amount given to each individual.

I can quote here the figures of two companies whose operations are vastly different. The one company, doing business exclusively in the provinces of Ontario and Quebec, advises me that of all money lent outside of the Province of Quebec, 70% is put out in loans exceeding $500. In the Province of Quebec, the percentage of loans for original amounts of over $500 drops to 45%. You can see the margin of difference. In the other company, one of the larger chains, the percentages are quite similar. In Quebec 55% of the loans by dollar volume are for original amounts of over $500, whereas for the rest of Canada the figure rises to 70%.

I do not want to give you too many statistics, but the above figures show that it is impossible to arrive at an equal profit ratio from one end of the country to the other.

The rate set by the Small Loans Act must be high enough to permit a company regardless of its size and its geographical location to make a reasonable profit. It should not be necessary for it to spread its operation to all parts of the country in order to arrive at adequate earnings. Mr. MacGregor has seemingly tried to provide for the small loan business, the minimum rate at which the chain companies can operate at a profit, and in a year when the economic activity in Canada is at its highest level in history, and at a time when most wage earners, our usual customers, are having no difficulty in securing employment.

Must we conclude that where expenses are higher the field must of necessity be left either unserviced or wide open to the larger chains who enjoy unlimited capital or borrowing power mostly of foreign origin? Surely, all Canadian families should have access to the service which is provided by the small loans companies regardless of their geographic location! This should not be a privilege accorded to a few.

Quite the contrary, the maximum rate must be realistic. Otherwise the only consequence can be a return of the illegal loan shark.

I would like to say a few words regarding the maximum rate for it is a maximum rate that is in the balance. From Mr. MacGregor's remarks, one might think that he has wanted to establish the lowest possible rate in line with present economic conditions. He then is setting up quite an obstacle in the way of good sound competition within the industry, for only the very large chain operators will be in a position to accept such a reduced gross income and they will naturally all charge the maximum rate. There will then be no difference between a minimum and a maximum.

The small loans industry needs a maximum rate high enough to permit this competition which is all to the advantage of the borrower for it will ensure adequate stability for this service now so vital to many Canadian families.

By creating this maximum rate as nothing else but a minimum operating rate, the only possible result will be:

1. The smaller companies, or the companies whose business is restricted to a part of the country where expenses are higher, will of necessity have to abandon the small loan field.
2. Even larger companies will no doubt restrict their operations in the localities where high expense ratios no longer make the field attractive to capital.

Without any margin remaining to provide a cushion for the probable increases in the costs to the lender, it follows that every year or so, members of this committee will be called upon to consider requests for an increased rate. If wages, rents and the cost of obtaining money continue to increase as they have been in the habit of doing for the last few years, the problem will be up for study twelve months a year. No industry could continue efficient operation under such circumstances.

Allow me to conclude my remarks by stressing a point which I feel has not yet fully developed during your deliberations. What would be the result of the application of the rates in Bill 51 from the borrower's angle? For after all, he is the one most vitally concerned.

Across Canada today, the borrower enjoys many privileges in his relationship with the lender. The two main ones are as follows:

1. *Choice of lender:*

Competition insures for the borrower a choice between different lenders whose services are not necessarily of equal value. Since 1940, when the Small Loans Act became effective, a large number of companies have at various intervals, and without any influence from the Department of Insurance, effectively reduced their rates. At this very moment in the bracket of loans originating over $500 over 40% of all the dollar volume is carried at rates which are below the 2% maximum allowed on the smaller loans.

A rate which would permit only the larger companies to continue their service would tend to create a monopoly and would encourage the few lenders left to further reduce their risk to the point where the borrower will no longer be considered as an individual and his needs will be given less and less consideration. This result would defeat the original purpose of the Act.

2. *An equitable and fair consideration in cases of distress:*

The borrower at the present time is assured of every possible consideration in event of sickness, unemployment or any other disruption in the family income. This committee probably recognizes that an account does not go from an excellent credit standing to a bad debt from one day to the next. There is very often a progressive deterioration which is easy to observe. An overly demanding and harsh attitude at the very beginning of the delinquency helps the collection of these accounts for the security, apparent or real, is more readily within reach of legal action at that time.

An adequate rate permits the lender to take the necessary time to find a solution to the borrower's problem and also permits the taking of the added risk of a continued deterioration of the account and the ensuing frittering away of the borrower's assets. An unrealistic rate would force us to quickly realize our receivables in order to protect ourselves against an increased loss in bad debts or against the added cost of further debt-adjustment efforts. The best interests of the borrower would definitely not be served in this manner.

The choice of companies presently available to any borrower is a guarantee of fair treatment, for any lender not showing proper consideration for the borrower would see his customers go to another one more interested in the customer's welfare. If the rate is depressed to the point where only one or two of the larger companies whose size and spread of operations enable them to continue offering the service available to the public, this fair treatment guarantee disappears.

Generally speaking, the companies are fully aware of this social responsibility, but if it becomes economically impossible to continue along this line, the net result will be to the detriment of the customer, in spite of a reduced cost.

From the last available report of the Superintendent of Insurance for the year 1954, it can be seen that 787 legal actions were instituted by all small loan companies and licensed moneylenders during that year. When this figure is related to the 831,721 loans granted by these companies during that same year, and also to the fact that 20,950 accounts totalling $2,941,411 are over 4 months in arrears according to the Department's own figures, it is apparent that in general the borrower is given fair treatment by the lender. This situation should not be allowed to change.

For the above reasons, I respectfully submit that the proposed rate as expressed in Bill 51 now under study, is too low. It is my hope that you will give the amendment proposed by the Canadian Consumer Loan Association all the study it deserves not only because of the reasons stated in their brief which apply to the industry as a whole, but also to ensure for the borrowing public a vital service at a reasonable rate which will guarantee fair and equitable treatment regardless of where he lives.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 24

BILL 51

An Act to amend the Small Loans Act

THURSDAY, AUGUST 2, 1956

WITNESSES:

Messrs. C. M. Cawker, President, Canadian Consumer Loan Association; E. A. Dunbar, Associate Counsel, Beneficial Organization; C. Gordon Smith, Manager, Credit Union National Association, Inc.; and W. T. McGrew, President and General Manager, Niagara Finance Company Limited.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

77559—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,
and Messrs.

Argue
Ashbourne
Balcom
Batten
Bell
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fulton
Gingues
Gour (*Russell*)
Hamilton (*York West*)
Hanna
Henderson
Hollingworth
Holowach
Huffman
Knight
Low
MacEachen
Macnaughton
Matheson
Meunier
Michener
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Rea
Regier
Robichaud
Rouleau
St. Laurent
(*Temiscouata*)
Thatcher
Tucker
Viau
Vincent
Weaver
White (*Hastings-Frontenac*)
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

MINUTES OF PROCEEDINGS

THURSDAY, August 2, 1956

The Standing Committee on Banking and Commerce met at 11.30 o'clock a.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Batten, Benidickson, Cameron (*Nanaimo*), Crestohl, Enfield, Fairey, Fleming, Follwell, Fulton, Hamilton (*York West*), Hanna, Henderson, Holowach, Hunter, Knight, Macnaughton, Matheson, Pallett and Power (*Quebec South*).

In attendance: Mr. Fernand S. Picard, President, Lucerne Finance Corp. Ltd.; Mr. E. A. Dunbar, Associate Counsel, Beneficial Organization; Messrs. C. M. Cawker, President, and F. C. Oakes, Vice-president, both of Canadian Consumer Loan Association; and other representatives of certain Small Loans Companies and interested organizations; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. Picard was again called; there being no questions of him, he was retired.

Mr. Cawker was again called; he summed up the case presented by Canadian Consumer Loan Association, and was again retired.

On motion of Mr. Follwell,

Resolved,—That certain statistical projections, earlier referred to by Mr. Cawker, be tabled later this day and be printed as an appendix to this day's Minutes of Proceedings and Evidence. (*See Appendix "A".*)

Mr. Dunbar was called; he addressed the Committee on the use of life insurance in connection with loans. He was questioned. Mr. Cawker answered questions specifically directed to him.

Mr. Dunbar being still before the Committee, at 1.00 o'clock p.m. it adjourned until 3.30 o'clock p.m. this day.

AFTERNOON SITTING

At 3.30 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Batten, Bell, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieres, Enfield, Fairey, Fleming, Follwell, Hamilton (*York West*), Hanna, Henderson, Holowach, Hunter, Knight, Macnaughton, Pallett, Power (*Quebec South*) and Weaver.

In attendance: The same as at the morning sitting with the addition of Messrs. C. Gordon Smith, Manager, Credit Union National Association, Inc.; and W. T. McGrew, President and General Manager, and J. S. Land, Director, Public Relations, both of Niagara Finance Company Limited.

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Mr. Dunbar continued his evidence; he was questioned, and was retired.

Mr. Smith was called; he read a short brief of his Association, copies of which had been distributed to members of the Committee. He was questioned at length, and was retired. Mr. Dunbar answered questions specifically directed to him.

Mr. McGrew was called; he presented a brief of Niagara Finance Company Limited, copies of which had been distributed to members of the Committee.

Mr. McGrew being still before the Committee, at 5.30 o'clock p.m. it adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Balcom, Batten, Bell, Cameron (*Nanaimo*), Deslieres, Enfield, Fairey, Fleming, Follwell, Fulton, Hamilton (*York West*), Hanna, Henderson, Holowach, Hunter, Knight, Power (*Quebec South*), Robichaud and Tucker.

In attendance: The same as at the afternoon sitting.

Mr. McGrew was again called; he continued the presentation of his brief, was questioned, and was retired. Mr. MacGregor answered questions directed to him.

At 10.00 o'clock p.m. the Committee adjourned until 11.30 o'clock on Friday, August 3, 1956.

ERIC H. JONES,
Clerk of the Committee.

EVIDENCE

THURSDAY, August 2, 1956,
11.30 A.M.

The CHAIRMAN: Gentlemen, we have a quorum. Are there any questions you wish to ask Mr. Picard on his brief? We have an interpreter present so that questions may be asked either in English or in French and each will be interpreted. Has anybody any questions? If not, we shall now move on to the next witness.

Mr. C. M. Cawker, President, Canadian Consumer Loan Association, called:

By the Chairman:

Q. Mr. Cawker, is that the complete case for the Canadian Consumer Loan Association?—A. Mr. Chairman and members of the committee: this completes the evidence of the Canadian Consumer Loan Association. I realize that our story has been long and sometimes a tedius one and I would like to express the appreciation of the industry to the committee for their patience because this business has for so many years been increasingly exposed to emotional rather than to factual considerations, and I would be the first to admit that you have been deluged with statistical data in an effort to keep our presentation factual.

Now we have used the Canadian companies—possibly just for the sake of a term, and just to sum up what we have tried to tell you through—I hope—my practical evidence, and the evidence of the accounting and statistical people—more to leave with you the thought that unrealistic rates do not simply put Canadian companies out of business but it is a fact that it removes from the Canadian people the opportunity to borrow in an area which we see is becoming increasingly important at legal rates. In other words, I say to you that with a rate at which money is not available to the Canadian people, historically it sends them to the loan sharks.

Now I have been 21 years in this business, and since 1939 I can say to you without fear of contradiction that we have had a steady improvement in the ethics and the approach to the business and the contribution to the borrower in helping in his budgeting, and for that I pay all the tribute that I should to our American cousins. But I think it is a solemn responsibility to regard the evidence of unrealistic rate cuts in many of the states of the union and I have referred to a few of them.

I realize that parliament occasionally has to legislate against Canadian business. Possibly a simple example might be in tariff; and I am not saying to this committee that if as Canadians we cannot operate as effectively and efficiently as other Canadian companies that parliament should set a rate which would permit us to stay in business simply because we are inefficient. I am saying that if we are going to see the removal of the service from the Canadian people then we have to look at it from the standpoint of what sort of rates will maintain and attract capital to service that area.

I am referring specifically to the area between $1000 and $1500. I have said—and I am not going to labour the point—that it is the large companies whose operations are I think more or less regarded as a yardstick in making the rates or in suggesting the rates. I can say very definitely that the Cana-

dian companies who service that field between $1000 and $1500 now cannot continue to do so, nor can the Canadian companies of course stay in business under the rates of Bill 51 in the area between $500 and $1000.

That of course possibly will not be of too much concern to this committee. There will be certain contractions, and we must face it, of the capital available to service that area between $500 and $1000. No doubt there will be some kind of service available under the rates of Bill 51, but such service as will be available will be beyond any shadow of a doubt a monopoly.

Whether this committee and parliament is prepared to legislate a monopoly at the expense of the Canadian businessman who is making some progress—quite some considerable progress in taking the position he should in this industry, then that of course, we must face it when we come to it.

The Canadian companies I feel—and I hope I have convinced you too to some degree—are servicing an area which is anticipated in Bill 51 but will not be able to continue to service it. The two largest lenders in the field do not service it at this moment.

After 21 years of attempting in my own small way, and with the great majority of lenders, to bring about a fair practice at a fair rate, we feel that it could not reasonably be contemplated that at this moment we should be put out of business. That in effect is what must happen.

We have made a suggestion in our brief of a rate which is somewhere between the rates in Bill 51 and what has been referred to as the "going rate" in the industry with the 40 per cent exception as you have heard.

We have not laid before you as an additional statistical piece of information what that rate will do as a projection. If it is the wish of this committee before it considers the bill clause by clause, I would be glad simply to table those projections without any further comment upon them. They represent a tightening of the belt by some of the very small Canadian companies, and of course our recommended rate anticipates a very large reduction in the income of the larger licensed companies in the field today.

Possibly we have been a little delinquent in not placing that information before the committee, but it seemed that there was enough information available at either end of the scale so that it could be reasonably assumed just where the rates included in our brief would place not only the large companies but the small companies as well.

I close my evidence once again with an expression of appreciation for the time that this committee has given to us. It has been 16 years really since there has been a close examination of the business. We know from experience that a public airing of our affairs is healthy. It helps an understanding of the business; and we also know from experience that if we are to progress and perform the service for the Canadian people that we should perform, we must be understood.

Some 860,000 Canadian borrowers that we know of last year, I believe, understand very well that they have had service and while there may have been the minimum of complaints about that service, we have yet as operators to hear any complaints about the rates.

I thank you very much, Mr. Chairman, and members of the committee.

The CHAIRMAN: Thank you, Mr. Cawker.

Mr. FOLLWELL: Mr. Chairman, Mr. Cawker in his closing remarks to the committee suggested that they have some further tables and projections of the effect of the rate which they suggested should be adopted in the bill, and he indicated that he would be prepared to table them. Therefore I move that they be tabled.

The CHAIRMAN: All those in favour of tabling these projections?

Agreed.

(See Appendix A)

Mr. CAMERON (*Nanaimo*): I am not sure if Mr. Cawker has answered this question which it seems was asked at one point, and it was in regard to the proportion of loans up to $300 and the proportion of loans up to $500, both in the number of loans and for volume. I think you said you were not in a position to answer it definitely before, if I remember it correctly. I wonder if you could get that data for us?

The WITNESS: I think we did answer it. As I recall it, we had a little bit of trouble figuring the percentages.

Mr. CAMERON (*Nanaimo*): I was not sure, but if it is already in, then very well.

The CHAIRMAN: Where are these projections you are going to table?

The WITNESS: Perhaps I should qualify that by saying that we would do so before the committee rose. We have them possibly not in a form to lay before you now, but within the next 24 hours. (See Appendix "A" hereto.)

The CHAIRMAN: The next witness is Mr. Dunbar, associate counsel of the Beneficial Organization or Personal Finance of Canada as it is still called.

Mr. E. A. Dunbar, Associate Counsel, the Beneficial Organization, called:

The CHAIRMAN: Mr. Dunbar.

The WITNESS: I speak for the Personal Finance Company of Canada and I would like to say before I proceed any further that we endorse the briefs of the association.

My primary purpose at this time is to discuss the subject of group life insurance in particular, insurance in general, and the entire problem of the use of insurance in connection with small loans.

By Mr. Fulton:

Q. For the record, Mr. Chairman, I wonder if Mr. Dunbar might qualify himself somewhat more fully than the chairman's brief introduction and state his actual position with the company?—A. I am a graduate of Syracuse University, A.B., and Columbia University, LL.B., a member of the New Jersey bar and I have been with the legal department of Beneficial for 15 years. During the last few years I have studied this entire question of insurance in connection with small loans. My activities have extended to all the states in the union together with the National Association of Insurance Commissioners who have studied this program of insurance very deeply. I have written many articles on the subject and in general I have more or less specialized in this problem of insurance during this period of intensive growth when there has been very little in the way of secondary or source information on the subject. You have to dig things out for yourself.

By Mr. Knight:

Q. Under what name does your company operate in Canada?—A. Personal Finance Company of Canada.

By Mr. Enfield:

Q. Have you any other companies in Canada or in the United States?—A. In the United States our companies are called Beneficial Finance.

Under the legislation passed in 1939 credit insurance or life insurance on the life of the borrower was permitted, but under the regulations issued in 1941—you would have found it necessary to send the borrower outside the office in order to obtain a policy of credit insurance.

Actually, there were no policies of insurance tailored to the needs of the small borrower or any other borrower on an instalment basis. There was no individual credit life policy but simply a policy of term insurance not tailored to the needs of instalment transactions on reducing balances.

Under that set-up the use of credit insurance has been most restricted. Mr. McGregor pointed out that there have been but two licensees in this country charging for the insurance, and there are a few who have been furnishing insurance at no extra cost. I think it is safe to say that less than 3 per cent of borrowers are covered by life insurance at this time.

One of the primary reasons so little credit life has been used is that the average individual insurance agent is not interested in selling any policy where the premium would be so small as it would be on a small loan, and the premium for the individual credit life insurance is quite high. It is a small premium. It is high in percentage rather than in amount. However, since 1939 the insurance industry has developed what is known as credit life insurance, group credit life insurance, and under that it is usual to charge to the borrower 50 cents for each $100 of loan for each year. The average loan is about $300, so that on a 15-month contract you would have to pay a premium of less than $2. That is what you would have to pay for group credit life insurance.

We are proposing an addition to our service, a progressive addition to the service of the small loan company rather than a restriction on our service. We would like to increase the quality of this service to the borrower and to take care of a situation which is not now covered by our loans or our service at this time. It is not generally understood—nor frankly did we understand it until we commenced a study of life insurance in connection with small loans—that small loan lenders collect approximately 85 per cent of the balance which are unpaid at death. So do most other creditors. It was a large percentage and we did not think it would be so large.

The extent of the unexpected amount collected is due to the fact that the wife or the surviving spouse will come in and pay off the loan after the death of the husband without telling the manager that the husband has died. We did not realize that until we instituted credit life insurance in some of our offices which of course provided a reason for the wife to inform the manager or the lender of the fact of death in order to have the loan paid by the insurance. In other words, 85 per cent of the benefits under credit life policies go to relieve the borrower of the necessity of paying any balance unpaid at death which borrowers' families would otherwise pay out of the estate.

I make no reference to the emotional difficulties—if I may put it that way—that the borrower gets rid of by having the loan paid off. Many of them have small insurance estates, of course, but those estates were intended to pay the cost of the funeral and a few other miscellaneous items. The majority of small loan borrowers obviously have very little insurance and in insufficient amounts. Furthermore, it was never intended to cover instalment debts, which come up and go down in accordance with the borrowings of the individual family involved.

Credit insurance covers that and it covers it at a cheaper rate than any other life insurance available to anybody. It is the cheapest insurance you can purchase on the open market unless you get insurance—insurance provided by employers as something in connection with the employment where

the rates are cheaper because it is part of the man's compensation. Credit life insurance is the cheapest life insurance we can purchase.

Perhaps it would be worthwhile to discuss briefly some of the mechanics of credit life policies where the borrower pays the cost because it involves the amendment to Bill 51 specifically, and it involves a problem, which I do not think it is generally appreciated.

Under a group credit life policy the lender pays the premium. Normally those premiums are 75 cents a thousand per month; that is per $1,000 outstanding. Those premiums are often reduced depending of course on the mortality experience of the company involved and the dividends paid by mutual companies on items of this kind.

You will pay 75 cents per thousand for the first year at least in order to get the policy into effect, and that premium is paid by the creditor and it depends on the amount of the unpaid balance of the loan.

On the other hand, the borrower pays 50 cents for each $100 of loan balance, and that is taken by the creditor and used to pay the premiums. The borrower pays what is called an identifiable charge, and I would like to point out the specific use of the word "charge" here because it is involved in the legal situation I shall discuss later. The 50 cents on the $100 identifiable charge is predicated upon an assumption that the borrower will pay his debt on the due dates and will pay it off at maturity. If he does that, the amount of premium which the lender will have to pay on the outstanding balances will amount to approximately 49 cents or 50 cents. If the borrower is delinquent for any length of time the unpaid balances of course increase in amount and the lender is obligated to pay the premium on the actual unpaid balance rather than the contractual unpaid balance, and they are quite apt to be somewhat higher.

Nevertheless the fifty cents charge has become customary and is used by most of the larger institutions, the banks and so forth, and that is where it grew up and where it was worked out.

The borrower receives a certificate which shows the fact that he is covered.

There has been some discussion about abuses, and I would like to say that it is extremely unwise to discuss credit insurance as a lump concept. Credit insurance is a particular type of contract or a particular type of transaction which you have in mind and to discuss abuses of credit insurance generally is to befuddle the issue.

Our proposal—and it is unfortunate that our proposal should be made at this point, and that the proponents should speak at the end of the consideration rather than at the beginning—our proposal is that we amend Bill 51 to add a provision which will provide—at the end of page 1, line 14, of Bill 51.

Mr. ENFIELD: That is not Bill 51, that is the original act.

The CHAIRMAN: No, I think he is referring to Bill 51.

The WITNESS: Yes, I am referring to Bill 51, and it is at the end of the word "claim", in the first clause which substitutes a new section 2 paragraph (*a*). The language immediately preceding the amendment which we propose reads: "or is claimed as charges for life insurance, personal accident insurance, or sickness insurance or is otherwise claimed, . . .".

We wish to add at the end of that language the following:

> . . . provided, however, that the definitions in this section 2 shall not preclude . . .

The CHAIRMAN: You mean section 1, do you not?

The WITNESS: Bill 51 is at this point an amendment to section 2 of the Small Loans Act.

. . . shall not preclude collecting from the borrower, in addition to the cost of the loan, not in excess of $50 cents per $100 per annum of the original amount of the loan for its full term for group life insurance on the life of the borrower covering the unpaid balance of the loan subject to:

(A) Such insurance being optional with the borrower;

(B) refunding or crediting the unearned cost of the insurance computed in accordance with a formula or schedule approved by the superintendent and included in every policy, certificate or other memorandum of insurance delivered to the borrower; and,

(C) such insurance being issued by an underwriter approved pursuant to Canadian law.

Insert on page 2, line 25 of the bill after the word "section" the following:

except for group life insurance in accordance with the conditions specified in Section 1 hereof.

I wish to apologize for not having copies, but I have not had the facilities available to me. The amendment will make the insurance optional to the borrower. The purpose of such an option is to prevent coercion of the borrower into the purchase of this insurance.

By Mr. Enfield:

Q. Just do not give him the loan.—A. The small loan industry does have repeated refunding of loans. Under law it is necessary to make a new loan each time, each time the borrower makes even a small addition to his loan, and it is therefore imperative that there be a rigid system of refunding of the cost of the insurance. The amounts involved are quite small in view of the very low cost of the insurance initially. Nevertheless, such refunds would have to be made each time.

I would like to speak briefly about Bill 51 itself in so far as it covers insurance. Under the law as passed in 1939 the items listed as part of the cost include such things as: chattle mortgage fees, recording fees, fines, penalties, charges for increased defaults, and renewals. Each of those items are expenses of the lender which he might have asked the borrower to reimburse him for. They were properly included in the cost of the money. The amendment includes, by its language, charges for life insurance. I find it difficult to understand exactly what is meant by "charges for life insurance". The insured customarily pays a premium for an individual policy. The only time that he would pay a charge would be a charge for a group policy. It is true that people will speak generally about a charge for insurance, perhaps, but, those charges are not paid to the lender, they are paid to a third person. There is nothing in this language that indicates what is meant by "claim" at the end of line 14. It does not name by whom. It say, "—or is claimed as charges for life insurance, personal accident insurance, or sickness insurance or is otherwise claimed, —". It does not state by whom. Thereafter it is provided, as it has been in the 1939 act, that these items are included whether they are paid to, or charged by the lender or by any other person. We therefore have the possibility of a borrower buying an individual policy of credit insurance from an outside agent, and to secure the loan without the lender having anything to do with it. I wonder whether that would be included in the charges for the loan. Is that part of the cost of the loan?

I would also like to point out a serious problem because of the doubt which is raised in respect of motor vehicle insurance. It is contemplated that you will raise the ceiling to $1,500, which means that many loans secured by motor vehicles will now come under the jurisdiction of this act. The words

"—or as otherwise claimed—" will, I think, be construed in accordance with the items previously enumerated. But, now the bill has enumerated charges for life insurance and other items which are paid to third persons rather than to the lender. Motor vehicle insurance premiums are also paid by the borrower to a third person. He is sent out of the office to an independent agent. I would be presumptuous, indeed, to give a legal opinion on this matter, but, there is, as far as we have been able to make out, serious doubt as to whether or not we will be able to require motor vehicle loans to be insured and whether the premium for that motor vehicle would not be considered a "charge", if the premium for life insurance is a "charge". The difficulty comes, I think, from the use of the word "charges" to describe premium. There is little doubt, however, that charges for group life insurance will be barred by this language. They are called "charges" and are known as "charges" in the insurance industry. They will be barred, and that is the cheapest type of life insurance that we can use.

By Mr. Fulton:

Q. Just one point there, you are suggesting that they would be barred if the company absorbed the cost of it?—A. No, sir. I do not think there would be any objection to our giving anything away to the borrower free of charge.

Q. You are barred from charging it to the borrower?—A. Yes.

By Mr. Fleming:

Q. Mr. Chairman, I wonder if it would not be well for these suggestions, some of which relate to draftsmanship, apart from the merits of the proposed amendment, to be referred to Dr. Ollivier; and Mr. Dunbar could discuss the matter with him, or Mr. MacGregor. What Mr. Dunbar has said about the word "charges" I think involves a question as to draftsmanship, which I think could properly be referred to Dr. Ollivier.—A. I would be glad to cooperate but, frankly—I am somewhat timid about drafting Canadian statutes.

Q. If the amendment were to be considered on its merits, it would have to go to Dr. Ollivier anyway, I take it, Mr. Chairman, on the matter of draftsmanship. There are some things which strike one in connection with draftsmanship to the amendment, and I just put forward that idea to save time. Perhaps these suggestions that Mr. Dunbar has put forward might be referred to Dr. Ollivier, and we could hear his comments on them later.

Mr. BENIDICKSON: Mr. Chairman, my impression is that statutes that effect the department are originally looked at by the legal section of that department. Then, I think they go to the Department of Justice, and in the final appearance of the bill they go to Dr. Ollivier. I would think that the reference would have to be made to the department.

Mr. FLEMING: It is quite all right where they go. I am just thinking about saving our time here. We are getting into questions of the nicety of certain words. That ought to be referred to those who, after all, do advise the committee on draftsmanship, and while Mr. Dunbar is here, and would be available to discuss his points with those who will be advising the committee on draftsmanship.

Mr. BENIDICKSON: In other words, Mr. Fleming, as long as the chairman and clerk see that the proper channels are used for the analysis of this proposal, you have no particular reference to Dr. Ollivier?

Mr. FLEMING: Oh, no. Mr. Chairman, there was no thought of confining it in any way. Let us say, broadly, those who are responsible for draftsmanship of the bill.

The CHAIRMAN: The question, as I see it, for the committee is not so much the specific wording of this proposed amendment. The question before the

committee would be whether they favoured that type of amendment, and the actual wording then could be worked out by the proper officers.

Mr. FOLLWELL: I think, Mr. Chairman, we are concerned pretty much, not about niceties of the words but by the effect as they appear in the bill.

The CHAIRMAN: Yes.

Mr. FOLLWELL: In regard to the ultimate charges on the borower, who is eventually going to pay for the service?

The CHAIRMAN: I am afraid that superficially this optional feature reminds me of the voluntary revocable check-off.

By Mr. Crestohl:

Q. Mr. Chairman, apart from the question of draftsmanship, I think it might be helpful to the committee if the witness would, by hypothetical illustrations, say on a loan of $300, or $500, illustrate how that proposed amendment would operate.—A. I would like to say to the committee that I did have a rather lengthy presentation with a large volume of statistics but, I have been sitting here with the committee, and I sensed a certain reluctance in respect of statistics, and it seemed wise to leave them out. I do have an example. Can I use this example? I have an example of a loan of $300 for 12 months.

Q. All right.—A. On a loan in that amount for 12 months the cost of the insurance would be $1.50. It would be deducted from the amount of the loan. The borrower would receive the remainder in cash. Of course, the lender would then—

By Mr. Knight:

Q. It would be deducted at the time the loan was made?—A. Yes, sir.

By Mr. Follwell:

Q. Was that a $300 loan, did you say, sir?—A. Yes, on a $300 loan for one year, the insurance would cost $1.50.

By Mr. Crestohl:

Q. Now, illustrate what the borrower receives in return for that $1.50, beneficially.—A. If he should die at any time during the term of the loan, the unpaid balance of the loan would be paid in full; not the accrued charges. The lender will customarily forego the accrued charges, but the unpaid balance would be paid on the loan. If it was at the end of six months, perhaps half the balance would be paid, depending on the payment schedule that is adopted.

Q. From your experience, can you give the committee any indication, perhaps, of the percentage of calls made for repayment of loans from the proceeds of life insurance?—A. Yes. The small loan borrower dies each year at a rate of about 6¼ to 7 per thousand each year. The dollars paid are approximately at the same ratio, you see, somewhere between $6 and $7 a thousand. It depends on the type of underwriting that takes place in the credit judgments on the loan. There is a definite correlation between mortality and the kind of loan or the kind of persons that a particular lender might lend to. If he makes a lot of loans for medical purposes the mortality rate will probably be a little higher, I am afraid. But, there is also, of course, a correlation between the mortality rate and the person's economic status. The lower the economic status, the higher the mortality rate. The small loan borrowers have a much higher mortality rate than, say, the purchasers of new cars. There is a distinct difference there. Persons who buy new cars have a confident look on life I think, and it seems to make a difference. Whereas, a man who

comes to the small loan company is in distress. There is some correlation there. I know the facts, but I do not know the reasons.

By Mr. Fleming:

Q. Mr. Dunbar, has it anything to do with the fact that often people who are buying new cars are, on the whole, perhaps younger than the average age of your small loan borrowers?—A. That is true. The average age of the small loan borrower is 40.

Q. Have you any figures on the average age of those who are being financed on the purchase of a motor car?—A. I do not, sir. All I know is that the mortality rate there is somewhat lower.

Q. Are those Canadian or American statistics, or a combination of both?—A. They are a combination of both.

By Mr. Knight:

Q. I would like to ask a question on the history of the defaults on small loans of various people who die, or on the part of their estates. What has been the experience of the companies in the collection of loans where the borrower became deceased, or the defaults by those estates? In other words, what is the interest of the company from a purely, shall we say, selfish point of view on that particular matter?—A. The point of view of the company from a completely selfish view would be that we collect; at the present time we have to charge off 15 per cent of the balances unpaid at death. That is an economic loss. I think, from the company's viewpoint, more important than that sum is the time and expense of collecting the claim after the death of the husband. The number of calls that would have to be made, the legal counsel that might have to be employed in the handling of the estate, and the tremendous detail and the difficulty involved in the handling of deaths and in collections where death is involved, are the reasons why the company would be interested. It is most definitely a benefit to the lender.

By Mr. Argue:

Q. What would the cost to the company be of that change, the cost of collection of the average $300 loan, for example?—A. I do not know, sir.

Q. What I am getting at is this: you would ask the borrower to pay $1.50 if he borrowed $300 for 12 months?—A. Yes, sir.

Q. I want to know what part of that $1.50, on the basis of the experience of small loan companies, would accrue to the benefit of the small loan companies, because they would have to undertake the extra cost of collections and so forth, and you are asking the borrower to pay a certain sum of money. Part of the benefit will go to the company.—A. Yes, sir.

Q. Because of certain costs that will be saved. My question is: What percentage of the benefit goes to the company by way of savings?—A. I have already pointed out that 15 per cent of it would go to the lender through payments of claims which we would not otherwise be able to collect. Now, you are asking me to give the actual cost of the collection of balances which are unpaid at death. I cannot do it, Mr. Argue.

The CHAIRMAN: The question that occurs to me—

The WITNESS: I would like to say that I do not think anyone else can answer that, either. It is extremely difficult to make a cost analysis of the handling of individual items in a financial institution. We did a cost study in respect to the cost of issuing individual policies of credit insurance in some of the American states. We were literally staggered by the cost involved in some items that we thought were very small. But, the studies were extremely

expensive and take considerable time, and when we were all finished, the results were really based on opinion, in the first place. It is just impossible to unscramble eggs at times.

By Mr. Argue:

Q. What proportion of outstanding balances now are covered by insurance in Canada?—A. In Canada?

Q. In Canada.—A. I would say Niagara has a policy, and I know of no other company, except one or two that sell insurance. I would say less than 3 per cent of the borrowers have insurance in Canada at this time. It is an extremely small percentage.

Q. Fifteen years ago would it have been only zero?—A. No. I think that there were some companies using credit life insurance before 1939 as well. I think it has remained constantly at a very low level.

By Mr. Fleming:

Q. What is the comparable percentage for the United States, Mr. Dunbar; have you any figures on it?—A. The amount of credit insurance in effect in the United States is very large. Credit insurance is used extensively with small loans in about 15 states in the United States at this time. In those states, from the available statistics, about 75 per cent of the borrowers purchase insurance. I am speaking now only of the states where they have regulatory small loans law. There are approximately eight states in the union that have no small loan laws, where the high-rate illegal lender operates. No one has any statistics on what is going on in those states; they are out of my statistical picture entirely. About 15 states of the regulated states have it, and it is used in those states. The actual volume of it in respect to small loan lenders I do not know.

By Mr. Crestohl:

Q. Mr. Dunbar, may I suggest that you clarify for the committee that the proceeds from such an insurance charge would go to pay the balance of the debt owing by the deceased.—A. Yes.

Q. Regardless of the estate's ability to otherwise pay the debt?—A. Oh, yes, sir. Not only does that happen, but the group policy itself specifically provides that the proceeds of the insurance must be applied to the payment of the debt. The financial picture of the estate of the deceased would be of no significance. I did not realize that was your question, Sir.

Q. Yes. I thought it should be clarified.

By Mr. Fleming:

Q. The finance company is the beneficiary for value under our insurance laws.—A. Yes, sir.

By Mr. Enfield:

Q. Mr. Dunbar, how then can this optional clause work? You say it is optional on the borrower?—A. Yes, sir.

Q. It reduces the risk to the company if the insurance is taken out?—A. I will put it this way: there is a tremendous amount of competition in the small loan business. The idea that there is no competition is a hangover from the days before regulatory small loans laws when there was in effect only one lender operating, and it was sort of a speakeasy arrangement. If you got to know "Joe", you had to borrow your money from him. That was when there were no regulatory small loan laws. Now if the borrower does not like the way

you handle him, he merely has to go across the street, and there is a lender over there ready, willing and able to make a loan to him, if he qualifies. The idea that any lender, after the expense of maintaining his office in order to keep up his business, would ever force a borrower to spend $1.50 for life insurance when the total benefit to the company is so small—is just hard to think of happening. The only statistics we have on this item of option have come out of the state of Indiana, where they made a survey of some 400 small loan companies which were selling life insurance. In those companies only 75 per cent of the borrowers chose to purchase the insurance.

The 75 per cent item in itself has a significance here. In group credit life insurance, in particular, you have to have 75 per cent participation, normally, in order to qualify for these low rates. The figures on the small loan borrowers in Indiana, were only 74 or 73 respectively, in the surveys made in that state. They were very recent surveys made this year for the purposes of a legislative investigation which was made in the state of Indiana.

By Mr. Henderson:

Q. Does this insurance, in the case of guarantors, cover the guarantors also?—A. It only covers the principal borrower. If the principal borrower dies the loan is paid off. The co-makers, the chattle mortgagors and anyone else is completely released from the loan upon the death of the principal borrower.

Q. Supposing the principal borrower was, say around 77—no, suppose the principal borrower was around 50, and the co-maker was around, say, 80; is this a proposition whereby somebody who is literally not insurable otherwise might become insurable under this arrangement?—A. You speak, sir, of the problem that haunts the underwriters of group credit life insurance policies. What happens in the situation which you outlined is that the co-maker, an 80-year old co-maker, and the borrower meet outside the office, I am afraid, and they switch positions, and the borrower becomes the 80-year old man. That is a problem involved in the writing of this type of insurance. It is true, though, that many folk, who cannot otherwise obtain insurance, can get credit life insurance.

By Mr. Fulton:

Q. Mr. Dunbar, one of my colleagues here was just discussing with me—and the question I am about to ask puzzles me also, because I do not know much about insurance law—but, you said it cost 75 cents a thousand?—A. That is per month.

Q. For this credit insurance.—A. Yes.

Q. And because of your administrative cost of issuing certificates, and processing them in the event of death and so on, you charge 50 cents per hundred to the borrower? Would it be possible to arrange a group insurance policy as between the lending company and the insurance company, on a basis that everyone who receives a loan from the lending company is automatically covered, and that would save the issuance of certificates, and would to that extent, reduce the cost of including the individual borrower under group coverage?—A. No sir, the 50 cents per annum per hundred collected merely pays 75 cents per thousand per month.

Q. I am sorry.—A. They are just different ways of stating the same thing. That is the way the insurance companies do it because of the fact that the insurance company is concerned with the actual unpaid balances for which they are liable; whereas the lender at the time the borrower is in the office can do nothing but presume that the loan will be paid on its scheduled due date. Of course, if the man is delinquent, the amount for which the insurance

company is liable will be in excess of that under the scheduled payment dates, and the insurance companies insist upon the lender paying on the basis of the actual coverage hence the two methods of computation. However, where payments are made upon the scheduled due dates, the 50 cents per $100 of loan per annum is exactly the same as 75 cents per thousand per month on the unpaid balances.

Q. It looks as if you will have to pay $9 per annum to the insurance company and you are selling it at a rate which would be $5 per thousand.—A. That may appear to be so but that we are talking about a reducing balance obligation so it would take two obligations to make the total level trim with the $9 charge.

Q. On the basis of your previous answer you are in effect passing on insurance at cost to you?—A. Yes sir.

Q. At cost in so far as it could be worked out.—A. Yes, in so far as it can be worked out; the administrative cost is borne by the lender. He has to keep certain records for the insurance company and other items of that nature.

Now I would like, if I may, to speak briefly about the certificate. The certificate of insurance is necessary because we want the borrower to know that he is insured. If the borrower is merely informed of the insurance and should die, for example, it may be that the person handling his estate would have no knowledge of the insurance and might come into the loan office and—we know this is so—and would pay off the loan. The girl at the desk would have no reason to inquire and she would just accept the payment. So a certificate is necessary in order that there may be something in the personal effects to indicate the fact of insurance.

By Mr. Fleming:

Q. Your answer about this insurance being available simply at cost, I take it, is based upon your experience in the United States? Has any study been made in Canada based upon comparable insurance rates to see if the proposed charge of 50 cents per $100 per annum would represent insurance at cost, if credit insurance were more widely applied in Canada?—A. No. You must remember that we are a regulated industry and before we can undertake anything new we have to get permission in the first instance from parliament in order to do it.

Q. I appreciate that, and I wondered if you had along with the insurance companies in Canada, made any study of the cost?—A. We have been dealing with Metropolitan and they indicate that we will have to pay them approximately 48⅔ cents. That is their guess of it at this particular time, but they have had no experience with small loan borrowers.

Q. In the United States are they paid exactly 50 cents?—A. Yes sir.

Q. So will it be three per cent generally speaking in Canada or 2½ per cent?—A. It may be a few pennies off, but I do not think so. However, when they get the mortality for small loan borrowers they will know.

Q. But you will admit that it is appreciably the same?—A. Yes sir.

By Mr. Enfield:

Q. The witness mentioned Niagara Finance; do they not provide insurance at no cost to the borrower?—A. Yes sir.

Q. Is that the same type of thing that you contemplate?—A. Yes sir.

By Mr. Macnaughton:

Q. What about the Caisse Populaire: don't they do it?—A. I believe so, although I do not know of my own knowledge. However, I have been informed that they do.

By Mr. Follwell:

Q. Can you tell the committee what is the general practice among all the companies when a borrower dies before he pays back his loan?—A. They collect.

Q. From whom?—A. From the estate or from the co-maker. You must remember that in this modern age the wife is normally obligated on the loan and in many instances she will also be employed, and they will collect from the surviving spouse.

Q. You indicate that they do not collect 15 per cent of it?—A. That is right.

Q. They collect the other 85 per cent either through payment by the guarantor or co-signor, or from the insurance company. Is that right?—A. Very rarely from the insurance company. They collect from the estate; they might have to sell a security or take some further action. In that respect I would like to say that the explanation of the collection activities necessary could be exaggerated. At least two out of every six—at least in the case of two out of every six deaths the borrower's spouse simply comes into the office and pays up the loan without even telling us that the husband has died. The average Canadian citizen has very little interest in avoiding his obligations simply because the husband dies. That is not part of their thought, and the idea that they could get out of it does not appeal to them at all because it is just not part of their character.

By Mr. Crestohl:

Q. Do lending companies carry an over-all insurance policy to cover them for bad debts or for non-collectible debts?—A. No sir.

Q. Credit companies who sell to wholesalers or who sell merchandise do cover themselves with a credit insurance policy against bad debts, bankruptcies, and so forth.—A. Yes.

Q. Would it not be helpful, or have you given any consideration to the lending companies that they themselves should carry a blanket insurance policy to insure them against bad debts which may result through the debtor's account not being collectible as a result of death, poverty or non-payment? That would be an obligation carried by the lending companies which it seems to me would cover them against most contingencies—I was going to say all of them, where debts are not recoverable. It would, in my opinion, eliminate this complicated machinery of insuring individual borrowers under a collective policy.—A. The difficulty is that that insurance is not available to small loan companies.

By Mr. Fulton:

Q. Would you please repeat that?—A. Insurance companies are not interested in our accounts.

Q. On that basis?—A. Credit insurance is primarily used by banks on receivables—overseas receivables in particular—and it is used extensively, I know, in most of the large commercial centres. But they are interested in large accounts and they are not even vaguely interested in our accounts where the average unpaid debt is such a small amount of dollars. With the clerical details and everything else involved together with the gross volume—they just are not interested; they just will not take it.

By Mr. Cameron (Nanaimo):

Q. Mr. Dunbar, if this insurance amendment passed, would that obviate the necessity for companies setting aside reserves for bad debts?—A. No, sir. It will have an infinitesimal effect upon charge-offs.

Q. I see.—A. The accounts, where the borrower dies, are not charged off, they are collected. This 50 cents goes primarily to help the family of the deceased borrower, that is where it goes. It is a benefit to the borrower. The 50 cents a $100 group credit life insurance, to which I refer is a benefit to the borrower and it is the cheapest—

Q. As well as to the lender?—A. It is a benefit to the lender, yes, there is no question about that; but, it is not a great enough benefit to the lender to create any great demand such as there would be on a more profitable enterprise from the lender's point of view. It is simply an addition to our services, which we suggest and recommend very strongly that you adopt.

By Mr. Fulton:

Q. Mr. Dunbar, we are told that Niagara and one other company in Canada issues insurance policies to its borrowers without charging it directly to the borrower.—A. Yes.

Q. I take it that we must assume that they do not increase in some indirect way, some other charges?—A. I am sure they do not.

Q. I think Niagara operates reasonably profitably?—A. Yes, sir, it is a very fine company.

The CHAIRMAN: Not according to the tables.

By Mr. Fulton:

Q. I am interested in knowing why, and maybe you cannot speak for the other companies, but can you tell us why your company does not think that you can or should follow the policy being followed by Niagara. Why is it important to you to be able to pass on the charge of insurance instead of absorbing it? —A. Where you have a maximum rate set at, perhaps 2 per cent per month as we now have, the use of the rate depends on the credit policy adopted in the office. Skilful, knowing lenders can adopt a credit standard that will operate at virtually any rate you might mention. The services will be cut down in so far as borrowers are rejected. That is the difficulty. Where the rate is reduced the loan standards are changed. When you reduce the rate certain borrowers are denied a loan. It is a very simple fact.

Q. In other words, you are saying, in effect if you are going to make a broad general coverage, your margin per loan is not sufficient to absorb the cost of insurance?—A. Yes.

Q. If you are running an exclusive business, and I use that term somewhat loosely.—A. Yes. The Personal Finance Company maintains a full loan service in our part of the market, so to speak—this does not mean that the other part of the business is not equally important,—but we make smaller loans, loans of less than $1,000, customarily. We have, I think, as liberal a loan standard as is possible to adopt under the present rate. There is no margin in there for credit life insurance coverage. It must be remembered, that we have $60 million, approximately, outstanding. I am dropping the fractions for the purposes of discussion. If we were to pay for credit life insurance at $9 per $1,000 outstanding, it would cost the company roughly $540,000 a year. This would only relieve us from charge-offs on 15 per cent of the balances unpaid at death. Consequently, a large percentage of that expense goes against our earnings directly, without any compensating factor.

Many companies give insurance away at no extra cost because it is a business-getting vehicle. It is a popular thing. People like insurance. However, I would like to make this point in respect of insurance at no extra cost: Our experience in the states has been that wherever lenders are allowed to charge for insurance there will be a much greater percentage of insurance at no extra cost, because of the competitive factor that comes into the picture.

Borrowers become used to credit insurance and they like to have it. Perhaps in the initial stages they do not but, if a borrower dies in a particular neighbourhood and is insured, it is extremely difficult to make loans in that neighbourhood without insurance the wife having become aware of the value of the insurance. It is a cumulative thing. In the states, most of insurance given away at no extra cost is given away in states where insurance is sold. That would be states like Nebraska, Louisiana, Kansas, and Pennsylvania. In those states the insurance is given away there at no extra cost. In states like New York, where insurance cannot be sold, no insurance is given away.

By Mr. Macnaughton:

Q. Mr. Dunbar, what would be the cost of insurance if the loans were extended to 15 months, or 20 months?—A. It would be the same proportion, sir. I do not have those figures readily at hand.

Mr. Fulton:

Q. Could the witness explain to me what is the implication of clause (*b*) of the suggested amendment, refunding or crediting the unearned cost of insurance, etcetera? What are you seeking to accomplish there?—A. If a man pays 50 cents on $100 for a loan for one year, and he should refinance that loan at the end of six months, the 50-cent charge would not be earned. He would therefore be entitled to a refund on the unearned portion of the 50 cents. It seemed best that the formula for that be promulgated under the regulations of the superintendent.

Q. And would be refunded, or credited towards a further policy on an extended period?—A. Oh, yes, that is a mechanical difference, of course.

By Mr. Follwell:

Q. Mr. Chairman, I see you looking at your watch, but before we leave for lunch, to keep our trend of thought, I asked Mr. Dunbar a question about the general practice of all companies. Now, I understand, Mr. Dunbar, that you are an officer of the Beneficial Finance Company in the United States. I would like, Mr. Chairman, if I have your approval, to put that same question to the representative of the Canadian Consumer Loan Association. So, Mr. Cawker, I would like to ask you what the general practice is of the Canadian companies, in regard to a borrower dying before he refunds his loan?

Mr. CAWKER: I can only speak from the actual reference to the files that I have seen of the largest lender, and to keep it in more general terms, various welfare agencies that I have talked to, seem to support this principle, at least. The Canadian companies recognize, I think not completely unselfishly—and I will concede that there is a social significance here—that in the case of death in a family, death of, let us say, the wage earner, the provider, I would not quite agree with Mr. Dunbar that we collect 85 per cent. I believe those are American statistics. I have no statistics to prove, or to support just how many unpaid balances from a family where there has been a death, are collected. I can only give you my reaction from practical experience.

I have yet to hear of one of our members who has taken action against an estate in the case of a death or, let us say, has pursued a widow or a surviving wage earner in a family to collect an unpaid balance. I think that is just plain bad business. That has nothing to do with the merits of insurance.

I agree with what Mr. Dunbar has said and I agree with the principle of insurance as I said in my evidence the other day; but I do not agree that in the case of a death in the Canadian economy that the lender goes out and collects. I do not think actually that it is a good policy—with all due

respect to Mr. Dunbar's company in Canada—because I know of some benevolent societies which have written appreciative letters based upon the action taken by companies. I cannot name them, but it seems to me that I recall hearing the name of Personal Finance in the case of a charitable writer; and it is one of the small contributions which we can make in supporting the social function of this business.

The CHAIRMAN: Gentlemen, it is now one o'clock and we are hereby adjourned to meet again at 3.30 p.m.

AFTERNOON SITTING

3.30 p.m.

The CHAIRMAN: We have a quorum, gentlemen. Are there any further question which you wish to ask of Mr. Dunbar?

Mr. E. A. Dunbar, Associate Counsel, the Beneficial Organization, recalled:

By Mr. Follwell:

Q. Mr. Chairman, Mr. Dunbar, I think, has indicated to the committee that he has had considerable experience in the insurance field. I raised the question earlier in the proceedings about payments of premiums, either on the basis of annual, quarterly, monthly or in the industrial field on a weekly basis. I am not sure if the witness would feel that he can aswer this, but if he could I am sure he would give the committee some information. Would you tell this committee, Mr. Dunbar, what rate, or per cent, figured on an interest rate would be the difference between an annual premium payable in one amount or in quarterly premiums or in monthly premiums or in weekly premiums on an insurance policy? The reason I ask that, Mr. Chairman, is that I read an article not long ago in our own local paper which pointed out that insurance premiums, if I recall it correctly, on a 12-month period were about 16 per cent. I was amazed. I had no particular experience in the insurance field. This is the first time the committee has had before it a witness who says he is experienced in the insurance field. If you could answer that question, I would be very gratified to have the information and I am sure the committee would also. —A. I do not have too much experience in respect to the payment of insurance premiums except in connection with loans. I am aware of the fact that where an insurance premium is payable in monthly instalments, or semi-annually, there is an increase in the gross amount of the premium to take care of the fact that a premium is payable in instalments. In those cases with some companies it is about 16 per cent; but that varies from company to company. Most insurance companies like to have their premiums paid on a yearly basis which means that they get their money in advance for the whole year. They do make an increased charge for the acceptance of semi-annual, quarterly or monthly payments. I do not think that anyone knows exactly how much it is; there is no set amount, the companies vary.

I must leave my answer at that point. You would have to have an actuary to do that for you; I am not an actuary.

Q. It was a point which bothered me when I read that. I thought that if you could answer it I would be glad to have the information.—A. I would suggest that you get an actuary from an insurance company.

Q. It would appear to me that the charge paid might be in excess in the light of other bank charges.

The CHAIRMAN: I think, Mr. Follwell, that you had better change your weekly premiums to monthly premiums.

Mr. FOLLWELL: I will do that right away. Like many other Canadians, not being very well off, I am forced to buy insurance and pay weekly payments.

The WITNESS: I would like to say, however, that the expense of accepting small payments is considerable. Clerical expense is one of the elements in the small loans business. There is a considerable expense in accepting and taking care, accountingwise, of a lot of small payments as contrasted with one single payment. It is an element involved in the retailing of any transaction of insurance, loans or otherwise and it is becoming more so in today's labour market.

The CHAIRMAN: Are there any further questions, gentlemen? If not, we will move on to the next witness. It was proposed at this time to call Niagara Finance, but M. C. Gordon Smith, manager of the Credit Union National Association, has come today and has requested that he be permitted to give his evidence now because he has to be in the United States tomorrow. I have taken the liberty of advising him that we would hear him at this time. I hope that that will meet with your approval.

Agreed.

The CHAIRMAN: Mr. Smith.

Mr. C. Gordon Smith, Manager, Credit Union National Association, Canadian Branch, called:

The WITNESS: Mr. Chairman and members of the committee, I am employed by the Credit Union National Association as its manager for its Canadian operations. We work from the Canadian office at Hamilton, Ontario. We function in the ten provinces of our country and provide services over and beyond those offered by the individual credit unions throughout this country.

I have been connected with the credit union movement for more than twenty years, the last fifteen on an active full-time basis. My brief will be very short because I realize that the committee has been sitting for some time. We only wish to offer comments on the proposed Bill 51.

In want to thank the Chairman and the committee and particularly your secretary for making it possible for my being here today.

Recently our work has been quite extensive throughout Canada requiring continual presence in other parts of the country, so I do appreciate, Mr. Chairman, the opportunity of being here today to present to you this brief.

This brief is presented on behalf of the Credit Union National Association with Canadian headquarters at Hamilton, Ontario, appearing on behalf of 2800 credit unions in the ten provinces of Canada.

Dr. John T. Croteau, formerly of Prince Edward Island and now on the staff of the University of Notre Dame, has summarized the operation of a credit union from which we quote:

> The past years have seen the rise of a novel institution of personal finance, the credit union. The needs which this institution is designed to satisfy are as old as history and have been of concern to all societies from the time of the Old Testament. Expressed positively, the credit union seeks to establish agencies of thrift and of personal credit for the middle and the lower income groups; negatively, it seeks to combat the exactions of usurious money-lenders by providing alternative sources of credit to borrowers.

As pointed out in our brief to the Royal Commission on Canada's Economic Prospects, credit unions have the endorsement of leaders, church, government,

business, educators and opinion makers throughout Canada. The Prime Minister of our country Rt. Hon. Louis S. St. Laurent, recently stated:

> The credit union movement offers a splendid example of what can be accomplished when determined people work together for their common good, and I am happy to commend the principles of self-help and thrift upon which the credit unions are based to my fellow Canadians.

Mr. G. R. Ball, president of the Bank of Montreal, wrote:

> I would like to congratulate your association on the progress it has made—particularly in recent years—and as the association's bankers, we are glad to be linked, in some degree, with the excellent work you are doing. There is no doubt that the credit union is performing a most useful function in the Canadian economy and I would like to convey my best wishes for your continued progress.

President of one of Canada's steel companies stated:

> Our company and our management gives 100 per cent support to our credit union as we realize the important part it plays in our way of life.

It may be said credit unions are entirely unique in their purpose, outlook and operation. Many other financial institutions are unable, nor should they be expected, to offer the same kind of service a credit union provides for its members. Owned and operated by the members for their mutual benefit, credit unions can afford to take a personal individualized approach. Their primary goal is to help each other put basic thrift principles to work in daily life. It is not unusual for credit union officers to spend hours of their spare time helping a member untangle a money management problem even when no question of a loan is involved. It is common practice for credit unions to encourage savings, some so small it would not be economical for banks to handle. We estimate 96 per cent of the money invested in credit unions would not otherwise have found its way into savings accounts.

The credit union has little access to funds other than those belonging to the group of individuals comprising the membership. The purpose in coming before your committee today is to provide information and to express some concern, perhaps, with regard to interest rates charged on personal loans.

The credit union movement believes that in order to encourage the investment of savings by individual members in credit unions it is necessary to provide a reasonable return for the rental of the money so invested.

If the interest rate on personal loans is reduced to the point where the return for the money invested is not sufficient to provide an adequate return to its investors, then the service that could and should be rendered through the accumulation of such investments is and could be greatly reduced.

Credit unions also believe that through a lack of investing funds for the purpose of extending personal loans and credit to Canadian people is a condition from which the only recourse the middle and lower income groups have is the services of unlicensed lenders and the ever present danger of usurious interest rates charged by those interested in a profit rather than rendering a service to the citizens of this country.

Credit unions, in addition, believe that interest rates should be the same. Policy 4 reads as follows:

> The Credit Union National Association approves the charging of interest on the basis of 1 per cent per month on unpaid balances on all loans. However, if any lowering of rates should be deemed necessary or advisable, such reduction should be applied on an equitable basis to all members.

Therefore, we believe that if there is to be a lowering of rates, it should be applied on an equitable basis to all borrowers. Thus, the credit unions find it possible to more adequately serve their individual members in the middle and lower income groups.

The CHAIRMAN: Are there any questions, gentlemen?

By Mr. Crestohl:

Q. Could the witness tell us how does one become a member of a credit union? Can he tell us the procedure that is followed in applying and becoming a member?—A. Credit unions are organized under provincial charters. An applicant must be within the bond of association contained in the charter; he or she applies for membership, and the fee for such admission to a credit union is 25 cents. The application is accepted or rejected by the board of directors who have been selected to operate the credit union by the members at an annual meeting.

Q. Membership is not limited to any one particular group or trade or calling or profession?—A. It depends on the bond of association. For example, a community credit union is open to all residents within that community; certain specific geographic boundaries are set up in the law.

Q. It is not restricted to any one occupation?—A. No. We have them in all walks of life. In Canada there are 2,800 credit unions.

Q. When an application for membership is made does the applicant subscribe to capital stock or capital shares of that organization?—A. It is necessary for the member in applying in most of the provinces of Canada to subscribe for one or more shares. Normally they are valued at $5 each in order to encourage every person eligible for membership to join. The rate of payment for those shares is as low as 25 cents per week.

Q. Is the capital obtained from the purchase of those shares the capital with which the organization functions and lends?—A. That is right; that is the only source.

Q. And it lends money only to its members?—A. That is right.

Q. In other words, it is a mutual lending society?—A. Well, yes, I think you could call it that.

Q. They provide it themselves and they lend it to themselves?—A. That is right.

Q. The term "union" has no specific connotation other than organization? —A. That is correct.

By Mr. Cameron (Nanaimo):

Q. Is it not true that the members may also deposit funds other than capital shares?—A. Some credit unions also have, in addition to shares which are a permanent investment for the credit union, provision for deposit accounts.

By Mr. Crestohl:

Q. I am only trying to correlate it to see whether there is any line of demarcation between this and other lending societies in the mechanics of lending money. Is there any difference except that it is restricted to members only?—A. Perhaps you could boil it all down to that. I think we should recall that the subject matter of this bill affects the government of Canada and the provinces. Credit unions are provincial in their autonomy.

By Mr. Pallett:

Q. You have an insurance scheme on most credit union loans. Did you hear the discussion this morning on life insurance?—A. Yes, I did.

Q. Is that system not in effect with most credit unions in Canada now?—A. Of the 2,800 I represent we insure unpaid loan balances for 2,800 of them.

Q. What is the charge? Is there any extra charge?—A. There is no charge. It is included in the 1 per cent per month interest rate.

Q. What do you pay them on deposits?—A. Depositors receive an annual dividend depending on the successful operation of the credit union. The average is perhaps 3 per cent in Canada. Some go higher. On deposits the rates are usually equal to or just a little in excess of the preveiling rates in the community paid by banking institutions on their deposits.

By Mr. Knight:

Q. You mentioned 1 per cent per month; is it not true—I know that it is in the case I am thinking of—but is it not true that a great many of these local organizations in good shape are lending money at only ½ of 1 per cent per month?—A. Many credit unions in Canada follow that practice. The maximum in all the provinces is 1 per cent per month that the credit unions may charge.

Q. How are they by provinces? Some provinces have many more credit unions by population than do others. Could you give us a general breakdown—not necessarily statistics? In what provinces would you say credit unions—of course in the case of the Caisse Populaire it would reveal the province immediately—but have you any breakdown with respect to popularity of credit unions by provinces?—A. The organizational trend in the past two years has been towards more business, government, and industrial credit unions. Consequently Ontario with some 1,200 credit unions has the most organizations by provinces, and then we have British Columbia with 250.

Q. That would not be by population, would it? It is stronger there because the population is greater.—A. Probably that is correct.

By Mr. Fleming:

Q. That would be 1,200 out of 2,800?—A. That is correct.

By Mr. Cameron (Nanaimo):

Q. Could you give us any idea of the number of paid employees that are employed by credit unions? I have in mind the one that I belong to myself and it has two or three fully-paid employees. Is there any sort of ratio in the business with respect to the number of paid employees? You spoke of the unpaid work of the members which I know about.—A. We estimated recently in our survey that with the exception of the Caisse Populaire, the group in Quebec, there are some 85 fully-paid employees in the credit union movement in Canada and perhaps another 250 on a part-time basis. The ratio we generally use is that once an office reaches the $100,000 mark it becomes difficult to operate a credit union on either a part-time or a voluntary basis.

Q. That figure of 2,800 which you gave us a moment ago—does it include the Caisse Populaire in Quebec or is it only for the nine provinces outside of Quebec?—A. No. We have about 200 credit unions in Quebec mainly situated on the island of Montreal in the business and industrial sections there.

By Mr. Knight:

Q. You have said that it is a fairly inexpensive business to join a credit union. As a matter of fact you put the average fee at something like $5. Would it be common in your opinion for the ordinary man to invest—if he wanted from time to time to build up a little reserve which he could use from day to day—if he invested $5 in a membership knowing that he had a loan to make on some day in advance?—A. We hope that he will invest a lot more.

Q. Is there any cheaper way by which he could get money than by belonging to a credit union, that you know of?—A. I know of no cheaper way than through a credit union. I understand that the banks have perhaps a cheaper rate of interest based on the security that you can offer. Credit union loans normally are made on the character of the borrower within the terms or the limits prescribed by the provincial law.

Q. You were saying that the way to get membership is that you make your application which costs you something like 25 cents, and then your application is considered by somebody. Personally I do not know any of my friends who have ever been refused admission to a credit union. Is it usual for people to be turned down?—A. In my long years of experience I have no record of any single Canadian citizen being refused membership in a credit union.

Q. You say no single application has ever been refused to join a credit union?—A. That has been my experience.

Q. So these services are available to everybody if they care to use them?—A. Yes, provided they come within the bond of the association.

Q. There is one other thing. Mr. Crestohl asked you a question and I do not know if you got it clearly, about occupational groups. Is it not usual for an occupational group to start a credit union in their town? You may have a teacher's credit union, or the employees in a certain plant, or of a printing press who might form a credit union and give it a particular name for the people who work at that particular occupation. To all intents and purposes they are the members of that particular institution. Is that common? —A. That is correct, and that is very common.

By Mr. Fleming:

Q. Do any of your unions make small loans to non-members?—A. It is not permitted under the credit union law.

Q. In any of the provinces?—A. In any of the provinces!

By the Chairman:

Q. How big are your loans? What is your maximum?—A. It varies by provinces by the amount of money in the credit union itself. By and large I think the maximum is $10,000 to an individual borrower, at least that is the maximum of our insurance on any one life.

By Mr. Crestohl:

Q. What you have told us has been a bit of a revelation. It sounds like Utopia. I am afraid you have hedged it up constantly with the language "provided it is within the scope of our charter and regulations". I think the committee would be interested in knowing a little more about this "within the scope of our charter and regulations"; could you tell us for example whether there is any relationship between the member acquiring a loan and the amount of investment that he has made in the credit union?—A. No, there is no relationship.

Q. In other words, you can go out and buy one share for $5 and then apply for a loan of $500 and get it?—A. That is right, provided that the application is approved by the committee of his own choice at an annual meeting.

Q. There we have it again "provided"; let us talk about that committee. Are they paid officials or paid staff, or are they volunteers?—A. They are volunteers.

Q. You say they are volunteers; so that your administrative board of directors which approves loans are people who are members of the organization; and they do it as a voluntary service?—A. That is correct.

Q. Then the overhead of the credit union should be very low?—A. That is right.

Q. And that could possibly explain the reason for such a Utopian way of being able to get loan accommodations. Is that correct?—A. Well, there is just enough truth in it to make it a little bit dangerous!

Q. Well, we would like to have a little more explanation.—A. The credit union movement has a basic and fundamental philosophy that extends beyond the cost of operation. We are here for the purpose of making this a better country in which to live through thrift and credit, and our members are inspired normally to serve as officers and directors and as credit supervisory committee members in order to bring that about.

Q. That is what is so really admirable about it. I want to try to correlate it to the regular loan corporations which operate with a substantial overhead and which have to show a margin of profit. Do your members who buy shares —some may buy a $5 share and acquire the right of membership, and others may buy a $100 share; do they get any return for the money which they have invested in the way of shares in the credit union?—A. An annual dividend is paid on shares, and interest is paid on deposits.

Q. I thought a member of the committee asked you if you accepted deposits.—A. Yes.

Q. You accept deposits?—A. Yes, we will do that too.

Q. What does "deposit" mean? Am I right that a man may come along and say "I have $5,000 which I would like you to hold for me".—A. We would be glad to do it anytime.

Q. I know, and it would be a good public service. I think you would hold it as securely as anybody else; there is no doubt about that. But does he get any return on it? You tell us that he gets an annual dividend?—A. That is correct.

Q. Is that a dividend?

Mr. FLEMING: No, he said that the depositor receives a dividend. It is the member who subscribes the capital who receives the dividend.

The CHAIRMAN: He said the shareholder gets a dividend, and the depositor gets interest paid on his deposits.

By Mr. Crestohl:

Q. What is the rate of interest?—A. It is usually equal to or a percentage above that granted by normal banking institutions in the community. If it is 2 per cent at the bank, it would be 2½ per cent at the credit union.

By Mr. Power (Quebec South):

Q. You said you had 85 permanent employees. Are not your managers paid at your local branches?—A. Sometimes they are paid, but normally not. Most of our credit unions operate on a voluntary basis until they reach a point—the question was asked us—of perhaps $100,000 in assets, and then we begin to look.

Q. Surely you must have more than 85 if you have 2,800 branches.—A. There is a manager for every one of the 2,800 credit unions. Your question was about the paid employees.

Q. Yes. Presumably out of 2,800 there must be more than 85 branches which have $100,000 or over?—A. I am speaking now of credit unions. I think when you get to the Caisse Populaire you will find a different picture. That was our estimate for the survey for the committee on Canadian economy. It may have changed a few one way or another since then.

Q. What is your experience with regard to losses on loans?—A. The losses experienced by credit unions generally are lower than those of most financial

institutions with which we are familiar. Our last report indicated 1/10 of 1 per cent on amounts lent during the year's operations, on a 12-month operation.

By Mr. Hamilton (York West):

Q. Continuing the line of questioning: the shareholder gets a dividend, you say, and the maximum rate is one per cent per month, and you pay 3 per cent to the depositors? Have you got figures to show the over-all earnings on the invested capital, the rates generally being paid back by way of dividends?—A. I am sorry, but I do not have an answer to that.

Q. Could you tell us whether your earnings are 5, 6 or 7 per cent of your total capital invested?—A. Perhaps I could attempt to explain it. Credit unions lend money and as interest or income comes in the expenditures for operating the credit union is met; that is the first charge; the next 20 per cent is set aside as a guarantee under the regulations of the various provinces to take care of losses. The balance is generally distributed back to the individual members in the form of dividends on their shares or interest on their deposits, and very often as refunds on the interest they have paid for money they borrowed during the year if the credit union is successful.

My credit union pays 4 per cent dividends on my savings and my shares. A 3 per cent dividend is paid on deposits, if I have any. They repaid 25 per cent of the interest I paid during the last year on the money I borrowed. So the money is all distributed and all that remains at the end of the year is the guaranteed fund required by law and a small balance because you cannot divide it exactly out to the companies what is left.

By Mr. Power (Quebec South):

Q. Have you any idea of the amount of money lent by credit unions last year?—A. I do not have any figures for last year, but for 1954 it was around $250 million.

Q. To what number of borrowers?—A. I am sorry but I cannot answer that.

By Mr. Fleming:

Q. Following the answer you gave to the chairman's question when you said that the maximum loan allowed was $10,000, I wonder if you could tell us what is the average loan, and give us some idea within what range of loans the maximum number of loans is actually made?—A. I would say that the average loan to a credit union member in Canada, coming within our scope, is $350.

Q. That is the average?—A. Yes.

Q. Would you state within what limits the great overwhelming bulk of loans are made? Would it be somewhere between $250 and $500, say?—A. I think that would be a fair statement, Mr. Fleming.

By Mr. Enfield:

Q. Mr. Smith, when you said anyone could become a member—and this is to clear my own confusion—you meant, did you, that anyone who falls within an occupation group, or other well defined group for whom there happens to be a credit union organization?—A. That is correct.

Q. So there would be a vast number of Canadians, of course, who could not become members of a credit union?—A. That is correct.

Mr. CRESTOHL: Anybody in Canada can become a member. There is no limit. You do not have to be a member of—

Mr. ENFIELD: Let us get this straight, I just said, and Mr. Smith agreed with me, that you had to belong to an occupation group, or other well defined group.

Mr. CRESTOHL: No, no, I think we should—

Mr. ENFIELD: Yes, just a minute.

The CHAIRMAN: Mr. Smith agreed with that statement.

Mr. ENFIELD: He agreed with my statement. Therefore, unless you do belong to such a group, where a credit union happens to be organized, you cannot become a member of a credit union.

By Mr. Crestohl:

Q. To clarify that, what specifically is meant by a well defined group? You have got to be a member of a well defined group before you can be a member of a credit union. What does that mean?—A. An employee, for example, of the House of Commons here, or in a business—

By Mr. Follwell:

Q. An M.P., for example?—A. We have many dozens of parish credit unions throughout Canada that your parishioners start for that particular church. We have hundreds of community credit unions in well defined areas that radiate from perhaps the center—the town hall for example, anybody in that group can belong.

Mr. CRESTOHL: That I can understand; so anybody living within that town, or within that radius, regardless of what calling, trade, or profession he may have, can become a member of the trade union?

Some Hon. MEMBERS: Credit union.

By Mr. Crestohl:

Q. Of a credit union.—A. That is correct.

Q. Some of my friends would like it to apply to trade unions as well. Now, am I right, Mr. Smith, in assuming that?—A. You are correct. But, I do not think you are correct, however, in assuming that every citizen in Canada may belong to a credit union. There just is not one available to everyone.

Q. That is right; but if there is a credit union in that area where he resides?

By Mr. Fleming:

Q. A community credit union?—A. A community credit union.

By Mr. Crestohl:

Q. Yes, he can become a member of that.—A. Yes.

Mr. FAIREY: Provided he passes the examination of the selection committee.

By Mr. Crestohl:

Q. I wanted to ask about that, Mr. Smith. The giving of credit you said was decided upon by a committee of volunteers who, I assume, are selected by that particular group. That is a committee of credits or a committee of loans, they would be called?—A. That is correct.

Q. Can you tell the committee here what form of guarantees, if any, that committee requests before they authorize a loan?—A. Are you referring now to the security required for a loan?

Q. That is correct.—A. Certain prescribed laws differ by provinces.

Q. Tell us about some of them? Let us take Ontario.—A. In Ontario here, normally we can make a loan, in a credit union, up to $400 without security.

Q. Without any security?—A. That is right. Above that must be secured, and the security is spelled out in the law.

Q. Can you illustrate the general types of securities for example?—A. Co-signers of a note, assignment of wages or moneys receivable, and any other type of security that satisfies the committee.

By Mr. Follwell:

Q. Do you take chattel mortgages?—A. We take chattel mortgages.

Q. Do you take property mortgages?—A. In a community that has a real estate firm, they will take first mortgages on real property; that is permitted.

Q. Mr. Smith, you said to become a member you have to purchase at least one share with a value of $5, and to purchase that share you can pay for it on the instalment basis of 25 cents per what—week, or month?—A. Depending on the period of your income. If you are paid by the week you can pay for it by the week.

Q. Is that set out then by this committee of three who direct the operations?—A. That is a policy that is set by the board of directors of the credit union. They are not concerned with lending policies or organization.

Q. The board of directors of your executive committee of all the credit unions, or of the one?—A. Each individual credit union. I should have said, Mr. Chairman, that each credit union is autonomous.

Q. I see. Well, then, Mr. Smith, it is set out then by the board of directors that I, for instance, could join by committing myself for one share of stock in the amount of $5, and would pay, if I wished, at a rate of 25 cents, whatever the agreement might be, per week, or per month, and I presume it would not be more than per month anyway, and then when the stock is issued and the member who owns one, or more shares of stock wishes to dispose of his stock and withdraw from the credit union, what happens? Can he sell his stock to anyone he can find that will buy it, or is it the policy of the particular credit union, or of the credit unions to buy capital stock and put it into the treasury and then resell it again?—A. In the first place, Mr. Chairman, I would like to state that there is no such thing as stock involved in credit unions. We use the term "shares" simply to indicate a portion of the member's savings on which a dividend is paid. We do not issue stock. A member receives a passbook in which is noted his savings for that particular week. When he accumulates $5 that becomes a share in the credit union automatically. Any other deposits that he makes with the credit union will be entered either in the share account, or on the deposit side, whichever he prefers. His money, all except the initial 25 cents, may be withdrawn at any time the credit union is open for business. Does that answer your question?

Mr. FOLLWELL: Yes, I think that answers it.

The CHAIRMAN: You have no share capital in credit unions?

The WITNESS: No.

By Mr. Follwell:

Q. Then, I understand that if I wish to cease to be a member, if I am a member, all I need to do is to withdraw my money that is on deposit—which can be partly deposit and partly for one share, is that right?—A. It would depend, Mr. Chairman, if you had applied it as security on a loan. In that case we might hesitate.

Q. Tell me how one would go about negotiating a loan in a credit union. You have a manager, who is not paid in most cases, you said?—A. That is right.

Q. You have a board which decides whether or not the applicant is a good risk, or whether you should loan him what he asks, or only part of what he asks; then after they decide to lend a man $500, or any amount, how do they recover that? Are payments made to the manager?—A. That is right.

Q. Or to the secretary; and they in turn carry out all this business without usually being compensated?—A. That is correct. Many credit unions over a widespread area in a community will have collectors who operate voluntarily, and you may make payments to them.

By Mr. Knight:

Q. Just on that point, and I think it will help you perhaps: Is it not true that in communities where large and successful credit unions are on their feet, in many cases they have an office where there is a full-time employee or employees, and they are actually doing a banking business? They certainly are in the province of Saskatchewan, where you can issue a cheque on your credit union and do your business ordinarily, as if it was an ordinary bank. That is true, is it not?—A. We do not like to admit that a credit union is in the banking business, sir. I will agree with you, sir, that they do operate in that fashion.

Q. If there is a credit union among a group of employees in an aircraft factory, for instance, or in any other industry or factory, then are payments frequently deducted from their pay by the employer?—A. They are.

Q. And that is done, I presume, on the basis of an agreement between the credit union and the employer?—A. That is right.

Q. Then, is it possible that business would be done during working hours, for the credit union, between one employee and another employee, and it probably would not involve any expenses or time to the credit union? They probably would be paid for by the employer, is that right?—A. We do not approve of that, but it does happen. We prefer that the membership own the credit union and operate it. In many industries in Canada management provides time and space for the credit union to function, with no cost to the organization.

By Mr. Enfield:

Q. What about payroll deductions?—A. Payroll deductions usually go along with that type of operation. We do not do it with all industries, but with most we do, in Canada.

Mr. FOLLWELL: Mr. Smith, would you give the committee your views as to the public service value of small loans companies in general, including the credit unions?

Mr. CRESTOHL: I think that is a difficult question to ask this witness, Mr. Chairman.

Mr. FOLLWELL: Oh, I think the witness is quite qualified to give an opinion and I am sure the committee would welcome it.

Mr. FLEMING: Would it be fair for you to tell the witness, Mr. Chairman, that this is not the sort of question he has to answer if he prefers not to.

The CHAIRMAN: He does not have to answer any question.

Mr. CRESTOHL: Intuitively I object—

Mr. FOLLWELL: I do not want to embarrass the witness in any way and I am sure he realizes that, but he is in that field—he is in a good business—and I am sure his organization is operating to the benefit of a great many people, and my question gives him the chance of telling us just how well they are operating for the benefit of a great many people.

Mr. FLEMING: I am not so sure he appreciates the chance you are offering him.

The WITNESS: Mr. Chairman, I would like to say just this: earlier this year I attended before a committee on Agriculture and Colonization and a similar question was asked and I gave a personal answer; and that did not go down too well with our own people. However, if you are asking it personally and if that will appear in the record I would certainly like to make a personal statement.

Mr. FOLLWELL: I will be pleased to hear a personal statement if that meets with the approval of the committee; I am sure it does not need to go on the record if you do not want it in.

Mr. FLEMING: Anything said ought to go on the record.

Mr. FOLLWELL: If that meets with the approval of the committee. If the committee objects, that is their privilege.

Mr. CRESTOHL: I do not think we are interested in off-the-record proceedings.

The CHAIRMAN: Let me put another question to you in this way: would it be desirable that these individual credit unions should be kept to below a certain size? If they go above a certain size they are bound to become involved in salaries, rent payments, printing, office equipment and that type of thing. Is there a point at which they operate most efficiently and cheaply in order to give people the service they provide?

The WITNESS: We would resist any effort, to the best of our ability, to restrict the size of credit unions.

The CHAIRMAN: I do not mean unions in general, but individual unions.

The WITNESS: I believe I speak on behalf of all of them when I say that the primary function is thrift and there should be no limit on thrift in a credit union; for that reason we would resist any attempt to keep us at—

The CHAIRMAN: But they could become very large—would not an individual credit union have to reduce its profits in that case by reason of the fact that it would have to pay full time employees, pay rent for the offices and office accommodation and all that is necessarily involved in a large operation?

The WITNESS: That is not our idea.

Mr. KNIGHT: Might I suggest Mr. Chairman that I do not think you are using the right word when you speak of "profits"; credit unions do not talk of "profits"—

The CHAIRMAN: You can call them by any other name, but they have to make profits in order to survive and pay interest on their deposits and so on.

Mr. FOLLWELL: That leads me to one other question: do the members of the credit unions pay income tax on money received as dividends or interest on their accounts?

The WITNESS: That is right, they must report them.

By Mr. Power (Quebec South):

Q. Is there any limitation on the number of shares an individual may have in a credit union?—A. Some unions have a limit, but we recommend that there should be no limit on amounts which a member of a credit union might wish to save.

Q. Could that not be dangerous? One fellow might take over the whole thing?—A. If he does that it is because the democratic principles of the movement have been lost because of lack of interest on the part of the members in using their rights.

By Mr. Cameron (Nanaimo):

Q. The fact that a man may own more shares does not give him a multiple voice in any decisions?—A. He has one vote.

Mr. POWER (*Quebec South*): And election of the directors is by individual vote, not by the number of shares?

The CHAIRMAN: There are no shares.

Mr. POWER (*Quebec South*): He has been talking about shares.

The CHAIRMAN: He has been using that word but in a legal sense there are none.

Mr. KNIGHT: Would the witness be prepared to say that the correct word is "membership". One member, one vote. That is the principle.

The WITNESS: That is right.

Mr. CRESTOHL: Could you tell us Mr. Smith how large can a credit union grow before it requires paid help—in terms of numbers of members?

The CHAIRMAN: He answered that in terms of money.

Mr. CRESTOHL: In terms of money or members.

The CHAIRMAN: He said that once it gets to a position where its assets exceed $100,000—and I use the word "assets" not in the literal sense.

By Mr. Crestohl:

Q. But below that there is no paid staff?—A. Sometimes a credit union, being autonomous, will put a man on before that, but we recommend that size.

Q. There is a good deal of bookkeeping to be done, is there not?—A. That is correct.

Q. Is that on a voluntary basis in most of the credit unions?—A. I would say yes.

Q. Are the credit unions open for business during normal business hours? —A. Depending on their locations and the voluntary aspect of it. For instance, a parish credit union might be open only on Sunday morning before Mass or on one night of the week. Credit unions in business, government or industry would be open during business hours.

Q. I am trying to see whether this is not a similar type of organization to that which existed in the province of Quebec some years ago under the Loan Syndicate Act of the province of Quebec— —A. I am not familiar with it.

Q. —where a group of 10 people could gather themselves together and constitute themselves a loan syndicate and apply to the provincial authority for a charter to authorize them to carry on business. You have never heard of it?—A. Never.

Q. How long have you been in this business?—A. Twenty-two years.

Q. In Canada?—A. That is right.

Q. And you have never heard of the fact that these loan syndicates in the province of Quebec some 20 years ago kept mushrooming until they eventually reached 2,800 or more—I do not know the exact figure—and ultimately most of them collapsed with severe losses to the members who had money deposited. Have you never heard of that?—A. No I have not.

The CHAIRMAN: Is this a warning, Mr. Crestohl?

Mr. CRESTOHL: No, Mr. Chairman it is not a warning, but if it is the same kind of organization there was a very sad experience in the province of Quebec which, I take it, perhaps may be of interest to the committee.

Mr. KNIGHT: What has it got to do with this anyway?

Mr. CRESTOHL: I wanted to know if it was a similar sort of organization.

Mr. CAMERON (*Nanaimo*): Do you know all about its financial organization?

Mr. CRESTOHL: Not all about it but something; I read it in the newspapers.

Mr. PALLETT: Is there not a witness to be called from the Caisse Populaire who might be able to deal with this?

Mr. CAMERON (*Nanaimo*): Is there a central organization in a position if necessary to supply additional funds to local credit unions if there is any particular emergency?

The WITNESS: The central organization does so in our province.

By Mr. Fairey:

Q. Do they transfer funds from one union to another?—A. They deposit funds in the central organization which are used to assist credit unions who are short of funds.

The CHAIRMAN: What is the function of the Credit Union National Association of which you are the manager?

The WITNESS: Our particular function is in the field of organizing credit unions providing educational services, taking care of the needs of the credit unions in the fields of literature, bookkeeping, supplies, the bonding of officers and life insurance on loans and savings.

The CHAIRMAN: Have you achieved uniform bookkeeping and a uniform record system?

The WITNESS: Yes, we have.

By Mr. Hamilton (York West):

Q. I was interested in the impression that this membership was available to anyone in Canada. Am I correct in this assumption that if there is a community association and you happen to be a member of the community, a parish, for example, you can join but if there is no such general classification where you happen to reside and you are, say, a dog-catcher, you would have to take the initiative and form a group of dog-catchers? Is that the situation which really confronts a person?—A. That is correct, except for the term you used.

Q. All right— —A. I am a dog lover myself and the term "dog-catcher" does not sound too good.

Q. Very well, let us say "members of parliament". If there was a community association you could join, but if there was not a community group someone would have to take the initiative or we could not get credit through your union.—A. That is correct.

Q. And there must be an awful lot of people who are not in an organized group of that kind or who have not had someone take the initiative to form an association.—A. I think, Mr. Chairman, that the honourable Senator when he appears before you will perhaps report that there are some 2½ million fully paid members of credit unions and Caisses Populaires which will give you an idea of the scope of our operations.

By Mr. Cameron (Nanaimo):

Q. Could you tell us what steps are required in forming a credit union? I know that the method varies from province to province, but take any province —Ontario, of British Columbia.—A. In Ontario 20 persons are required to apply to the provincial secretary for a charter. As you say, the procedure varies. In Quebec I believe the number of people is seven; in some other provinces the number is 12.

The CHAIRMAN: One of your tasks is, I presume, to try to fill the vacant places?

The WITNESS: That is right. We will be glad to start one in your neighbourhood.

By Mr. Knight:

Q. We have been told about the purposes for which people usually borrow money from the small loan companies. Could you tell us just what in your opinion are the three or four main purposes for which people in credit unions borrow money?—A. With the change in economic conditions over the years, credit unions have changed, too. In the early days a great many loans were made to rescue citizens or members of credit unions from debt. Today our loans are made for a variety of purposes with the purchase of consumer goods now beginning to play a more important part in our operations. I would think, however, that still very high on the list would be the payment of medical and surgical expenses incurred by families who are members of credit unions.

Q. What about the building of houses? Where does that come in?—A. That field is one in which credit unions cannot participate until they reach a point where they have sufficient funds to set aside. That is because we have considered it unsafe to invest more than 25 per cent of the assets of a credit union in first mortage loans.

By Mr. Enfield:

Q. What about corporation taxes?—A. We do not pay corporation taxes as long as income is primarily secured through loans to members.

Q. That is nice, eh?

By Mr. Argue:

Q. And put out as dividends?—A. Yes.

Q. And any other company could do the same if they wanted to pay the profits out in a patronage dividends—they would also, then, not be subject to corporation tax.

Mr. ENFIELD: Why do you not let the witness answer. Could you give us the story on corporate taxes?

The WITNESS: The income tax laws provide that a credit union is not subject to tax if its income is derived primarily from loans made to members, in investment in the bonds of Canada and certain other specific security savings.

By The Chairman:

Q. Does all the revenue which you receive from your loans have to be paid in the form of dividends or interest on deposits, or are you allowed to keep some of that as working capital?—A. No. Normally it is paid back to the members. We consider that from a policy operating standpoint, the 20 per cent set aside is sufficient to guarantee the safety of the credit union itself.

Q. And that portion which you set aside is not subject to corporation income tax?—A. No.

Q. Do you have more applications for loans than you are able to make?—A. In certain parts of Canada we do. In the industrial sections of Ontario at the moment the credit unions are in need of money.

Q. You are always short of funds. Is that the answer?

By Mr. Fleming:

Q. I take it that every union operates independently of the others. If one had a shortage of funds to meet requests for loans would it not find another union which perhaps had an excess of money available which would lend

money to the union which had a shortage? Is there much of that going on?—A. Yes. Each credit union may borrow from another, or from a chartered bank or trust company specified in the law, or from a central organization which accepts the surplus funds of those credit unions who have no call for credit.

Q. That is what they can do; but I was asking about the actual operation. What is the extent of lending from one union to another? Do you have any figures at all on that?—A. No; but I could give you an example where my own union has loans in excess of $100,000 and is capitalized at $2 million. Now, it is almost a permanent loan to carry all loans.

Q. Was that borrowed from other unions?—A. Borrowed from the central organization in the province.

By Mr. Fairey:

Q. You pay interest on that to the central organization?—A. Yes. It is usually at 4 per cent per annum.

By Mr. Pallett:

Q. How many credit unions are there in the United States?—A. There are about 16,000 in North America; 4,000 in Canada; so there are about 12,000 credit unions in the United States.

By Mr. Follwell:

Q. I think you said, in answer to Mr. Knight, that the credit unions did not always charge 1 per cent per month. Correct me if I am wrong, but you did say that they could charge 1 per cent per month but in many cases they charged less?—A. That is correct.

Q. When you said "many cases", how many would there be and where would they be located—in Ontario, Quebec. How many would there be and what rate would they charge?—A. The rate varies from ¾ of 1 per cent to a half. I would like to mention that in Alberta, Saskatchewan and Manitoba the normal rate there would be perhaps ½ of 1 per cent for rural credit unions and 1 per cent for those in the cities and towns. Ontario would be the largest.

Q. What would dispose them to do that?—A. Sometimes it is a desire to offer a service that the average resident in the community may secure from a bank.

Q. To meet competition from the bank?—A. Yes.

Q. There is another thing in which I am interested. In regard to collections, what steps do you take to recover a delinquent account? For instance, have you had any executions? Do you have to seize chattels and sell them?—A. At times that is necessary.

Q. You have had that experience?—A. Yes.

Q. You find probably that people in credit unions are the same as people every place else?—A. I would like to state that more than 98 per cent of our members are basically honest and intend to repay. Sometimes they need a little urging.

Q. Would you indicate to the committee that pay roll deductions do help to get your money in?—A. They do help, that is correct.

By Mr. Crestohl:

Q. Mr. Smith, could you tell us whether these loans are repayable weekly or monthly?—A. Depending on the individual borrower. If he is an employee paid weekly he may want to pay his loan weekly. If he is a farmer he may want to borrow in the spring and pay it back in the fall.

Q. How do you calculate your charges for a loan? Assuming that a man makes a $500 loan, he would pay you, assuming he was in a credit union, a

charge of 1 per cent per month. If he asked for it for a year, would he then specify that he will repay it monthly if he wanted to repay it monthly.—A. That is correct.

Q. Then it would cost him $60 to obtain that loan for a year. How much does he receive?—A. That is not quite right.

Q. $500.—A. Yes.

Q. At 1 per cent per month would be $60 for the year.

The CHAIRMAN: On decreasing balances?

Mr. FLEMING: Diminishing balances.

By Mr. Crestohl:

Q. Wait a minute. I want to ask this: how do you calculate your charges if he borrows $500 at 1 per cent per month? He will repay it monthly. How much money does he receive from you at the time that he asks for that loan and you give it to him?—A. $500.

Q. At the end of the one month he has to repay you 1/12 of that $500?—A. That is correct, plus interest at 1 per cent on the unpaid balance which would be $5.

Q. I see.—A. The cost of a $500 loan, sir, would be about $33 in interest through a credit union repaid in regular monthly instalments at 1 per cent per month.

Q. He pays the interest on the unpaid balance?—A. Correct.

By Mr. Follwell:

Q. You have the benefit of payroll deductions in many cases, you have said, and have indicated that you have limited membership, and also that you have no overhead in respect to wages and salaries in most credit unions, and no office expense, and no corporation taxes, no advertising or any other expenses; therefore, do you think that 1 per cent per month under those conditions is a little bit excessive?—A. The function of a credit union, Mr. Chairman, is to educate our citizens in how to handle their own financial affairs. I think we should be very clear that all of the things which the honourable member has mentioned here do not actually apply to a credit union. For example, we do—

Q. I just wanted to give you an opportunity—

Mr. FLEMING: It is another of those opportunities which Mr. Follwell has given you.

The WITNESS: We do have expense in every credit union. Their bookkeeping supplies are necessary, and we recommend a 1 per cent interest rate because it does provide some funds to perform an educational function among our credit union members to solve their financial problems first and educate them in handling the financing from then on and set up a thrift program. So, a 1 per cent rate is sufficient, we consider, to do a job in that particular field and it is not, in our opinion, excessive.

By Mr. Cameron (Nanaimo):

Q. Would you say because of the fact that all your borrowers are also members of your association that it really makes very little difference to the member how much of an interest rate is charged to him. If it was 5 per cent per month it would be a return to him later, would it not?—A. No. A portion of it after expenses, the guarantee fund and whatever else is included, would be returned to him.

Q. Yes.—A. I think it would be extremely difficult to make credit union loans at 5 per cent per month.

Q. I think it would, but the point which I wish to make is that the borrowers are also members?—A. Yes.

By Mr. Fairey:

Q. You mentioned that the loans are insured?—A. Yes.

Q. And that the charge for insurance is included in the rate per month?—A. Yes.

Q. What is the insurance?—A. We insure the borrower against death and total or permanent disability. The amount to be paid is the unpaid balance at the time of death or disability, plus delinquent interest on the loan, if it is delinquent, up to a period of six months.

Q. Does the credit union as an organization have a group policy with some outside company?—A. It has a group policy with a company owned and operated by our credit unions in Canada here and throughout North America.

Q. That is an expense then on your organization. The principal which you pay to the central organization, which insures the policy, becomes an expense of the individual credit union?—A. That is correct.

Mr. BENIDICKSON: We had some evidence that on a twelve-month loan for $300, that the involved expense was $1.50. How does that relate to your business?

The CHAIRMAIN: Fifty cents per one hundred is the rate quoted.

The WITNESS: Our credit unions operate in a slightly different fashion. The premium paid by the credit union on its unpaid loan balance, taken from the monthly statement, is 75 cents per $1,000 per month, or $9 per annum. So the cost of insuring a $300 loan for one month would be something like 25 cents perhaps. That would reduce with the balance.

By Mr. Crestohl:

Q. Who are the shareholders of that insurance company?—A. The Cuna Mutual Insurance Society carries most of it.

Q. Who are the shareholders of that insurance company?—A. The credit unions own it.

Q. The credit unions themselves?—A. Yes.

Q. All the members of the credit unions, the individuals?—A. Let me correct that by saying the policy owners which are mainly credit unions; we do have some individual policy owners too.

Q. When you apply for a licence to carry on insurance I understand that a substantial deposit has to be made with the federal government?—A. Yes.

Q. Where do the funds come from for that deposit?—A. They are accumulated through the operations of the society prior to the registry with Mr. MacGregor which took place in November 1942.

Q. Which society?—A. The Cuna Mutual Insurance Society.

Q. That is a sociey composed of whom?—A. The policy owners who are credit unions or individual members.

Q. Does that mean that every person who is a member of a credit union anywhere in Canada whose branch is associated with your central organization is a shareholder of that insurance company?—A. In essence, yes. But he has only one vote, as his credit union vote, rather than the individual member.

Q. Then there is a board of directors elected for that insurance company to administer its affairs?—A. Yes.

Q. How is that board elected?—A. By the policy holders.

Q. How many policy holders would you say there are in Canada—4 million?——A. No. We have 2,500 credit unions and I expect perhaps 10,000 individual members. They would each have a vote.

Q. Each of the 10,000 members has a vote for the election of the directors of that insurance company?—A. That is correct.

Q. I take it that is done at a meeting of some kind?—A. At a number of meetings held throughout the country, not a central meeting. It is done at what we term an area meeting. We had one in Ottawa here, and in all parts of Canada.

Q. Would it be easier if we understood it as being that the directors are elected at a convention of representatives of all these credit unions?—A. Yes.

Q. I see. Each credit union elects a delegate to a central conference which takes place at a given time and place and it is at this central conference or convention that the officers, or the directors, of that central association and the insurance corporation are elected. Is that correct?—A. There are two separate corporations, sir. There is an insurance company which is under the laws and the credit union association, both of which have a board.

Q. But you do have a convention periodically, I assume, once a year?—A. Yes.

Q. And it is at this convention that the directors of both the central organizations are elected?—A. Yes.

By Mr. Fleming:

Q. I wanted to get one question in before Mr. Crestohl started on the other point, on the matter of the insurance rates to follow up the comparison of the figure that was given to us by Mr. Smith and the one given this morning by Mr. Dunbar who said that the rate of 50 cents per $100 per annum is equivalent to a rate of 9 per cent per annum, or 75 cents per $1,000 per month. Am I right in that? In other words, is the rate which you have quoted the same rate which was quoted by Mr. Dunbar? That is one thing I wanted to clear up.—A. I did not hear Mr. Dunbar's statement; but I can tell you that our rate is 75 cents per $1,000 per month.

Q. Was not that the statement that we had this morning?

Mr. E. A. DUNBAR: Yes; the rates are just the same. It is a matter of the declining balances on the loans. If you have $100 outstanding for one month, and if it is a 75-cent rate, the insurance would cost 7 cents for that particular month; or 7½ cents; and for the following month the amount would decline, and for 12 months the total amount would be 50 cents on $100.

Mr. FLEMING: So if you quoted it at 75 cents, that is on the whole period, and that would work out exactly at this same rate, namely, 50 cents per $100 per annum is precisely the equivalent of 75 cents per $1,000 per month.

Mr. DUNBAR: Yes, sir.

Mr. FLEMING: Thank you.

By Mr. Fairey:

Q. This central organization creates quite a profit, and if so, is that profit distributed to the members of the credit unions?—A. That is correct.

By the Chairman:

Q. The individual policy holders are these people who buy life insurance in this corporation?—A. That is correct, and they must be members of the credit union.

Q. As long as they are members of the credit union they can buy life insurance. Are they limited as to size?—A. Depending on their insurability and their age at the time of the application. Our maximum is $22,500 on any one life.

Q. Do they get a cheaper rate than the normal insurance companies could provide?—A. We think they do, but we are not in the business of an insurance company or in the field of providing credit in competition with any other organization, so we are not concerned with that aspect of it.

By Mr. Follwell:

Q. Would you say that the insurance companies owned by the credit unions are only in business to take care of the coverage for the credit unions?—A. That is correct.

Q. They do not do any outside business whatsoever?—A. None, whatsoever.

Q. You indicated that you borrow money; the individual credit unions borrow money, and you said that your credit union—you mentioned that it was your credit union several times; I do not know whether you care to tell the name of it to the committee.—A. I was formerly employed by the Corporation of the City of Hamilton and a credit union was organized there in 1935 and it is still operating in that particular field and I am still a member of it.

Q. You have been in it then for quite some time?—A. Yes.

Q. You say that they borrow money. What would be the reason for them to borrow money? Do you sometimes have mismanagement in some of the local organizations?—A. If the total demand for loans exceeds the assets in the credit union.

Q. You never just run short of money because it has not been properly looked after or operated efficiently?—A. No.

Q. And you never have?—A. No.

By the Chairman:

Q. What about that 2 per cent you mentioned? You said that 98 per cent of people are honest. What would be your remedy? Just expulsion from the organization?—A. The 2 per cent represents 1/10th of 1 per cent of loss of fair loans by the credit unions.

Q. When people turn out to be pretty sour, what is your remedy? Just expulsion from the organization?—A. No, that would defeat the educational functions of the credit unions. We believe that practically every citizen can be rescued from financial difficulty if given a sympathetic hearing and an opportunity to prove himself.

Q. But you would still have some losses?—A. That is right. There may be people who will leave and disappear but eventually we may collect from the insurance company. Normally we do have some losses.

By Mr. Fairey:

Q. You mentioned in answer to Mr. Follwell about sometimes having a greater demand for loans than you had funds with which to accommodate those demands, so you have to borrow.

Do you not sometimes have the reverse process?—A. That is correct.

Q. What happens in that event?—A. There is a normal channelling from the central organization to investment in the bonds of Canada or its provinces.

Q. Or you may lend money to another sister organization?—A. That is possible too.

Q. Someone asked you a question as to what he might do when he got out of a credit union and you answered it; now I want to ask you this: you may have a local credit union for instance working in my city in the west, and a member of that credit union may decide to change his occupation and to go somewhere else to work, perhaps even come to Ottawa or Montreal to work.

Is he given, without question, his assets in that particular local credit union?—A. That is correct, unless he has pledged any security for a loan which is still unpaid.

The CHAIRMAN: Are there any further questions?

By Mr. Enfield:

Q. Are all the policies and the actuarial work of drawing them up and the actual insurance work done on a voluntary basis?—A. No, that is done by a separate organization. The insurance company has 35 employees in the Hamilton office who operate that organization.

By Mr. Follwell:

Q. What is the capital of that insurance company at the present time?—A. Our capital—if we may call it that—is by and large invested in reserves, and all the money we have in Canada is with the receiver general in trust or in trust for him; the amount is established by our annual operations in the insurance industry and is governed by the superintendent of insurance here. We just about operate on a basis of having sufficient reserves to guarantee the policies, and to pay the policy holders on demand.

Q. To whom do you pay the dividends from the insurance company?—A. To the policy owners, the cerdit unions, and the individual people who participate.

Q. How long have you been operating?—A. The insurance company was organized in 1935. It began operations in Canada by mail in 1937 and came under dominion registry in 1942.

Q. Have you been declaring dividends since that time?—A. Yes, with the exception of two or three years.

Q. And your operation has been quite successful?—A. Yes, we think that it has been.

Q. You said one thing which I did not understand. You said to Mr. Hunter when he asked you about it that eventually one might get it from the insurance company. You mean when the man dies?—A. If he dies prior to the age of 70, the company will pay to the credit union the amount of his unpaid loan balance regardless of his delinquency.

Q. If a man 40 years of age has a loan and does not pay it back, and then he dies at 69 years of age, you can still collect from the insurance company?—A. If the premium has been paid on the amount during that period, yes.

Q. You mean if it has been paid from the time he was 40 years of age until he was 69 years of age?—A. That is right.

Q. You have to keep on paying it?—A. Yes.

By Mr. Enfield:

Q. That insurance does not merely cover the losses; you would be expecting obligations under the policies in the normal course?—A. Yes, just like any other insurance company.

By Mr. Crestohl:

Q. Does everybody who becomes a shareholder and a member and buys a share for $5 decide also to become a policyholder?—A. Not as an individual, no. The credit union is the policy owner.

Q. When you speak of policyholder you are speaking of those 2,800 credit unions? They are the policyholders?—A. In addition to that, we have individual policyholders.

Q. How does the individual become a policyholder?—A. Through his membership in the credit union; he may apply to the insurance company for protection on his own just like any other normal organization.

Q. In the same way as he applies to be a member of the credit union, and afterwards possibly to become a policyholder of the insurance company?—A. That is right.

The CHAIRMAN: That is not so automatic!

By Mr. Crestohl:

Q. I thought it was; in other words, he also pays for a share or membership in the insurance company as he does in the credit union.—A. No, it is like the normal bringing in of any insurer, if he applies for insurance.

Q. If he takes out a policy he becomes a policy holder?—A. That is correct.

By Mr. Follwell:

Q. You have all types of life insurance for the members of your credit organization?—A. Not all types; we are restricted to pure insurance as we call it; we do not have all types of insurance such as straight loans, terms, and mortgage insurance. Those are the three fields in which we do not function. That would conflict with the savings program in the credit union in our opinion.

By Mr. Hamilton (York West):

Q. I was interested in an interjection after one of Mr. Follwell's questions. He asked if you thought one per cent was excessive, and the interjection was to the effect that what difference would it make, because it all goes back anyway. It does not go back necessarily to the same person, that is, to the borrower?—A. That is correct.

Q. In other words, if I am a subscriber for $5 and a borrower, and if I find the rate excessive, when the money was going back to someone who had invested $5,000 or as a depositor for $5,000, then he would be the person who would get back the return on the money, would he not?—A. That is right; that is the rental for his investment in the credit union.

The CHAIRMAN: This idea that it is a matter of the interest rate that you charge is entirely fallacious!

By Mr. Bell:

Q. Do you know, roughly, what percentage of your business comes from communities which do not have banks or banking service?—A. I am sorry but I cannot answer you.

Q. You would not know whether it was 10 per cent or 25 per cent?—A. It would vary by provinces. I know that in Saskatchewan many credit unions were organized when the banks moved out. I think that is a fair statement.

By Mr. Crestohl:

Q. Mr. Chairman, I have one more question, if I might. The central office renders some services to each of the individual credit union members in outlying—spread throughout Canada, is that correct?—A. That is correct.

Q. Do these credit unions have any fee for the services which the central office renders to them?—A. They do.

Q. How is that fee established, and to what extent; and what is the basis for it; and can you give us an idea in dollars and cents?—A. The total income from dues paid to the Credit Union National Association of Canada amounts to about $35,000 per annum. That is paid on an assessment basis. Each individual credit union member—his credit union is assessed. If we had 100 members, their assessment will perhaps be $5, and it comes to the—

Q. That comes to the central office?—A. Yes.

Q. And what kind of services do you render, then?—A. The services are, we think, quite extensive. They range from the field of legislative effort, by provinces, and also federal, and in the field of education. We operate our own supply business for credit unions, and standardize their bookkeeping methods. We provide them with casualty insurance in the form of bonding for their various officers who handle funds, messenger and other hazards—hold-ups, robberies, etcetera. There is an additional premium paid for that service, in addition to the dues, but our operations are mainly in building up credit union; both organizing new ones and assisting those that are already operating and get into difficulties.

Q. Can you tell the committee approximately what was your revenue from all these credit unions, say for the year 1955?

Mr. CAMERON (*Nanaimo*): He said $35,000.

The WITNESS: $35,000.

By Mr. Crestohl:

Q. $35,000, I beg your pardon. That was the figure you said was your total revenue from all your unions?—A. In Canada, that is right.

The CHAIRMAN: Any further questions gentlemen?

By Mr. Knight:

Q. Mr. Smith, Mr. Follwell asked you a question—he said that in view of certain fees, or salaries that you did not have to pay, he asked you if you did not think one per cent per month would be high under certain conditions to charge these people. I am going to ask you this question: is it not a fact that the interest rate in each case is simply set by the cost of the operation? In other words, you are operating at cost? Is that not the principle of the whole thing?—A. I do not think that is a correct statement.

The CHAIRMAN: They are not operating at cost, that is obvious.

By Mr. Argue:

Q. You have no equity capital in your credit unions in the same sense as you have equity capital in the normal corporation, do you?—A. We have only savings, and I had better use that term, because it is confusing, perhaps, to refer to them as shares. Our equity or our capital in credit unions is the savings of each individual member.

Q. If I were to get a return on any business I do with the credit union, or on any deposit, or on any share, is it not correct that there are only two ways that I can get any return: one is to be paid a nominal, or regular interest rate on a deposit that I might have, or a share—when I say "nominal" I am thinking of two or three per cent, I do not know what the general pattern is—or a patronage dividend on the business I had done as a borrower?—A. That is correct.

Q. So that within that type of definition you do not have profits in the ordinary sense of the word, or in the sense that other companies have profits? The purpose of a credit union is not to make a profit for those who have invested, but, rather to give service to the members?

Mr. ENFIELD: Nothing so vulgar as a profit.

The WITNESS: It may be stated that a credit union is a non-profit organization.

Mr. FOLLWELL: A non-profit organization that makes a return on capital invested and on deposits.

Mr. ARGUE: Is it not correct that federal law, our Canadian federal law, says that if the credit union, or a cooperative is not to pay corporation tax, then it must pay interest on its share capital to the owners of the share capital?

The CHAIRMAN: There is no share capital.

Mr. ENFIELD: There is no share capital.

Mr. ARGUE: Or on the deposits? I can show you my credit union book which shows I have got shares in it, share capital.

By Mr. Crestohl:

Q. You would be contradicting your witness, then?—A. Mr. Chairman, I do not agree that there is any compulsion. There is no requirement that credit unions pay either a dividend or interest. It is an agreement made by the board of directors with the individual member at the time that a deposit is made. The credit union board will determine and they will pay an interest rate on deposits of three per cent. They will pay dividends on the permanent savings in the credit union, if the credit union operates and is able to pay such a dividend.

Q. On the assumption, Mr. Smith, that the credit union pays no interest on its deposits, and paid no interest whatsoever on its share capital, is it not a fact that the credit union, or the cooperative would be charged corporation tax up to the amount of three per cent on deposits and capital?—A. It would probably work out that way. I think you are right in that. I am not familiar enough with the—

Mr. ENFIELD: That is sort of confusing the situation. We have been told all the way through that there is no share capital. You have been here; you have heard the witness.

The CHAIRMAN: There is no share capital, it is just a long-term deposit that they call a permanent deposit.

Mr. ARGUE: What I was saying was that we had, about 10 years ago, a long debate over a long period of time about the question of taxation of co-operatives of all kinds, and if I remember the law correctly, it is as I have now defined it.

Mr. ENFIELD: You should get together with Mr. Smith and straighten it out.

Mr. ARGUE: He agreed with me.

The CHAIRMAN: Not with enthusiasm. Are there any questions, gentlemen? If not, we will get on to the next witness.

Thank you very much Mr. Smith. It has been a revelation to hear about credit unions.

The WITNESS: I am glad to be here. Thank you very much.

The CHAIRMAN: I believe the first witness from the Niagara Finance Company is to be Mr. W. T. McGrew, president and general manager.

Mr. Smith says he has a correction he would like to make in something he has said.

The WITNESS: It concerns the insurance on the life of a borrower. Mr. MacGregor has just drawn to my attention that I erred in respect to the premium rate. The rate for death insurance on the unpaid balance of the loan, on the life of a credit union member, is 55 cents per $1,000 per month. The rate, including total permanent disability, is 65 cents per $1,000, per month.

Mr. FLEMING: That is to correct the figure of 75 cents you gave us?

The WITNESS: That is right.

Mr. FOLLWELL: Does that mean, then, Mr. Smith, having your own company you can write insurance a little cheaper probably than someone else?

The WITNESS: I am not familiar with the rates charged by other companies, but we are able to operate and pay dividends, and use the rates I have just quoted.

By Mr. Fleming:

Q. How long has that rate been in effect?—A. Since the first of January.

Q. Of this year?—A. Of 1955.

Q. What was the rate prior to that time?—A. It was 65 cents and 75 cents.

Q. And you dropped it 10 cents in each case a year and a half ago?—A. That is right.

Q. How long had the 65-cent and the 75-cent rates been in effect prior to January 1st, 1955?—A. I think that goes back to the time of our registry here, which would be 1942.

Q. And the reason for dropping the rate was that you found you could operate satisfactorily at a lower rate and still meet your obligations, and have some dividends for distribution?—A. Yes.

The CHAIRMAN: Gentlemen, if you all have a copy of the brief, I suggest we get on with it. There are only fifteen minutes left before we adjourn until the evening meeting. Perhaps Mr. McGrew, you could introduce yourself to the audience and the members of the committee.

Mr. W. T. McGrew, President and General Manager, Niagara Finance Company Limited, called:

The WITNESS: My name is W. T. McGrew. I live in Montreal now. I am president and general manager of the Niagara Finance Company Limited. I have been in the consumer credit field for 36 years, and the last 29 years in the consumer loan business.

I would like to thank you, Mr. Chairman, and members of the committee, for permitting me to present the viewpoints of the company that employs me.

Before starting on my brief, perhaps you would permit me to say just one word about a figure that was given earlier today concerning the extent of accounts that are covered by life insurance. If I remember correctly, Mr. Dunbar said about 3 per cent of all loans in Canada. I believe, although I have not tabulated the actual figures today, that our company has a total that is about 11 per cent of the total consumer loans outstanding in Canada. Mr. McGregor mentioned six other companies that supplied life insurance. I believe their outstandings added to ours would indicate that perhaps 20 per cent of all loans in Canada are insured. Now, I am speaking of dollar totals, not numerical, and there might be a difference in percentage if you figure on accounts instead of dollars.

I thought you might be interested in knowing that we think the total covered by life insurance is considerably more than 3 per cent.

By Mr. Fleming:

Q. You think it is 20 per cent?—A. Dollarwise.

Q. Dollarwise, 20 per cent today?—A. Yes, sir. Then, to proceed with my brief:

Niagara Finance Company Limited is a Canadian-owned company and, in fact, is the largest Canadian-owned company carrying on a small loans business.

The position of the Canadian-owned company carrying on business in the small loans field, is different in many respects from that of its American-controlled competitor in Canada. 83·4 per cent of all small loans outstanding with companies licensed under The Small Loans Act in 1955, was with American-owned companies.

Niagara is not a member of the Canadian Consumer Loan Association. This does not mean that there is any divergence of views between that association or its members and Niagara. During the comparatively short period of development of Niagara as the largest Canadian-owned company in the field, the expenses involved while branches with a relatively small volume of business were being developed, made it imperative that Association expenses, related in part to the number of branches in operation, should, like other expenses, be kept to a minimum. These and other reasons which precluded Niagara from forming part of the Association might well now be reviewed.

Niagara was founded in 1927 in Welland, Ontario, by Louis Blake Duff, at one time editor and publisher of the Welland *Tribune* and well known as a speaker and historian. As late as 1946 the operations of the Company were local in character and were carried on from a single office. However, in 1947 other Canadian shareholders invested a substantial amount of capital in the Company and since that time have secured further capital from time to time, for the expansion of its business. It now has 114 offices throughout Canada and, given an opportunity to consolidate its position, feels that it will be able to meet competition on its own terms.

As will be shown in more detail later, Niagara is the only company operating in Canada, which has consistently used progressively reducing rates according to the amount borrowed. It was the present management of Niagara which first introduced into small loans contracts a provision that without additional cost to the borrower, relieved the heirs of the borrower from all liability for the debt in the event of the borrower's death.

At the present time the amount of debt and shareholders' capital used by Niagara is approximately $34,000,000. This is a large amount of money by Canadian standards, but is comparatively insignificant compared to the equivalent capital of the large American-owned companies.

The submission made to this committee on behalf of the Canadian Consumer Loan Association is related to the small loans industry as a whole in Canada. That industry is dominated at the present time by American-controlled companies, and while Niagara supports most of the conclusions of the submission of the Canadian Consumer Loan Association, Niagara feels that the point of view of the Canadian-owned company is sufficiently different and sufficiently important to warrant a separate submission.

The purpose of this presentation is not to indicate that American-owned companies should not be operating in this field, but rather, to show that, if this industry is needed in Canada, there is likewise the need for strong Canadian-owned companies financed by Canadian capital to be available at all times to meet needs which are peculiarly Canadian. It is intended to show some of the factors peculiar to the Canadian-owned company and some of the requirements to permit the Canadian-owned company to survive in competition with large American-owned or controlled companies.

American-owned companies operating in Canada are in fact just additional branches of large, continent-wide American companies. The magnitude of their operations and their long established techniques of doing business permit them to keep their expenses below those of Canadian companies, however large these Canadian companies may be at the present time. There is no doubt but that a company doing a very large volume of business in the small loans field, can carry on its operations with somewhat less expense per dollar of income earned than can a company doing a smaller volume of business.

The large American-owned companies invest relatively little shareholders' capital in their Canadian subsidiaries and most of the capital required is supplied in the form of loans from the parent company. In the result, their money costs can, to a much greater extent than those of the Canadian companies, be charged as expenses. Granted a relatively uniform margin of profit on the shareholders' capital they have invested in their Canadian subsidiaries, the corporation income tax they would have to pay would be relatively smaller than that of the Canadian companies. The withholding tax on the interest and dividends payable to their parent companies is also small when related to the income taxes payable by Canadian investors in Canadin-owned companies.

Niagara borrows money from Canadian institutions and these institutions limit the amount of borrowings by requirements as to a certain ratio of shareholders' capital to be invested in the company. A not unusual practice of institutional lenders is to limit the amount of borrowings of a company to a sum equal to about 3½ times the equity capital of the company. This proportion of shareholders' capital required to be so invested is, in consequence, proportionately much higher than that so invested by their American-controlled competitors.

It might appear that the Canadian-owned company faces an almost hopeless task in atempting to build up a business in this field in competition with these foreign giants, but experience has shown that this is not necessarily true if Canadians are given a reasonable opportunity to compete while their businesses are being developed.

The experience in a somewhat analogous field to that of the small loans company may be of some interest. In the 1920s and early 1930s the dominant companies in the sales finance field were all American-controlled. The sales finance field is distinguished from the small loans field in that sales finance companies deal with manufacturers and wholesale and retail merchants by discounting or purchasing their commercial paper. The main source of their business comes from automobile manufacturers and merchants who sell to the sales finance company the conditional sale contracts and notes they have acquired from purchasers. In the result, sales finance companies in the ordinary course deal with the manufacturer or merchant, and the small loans companies deal with the consumer.

Shortly after the commencement of the last great war American-controlled sales finance companies, to a great extent, withdrew their resources from Canada and closed a great number of their branches. It was the Canadian-owned companies which attempted to maintain a continuing service for the merchants who were their customers throughout the various parts of the country. When sales of automobiles and other durable goods were curtailed, the capital which those Canadian companies could not use during the period of the war in their regular business, was used to a great extent for the financing of machinery and equipment for plants engaging in the manufacture of war materials and supplies.

At the present time Canadian-owned and managed sales finance companies are among the largest doing business in Canada. They have been able to show that, given an adequate chance to build up their organizations, they can provide for the needs peculiar to their Canadian customers in competition with the largest American-owned companies. Such, it is submitted, would also be the result if Canadian-owned companies in the small loans field could be given a chance to develop.

The need for credit of the kind supplied by the small loans company is more apparent in Canada than perhaps in any other country on this Continent. Due to marked seasonal variations in employment, and to the seasonal needs of many of Canada's greatest industries, such as agriculture, fishing, mining and lumbering, the self-employed and other persons are often in temporary need of funds which might not otherwise be available to them.

As a Canadian company operated by Canadians, perhaps Niagara might be permitted to make a few comments as to the necessity of this type of business in Canada. There are four obvious sources of money for the person needing a small loan. They are:

(1) the illegal and usurious lender;

(2) the chartered banks;

(3) the credit unions;

(4) the small loans companies.

The illegal and usurious lender may always be some place in the background. When active, he is found mingling with the workers at the factory gates and frequently is one of their number. It was in large part to overcome the activities of people such as this that the small loans legislation was enacted in 1939. They will, however, never completely disappear and, to some extent, the advertising of the companies in the small loans business is required from the point of view of letting the public know that money is available at legal rates.

The chartered banks in Canada are not geared to carry on the small loans business. Certainly, some substantial proportion of small loans are made by chartered banks, but in the ordinary course they are made to persons who have been dealing with these banks, and very frequently the loans made are made upon the endorsement of some person other than the borrower. As was stated by Mr. Atkinson, Chairman of the Canadian Bankers Association, before this committee only two years ago (minutes of proceedings of Banking and Commerce Committee No. 27, p. 1486), the cost of making a small loan is as great as the cost of making a large loan. That statement was obviously made bearing in mind the fact that the loan would be one which the chartered banks would make in the ordinary course of their business to a customer whom they knew, and perhaps with an endorser. When there is added to this, in the case of small loans companies, the cost of investigation of the credit status of the stranger who applies for a loan, and the appraisal of the type of security which would ordinarily not be accepted by a chartered bank, the costs of small loans soar out of proportion to the costs of large loans. Then come the costs of collection on the instalment plan and the additional accounting costs by reason of this type of collection. In the result, the banks could not afford to carry on the small loans business to the full extent required. The chartered banks are geared to be wholesalers of money, not retailers.

The CHAIRMAN: It is 5.30, gentlemen. I suggest we convene again at 8.15 p.m.

EVENING SITTING

8.15 p.m.

The CHAIRMAN: Gentlemen, we now have a quorum. May we continue with the brief of Niagara Finance Company Limited.

Mr. W. T. McGrew, President and General Manager, Niagara Finance Company Limited, recalled:

The WITNESS: I shall begin practically at the top of page 7 of my brief which reads as follows:

It is, of course, known that the Canadian Bank of Commerce has provided a special department for small loans, where it provides this service at a cost to the borrower of between 10 per cent and 11 per cent, plus an additional charge for life insurance and now, perhaps, a charge for chattel mortgage registration. Mr. McKinnon of that bank, in giving evidence before this committee on April 8th, 1954, pointed out that his bank, in providing this service at that cost, was not allocating to its small loans branch all of the costs which would normally have to be allocated to such a business. Thus, he pointed out, they did not allocate any costs to that branch of their business, for establishing branches or for carrying them forward, but only the actual operational expense. He also said that in many branches one of the regular employees fulfils both the personal loan duties and other duties in the branch, with the result that they were able to reduce greatly the allocation of costs to the personal loan service. Very little was expended on advertising and, in calculating the cost of money, the minimum cost was selected.

Mr. McKinnon also pointed out that by providing this service the Bank acquired many new customers for its other services.

As noted from the 1954 minutes, Vol. 22, p. 1091, Mr. McKinnon said that although chartered banks followed the practice of lending extensively to a large number of individual borrowers, as a general rule such loans were made to people of financial substance or to those who, while having no financial resources of consequence, were known to banks and in the community as responsible people and good credit risks. He stated (Vol. 22, p. 1064) that only 40 per cent of their business was in single name notes, the balance being endorsed notes, but he added (p. 1072) it is a natural human tendency that, if one can borrow money without talking to others outside the home, one would prefer it.

It is this desire for privacy, and a reluctance to ask a friend or relative to guarantee the repayment of a loan, that prevents a great number of persons from ever approaching a chartered bank. It appears to be reasonably clear that if the chartered banks did enter into the small loans business in a wholehearted way and without the requirement of endorsers, that, even with their lower money costs, they would have to charge almost as high rates as a small loans company, if they wished to operate at a profit.

The credit union is of course a source of funds for those to whom they are available. There is no doubt that within certain groups or communities the credit unions can accommodate small borrowers at very low cost in view of the almost total absence of expense in their case. However, these organizasions do not serve the general public in the same sense as the small loans company.

Credit unions are not satisfactory to many borrowers to whom they are available for the same reason as the chartered banks cannot fill their needs. Being associated with relatively small groups of people, persons wishing to borrow from them again feel the lack of privacy, and do not wish to disclose their need for funds to people to whom they are well known. It has been the experience of Niagara, and no doubt that of other companies in the same business, that many persons to whom the facilities of credit unions are available, prefer to come to the small loans company and pay a higher cost.

There remains then only the small loans companies to provide a needed service to persons to whom other sources of credit are not available and at rates approved by law. This was the conclusion reached by this committee following the lengthy investigation in 1938, prior to the enactment of the Small Loans Act in 1939, and there is no doubt that the need for such companies is even greater today with the increase in the industrialization of the country.

No legislation will prevent people from borrowing and, it is respectfully submitted, that in trying to protect the borrower and to preclude excessive charges, care must be taken not to make the business an unprofitable one for the lender, and thus drive the borrowers into the illegal market.

That such a result is both possible and probable is the opinion of most persons who are well-informed concerning the consumer loan industry.

Mr. Leon Henderson, who testified before this committee in 1938 when the Small Loans Act itself was being considered, and whose evidence was considered by the present committee to be of sufficient importance to warrant its being reprinted for the present hearing, was questioned on the matter of reduction of rates. The following is an extract from the record of Mr. Henderson's evidence, as it is reported in Vol. 8 of the minutes of this committee, page 325 (May 15, 1956):—

> Mr. MARTIN: In those States where the uniform law prevails, what is the lowest interest rate? 2¼ per cent, is it not?
>
> The WITNESS (Mr. Henderson): The lowest operating rate, and I mean by that where there is licensed lending, is about 2½ per cent, except for Wisconsin. Wisconsin has a rate of 2½ per cent on the first $100, 2 per cent on the second $100 and 1 per cent on the remainder. 90 per cent of the business is done by one company, and the average rate is 2·28 and 2·30. It is a little bit above 2¼ per cent. But pretty generally you can say that any rate below 2½ per cent, under uniform law, gives only a very, very highly specialized loan service.
>
> Mr. MARTIN: Below?
>
> The WITNESS: Yes.
>
> Mr. PLAXTON: Does that invite the loan sharks?
>
> The WITNESS: It does. . . .

It appears to be accepted that the federal power to regulate companies in the small loans business flows almost entirely from its power to regulate interest. This is apparent from the text of the Small Loans Act and of the amendments now proposed. Many of the suggestions that have been voiced as to changes advisable in the methods of doing business, cannot be accomplished by regulation confined to the rate of return that will be available to the companies. A well-meaning attempt to change the practices of certain companies, by reducing their profits, may result in the virtual exclusion of the Canadian-owned companies from the business and the creation of an American controlled monopoly.

In this connection we would refer again to the evidence given in 1938 by Leon Henderson, as reported in Vol. 8 of the minutes of this committee. Mr. Henderson said: (See at page 330.)

> As far as rates are concerned it (a money lending law) requires that the rate shall be adequate enough so that there will not be a monopoly; so that there will be the possibility of small companies and small loans balances that would leave a service available to small communities.

Should the rates proposed in the present legislation prove to be unprofitable to all companies, the experiment might not be fatal to American-owned companies, which could absorb the loss through their continent-wide organizations during the experimental period. As has been shown here, these American-owned companies enjoy much higher rates in certain of the heavily populated states, where they do a much greater volume of business.

The Canadian-owned company has no other source of business than that arising in this country and no other place to spread its loss. It is possible also that what would mean operating at a loss to the smaller Canadian-owned company might leave some margin of profit to the American-owned companies with their lower costs.

There is one other possible alternative which might permit both the large American companies, and the large Canadian companies to continue in business at the proposed rates and that would be to engage in a campaign to largely increase the amount of their business and thereby reduce their average costs. Such a programme, Niagara suggests, would not fit into the over-all economy of Canada at this time, when the professed wishes of those governing financial matters appears to be that consumer credit should be reduced rather than increased.

The danger which Niagara sees in the proposed legislation is that by fixing a statutory rate at a figure which, on the present basis of costs, would appear to be too low, such a rate might become completely destructive of the Canadian-owned company by reason of increased salary and other administrative costs or increased money costs. The statutory rate remains inflexible in the face of other changing conditions and, experience has shown, is not quickly changed. Money costs in Canada have increased very substantially in recent months, and in fact, there has been a rise in the interest rate of the Bank of Canada since Bill 51 was introduced. In commenting on this latest increase the Honourable W. E. Harris said in the House of Commons that there is such a demand for money in Canada at the moment, that interest rates are rising and are bound to rise. (House of Commons Debates, Vol. 98, No. 71, page 3288, April 26, 1956). This trend has already been reflected in the costs of the Canadian-owned companies. Indications are that the present year will show an up-trend in labour costs and this also would soon be reflected in all of the other costs of Canadian operated companies. In the face of these possibilities, an inflexible rate geared to bring a low return to all companies, and a still lower return to Canadian-owned companies, might be destructive of the Canadian branch of the industry.

There is also the question of a possible increase in the losses that might be suffered by companies by reason of uncollectible accounts. Much has been said about the low loss ratio of the companies in the small loans field. It must be remembered that the statistics as to losses suffered by most companies operating in the Canadian field are only available since 1939 and cover a period of unparalleled prosperity in the history of Canada. Given a period of recession or depression, or a marked drop in employment, an entirely different situation would have to be faced. Here again the inflexible low rate could spell serious trouble for the companies.

An appraisal of the effect of the proposed reduction in rates as set out in the bill under consideration indicates that on Niagara's business for the year 1955, calculated at 1955 money and other costs, the reduction would be such as to provide a return of approximately 6.2 per cent on its shareholders' capital employed at the end of that year. Such a return would be lower than almost any but the most depressed industries in Canada. The latest official figures available regarding Canadian industries are those which were published by the Bank of Canada, in a survey for the year 1954 of 671 Canadian companies. This analysis shows that the average return on net worth of Canadian industries was 11 per cent. These average earnings included the earnings of many companies in industries which were much in excess of the average, because they included textile companies which earned nothing and certain other depressed industries in that year, such as the railways.

It is on this question of reasonable return to its investors that we find the crux of the problem of fixing proper rates.

In seeking funds from Canadian investors Niagara must compete in a common market with all kinds of businesses striving for the use of the same funds. With proper appreciation of the variations in the risk factors in investments in various companies, Niagara, to attract investors must be able to offer a return at least equivalent to that of companies carrying on other forms of business.

In the presentation made on behalf of the Canadian Consumer Loan Association it has been shown that the proper method of relating earnings to capital is to relate them to the total capital employed, both debt and shareholders. Niagara believes that such a method of computing a proper return on capital employed is the only one which can properly relate to the industry as a whole, particularly where some of the larger companies within the industry rely almost entirely on debt capital obtained from their parent companies.

In the case of Niagara, however, as a purely Canadian company, with the necessity of a greater proportion of shareholders' capital in it, the return to shareholders is the standard which will guide Canadian investors in deciding where to place their money. 1954 is now frequently referred to as the year of the recession. It is well known that average earnings in 1955 for Canadian companies were higher than for 1954, although official statistics are not yet available. If, at the rates proposed in this bill, Niagara's earnings on its present capital would be 6.2 per cent as related to the business done in 1955, then it can readily be seen, if the average of all industries in Canada was 11 per cent for 1954 and more for 1955, that Niagara would have little chance of attracting capital in order to continue in competition with its American competitors.

If it is desired that a service should be provided to small borrowers in Canada, and if Canadian-owner companies are to compete in this service with companies controlled by foreign capital, then there must be such a return permitted to these companies as will allow them to attract Canadian capital in competition with other industries seeking such capital, and permit them to grow up in competition with their American competitors.

It may be that in the process, the American controlled company, may make a little more profit than the Canadian-owned company, but such is true in many industries. With the growth of the Canadian company, competition should be able to control the rates to an extent, as Niagara has been able to demonstrate in the field of loans from $500 to $1,000.

The most difficult field for a Canadian company to enter is the field of loans up to $500. In this field the American-owned companies have been so solidly entrenched that it is hard to carry on a profitable business by attracting

customers requiring such amounts. It was in the face of this difficulty that Niagara found itself, to a great extent, in the field of loans between $500 and $1,000, and where it was possible to compete by offering lower rates than the American-owned companies were prepared to offer.

Niagara is the only company operating in Canada which has consistently used progressively reducing rates according to the amount borrowed. This has been true over a long period of years. Niagara has, during most of that time, charged 2 per cent per month on loans up to $500. On loans between $500 and $1,000 its rates were such that the borrower paid an amount equivalent to 2 per cent per month for the first $500 and an amount equivalent to approximately 1·4 per cent on the money between $500 and $1,000. Some 8 or 9 years ago Niagara attempted the experiment of charging 1¾ per cent on loans below $500, but, after a period of some 18 months, had to abandon it as it was found that this could not be done at a profit. As a Canadian company serving Canadians, Niagara takes some pride in being able to say that it is the only company which has consistently attempted to provide service to its customers at what it considered to be the lowest possible cost which would provide a reasonable return to investors in Niagara.

Niagara is of the opinion that there should be regulation of the rates on all loans up to $1,000. It believes that loans above that amount are not of sufficient volume to require regulation at the present time, particularly as a substantial proportion of such loans are in the nature of small business, rather than personal, loans. Indeed a fact that is frequently overlooked is that the small loan is not always made to the wage earner but frequently to the person carrying on a small business, or the self-employed, to whom credit is not otherwise available.

Niagara is of the opinion that an analysis of the small loans business sufficient to provide the required information to fix just rates is not possible in a hearing such as this. Statistical information such as that contained in the report of the superintendent of insurance can, as in the case of other similar reports, lead to conclusions which, although apparently clear, will turn out to be completely wrong. Niagara respectfully submits that what is required is a review of the businss by a commissioner, whose report could then be considered by a body such as this committee. Until such a study and report is made, Niagara respectfully submits that too drastic changes in the law should not be made.

An indication of the type of information that should be forthcoming from a complete survey of the business is the cost of making loans, and a report as to whether these costs are in any respect excessive. An analysis of the report of the superintendent of insurance for 1954 concerning American-owned companies would indicate that the average cost of making a loan is such that the income from any loan up to approximately $235 is not sufficient to meet such average cost. In the case of Niagara, to meet such average cost the amount of the loan would have to be almost $295. If the average cost of these small loans is such as to exceed the income earned from them, then the deficiency has to be made up from income on the larger loans.

It is all very well to say that the very small borrower should be given low rates, but it is useless to prescribe such low rates as to make that business unprofitable, and to remove a legal market in such business. This might cause a resurgence of the illegal and usurious business which the enactment of the Small Loans Act pretty well destroyed.

It may of course be said that any company whose profits are subject to regulation will cry "blue ruin" if its rates are being reduced. That, to an extent, may be true, but on the other hand it is respectfully submitted that an emotional approach to the question is equally dangerous. If it is felt that a

regulated small loans business is one that is needed in this country, then it is important to see that nothing should be done which would deter Canadian investors from providing this service to Canadians.

It is possible that the rates specified in Bill 51 might have permitted certain companies to carry on business with some profit, but others would probably not be able to do so. The increase in money and other costs even since the introduction of this bill may have rendered the proposed rates too low for any company, however large. Perhaps no two companies have exactly the same situation. Some carry on the preponderant parts of their business in loans under $500, and some in loans between $500 and $1,000. It is the effect of the proposed rates on companies with varying proportions of such loans that requires study. Thus, to the company carrying on business principally in the field of loans of $500 or less, the changes in the rates may not appear too radical. To those carrying on business principally in amounts between $500 and $1,000 the "breaking-point" at which the 2 per cent rate ceases under the proposed legislation may be entirely too drastic. A purely statistical approach to the question is not one which can bring forth an answer that will provide a reasonably fair solution for the whole industry and particularly for that part which is Canadian-owned.

Indications of the dangers of using a purely statistical approach may be found in some of the tables produced before this Committee by the Superintendent of Insurance. In Table 5 the average annual interest rate paid on borrowed money by Niagara for the year 1955 is shown as 4·39 per cent. In fact, Niagara did not pay less than 4½ per cent for any of its borrowed money during the year 1955. The error has been to apply the dollar money cost of Niagara for 1955 to what is termed the "average amount of borrowed money". This "average amount of borrowed money" has apparently been computed by taking the loans outstanding at the beginning and the end of the year and calculating a simple average. This statistical method completely ignores seasonal variations in volume of loans and results in a conclusion which is patently incorrect. Only a study of the actual volume from time to time during the year could give the proper answer.

Again, averages are used in table 6 and table 8 and again, insofar as Niagara is concerned, result in erroneous conclusions. This is probably true also of the figures shown for other companies.

There are certain other aspects of the bill not already mentioned which need some brief comment. The definition of cost of loan in the bill has been amended to include the cost of insurance. As noted above it was the present management of Niagara which first provided to Canadian borrowers life insurance to ensure that the heirs of a borrower would not be burdened with payment of the loan. Niagara has never made any charge for such insurance, such as, for instance, is made by the Canadian Bank of Commerce and certain companies in the small loan business.

If I might digress for one moment, Mr. Chairman and members. I mentioned this afternoon, when I began speaking, that there might be a slight difference in the thinking of the percentage of business covered by life insurance in Canada. During the dinner recess I checked my thinking and figures on that and find that if one is thinking of loans $500 and lower, something less than 10 per cent are life insured. The figure I gave is still approximately 20 per cent, if you thing of all loans up to $1,500.

Niagara does not know the reasons, if any, for attempting to regulate the question of life insurance, but wishes to respectfully point out that if the right of the Government to legislate flows from its jurisdiction over interest, an attempt to control the purchase of insurance may well be a valid reason for an attack on the power of the Government to legislate in this respect.

Mr. FLEMING: Excuse me, Mr. McGrew. Would you like to change the word "government" where it appears in this paragraph to "parliament"? Government does not legislate,—not yet!

The WITNESS: Thank you.

Mr. FULTON: Mr. Fleming is a great stickler for form.

The WITNESS: One of the results of the legislation insofar as Niagara is concerned might be that Niagara would be obliged to cease giving life insurance coverage without additional charge, in order to cut down its expenses in the face of reduced rates. Would it be proper in such circumstances to say that a borrower, who learns that life insurance is no lnoger provided, should be precluded from getting it at his own expense? Insurance of this type is not readily available to the individual, and the effect of the legislation may well be to take away a benefit from the borrower.

There is another aspect of the question which is not dealt with in the proposed amendments to the Act, but which, in the light of Niagara's experience with Canadian borrowers, may require some consideration. The act as it presently stands requires that loans be made repayable in approximately equal monthly instalments. There may be an excellent reason for the rule, as to equal monthly instalments in a great number of cases, but the provision of the act does result in undue hardship to many borrowers. The farmer, the fisherman, the lumberman and many other seasonal workers do not get their incomes in each month, and the person in temporary need of funds is very often in such need for reasons which preclude him from making regular monthly payments. It may be that in countries such as the United States, with a different climate, that such provisions in the law are proper. In Canada, where seasonal variations in employment are perhaps more marked than any other country on this continent, some provision should be made to meet needs which are peculiarly Canadian.

The last point on which Niagara believes that some comment is needed is that concerning the use of two terms to designate companies carrying on the business of making small loans. Under the act a company incorporated under its terms is called a "small loans company", while a company otherwise incorporated and licensed under the act is called a "money-lender". There may have been some reason for this at the outset when both the Small Loans Act and the Money-lenders Act were in force. With the repeal of the Money-lenders Act the reason for the use of the two terms would no longer appear to exist. It is therefore respectfully submitted that the same term be applied to all persons licensed to carry of the small loans business. It matters little which term is used.

Niagara therefore respectfully submits that in addition to the recommendations of the Canadian Consumer Loan Association:

(1) That a commissioner should be appointed to make a full investigation and report as to the requirements of both lenders and borrowers in the small loans field;

(2) That the cost of life insurance should not be included in the definition of cost of loan;

(3) That provision should be made in the law that would permit of seasonal payments by borrowers as distinguished from monthly payments;

(4) That all licensed companies in the small loans field be given the same name in the act.

The CHAIRMAN: Any questions gentlemen?

By Mr. Fleming:

Q. I would like to ask one question, Mr. Chairman. On the last sentence appearing on page 20, the recommendations that Niagara makes are described as being an addition to the recommendations of the Canadian Consumer Loan Association. Are we to infer from that that Niagara endorses all the recommendations in the brief of the Consumer Loan Association?—A. Yes. I do realize that we think $1,000 is a more logical ceiling at this time, and the association thinks $1,500. We are not miles apart on that. We think $1,000 is more sensible but we are not fighting about $1,500.

Q. Your recommendations are not exactly in harmony on that point, though. Are there any others on which you are not putting forward identical views? I am speaking of the recommendations themselves now.—A. No, sir.

By Mr. Henderson:

Q. Sir, on page 18 where you have stated "indications of the dangers of using a purely statistical approach may be found in some of the tables produced before this committee by the Superintendent of Insurance" and you refer to table 5, where Mr. MacGregor has shown, I presume, that your interest rate is shown as 4·39 per cent. You say the fact is that Niagara did not pay less than 4½ per cent for any of this borrowed money during the year 1955, and you proceed to tell the reasons why Mr. MacGregor was in error. I would like to ask you two questions: do you still say that he was in error in his calculations?—A. He must have been, because every note we signed was for 4½ per cent interest or more.

Q. I would like to ask you another question, then: did you ever bring this to the attention of the Superintendent of Insurance, that he was in error in his calculations?—A. No, sir. That table of his we received on the 20th day of June, and we have had no contact with him since then.

Q. One other thing, Mr. Chairman; I would like to hear from the Superintendent of Insurance as to whether he says it is correct, or incorrect—because I do not want to go back over it again, but I would like to know if these calculations are correct, or incorrect—that he produced in table 5.

The CHAIRMAN: Let us find out; he is here. Mr. MacGregor, would you care to answer that?

Mr. MACGREGOR: The data in Table 5 related to borrowed money, and included a column at the extreme right headed "average annual rate paid on borrowed money". I thought it was obvious that the calculation was made using the figures that extend to the left. That, in fact, is how the calculation was made, namely, by simply taking the ratio of the interest on borrowed money to the average amount of borrowed money shown in the other columns. The figures in the right-hand column, like any other statistical figures may be open to criticism. They are intended only as a guide. It is quite true that the volume of borrowed money may fluctuate during the year. We had no data showing the curve of borrowed money, but I did not think that the point was of sufficient importance to draw any attention to it. The rate shown in the column would only be out if there were fairly violent or substantial fluctuations. The rate shown was intended simply as an indication of the average rate paid.

I do not want to be hypercritical, but there is an error on page 18 of the Niagara brief in this respect, where it says, "This 'average amount of borrowed money' has apparently been computed by taking the loans outstanding at the beginning and the end of the year—" I have no doubt at all that Niagara meant to say not "loans outstanding" but, "borrowed money".

The WITNESS: You are quite right.

Mr. MACGREGOR: I quite accept the criticism of the rate shown, but I do not think it is material. I did not attach any significance to it.

Mr. HENDERSON: Mr. MacGregor, you cannot deny that Niagara did not pay less than 4½ per cent for any of their borrowed money?

Mr. MACGREGOR: No, I should not deny that at all, Mr. Henderson.

Mr. HENDERSON: Then there would be—

Mr. FULTON: Perhaps that is the rate on the money borrowed during that year, not on all the borrowed money outstanding.

Mr. HENDERSON: Did not pay—Niagara did not pay less than 4½ per cent for any of its borrowed money during the year 1955. You cannot deny that, then, Mr. MacGregor; is that correct?

Mr. MACGREGOR: No, I should not deny it, no.

Mr. HENDERSON: All right.

By Mr. Fulton:

Q. Does that mean the money you borrowed during 1955, the money that you actually went to the bank and got in 1955?—A. Yes, sir, Mr. Fulton. I must say as I read this, it is one of those things you read many times and until you read it out loud it does not strike you that they were not the right words, and I thought as I read it that we would speak about it and say that we meant our bank loans.

Q. I understand there is not very much difference between you and Mr. MacGregor but, you are saying, if I followed it correctly, for all new borrowings in 1955 you paid not less than 4½ per cent?—A. Correct.

Q. And Mr. MacGregor is saying, if I understand him correctly, that the average of your interest paid on all outstanding borrowings in 1955, including balances carried forward, was 4·39 per cent?—A. Does this help, Mr. Fulton: on the first day of January, 1955, all the money we had borrowed prior to that date was at 4½ per cent; during the year 1955 all notes we signed for money we borrowed was still at 4½ per cent. It was never less than 4½ per cent beginning New Year's Day.

Q. Your average was never less than 4½ per cent?—A. Never less.

By Mr. Follwell:

Q. Did you borrow money, Mr. McGrew at more than 4½ per cent, some of your money?—A. Not during 1955. It was in 1956 the rate went up.

Q. I see.

By Mr. Knight:

Q. Mr. Chairman, on page 8, the last paragraph there is an interesting psychological question there, where the witness has said that people sometimes do not like to borrow from credit unions because when they come back again and wish to borrow from them again they feel the lack of privacy, and do not wish to disclose their need for funds to people to whom they are well known. I do not want to comment on the general principles, although I might say that these people who are reviewing their case are also members of credit unions. But, the point is this, in your collections—and by the way, little has been said in this committee, certainly not since I have been a member of it, as to the methods of collection from these delinquent borrowers—and I have had an opportunity to sit with some of these boys, who are in a pretty desperate state because they had become tangled with the small loans companies and could not see their way out. I wanted to ask you if it is true, and I think perhaps it is, that people dread, for some reason or another, disclosing the fact that they are borrowing money, and perhaps particularly when they are

borrowing from small loans companies. I am thinking of personal cases that I know of who complain that one of the things which they fear is that there might be some of their private business revealed to their employers. In your knowledge, has that psychological dread, which is expressed here been used as a method of collection? That is to say, has it been held over these borrowers, this fear that that has been held over them as a method of collection? I do not like to call it a threat, but I think that is perhaps what it is, the threat of the revelation of the state of their affairs, and the fact that they have been borrowing money—this is particularly true of people who are perhaps handling cash, or who are in the position of that sort of responsibility with a firm. I have some cases of that that I know of personally, and I am just wondering what you would say in that regard.—A. I think it would be unfair to generalize, because when you are dealing with a million cases it is pretty difficult to isolate a few. I might say that in our company's instruction we admonish our men who are talking to customers, never to threaten. It is poor business, it is poor psychology: we do not threaten. There may be an exceptional mistake, which we would regret, but it is not a practice.

Q. It cannot be described as a general practice that people who are collecting, and have exhausted every other method of trying to get this delinquent fellow to pay up, would use that method of threatening, to inform their employers of the fact that they were in pretty deep with the loan company, and that they had better pay up?—A. I certainly would hope not, Mr Knight. We are trying to build a reputable business.

Q. Of course, these one or two cases that I know of presumably would be the exceptional cases, and would be against the instructions of the company?—A. They would be against the instructions of our company.

By Mr. Argue:

Q. On page 15 you list the charges of 2 per cent per month on loans up to $500, and 1·4 per cent on loans between $500 and $1,000. Is that the practice of your company today?—A. Yes.

Q. To what extent would the present bill reduce the gross income of Niagara Finance Company in this field?—A. Just a moment, sir. Our computations show that based on our mix, which is the trade word for the proportion of loans under the various $100 brackets, it would reduce the charges to borrowers, and this is applied to our 1955 business, re-scaled to what we know are the facts, and that would reduce our rates to borrowers 15·5 per cent, and would reduce net profit for shareholders 48·5 per cent.

By Mr. Fleming:

Q. That is on the present volume of loans?—A. That is actually on our 1955 business.

By Mr. Argue:

Q. In the last two or three years, or the last few years, did you find any change in the general pattern of loans? Did you find a movement towards the larger percentage of business being done in the field in excess of $500, or in the larger group?—A. I would like to give you the clearest possible answer but, I have to go into a little detail here, and I shall try very hard to answer your question, Mr. Argue. Our company uses an I.B.M. machine accounting system. We have codes for all business $500 and less, we have other codes for $501 and up. The minute a customer switches from a $450 loan to a $550 loan he falls under an entirely different code. The machine analysis gives us quite different figures. We have seen a noticeable increase in the number of accounts

above $500, but the average is so slightly increased that we feel it is this movement below and above the $500 line which shows up in the machine statistics.

Now, secondly, our particular company, as I touched on at one place else in the brief, I pointed out that when Niagara started to become, if I might say so, a fairly sizable nation-wide company, we found the area in which we could best compete was in the larger loan area, which we felt the American companies were not serving fully from a rate standpoint, and we could make an appeal to attract that business. We, therefore, got what might be called a top-heavy proportion of business in the large loan sector. We have since then tried to work ourselves back down to the average or lower sectors. So, for me to say our company's experience is a certain thing might not be typical of the industry.

Q. No, but it is true, is it, that the last few years a larger and larger proportion of your business has been in regard to balances other than small loans? —A. I cannot lay my hands right now on our average figure for balances but, we get every month a figure for the average loan made, and I recall that it has moved, perhaps, from $390 to $430, something in that range, in the last four or five years. Less than 10 per cent variation in the last five years.

Q. Would you think it is likely that in the future the demand will be for larger loans, or for smaller loans?—A. I think it would pretty well parallel the gross national product and the average weekly wage.

The CHAIRMAN: It follows inflationary processes, surely?

The WITNESS: I do not think there would be any sudden lunge toward larger loans.

Mr. ARGUE: It seems to me the trend is towards larger loans. It seems to me that it is inevitable, with the increase in the gross national product, and inflation, and other facts that have just been mentioned, and it will slant progressively in line with everything else mentioned.

By Mr. Fleming:

Q. The figures you have mentioned have not even kept pace, as I understand it, with the reduction in the purchasing value of the Canadian dollar. —A. I was trying to explain, Mr. Fleming, that our company kind of started at the top and is working down, so our company's figures may be contrary to the industry.

By Mr. Fulton:

Q. Mr. McCrew, I was interested in one of your statements on page 11. I do not want to rehash it, and I do not want you to cover ground that may have been extensively covered before. If I have missed it I will not pursue it. But you mentioned there, in the third paragraph "—the professed wishes of those governing financial matters appears to be that consumer credit should be reduced rather than increased." You have also mentioned elsewhere, I think just around that page, the effect of the increase in the bank rate as a result of the raising of the interest rates by the Bank of Canada. Now, can you tell us in a little more detail than you have in your brief what effect you find that has on the interest on your borrowed money, and then carry that forward with respect to what would be the effect upon your returns, in the light of the fact that if the bill goes through, the interest rate you can charge will be reduced. —A. I will try and remember all the parts of your question.

Q. Just take the first one first. What is your projection of the effect of the increased cost of borrowing to you,—and Mr. Cameron suggests, and I think perhaps it is a proper question, what is the increase in your cost of borrowing money?—A. That rate which we pay the banks increased one day in April from

4½ to 5 per cent. It was an overnight increase of 11 per cent in the cost of our raw material. We, of course, have commitments with our customers to carry their accounts for 24, 23, 22 months, etcetera, and could not do anything about the income from them; that had been fixed.

Q. Are all your loans, your borrowings, demand notes?—A. Yes, sir.

Q. So you are borrowing on demand, but you are paying out your lendings at a fixed interest rate, is that right?—A. I see one or two bankers here. Yes, that is correct, sir. It might be interesting to describe the situation that we have been confronted with when we speak of the professed wishes of those governing financial matters. I give this as an illustration, if I may. If we think of income as a ceiling, a hard ceiling like there is in a room or a building, and think of expenses as the floor, and the floor is being jacked up all the time as a result of higher costs, printers' costs, higher telephone bills, and higher everything, we are squeezed between the ceiling and the floor, and when one is squeezed in such a press one is usually squeezed out the sides, and as we start to squeeze out the sides, following my little homily, it means a broader volume. But just then we run into the professed wishes of those governing financial matters who say "please do not expand!"

Mr. FLEMING: Who are those to whom you are referring?

By Mr. Fulton:

Q. You told us that in April 1956 your rates on your borrowings went up from 4½ per cent to 5 per cent?—A. Yes sir.

Q. Would you give us the dollar cost to you of that?—A. On $20 million that would be $100,000 a year.

Q. What would that be in terms of reduced net to you?—A. After taxes, that takes $53,000 out of the shareholder's pocket.

Q. After taxes—and you have to pay back your interest to the banks of course.

The CHAIRMAN: I think that is fairly definite!

By Mr. Fulton:

Q. Yes. So your borrowing cost you $100,000 more; will you relate that for me, please, as an amateur, to the effect of the new proposed interest rates on your loans to borrowers?—A. It will take me a minute or two to find it, Mr. Fulton. Would you mind repeating your question, please?

Q. I was wondering; I know that my question is somewhat imprecise, but would you relate that to the effect on your return of the proposed new interest rate under the bill?—A. Well, perhaps if I say that if the company expects to have a net profit of $1 million this year after everything is paid, interest, taxes, and so on, we would lose $53,000; then the returns are brought down to $947,000; so the drop in profit is from the level of 100 to 94.7.

The CHAIRMAN: No, I do not think you are answering Mr. Fulton's question.

Mr. FLEMING: You are still speaking of the increase because of your borrowing from the bank while Mr. Fulton was asking you about the effect on your net earning position of the application of the rates of interest as proposed by the bill.

Mr. FULTON: In that light?

The CHAIRMAN: Not the interest rate for the bank, but the interest rate under Bill 51. You may have heard of it!

By Mr. Fleming:

Q. Not the interest rate to the bank but the interest rate which you may charge to your borrowers.—A. The drop in our earnings would be 53 per cent and do not confuse that with the fact that the taxes are 47, and the profits are 53, as it works out to 52·84 per cent as our estimate of reduction in our profits under Bill 51 rates, with the higher bank rates.

Q. And that is based on the 1955 volume of business?—A. Yes sir.

By Mr. Fulton:

Q. There has only been one increase to you by the chartered banks?—A. So far.

By Mr. Fleming:

Q. To clarify that second last answer as to the reduction of 52·8 per cent in profits, does it include the loss that you suffered in earnings by reason of the increase in bank interest rate on your borrowing from the bank? How much of the 52·8 is attributable to the reduction in your rates to your borrowers under the bill? How much is attributable to the higher cost of your borrowing from the bank?—A. It would have been 48·45 without a change in the bank rates, and it is now 52·8 with the increased bank rate.

Q. So of this 53% reduction in net profits you are facing, 4 per cent is attributable to increased cost of borrowing from the bank, and the balance to the proposed reduction in this bill?—A. Yes sir.

Q. On your rates to your borrowers?—A. Yes sir.

By Mr. Fulton:

Q. I would like to get one other point clear, relating it back to page 11. You explained there that the indication of those who govern our fiscal policy is that there should be a reduction in the amount of consumer credit. Is that correct?—A. We thought that we were very careful in choosing words that would seem to express the professed wishes; the actual fact is that it is very difficult to get bank lines increased and it has been for several months. There are no increases that I have heard of.

Q. There is a reduction in credit to you?—A. There has been no reduction in credit, but it has been impossible to get our lines revised upwards; that has been our experience for a great many years; as our business has grown and capital increased, we have been able to get our bank lines increased.

Q. I take it then from your earlier statement when we started this line of questioning that your first reaction would be that because you are being squeezed, you have to enlarge your volume of business?—A. We would like to.

Q. But in doing so you feel you might be running counter to the professed wishes of those who govern our fiscal policy?—A. That is correct.

Q. How do you propose to solve the problem?—A. To sweat it out.

Mr. FAIREY: With a change in government!

By Mr. Fleming:

Q. You have aroused my curiosity when you speak of "those who govern financial matters" in that same sentence; to whom do you refer?—A. Well, we talked to the chartered banks and they told use that they heard it rumoured, or that they talked to the Bank of Canada people I presume; and a great many things are included in those conversations. They say we wish you would not ask for any more money for a while.

Q. I wanted to be clear as to whom you refer to; it is existing policy; and on that point you are speaking about the desire for a reduction in consumer credit rather than an increase.

I just received today the statistical summary financial supplement 1955 from the Bank of Canada which shows on page 59 a very interesting table entitled "Consumer Credit Outstanding".

There are estimates here for every quarterly period from the beginning of 1948 to the end of 1955 on charge accounts, instalment credit, which embraces both retail dealers and finance and loan companies, and then cash personal loans, and then the total. This is the one which I showed to the chairman just before the meeting, and it struck me that it would be interesting to have it on the record of the meeting. It shows that everyone of those forms of consumer credit has risen steadily, not always in an unbroken sequence, but over-all there has been a steady rise in all those forms of consumer credit in the period reviewed here, and the total is quite striking.

It started with $537 million at the beginning of 1948 and it reached a record total of $2,182,000,000 at the end of 1955 and that trend applies to all of the component elements in the total.

The CHAIRMAN: That is to the end of 1955?

Mr. FLEMING: Yes, to the end of 1955, and it struck me that it might be of interest to have this page reproduced on the record of the meeting tonight or as an appendix, perhaps.

The CHAIRMAN: I think in view of the fact that you have referred to it in the text of the meeting, it would be better to have it appear right after your remarks. Are you suggesting a geometric progression or anything like that?

Mr. FLEMING: No. Some people might think that it was astronomical. But perhaps just for the information of the committee I might mention two or three salient factors in connection with charge accounts. They began in 1948 with $166 million and moved up to $374 million at the end of 1955.

The CHAIRMAN: That is in terms of dollars?

Mr. FLEMING: Yes; consumer charge accounts; these are expressed in millions of dollars. Then instalment credit is based on two elements; retail dealers and finance and loan companies; instalment credit for retail dealers moved up from $81 million at the beginning of 1948 to $377 million at the end of 1955; and instalment credit through finance and loan companies began at $52 million at the beginning of 1948 and moved up to $601 million at the end of 1955; while the total of instalment credit made up those two components started with $133 million at the beginning of 1948 and ended up with $978 million at the end of 1955. Cash personal loans began at $238 million at the beginning of 1948 and ended up with $830 million at the end of 1955; and as I indicated, the grand total of consumer credit outstanding began in 1948 at $537 million and ended up at the end of 1955 at $2,182,000,000.

CONSUMER CREDIT OUTSTANDING*

ESTIMATES OF SELECTED ITEMS

(Millions of Dollars)

—	Charge Accounts	Instalment Credit			Cash Personal Loans	Total of Selected Items
		Retail Dealers	Finance and Loan Companies	Total		
	1	2	3		4	
1948—Mar. 31	166	81	52	133	238	537
June 30	170	92	67	159	251	580
Sept. 30	168	99	70	169	255	592
Dec. 31	208	127	71	198	263	669
1949—Mar. 31	181	115	72	187	264	632
June 30	190	127	99	226	282	698
Sept. 30	187	135	109	244	292	723
Dec. 31	228	161	116	277	302	807
1950—Mar. 31	196	145	122	267	310	773
June 30	195	158	162	320	340	855
Sept. 30	200	174	192	366	367	933
Dec. 31	255	199	202	401	378	1,034
1951—Mar. 31	239	163	216	379	387	1,005
June 30	219	141	224	365	393	977
Sept. 30	219	122	215	337	380	936
Dec. 31	283	123	186	309	381	973
1952—Mar. 31	244	116	176	292	380	916
June 30	231	163	265	428	417	1,076
Sept. 30	241	192	334	526	435	1,202
Dec. 31	309	243	373	616	460	1,385
1953—Mar. 31	283	242	426	668	477	1,428
June 30	268	247	524	771	525	1,564
Sept. 30	269	254	551	805	545	1,619
Dec. 31	339	284	520	804	567	1,710
1954—Mar. 31	313	278	500	778	576	1,667
June 30	300	284	526	810	615	1,725
Sept. 30	297	285	532	817	635	1,749
Dec. 31	363	322	497	819	661	1,843
1955—Mar. 31	301	304	496	800	675	1,776
June 30	317	314	559	873	743	1,933
Sept. 30	330	334	610	944	779	2,053
Dec. 31	374	377	601	978	830	2,182

SOURCES: Dominion Bureau of Statistics, Department of Insurance, Department of Agriculture and Bank of Canada.

* Revised series. Data on retail dealers' charge accounts and instalment credit outstanding are based on a revised series published by D.B.S. Excluded from the above tabulation are the charge accounts and instalment credit of certain categories of dealers whose credit is extended mainly to farmers or other businesses rather than to consumers. Includes Newfoundland commencing June 30, 1949.

1. Consumers' charge accounts receivables outstanding on the books of retail dealers.

2. Consumers' instalment receivables outstanding on the books of retail dealers.

3. Instalment paper held in connection with the financing of retail purchases of consumer goods, largely new and used automobiles. In addition to the paper held by sales finance and acceptance companies as reported in the D.B.S. publication "Sales Financing", these totals include estimates of the instalment paper held by small loan companies and licensed money lenders.

4. Includes estimated personal loans by chartered banks, small loan companies, licensed money lenders and credit unions.

The CHAIRMAN: Thank you. That is quite a valuable contribution which the Bank of Canada has made to our record.

Mr. FLEMING: Perhaps my most valuable contribution to the committee so far is a vicarious one on behalf of the Bank of Canada.

By Mr. Cameron (Nanaimo):

Q. I think you said that you calculated the increase in the bank rate plus the proposed new rate in Bill 51 would reduce your earnings by 58 per cent?—A. No. 52·8 per cent.

Q. I do not want to get you involved in another argument with Mr. MacGregor, but it is in rather striking contrast to his evidence which appears on pages 37 and 38 of his report in the bottom paragraph on page 37 where he deals with loans up to $500 from which he estimates the income would be reduced by 5 per cent, and he estimates that on those between $500 and $1,000 it would be reduced by 24 per cent; and for loans between $1,000 and $1,500, it would be about 38 per cent in each case in relation to the assumed charge of 2 per cent per month.

Now I gather from your brief that your company does not charge 2 per cent per month in these particular brackets.—A. That is correct.

Q. Is the position of your company different from this? Is there some explanation to account for that discrepancy?—A. If I understood the paragraph you are referring to—I have not read it over today, but I have read it over before of course—Mr. MacGregor is speaking of the effective reduction of the rate to borrowers, while the question I was answering when I used the figure of 52·8 per cent was the reduction in our net profit to shareholders after all expenses.

Q. This is a reduction in income that Mr. MacGregor is speaking of.—A. The second part of my answer I believe is that the mix of our company is much higher than the companies which Mr. MacGregor is averaging, so again I think you have difficulty with general statistics that can lead you astray. We have a great many big projection charts if you wish to see them, to show the distribution of loans in hundred dollar levels. We have some loans in the area where the rate reduction is based upon Mr. MacGregor's general estimate for the industry.

Q. Mr. MacGregor's estimate is on two specific areas; I do not see that your answer applies whatever the volume is.—A. I cannot give you any better answer than I have, and I think my answer was correct because I checked my figures, which have been rechecked by our auditors, McDonald Currie and Company, before we made up any of this material, and they agreed with us that our net profit would drop 52·8 per cent under Bill 51 with the new bank rate, or 48·5 per cent under Bill 51 at last year's bank rate.

Q. There seems to be a discrepancy in your estimate and that of Mr. MacGregor. I do not know if Mr. MacGregor has any comment to make on it.

Mr. K. R. MacGregor: May I, Mr. Chairman?

The references are to two different things. The percentages referred to on page 37 of my notes relate to income, meaning the charges collected from borrowers and assuming they charge 2 per cent per month; while Mr. McGrew's percentage is in reference to net profits. They just relate to two different things.

Mr. Cameron (*Nanaimo*): You are referring to gross income.

The Chairman: Mr. McGrew said that, actually.

Mr. Cameron (*Nanaimo*): I did not know if Mr. MacGregor was referring to gross or to net income; it just says "income" here.

By Mr. Enfield:

Q. Mr. MacGregor at page 39 of his brief, points out that some of the large money-lenders, even though they may suffer some reduction in income, are nevertheless associated with acceptance corporations and thereby there are savings through a pooling of expenses. Would you care to comment on

that? Mr. MacGregor seemed to feel that because of this association with your parent acceptance corporation you would still have a reasonable return despite the reductions.—A. I think that our directors and shareholders are going to be awfully mad at me if we have not already taken advantage of all possible savings in that regard.

Q. Therefore you would not attach too much weight to Mr. MacGregor's opinion in that regard?—A. We are always trying to reduce expenses. Nothing has been left in the picture which showed up yesterday; maybe it will show up tomorrow, but I would doubt if it would be worth much.

By Mr. Fleming:

Q. On the point you make about more flexibility in the matter of equalization of repayments by instalments that you deal with at the top of page 20, you are speaking of farmers, fishermen, lumbermen and many other seasonal workers. The fact is that the bulk of your business is done with urban dwellers. What proportion of those who borrow from you would fall in this category of farmers, fishermen, lumbermen and other seasonal workers?—A. I feel very negligent in not having the exact table on that; but it is something we just have not done. I would have to be guessing if I said it was 15 per cent of our customers. I am thinking of our business in the Lethbridge area for example, where in February and March the sugarbeet farmers need money with which to get their season's crop under way; and by the time they have delivered their sugarbeet to the mill in November and wait for a cheque in December, they just do not have too much money.

Q. I follow your point about the sugarbeet workers, but I want to get at the size of this problem.—A. We have other business; to some extent it could be applied to the Chatham area where we have pickle growers and other market gardeners in that area, and with the branches we have in all the provinces, for example, at Grand Falls, Newfoundland, where there is a lot of timber cutting, and in parts of British Columbia where there are various closures in the summertime due to fire hazards; and I think that in our branches scattered over the ten provinces we would have at least 15 per cent of our customers in such categories.

Q. Is that 15 per cent in number and in amount both?—A. Yes sir.

Q. There would be some difficulty, let us say, about introducing such a rule; there would be a danger if you did not have this provision for a uniform amount that unscrupulous people might attempt to cover up excessive charges? —A. Perhaps I might enlarge a little on something we have in mind. We did not try to draft a clause here and we do not have it written out. However, we think it is pretty sound practice and we know that our customers like it, and it is this: we like to have quarterly token payments and we like to have those quarterly token payments aggregate three months' payments, so our quarterly balance would drop as much as if there were three equal monthly payments. Working with this type of person, and at least endeavouring to find the money for substantial quarterly payments, in support of it we will not make a loan to a farmer who is a one-crop farmer. If all he has is sugarbeets, we are not too interested. He should also have hogs or cattle; so that then he has something that is going to market and it will produce money for him perhaps in June or September, then he may get his sugarbeet money in the winter. If a clause could be written so that quarterly payments would be approximately aggregating three months payments, or some such practical thing as that it might straighten it out.

That is the way we are doing it now in our business, in practice, and we have been doing it for a number of years in the area of from $500 to $1500. If in Bill 51 we cannot do that for them, it will be quite drastic.

Q. I have one question on page 2, in the first paragraph, where you say that you first introduced into the small loan contract a provision that without additional cost to the borrower relieved the heirs of the borrower from all liability in the event of the borrower's death. Is it a provision of your contract that all liability ceases upon the borrower's death?—A. Under the life insurance, yes sir.

Q. Oh, it is the insurance that makes it possible?—A. I might say that our insurance does not run beyond $1500, although about 8 per cent of our total business is above $1500.

Q. I am glad of your explanation about that, because when you read that over there had not been any reference to insurance up to that point in your brief, nor is there any in the paragraph and it struck me as being a rather generous provision to have in the contract.

Now I am to understand that it is the insurance that makes this possible? —A. Yes, sir, and I am sorry that we did not have it there.

By Mr. Bell:

Q. On page 13 you suggest that the main difficulty in fixing a proper rate is perhaps the problem of obtaining Canadian investment money?—A. That is right.

Q. And the competition with other forms of investment; now you are a Canadian company and I was wondering if you could tell us the last time you financed or refinanced, or made an appeal to the public, and as to the rate of return what you would anticipate in the future there? And are you listed on the market separately, and so on?—A. Mr. Bell, we are not listed on any market because we are a wholly owned subsidiary of a company that is listed on the Toronto and Montreal exchanges. But we are not allowed to raise any money through public bonds, as explained the other day. As was explained, licensees cannot sell even preferred stock, much less debentures.

The CHAIRMAN: Section 16, Mr. Bell.

The WITNESS: Therefore all of our funds, other than shareholder's equity, must come from borrowed money from the banks.

Mr. BELL: Of course, if there is no means of the public ever getting at the stocks, I suppose my question is a little premature, but I wonder if the reason why there is not the interest in the loan companies, as you suggest,—the Canadian investors are not coming around,—I was wondering if it is mainly the rate of return, or is it the type of activity or the field that is unattractive? We had Mr. Elliott speaking here last night in detail, and I think you heard him. We are quite interested in the fact that you have a Canadian-owned company. I am only trying to follow along that point. It seems to be unique, the fact that you are even able to survive. We are just wondering how this can be developed, and we are just wondering what the future might offer, and the difficulties you might anticipate.

The CHAIRMAN: Mr. Bell, when you say "we" is that an editorial "we", a royal "we", or what is it?

Mr. FULTON: It is a collective "we".

Mr. BELL: It is the people who are interested in Canadian-owned companies, whoever they may be, and I include myself in that category.

The CHAIRMAN: You are talking about the Canadian population, I see. Carry on; I am sorry.

Mr. FULTON: Do you not think the proceedings of this committee are of general interest?

The CHAIRMAN: I was just trying to define the term "we". I rarely speak in those terms myself, and I just wondered.

Mr. BELL: I do not like to speak about "I" all the time, because it is egotistical and reminds me of some other people around here. I can do it very easily, Mr. Chairman.

The CHAIRMAN: I think the first person would be most appropriate in your case, Mr. Bell.

Mr. BELL: I will forego my modesty and tell the reporter that in every case that I used "we" it should be the pronoun "I".

The CHAIRMAN: Thank you.

Mr. FULTON: Can the witness answer the question?

Mr. BELL: Can we get an answer now?

The WITNESS: Well, I would really like very much to see our company of a stature, in a financial position, and borrowing money under a law, and at a rate of profit, that would permit us to be listed so that there could be public ownership and participation and interest in this business. I think it would be a very good thing for the industry. I believe that the Household Finance and the Beneficial Corporation are listed on the American exchanges. I do not know how many thousands of shareholders they have. The gentlemen that are here representing them could tell you. But it must be thousands of shareholders. I think it has been a good thing in promoting an understanding of the small loans business. If I may throw this in here, it has been 17 years since the small loans business has had any kind of a review in Canada, and that is too long. Annual reports to shareholders and information of that kind, of material, published in the newspapers, about the operations of the companies, would be all to the good.

By Mr. Follwell:

Q. Mr. Chairman, Mr. McGrew indicated by his remarks dealing with the farming population that he apparently knows something about farming and he knows that farmers have to have more than one crop, at least they have to be diversified, particularly in Ontario. You said, Mr. McGrew, and I will ask you this, you apparently do a considerable business with the farmers in the lending field?—A. Yes, sir, and the percentage I quoted of 15 per cent, approximately, would include the fishermen and lumbermen.

Q. It has been indicated here in this committee that farmers would not need to get the services of the small loan companies because we have what might be termed by some, very adequate legislation to take care of the farmers who would be permitted to secure loans at a more reasonable rate of interest. Can you tell me why farmers still deal with your company when they have access to other sources of borrowing?—A. We are not sure, of course, when they come to us whether they do have access to other sources. We assume that if they have, that they do not wish to wait to get the money by going through the processes taken by the other companies, or that the incidental cost connected with some of those loans is so great that they would rather borrow from us. We have been told by customers that incidental costs in connection with arranging many of these loans—the forms you have to fill out, and the fees you have to pay, run the cost up to where they would rather deal with us on a quick, fast service basis and go on about their business, and not waste any more time away from the farm.

Q. I might say that I am gratified to hear you make those remarks, because I have many farmers in my constituency, and would certainly want them to be in a position to be able to borrow on the same basis as their city cousins. Now, also, Mr. McGrew, you said your borrowing was at 4½ per cent now—5 per cent now from the banks. Have you borrowed any money from anyone else besides the banks, or do you borrow from anyone else besides the banks and do you pay any higher rate of interest for it?—A. We borrow money from our parent company.

Q. What company is that?—A. The Industrial Acceptance Corporation Limited, a Canadian company. However, we can never at any time have a total debt to banks, and our parent, in excess of 3½ times our borrowing base, which is defined in borrowing agreements—capital, surplus, and some of the reserves. The rate we pay our parent company is exactly the same as we pay the banks, no more, no less. Was that all your question?

Q. Yes. I have another question, sir.—A. Fine.

Q. Have you any guarantee that in the future you will not have to pay a higher rate of interest to the banks than you are paying now?—A. No, sir, we have no guarantee at all.

Q. And would you receive any notice from the bank other than you have indicated, that one-day notice?—A. That is the way it has always been done in the past, an overnight hoist.

Q. Mr. McGrew, we have heard a great deal about insurance coverage. On page 19 of your brief, in the third paragraph you say this: "One of the results of the legislation in so far as Niagara is concerned might be that Niagara would be obliged to cease giving life insurance coverage without additional charge in order to cut down its expenses in the face of the reduced rates."

Now, I presume what you are saying there is in the face of the reduced rates as set out in the proposed Bill 51?—A. Yes.

Q. Now in the Canadian Consumer Loan brief at page 28, the original recommendations, which you have indicated in your brief here, in your final remarks, which I think Mr. Fleming pointed out on page 20, you have indicated by saying this: "Niagara respectfully submits that in addition to the recommendations of the Canadian Consumer Loan Association:"—give force and effect to the rates recommendation as set out here, which, perhaps I will just read: "We recommend that consideration be given to amending Bill 51 to the following rates: (a) two per cent per month on any part of the unpaid principle balance not exceeding $500, (b) one and one-half per cent per month on any part of the unpaid principle balance exceeding $500 but not exceeding $1,000, and (c) one per cent per month on any remainder of the unpaid principle balance exceeding $1,000."

Mr. McGrew, if the proposed bill gave the rates to the small loan companies as recommended by the Canadian Consumer Loan Association, would you then be in a position to provide life insurance coverage on the same basis you do now without any extra charge to the borrower?—A. Yes, sir, we would. We would continue to do so as long as we possibly could, but there is always the possibility, and I hate to think of it, that rising costs of every other kind—rents, salaries, stationery, etc., would go up so fast that when we were looking for some way to meet the situation, it might be life insurance that would have to be dropped. Now, I would regret that day.

By Mr. Fairey:

Q. In your brief you state that most of your business is in respect of loans not exceeding $1,000 but you do encourage any business over $1,000?—A. Yes.

The CHAIRMAN: Eight per cent, or something, he said.

By Mr. Fairey:

Q. What rate do you charge on loans above $1,000. It is 1·4 per cent, you say up to $1,000, on page 15, in the middle of the last paragraph.—A. Mr. Fairey, if I might just re-read the sentence off that page and perhaps emphasize what I wanted to say clearly there:

> On loans between $500 and $1,000 its rates were such—" I will say "are such". . . . . that the borrower paid an amount equivalent to 2 per cent per month for the first $500 and an amount equivalent to approximately 1·4 per cent on the money between $500 and $1,000.

I have lots of charts and graphs here, but I have not any projection of what the equivalent precentage would be on loans, on that part of the loan between $1,000 and $1,500. I do know that our composite rate for a $1,500 loan works out at about 1·6 per cent per month on the declining balance. Now, that embraces of course, the 2 per cent on the first $500 and the 1·4 per cent in the case of the next $500 and a lesser per cent on the top $500, but we have not figured that out. We have so little business we have not figured it out.

Mr. FOLLWELL: That would be what we have heard so much about, the effective rate on the whole loan, 1·6?

The WITNESS: Yes, sir.

The CHAIRMAN: Do I gather the impression, Mr. Enfield, that you would like to ask a question?

Mr. ENFIELD: That is the impression I have been trying to create.

By Mr. Enfield:

Q. Mr. Chairman, it seems to me that the fundamental concern of the people from the loan companies, who have presented these briefs, is that the Canadian companies will certainly have a serious reduction in net earnings and perhaps be forced completely out of business. Now, Mr. McGrew, what do you think are the main disadvantages, and could you say whether the field, even though they are forced out—will that field still be serviced by the larger American owned companies who are in the field, and if so, will the advantages of the lower rate to the Canadian population, that presumably will be charged by these large companies that are left in the field, will that not outweigh the disadvantage of the Canadian companies being left in the field? I think this is the fundamental question, and I would like to get your thoughts on it. —A. I think I covered most of those points in the brief. If I can pick them out page by page, I would be more certain of giving you the exact words.

Q. I do not want you to do that. —A. All right, sir.

Without being facetious, perhaps I might suggest it is not unlike a poker game where you are not very proud of the cards you have, but you do not want to quit until you take another look. The players with the biggest money can stay in the longest. As I suggested before, the American companies can absorb any reduction in profits, or even a loss in the Canadian operation.

A company with a thousand branches in North America, and only 100 branches in Canada has plenty of other branches to absorb the slow going in Canada. The Canadian companies do not have any such relief available. They sink or swim with the prosperity or failure of Canada. That is what I was trying to say in the brief.

I will be glad to go on if I have not answered your question.

Q. I think you have answered the mechanics of it. We feel we know and understand, probably, what will occur. What I wanted to know is: suppose you are forced to go out of business; so what? The people will be serviced by these companies that are left, and at a lower interest, and the Canadian companies will be out?—A. That is right.

Q. Now, what, in your opinion, is the disadvantage of the Canadian companies being out, under those circumstances? Will there be a lessening of service to the public?—A. It has been said by—

Mr. FULTON: Monopoly is government policy; what are you worrying about?

The CHAIRMAN: This is a problem that is very interesting, I think.

Mr. ENFIELD: Yes, this is the important part, so far as I am concerned, of the whole thing, Mr. Chairman. I think perhaps members would do well to address their minds to it.

The CHAIRMAN: Yes, it is an interesting problem. If you are not interested, Mr. Fulton, you might not wish to listen.

Mr. FULTON: I am simply wondering why he did not ask the Minister of Finance this question, instead of Mr. McGrew.

The CHAIRMAN: That is your privilege in the House of Commons, Mr. Fulton; but this is the Committee on Banking and Commerce.

Mr. ENFIELD: I am not as brilliant as Mr. Fulton, but this question does occur to me as being important.

The CHAIRMAN: I would deny that statement, Mr. Enfield. However, carry on.

Mr. FULTON: So would I, Mr. Chairman.

The WITNESS: As I said in the brief, in using the comparison there—the sales finance companies in Canada that stayed in the picture when the going got tough—well, they were here to take care of the Canadian merchants, and to give them service. It is a distinct advantage to have Canadian companies that understand the peculiar requirements of Canadian business, and the wishes of Canadian people; and I think it is a very good thing for Canada to have Canadian companies and not have it all owned elsewhere.

Mr. ARGUE: And lower rates of interest.

The WITNESS: The same reasoning could be extended to shoes, for instance; if something happened to the shoe industry, and no more Canadian shoes were made, you would not go barefooted. They would come from somewhere else. But I do not know that we would like it, just the same. It is also true with the rate of charge to borrowers, and companies would have to become more selective. I would think that the American companies—if they were left in this field alone—would be in an ideal position to be extremely selective, and their service would not be as broad.

Mr. KNIGHT: Do you think, Mr.—

Mr. ENFIELD: May I pursue this question further, Mr. Chairman?

The CHAIRMAN: Yes, I think Mr. Enfield should be permitted to continue. He has been trying to, all evening; give him a chance.

By Mr. Enfield:

Q. I gather from what you say that you feel there will be a lessening in competition, and that will have very serious effects, in your opinion. You say that the larger companies will be more selective in the accounts they service, and you will not have the same volume, or the same desirable business? —A. There will be trends toward monopoly.

Q. And you think that monopoly will be a very disadvantageous thing, that it would have a very disadvantageous effect on the whole business?—A. It does not seem desirable, to me, no.

Q. Well, I am with you on that. I am just trying to define it; because I think it is very important.

The CHAIRMAN: Are there any further questions, gentlemen?

By Mr. Follwell:

Q. Following that up, were you saying to us that there is a possibility that Canadian companies would be forced out of business, and that the American companies might find it unprofitable to stay in business so they might withdraw and leave the market entirely without service?—A. I did not go as far as the last part of your suggestion. I think the American companies have such a large volume of business now, and they would have even a larger volume of business, that by being more selective and giving less

service—right now they are not servicing the area above $1,000; I think one company goes to $1,200; but generally speaking they do not serve above $1,000; so if you bring in a bill running to $1,500, you will have very little service in the top $500.

The CHAIRMAN: Are there any further questions? If there are not, it seems to me that we are getting close to 10 o'clock. We will adjourn until tomorrow, following the orders of the day.

Mr. FULTON: Do I understand that Caisses Populaires will be the first in the morning?

The CHAIRMAN: We will continue with this witness.

Mr. FLEMING: I thought we had finished with this witness.

Mr. FOLLWELL: Do you meet tomorrow, Mr. Chairman?

The CHAIRMAN: Yes, we will meet tomorrow morning, tomorrow afternoon and tomorrow evening.

Mr. FLEMING: In fairness to Mr. McGrew, I think it should be pointed out to him that the questioning has been comeplted—if it has been. Are you asking him to come back tomorrow?

Mr. POWER (*Quebec South*): The chairman asked if there were further questions, and no one answered.

The CHAIRMAN: Are there any further questions you wish to ask of Mr. McGrew?

Some Hon. MEMBERS: No.

The CHAIRMAN: Then, we will carry on with Caisses Populaires tomorrow.

Mr. FLEMING: Caisses Populaires, the Canadian Bank of Commerce and the Canadian Bankers Association?

The CHAIRMAN: Yes.

APPENDIX "A"

EARNINGS, BEFORE INTEREST ON BORROWED MONEY, OF SMALL LOANS COMPANIES AND MONEY-LENDERS FOR THE YEARS ENDED DECEMBER 31, 1954 AND 1955

ADJUSTED AFTER CALCULATING INCOME EARNED ON LOANS AT 2 PER CENT PER MONTH ON BALANCES UP TO $500, 1½ PER CENT PER MONTH ON BALANCES BETWEEN $500 AND $1,000, AND 1 PER CENT PER MONTH ON BALANCES IN EXCESS OF $1,000

	1954	1955
	$	$
INCOME—		
Income earned on small and large loans	40,902,559	49,933,792
Income earned on conditional sales agreements and other contracts	1,925,111	1,731,460
Other income	27,656	43,355
TOTAL INCOME	42,855,326	51,708,607
EXPENSES—OTHER THAN INCOME TAXES—		
Advertising	1,674,453	1,928,922
Salaries and directors' fees	9,091,843	10,069,888
Other expenses	6,204,023	8,687,606
Provision for bad and doubtful debts (2)	1,734,932	2,414,487
TOTAL EXPENSES OTHER THAN INCOME TAXES	18,705,251	23,100,903
GROSS EARNINGS	24,150,075	28,607,704
INCOME TAXES	11,618,778	13,428,835
ADJUSTED EARNINGS (after applicable income taxes but before interest	12,531,297	15,178,869
	%	%
ADJUSTED EARNINGS AS A PERCENTAGE OF 1954 OR 1955 EARNINGS	94·1	95·1
NET EARNINGS AS A PERCENTAGE OF 107 PER CENT OF AVERAGE OUTSTANDINGS	5·9	5·9

NOTES:

(1) Included in these figures are those for Household Finance Corporation Limited, a company which makes loans in excess of $500.

(2) These figures comprise bad debts written off and net increases in reserves for bad debts, less recoveries of amounts written off.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 25

BILL 51

An Act to amend the Small Loans Act

FRIDAY, AUGUST 3, 1956

WITNESSES:

Messrs. F. W. Nicks, President, The Canadian Bankers' Association; I. A. McPhail, Deputy General Manager, The Canadian Bank of Commerce; Paul Emile Charron, Assistant Secretary, and the Honourable Cyrille Vaillancourt, C.B.E., both of La Federation des Caisses Populaires Desjardins de Quebec; C. M. Cawker, President, Canadian Consumer Loan Association; and K. R. MacGregor, Superintendent of Insurance.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

77561—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Argue
Ashbourne
Batten
Bell
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fulton
Gingues
Gour (*Russell*)
Hamilton (*York West*)
Hanna
Henderson
Hollingworth
Holowach
Huffman
Knight
Low
Lusby
MacEachen
Macnaughton
Matheson
Meunier
Michener
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Rea
Regier
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Thatcher
Tucker
Viau
Vincent
Weaver
White (*Hastings-Frontenac*)
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,

FRIDAY, August 3, 1956.

Ordered,—That the name of Mr. Lusby be substituted for that of Mr. Balcom on the said committee.

Attest.

LEON J. RAYMOND,
Clerk of the House.

77561—1½

MINUTES OF PROCEEDINGS

FRIDAY, August 3, 1956.

The Standing Committee on Banking and Commerce met at 11.30 o'clock a.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Benidickson, Cameron (*Nanaimo*), Deslieres, Fairey, Fleming, Follwell, Henderson, Hunter, Knight, Monteith, Pallett, Rea, Tucker and Weaver.

In attendance: Messrs. F. W. Nicks, President, The Canadian Bankers' Association; I. A. McPhail, Deputy General Manager, The Canadian Bank of Commerce; Paul Emile Charron, Assistant Secretary, and the Honourable Cyrille Vaillancourt, C.B.E., both of La Federation des Caisses Populaires Desjardins de Quebec; Messrs. C. M. Cawker, President, F. C. Oakes, Vice-president, and H. C. Walker, Counsel, all of Canadian Consumer Loan Association; and other representatives of Small Loans Companies and interested organizations; Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphreys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

The Committee resumed its consideration of Bill 51, An Act to amend the Small Loans Act.

Mr. Nicks was called and was questioned.

At 11.45 o'clock a.m., the division bell having rung to summon Members to the House, the Committee took recess.

At 12.00 o'clock noon the Committee resumed, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Batten, Bell, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieres, Enfield, Fairey, Fleming, Follwell, Fulton, Hamilton (*York West*), Henderson, Huffman, Hunter, Knight, Lusby, Matheson, Monteith, Pallett, Rea, Robichaud, Tucker and Weaver.

Mr. Nicks read a statement, copies of which were distributed to members of the Committee, and was further questioned.

Mr. Nicks being still before the Committee, at 1.05 o'clock it adjourned until 3.30 o'clock p.m. this day.

AFTERNOON SITTING

At 3.30 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Batten, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieres, Enfield, Fairey, Fleming, Follwell, Fulton, Gour (*Russell*), Henderson, Holowach, Huffman, Hunter, Knight, Lusby, Matheson, Monteith, Philpott, Rea, Tucker and Weaver.

In attendance: The same as at the morning sitting.

Mr. Nicks was further questioned and was retired.

Mr. McPhail was called; he was questioned on the experience of The Canadian Bank of Commerce in the small loans field, and was retired. Mr. MacGregor answered questions directed to him.

Mr. Charron was called; he read a brief of La Federation des Caisses Populaires which had earlier been distributed, in English and French, to members of the Committee.

Mr. Charron being still before the Committee, at 5.30 o'clock p.m. it adjourned until 8.15 o'clock p.m. this day.

EVENING SITTING

At 8.15 o'clock p.m. the Committee resumed its consideration of Bill 51, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Argue, Batten, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieres, Enfield, Fairey, Fleming, Follwell, Fulton, Gour (*Russell*), Hanna, Henderson, Holowach, Huffman, Hunter, Knight, Lusby, Matheson, Monteith, Philpott, Rea, Tucker and Weaver.

In attendance: The same as at the afternoon sitting.

The Honourable Cyrille Vaillancourt was called; he addressed the Committee on the aims and functions of La Federation des Caisses Populaires. He and Mr. Charron were questioned and were retired.

The Chairman reminded the Committee that, on July 12th, it had resolved to invite Merchants Finance Limited to appear to explain its operations; subsequently, on July 19th correspondence in the matter had been read to the Committee and had been printed as an appendix to that day's Minutes of Proceedings and Evidence.

The Chairman stated that, due to his illness, the President of Merchants Finance Limited was unable to appear but he had suggested that Mr. Cawker be permitted to make a brief statement on his behalf. The Committee agreeing, Mr. Cawker was again called; he made a statement on the point at issue and was questioned; he was then retired.

The Committee then considered Bill 51, clause by clause.

On subclause (1) of clause 1:

Mr. MacGregor was again called and was questioned regarding the amendment suggested by Mr. Dunbar on August 2nd with respect to the use of life insurance in connection with small loans.

Following debate, Mr. Philpott moved that subclause (1) of clause 1 be deleted.

The motion was resolved in the affirmative on the following division:

Yeas: Messrs. Batten, Benidickson, Crestohl, Deslieres, Enfield, Fairey, Fleming, Follwell, Fulton, Hanna, Henderson, Holowach, Huffman, Lusby, Monteilth, Philpott, Rea, Tucker and Weaver—19;

Nays: Messrs. Argue, Cameron (*Nanaimo*) and Knight—3.

It was agreed that subclauses (2) and (3) of clause 1 be carried and that they be renumbered as subclauses (1) and (2) respectively.

Clause 1 as amended was carried.

On clause 2:

Subsection (1) of the proposed new section 3 of the Act was agreed to.

On subsection (2) of the proposed new section 3 of the Act:

Following debate, Mr. Follwell moved

That subsection (2) of the proposed new section 3 of the Act be amended by adding at the end of paragraph (*a*) thereof the word "and";

that paragraph (*b*) thereof be deleted; and

that paragraph (c) thereof be amended by deleting the words "one-half of" in line 37, page 2; and by deleting the words "one thousand" in line 38, page 2, and substituting therefor "three hundred".

The said motion was negatived on the following division:

Yeas: Messrs. Crestohl, Enfield, Fairey, Follwell, Henderson, Huffman and Philpott—7;

Nays: Messrs. Argue, Benidickson, Cameron (*Nanaimo*), Deslieres, Fleming, Fulton, Gour (*Russell*), Hanna, Holowach, Knight, Lusby, Matheson, Monteith, Rea, Tucker and Weaver—16.

Whereupon Mr. Argue moved

That subsection (2) of the proposed new section 3 of the Act be amended by deleting all the words after the word "exceed" in line 31, page 2, and substituting therefor "one per cent per month".

The said motion was negatived on the following division:

Yeas: Messrs. Argue, Cameron (*Nanaimo*), Holowach and Knight—4;

Nays: Messrs. Benidickson, Crestohl, Deslieres, Enfield, Fairey, Fleming, Follwell, Fulton, Gour (*Russell*), Hanna, Henderson, Huffman, Lusby, Matheson, Monteith, Philpott, Rea, Tucker and Weaver—19.

Subsection (2) of the proposed new section 3 of the Act was agreed to.

On subsection (3) of the proposed new section 3 of the Act:

On motion of Mr. Follwell,

Resolved,—That, in subsection (3) of the proposed new section 3 of the Act, the word "fifteen" in line 41, page 2, be deleted and "twenty" be substituted therefor.

Subsection (3) of the proposed new section 3 of the Act was carried as amended.

Subsection (4) of the proposed new section 3 of the Act was carried.

Clause 2 was carried as amended.

Clauses 3 and 4 were carried.

The Committee agreed to insert after clause 4 the following new clause as clause 5:

> 5. Subsection (3) of section 13 of the said Act is repealed and the following substituted therefor:
>
> (3) Paragraph (*f*) of subsection (1) and paragraph (c) of subsection (2) of section 60, subsection (3) of section 62, paragraph (c) of section 63, sections 65 to 72 and sections 81 to 88 of the *Loan Companies Act* do not apply to the Company,

On motion of Mr. Benidickson,

Resolved,—That clause 5 of the bill be renumbered as clause 6.

On clause 5 (new clause 6):

On motion of Mr. Follwell,

Resolved,—That, in the proposed new subsection (3) of section 14 of the Act, in line 14, page 4, the word "fifteen" be deleted and "twenty" substituted therefor.

Clause 5 (new clause 6) as amended was carried.

Mr. Benidickson suggested an amendment to insert a new clause 7 in the bill. Following debate, during which Messrs. Walker and Cawker made representations to the effect that the proposed amendment be not made to the bill, the Committee agreed that the said proposed new clause stand for further consideration at its next sitting.

Mr. MacGregor was again retired.

At 10.45 o'clock p.m. the Committee adjourned until 11.30 o'clock a.m. on Saturday, August 4, 1956.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

FRIDAY, August 3, 1956,
11.30 A.M.

The CHAIRMAN: Gentlemen, we have a quorum. The first witness today will be Mr. F. W. Nicks who is general manager of the Bank of Nova Scotia and president of the Canadian Bankers' Association. It will be recalled that they did not ask to come here. We asked them to come; so I do not know if they have any statement to make at all. They are really here for questioning.

Mr. F. W. Nicks, President, The Canadian Bankers' Association, called:

The WITNESS: Good morning, gentlemen!

The CHAIRMAN: Mr. Nicks has no statement to make. He is really here just for questioning by members of the committee. Are there any questions, gentlemen? I hope you will ask him at least one question, or he will feel pretty thwarted.

By Mr. Fleming:

Q. You are familiar with the testimony that was given to the Banking and Commerce Committee at the 1954 session in relation to the revision of the Bank Act in general and in particular in relation to the subject of small loans both as to the matter of banks participating in small loans and the provisions of the Bank Act in regard to the definition of interest rate, and the effect of the provisions of the act on the rate for banks which participate in the so-called small loans field.

Do the views which were expressed on behalf of the Bankers' Association at that time by Mr. Atkinson represent the views of your organization today? —A. I think generally so; yes, sir. That particularly refers to the interest rate of 6 per cent. I think, generally speaking, we still hold the same views, sir, as they apply to the making of small loans.

The CHAIRMAN: Gentlemen, the division bell is ringing and I think the Liberal members at least would like to attend in the House of Commons!

Mr. PALLETT: Just for the record, Mr. Chairman, I think all members would like to attend there!

(*At this point a recess was taken because of a division in the house.*)

(*Upon resuming.*)

The CHAIRMAN: Gentlemen, we have a quorum. Mr. Nicks is here and available for questioning. Have you some further questions, Mr. Fleming?

Mr. FLEMING: No, I do not think there is any need to repeat what was said in 1954 if the views then expressed on behalf of the association are the same views which the association holds today on the subject under discussion.

By Mr. Cameron (Nanaimo):

Q. Would it be correct to say that in the opinion of your bank the uncertainty, shall we say, about the position with regard to the interest rate is the chief obstacle to your engaging in small personal loans?—A. Perhaps I should say, sir, that we do engage in the small loans business, in my feeling, to a considerable extent.

Q. I mean on the same basis as the Canadian Bank of Commerce.—A. No; any increase from the standpoint of the banks of course is affected by that 6 per cent maximum. Would it be interesting for me to introduce information on those figures relative to small loans?—A. Perhaps it would be a good idea.

The CHAIRMAN: Yes, I think it would.

The WITNESS: I have copies of a statement which may be handed around.

The CHAIRMAN: Yes, copies of the statement will be handed around to the members of the committee.

Mr. FULTON: Is the witness going to read his memorandum?

The CHAIRMAN: Yes.

The WITNESS: The statement we have put together has to do with figures for instalment loans to individuals not secured by stocks and bonds, that were outstanding on the books of all branches of all chartered banks on March 15, 1956. A loan under any arrangement whereby a fixed amount is repaid periodically is considered to be an instalment loan.

It should be explained, this survey was taken by the banks on one day only and there are no comparable figures because a survey of this extent never was made before.

The figures do not include loans made by the personal loans department of The Canadian Bank of Commerce but they do include instalment loans outstanding in the ordinary branches of that bank. In other words, these are loans made by the chartered banks at the maximum rate of 6 per cent as fixed by the Bank Act, or below that rate.

In making this survey, we took the categories set out in Bill 51, that is to say, loans of $300 and under, over $300 and up to $1,000, over $1,000 and up to $1,500, and we also took an additional category, over $1,500 and up to $3,500.

This survey of all branches of the chartered banks showed that on March 15, 1956, there were outstanding 431,485 instalment loans to individuals not secured by stocks and bonds up to a maximum of $3,500—what the banks call personal loans. The total outstanding amount of these loans was $220,124,000.

This breakdown was made on the basis of the original amounts of the loans:—

The number of loans of $300 and under was 170,169, totalling $24,397.00;

The number of loans over $300 and up to $1,000 was 179,019 totalling $83,918,000;

The number of loans over $1,000 and up to $1,500 was 41,040, totalling $40,653,000;

The number of loans for $1,500 and up to $3,500 was 41,257, totalling $71,155,000.

If we limit the categories to the suggested schedule of interest rates in Bill 51, that is all personal loans up to $1,500, we get 390,228 loans, totalling $148,968,000.

These figures do not reflect the full extent to which banks are engaged in personal lending. I have been referring to instalment loans not secured by stocks and bonds, but that is only one segment of the total lending business to individuals. The statistical summary of the Bank of Canada showed that on March 31, 1956, the total of all bank loans to individuals for other than business purposes secured by marketable stocks and bonds was $476,800,000 and the total of other loans to individuals for other than business purposes—including home improvement loans—was $468,300,000. The total of these two categories of loans was $945,100,000, representing all loans to individuals for other than business purposes. The nearest comparable total, September, 1950, was $461,600,000.

By Mr. Cameron (Nanaimo):

Q. I presume these loans would be made in the main to individuals who had checking or savings accounts at your branches?—A. They would reflect customers of the bank as well as other people who would come to us for small loans and who are perhaps without a deposit account.

Q. I mean that people who have checking or savings accounts with you—you would know something about them, or your managers would know something about them.—A. Yes, the depositors who are with us, yes, we would have more knowledge of them than we would of individuals who were not depositors; but I do not mean to imply that these loans are made only to individuals who have a deposit account.

Q. Do you have endorsed notes for most of these?—A. No. I might be able to give you a rough estimate, and I would say offhand that endorsed notes would not run to perhaps more than 25 per cent.

I have a breakdown here which has some basis of experience behind it and it suggests that secured loans would probably run 31 per cent of loans made in an amount of less than $500. Those with endorsed notes would run to a figure of perhaps 25 per cent; those secured by government of Canada bonds would run to 24 per cent; and those otherwise secured would run to 15 per cent.

By Mr. Fleming:

Q. Is the last figure in your statement, $461,600,000 at September, 1950, to be compared with the figure of $945,100,000? Is that its comparable figure?—A. Yes.

Q. So that in that period your aggregate has more than doubled on loans to individuals for other than business purposes?—A. Yes.

By Mr. Pallett:

Q. Does the next figure include your mortgage loans?—A. No.

By Mr. Tucker:

Q. Have you the figures referred to in paragraph (*b*) for the so-called personal loans department loans of the Canadian Bank of Commerce?—A. Have I those figures?

Q. Yes.—A. No, I do not have those figures.

By Mr. Fairey:

Q. Is it the custom of your bank to discount to a customer on a 6 per cent loan?—A. Sometimes, yes.

Q. I mean, if a customer wanted $100 at 6 per cent, the actual cash he would receive at the time would be only $94?—A. We discount at the maximum rates of 6 per cent.

Q. The effective rate then would be somewhere between 12 per cent or 13 per cent?—A. Oh no. We are precluded from exacting an effective rate beyond 6 per cent. On a loan of $100 for 12 months, the discount would be $3.25.

By Mr. Follwell:

Q. You have indicated that you are precluded from exacting a rate beyond 6 per cent. We have had information—and you know about the operations of the Bank of Commerce better than we do on personal loans; but we have been informed by the Bank of Commerce that they operate a personal loan business at a discount rate of 6 per cent which brings about an effective rate of about 10.46; and I was informed that the Bank of Commerce had a fair

sized business in that respect. Apparently they are getting 10.46. Do you know of any other bank which is operating in the same type of business on the same interest rate?—A. No, I cannot tell you of any other bank.

Q. Can you tell this committee why the other banks do not do it and make such service available to the public?—A. A. We do make a service available to the public but perhaps we are interpreting these regulations differently; I do not know.

By Mr. Fleming:

Q. It is not a regulation; it is a provision of the Bank Act.—A. Yes, that is what I meant.

By Mr. Follwell:

Q. You do not operate the same type of loans that the Bank of Commerce operate; the other banks apparently do not do that?—A. No; that is right.

Q. Is the only reason because you interpret the regulations differently?

Mr. FLEMING: No, the Act!

By Mr. Follwell:

Q. Thank you, I should have said the Act.—A. We have been working on our interpretation and, speaking for the Bank of Nova Scotia, that is our interpretation of the Act. We have been guided by our understanding that the effective rate is 6 per cent. I do not know what more I can add.

Q. Would you think that the matter of attracting 10·46 per cent in the rate of interest as against 6 per cent was gouging the public?—A. I would not have those views; no.

Q. Can you tell this committee if the Bank of Commerce is making loans on the rate which they are charging, which are a little more precarious than the loans which other banks are making? Are they taking a little bigger risk?—A. I am afraid I cannot answer that because I do not know their operation.

The CHAIRMAN: I think that Mr. McPhail would be in a better position to answer some of those questions, Mr. Follwell.

Mr. FOLLWELL: Yes. I am only concerned with the opportunity of borrowing at the most reasonable rates.

By Mr. Follwell:

Q. Under the Bank Act amendment which permitted you to take chattel mortgages, does your bank take chattel mortgages?—A. We have taken some, yes.

Q. Have you had occasion at any time to have a delinquent borrower, when you had to make an execution or a seizure of the chattel?—A. No.

Q. Have any banks?—A. Not to my knowledge. I cannot say with exact certainty; but not to my knowledge.

Q. Could you get us the figures?—A. I could probably make inquiries, but I do not know of anything that has come to my attention to suggest that they have.

By Mr. Tucker:

Q. Following that up Mr. Chairman, since the revision of the Bank Act permitting the banks to take chattel mortgages in order to facilitate their assisting of people who require small loans, have you got any figures indicating what advantage has been taken of that amendment? As I understood it, the Banking and Commerce committee gave you that power in order that you could give these services. My impression was the banks have taken very little

advantage of that power given them to give this service to the small borrower. I wonder if you could give any figures on that?—A. No, I have no figures.

Q. I would think this committee would be very, very interested, because the feeling was that the banks should be—in view of the great powers and rights given to them under their rates—should be prepared actually to give this service to small borrowers. This change in the act was made to enable you to do that on a bigger scale. I think this committee would be very, very interested in knowing to what extent the banks have taken advantage of that power, to do the thing that the Banking and Commerce committee indicated they would like them to do.—A. I am only speaking for the Bank of Nova Scotia but, I do suggest that it was a very good move on the part of this committee. But, since the introduction, and since that authority was given, shall I call it, the Bank of Nova Scotia has not taken advantage of it perhaps as often as we might have under other circumstances. We were, perhaps, guided by the fact that the economic climate is such that we just have not availed ourselves of the protection.

Q. The evidence given before this committee has been that there is a great need for these people to get small loans. The result is that they have had to go to small loans companies in larger numbers, and borrow ever increasing sums of money at rates of interest of 2 per cent per month, when the banks, that were set up to provide funds to the public, apparently from what you say, have not taken advantage of the powers given them by parliament to give the service in that field. Now, I, for one, was advised sometime after this act was passed, by a bank manager that he had not even been advised that the act had been changed and as a result the banks were just ignoring the wish of this committee when they were given new charters. I for one want to know to what extent they have ignored these additional powers that were given to them for the specific purpose of meeting the needs, when the charters were renewed.—A. I could not suggest that they have been ignored.

Q. If you have not taken advantage of it to any extent, it looks as if it has been ignored.—A. Having regard to this bank interest rate, shall I say, and certain other factors, we just have not taken advantage of it, perhaps, to the extent we might have if the economic atmosphere were different. Certainly in the larger amounts, I imagine that the banks have given great consideration to the taking of chattel mortgages, but not on the smaller ones.

Q. It certainly is the feeling of this committee that when you were given these very valuable charters by parliament that you would regard yourself under some obligation to give the service to the small borrower, out of which you would not make quite as much money as the big borrower. Mr. Chairman, I would like to have those figures, to the extent which this amendment, which was very liberally put in the act by the committee to help the small borrower —to what extent it has been taken advantage of by the bank.

By Mr. Fleming:

Q. I would like to know too of any instruction or request that the banks have received from the Bank of Canada to restrict credit lending operations, Mr. Nicks—A. To small—

Q. In any field including the small loans field.—A. I do not know that there is any suggestion from the Bank of Canada having to do with our direct dealings with applications for small loans.

Q. I am not suggesting that you single that out, but I was just wondering if you would tell the committee about your instructions, or requests from the Bank of Canada with relation to curtailment of credit lending.—A. I would say, Mr. Fleming, that the banks have a common feeling that the Bank of Canada, in the circumstances of the economic pressures of today, that there should be, shall I say, certain curbs designed to keep things more in balance.

Q. You had some communication, I take it, from or discussion with the Bank of Canada?—A. That is right.

Q. Did the Bank of Canada not express the feeling that on account of the danger of inflation there should be some restriction on your credit lending? A. That is right.

By Mr. Argue:

Q. Mr. Nicks, I would like to ask a question following along the line that Mr. Fleming has been asking. In your discussions with the Bank of Canada, or in your understanding of the economic climate, to which you have referred, did you get any impression that the Bank of Canada would prefer you to make a greater restriction in loans other than the small loans field? In other words, in your discussions, was there expressed a need to be careful in making further loans? Was there any suggestion from the Bank of Canada, or any official of the government, that you should not use the same type of restriction in the small loans field?—A. I do not think there was any particular segment picked out where we could not do this and could not do that.

Q. The reason I am asking this question is because I do agree with the remarks that Mr. Tucker has made, that the amendment last year should definitely have been used and promoted, and that the banks are failing to give the service that they are capable of giving, at a very nominal rate of interest; and as a result of that it is forcing people to pay the extortionate rates of small loan companies. So, what I am thinking is this: if the government, or the Bank of Canada, it would seem to me, wished the amendment promoted that they would have said to you that they would like you to use fewer restrictions in the small loans field. Would you agree with that?—A. We have been taking chattels, but many of our managers, perhaps, feel it is very cumbersome. Indeed, in the final analysis, they probably feel that the calculated risk is such that they prefer to make a particular loan to an applicant by doing it without the necessity of the additional cost involved.

Q. Therefore you turn down a lot of these cases?—A. I would not say that.

By Mr. Fulton:

Q. That is what I wanted to find out. Some of the questions approached it from that angle, and the suggestion that you have not actually been taking chattel mortgages has been interpreted as meaning that you have not been making loans. I want to get that clearly established, if we can. Have you in fact—has it been a case of your members, that they have had a steady increase, or what sort of an increase has there been made in the volume of what we might describe as small loans lending?—A. It seems to me, sir, that these figures themselves certainly display our anxiety to be good citizens and take care of these small borrowers to quite a large extent. I think these figures themselves show that.

Q. Your last comparison in your memorandum is of 1950. Would you care to venture an opinion as to what, if any, has been the rate of increase since 1955—since the time the amendment was put through in 1954?—A. I may have those figures.

Q. Because, I do not think you should be criticized simply because you do not take chattel mortgages, but you might be due some criticism if you cannot show that you have been increasing the lending.—A. Thank you. Mr. Fulton, the figures I have here relate to personal loans to individuals for other than business purposes. For March, 1954 they stood at $311 million. In December of 1955 they stood at $440 million.

By Mr. Enfield:

Q. Could you clarify that? Do they include loans that are secured by marketable stocks and bonds, and home improvement loans?—A. No, these are altogether separate.

Q. They are separate?—A. Right.

Q. They are loans up to $3,500, are they?—A. The figures include all personal loans to individuals for other than business purposes. We have not got this particular table broken down.

By Mr. Fulton:

Q. What was the period within which that increase took place?—A. This is a report of March, 1954, to December, 1955.

By Mr. Monteith:

Q. Am I right, Mr. Nicks, in coming to the opinion that these loans you have mentioned are all loans which have an equal payment, or some basis of repayment? They do not include loans which may be made for a period of time—for three months, say, of $500, on a demand note, or something like that? They actually include loans which are to be repaid systematically?—A. The figures that are presented in this statement refer to all loans under any arrangement whereby a fixed amount is repaid periodically and is considered to be an instalment loan.

By Mr. Tucker:

Q. Mr. Chairman, could I ask the witness this question: is it possible to get the figures, comparative figures, for the previous year as to those which are given on page two, giving the number of loans of $300 and under and $300 to $1,000? That would be along the line of the point raised by Mr. Fulton. Of course, if the banks are quite prepared to lend money to those small borrowers without security and did not need this change in the Bank Act—I understood they thought it would be helpful to them—and they are meeting this need to the extent suggested, I find it difficult to understand the situation. Because, apparently these people borrowing from small loans companies are people who do repay their borrowings, because the loss rate is very low. I cannot understand why the banks cannot fill this field more efficiently than they are, where these credit-worthy borrowers are being forced to pay 2 per cent interest per month. Now, to me that is a standing reproach to the banks who hold these valuable rights under their bank charters from parliament.

Now, if they were given these rights so they could give this service of providing credit to our citizens, it was certainly intended to be given to the poor citizens as well as the rich. The fact that we are finding a situation developing where more and more companies are finding it necessary to go into this field and supply this service, and they have got to charge 2 per cent per month because they have not got the valuable rights that the banks have got of extending their assets on the basis of their reserves, to the extent of roughly ten to one, and as I understand it these rights were given to the banks so that they would give that service on a cheaper basis than would otherwise be possible. They were given to the banks to service the poor as well as the rich, and the fact that these people are having to resort to small companies, and these companies are growing in numbers by leaps and bounds, and so on, is something to which I think the Canadian Bankers' Association should give very careful attention. That is why our committee, last year, gave you those extra rights.

I would like to know very much, Mr. Chairman, to what extent this move of the committee, that the banks would service these people—those are the people who require small loans, and are being forced to go to small loans companies—to the extent the banks have begun to meet that demand. The only way in which I feel you can give that information would be to give comparative figures to the figures you gave there on page two in respect to a year ago.

By Mr. Crestohl:

Q. Mr. Chairman, going a little further in respect to the point raised by Mr. Tucker, I think we would be interested in asking some questions of the witness, who is here to testify as the president of the Canadian Bankers' Association, and not as a representative of the Bank of Nova Scotia. Am I right? —A. I am here representing the Canadian Bankers' Association.

Q. And following Mr. Tucker's thinking, will you tell the committee whether, since last year—or, before I put that question: I understand that the Canadian Bankers' Association meets from time to time, does it not?—A. Yes.

Q. And in the association all the banks of Canada are represented?—A. Yes.

Q. Will you tell the committee, since last year, or since the Bank Act was amended, how many times has your association met, approximately?—A. We have general meetings twice a year and since June of last year, we have probably met five or six times.

Q. And at those meetings you discuss problems or matters common to all banks?—A. Yes.

Q. Could you tell the committee whether at any of these meetings the amendment to which Mr. Tucker refers has been discussed in any form?—A. I do not recall any particular meeting at which the particular matter of the taking of chattel mortgages was discussed, no.

Q. We are not talking about the question of chattel mortgages—

The CHAIRMAN: That was the amendment, Mr. Crestohl.

By Mr. Crestohl:

Q. To enable you to enter into the same kind of lending business as the Canadian Bank of Commerce?—A. We have never discussed that.

Q. As president of the association, I assume you attended most of the meetings?—A. Yes. I did miss the odd one.

The CHAIRMAN: You have never discussed changing your lawyers and getting a different lawyer? It seems to me to have been very profitable for the Canadian Bank of Commerce.

By Mr. Crestohl:

Q. Did you discuss the amendment at all at those meetings?—A. No, not at the meetings I attended.

Mr. FLEMING: Excuse me—the amendment relates to chattel mortgages.

Mr. CRESTOHL: That is right.

The CHAIRMAN: You are talking about that now?

Mr. CRESTOHL: I am talking about the amendment to the Bank Act made last year to enable the banks to make small loans.

Mr. FLEMING: Let us get this straight. The 1954 amendment simply empowered the banks, in addition to their other powers, to lend money on the security of chattel mortgages.

Mr. CRESTOHL: Correct. For the purpose of making small loans.

Mr. FLEMING: That is not specified. It is just in relation to chattel mortgages.

The CHAIRMAN: Small loans were not mentioned in the wording.

Mr. TUCKER: It was intended to enable the banks to give the service in this consumer borrowing field, and it was done definitely with that idea in mind, that this service should be extended to the small borrowers at a rate lower than they were paying to the small loans companies. That was stated over and over again.

The CHAIRMAN: That may have been the purpose, but it was not the amendment.

Mr. TUCKER: No, but the banks were sitting in at these meetings and they heard it stated over and over again. What Mr. Crestohl has been getting at is this: have they paid any attention whatever to our expressed hope at the time when we passed that amendment?

Mr. FLEMING: In all fairness to the witness and the questions which members are putting, let us keep these two things clear: one was the amendment to permit the banks to lend money on chattel mortgages; the other was this matter of the Bank of Commerce engaging in loans in the personal loans field through a personal loans department in which their interest return went up to 10·46 per cent. The amendment did not concern that subject.

Mr. CRESTOHL: No. The amendment was introduced for the purpose of making that service possible by all the banks of Canada. We were told that there was a difference of legal opinion as to whether or not it would be in violation of the Bank Act if the banks entered into the same type of business as the Canadian Bank of Commerce. Consequently, we amended the act to enable all the banks to do that same type of business.

Mr. FLEMING: No. I think, Mr. Chairman, you will bear me out in this: the personal loans department of the Canadian Bank of Commerce deals on personal security which would not be a matter of lending money on chattel mortgages; and the committee did consider at some length the operations of the personal loans department of the Bank of Commerce. There was some talk about amending the act at that time dealing with this section defining the maximum rate of interest that a bank might charge, but, in the end, no action was taken on that. But because the banks did not have the express power to lend money on chattel mortgages the committee saw fit to recommend, and parliament to enact, an amendment to permit the banks to lend money on such security.

Mr. CAMERON (*Nanaimo*): On the other hand, Mr. Fleming, you will remember that the amendment arose on the ground that the witness for the Canadian Bankers' Association at that time, when those hearings were held, pointed out that one of the obstacles in the way of entering this field of personal loans was the inability of the banks to take chattel mortgages in the same way as the small loans companies were doing.

Mr. FLEMING: I only suggest that we keep the situation clear as to whether we are talking about lending money on chattel mortgages or the lending operations which the Bank of Commerce carries on through its personal loans department, because I think that in some of the questions the two subjects have been treated as though they were the same thing, and they are not.

Mr. TUCKER: The whole purpose of this amendment, as I saw it was to enable this wider service to be given to the public. We are concerned about the extent to which the banks are meeting this need—it does not matter whether it is being done by taking chattel mortgages or otherwise. We are concerned to the extent to which the banks recognize that this need exists and are meeting it. They are set up to make credit available, and they are

failing to do it in this field, with the resut that there is this continual increase in the number of small loans companies and an increase in the number of loans made by them and the total charges which they are having to charge—and I am not saying that in the light of the restricted powers which they have, compared with the banks, that they do not have to charge more than the banks. But the public have to pay two per cent per month. Surely the banks have considered the wishes of this committee that these small borrowers should receive some consideration—wishes expressed at the time their charters were renewed—and I understand Mr. Crestohl is concerned about whether the Canadian Bankers' Association has paid any attention to repeated expressions of hope that the banks would meet this demand by small borrowers. It would appear from the evidence we have heard already that there has been no attempt to do so, because the small loans companies have been increasing in numbers and their loans have been increasing in amount; and it looks as if the powers given to the banks have not been exercised, that is, the power to extend loans in this way to credit-worthy small borrowers—and they must be credit-worthy or they would not be repaying these small loans contracted to the small loans companies.

Mr. BELL: If we had more figures it would enable us to make up our own minds; if we had the monthly figures with regard to these instalment loans we would be able to detect a trend, surely, in this practice. I would like to ask if it would be possible to have more sets of figures, preferably by the month?

Mr. FULTON: Since the amendment was made to the Bank Act?

Mr. BELL: From last April when this suggestion was made to the Bank of Canada.

The CHAIRMAN: The giving of the privilege of taking chattel mortgages as security was done in order to encourage more personal loans, but the mere fact that that authority was given does not necessarily mean that the banks are going to lend more, because it is only one form of security. It was just an attempt—that was all we figured we could do at that time.

Mr. FULTON: Would it not be fair to say that they, in the course of the discussion in this committee, suggested that it might make it easier for the banks to make these loans if they could take that type of security? While the amendment did not compel them to take chattel security, is it not a fair question now to ask: what has been the result of their experience—have the banks followed the policy that wherever possible they would make this type of loan? If so, what has been the result?

The CHAIRMAN: I think the witness has pointed out that he has no figures on that.

By Mr. Crestohl:

Q. To put this in another form, I am not suggesting that the banks were under an obligation to do that, but I am attempting to explore whether or not the banks have studied the matter at all—to find out whether the banks gave the amendment any consideration. Did they do any exploratory work to see whether they could render the people of Canada this service which the Banking Committee intimated might be possible? They are not under any obligation to have done it.—A. I can say that I am quite confident—and I speak now for the Bank of Nova Scotia, but I am sure this applies equally to all members of our association—that we are all keenly aware of our obligations to the public and we are very anxious to be good citizens. Indeed, these figures which I have presented to you show that the total of the instalment loans as we have compiled them on one particular day—I am sorry we have no comparable figures—these figures show that we are not doing too bad a job on that score.

Q. No one in this room, I think, doubts that the banks have been doing a magnificent service, and I would be the last to deny it.—A. I wanted to make this point from the standpoint of the request for comparative figures—the figure I gave for March, 1954 of $311 million as against $440 million in December, represents an increase of 30 per cent. I cannot separate the percentage of loans that might have been made with the provision of a chattel mortgage.

Q. You may be right. We are, I think, concerned with the possibility of the banks doing an even greater service to the people of Canada than they have in the past, and this committee last year was under the impression that we tried to facilitate your doing this greater service for the people of Canada, and now, while we have the advantage of having you before us again—you are a new president of the association—we thought we would like to know whether you had done anything about it, or whether you have studied it. Have you discussed this matter at your meetings?—A. There was no discussion at our meetings. I expect that each of the banks proceeded in its own way; there is very keen competition in these many fields of lending, and I can only speak for the Bank of Nova Scotia. Certainly, we did study this; we have not just ignored it, and I would not suggest for a minute that it is not a good thing.

Q. Well, this committee does not intend, or has no authority, to give you any instructions, but we hope you will take away from this meeting some of the thinking which some of the members have been expressing.—A. I am happy to have had this opportunity to do that.

Mr. KNIGHT: Was I right in understanding, following Mr. Tucker's question—and I may say I could not agree with anyone more than I agree with Mr. Tucker—

Mr. FULTON: All the time?

Mr. KNIGHT: On this particular question!

Mr. CRESTOHL: It is the new policy!

Mr. KNIGHT: I have differences with him on other occasions, but these temporary alliances are perfectly legitimate. The point I want to make is this: was I correct in understanding that the witness said one reason why the other banks, except the Bank of Commerce, are not doing more of this type of business is that they consider that this statutory limitation of interest rate of 6 per cent is something which prevents them doing it to a considerable extent?

The WITNESS: Yes, I think that is true.

Mr. KNIGHT: I suppose I cannot ask this question of the present witness, but I understand we are going to have an opportunity to question someone from the Bank of Commerce. . . The witness must consider, then, that the Bank of Commerce, in doing what it is doing in its discounting business, which raises the interest rate to a rate of 10·6 per cent, is exceeding the terms of the act, or is interpreting the act wrongly, or else is doing something which as far as the other banks are concerned might be considered unethical. I am not asking the present witness that question but I am going to ask it of the witness who appears to represent the Bank of Commerce when he comes before us.

Mr. CRESTOHL: There is a conflict there.

By Mr. Fulton:

Q. In the light of your feeling that an interest rate of six per cent was inadequate, did you come to any conclusion as to what interest rate would be adequate to cover this small loans field?—A. No, I cannot say that.

By Mr. Argue:

Q. If the Bank Act made it clear that the type of thing which the Bank of Commerce is doing is completely legal and beyond question, and that you, in your bank, could set up a small loans department and charge an effective rate of 10·46 per cent, would your bank in that case give greater consideration to this field and promote its own small loans department in this field generally?—A. Speaking for the Bank of Nova Scotia, yes.

By Mr. Cameron (Nanaimo):

Q. Could I pursue a point which Mr. Fairey raised some time ago with regard to the discounting of loans? You will recall that he asked you if your bank made a practice of discounting loans. You said they did on occasions and, therefore, someone approaching a manager of your bank for a $100 loan would get $94, assuming that the rate being charged was 6 per cent. Is that correct?—A. I say this: it is discounted at a rate that will produce an effective rate of 6 per cent. On a loan of $100 for 12 months, the discount is $3.25 which produces, as I say, the effective rate of 6 per cent.

Q. So anyone getting a loan of $100 at the 6 per cent rate would be discounted some fraction of that 6 per cent?—A. Yes, if we are talking about instalment loans.

By Mr. Knight:

Q. I do not like the principle of discounting generally, but is it not your opinion that you would be rendering a greater service to the Canadian people if you were in this business and giving these people loans, even at what I consider a fairly high rate of 10 or 11 per cent, which is involved in discounting, and giving loans at that particular rate rather than sending these people into the hands of those who are charging virtually 26·8 per cent per annum? Do you not think that the bank would be rendering a better service to these people—we are not discussing the legality at the moment; apparently there cannot be too much that is illegal about the action of the Canadian Bank of Commerce when they have been doing this for a number of years?

An Hon. MEMBER: Since 1936.

By Mr. Knight:

Q. That is my question. Would you not consider that you would be rendering a greater service to the Canadian people, particularly that class of people in need of this service, if you were to take similar action to that being taken by the Canadian Bank of Commerce?—A. I repeat again—and I am speaking for the Bank of Nova Scotia although I expect that the other banks share our view—that we are deeply conscious of our responsibilities to the public.

In respect to your other question, if we had an effective rate of 10 point, so and so, would we take advantage of the chattel mortgages, I think perhaps the answer should be "yes".

Q. The only thing which is keeping you from doing it is your different interpretation of the act than the interpretation which is taken by the Canadian Bank of Commerce?—A. I have never seen that solicitor's opinion. I must say this, that we must have a different solicitor.

The CHAIRMAN: That is why I suggest that they should get a more profitable lawyer!

By Mr. Batten:

Q. Suppose that a borrower came to borrow $100 to be repaid in equal monthly instalments over a period of one year, what would be the cost of that $100? I do not want it in percentage, I want it in dollars and cents.—A. $6.

Q. Then if the bank is prepared to lend money to borrowers at 6 per cent, can you explain why people will go to the small loans company and pay $13.46 for the same service?—A. It may be—again I am only speaking personally—that we are not as aggressive; it might be that.

Q. Would it be that the regulations which you lay down are more stringent?—A. We are not more aggressive for perhaps more than one reason.

Q. What I am trying to get at is this: There must be some significant reason why, if a person wants to borrow $100, he would be prepared to borrow from the small loans company at $13.46 when he can borrow from you for $6?—A. I think certainly one of the main reasons might be that we are not as aggressive in offering that facility, whether it be by advertising or what.

By Mr. Fairey:

Q. Mr. Chairman, may I ask a supplementary question? When you said that the cost to the borrower would be $6, when do you take the $6?—A. We make an effective charge of $6.

By Mr. Tucker:

Q. Six per cent?—A. Yes, six per cent.

Q. The question was this: The dollars—$100—was borrowed, and was repaid by instalments over a period, so that the average amount outstanding would be $50, and if you charge $6 your effective rate would be about 11 per cent. That was your answer?—A. I am sorry. I thought it was a straight loan of $100.

Q. So that actually, in a case such as in the case presented to you, if $100 was borrowed, your understanding of the act is if it were repaid in equal instalments over the year the actual charge to the borrower would not be $6 but would be $3. Is that not correct?—A. From the standpoint of $100 for a year, regardless of whether we discount it or add interest to it, we would end up by having earned $6.

Mr. ARGUE: Not if repaid in equal monthly instalments, because you would not have the $100 out for the full year.

By Mr. Tucker:

Q. It would cost the borrower a little over 3 per cent. That brings up the question again, in my mind and I am sure in the minds of the members of the committee, why is it, if you are giving this service to credit-worthy borrowers and they can get $100 for slightly over $3, that they go to the small loans companies and pay $13 and some? Is it not something to concern the Canadian Bankers' Association, whose members are supposed to extend credit to credit-worthy borrowers, small or large, that are actually refraining from extending in this field to the extent that parliament, and this committee, are being importuned constantly about the small loans matter. The companies are increasing in number and the amount of loans is being increased and poorer people are having to pay 2 per cent per month when better off people can get money for 6 per cent per annum, or less. That is what makes many people feel that the banks are not doing the jobs for which the banks

are given charters. I am sure that it is the intention of parliament that credit-worthy borrowers who happen to be poor should get as much consideration as the wealthy man. I do suggest that, and I hope that the Canadian Bankers' Association realizes that most of the members of this committee are not too happy about being constantly accused of permitting exorbitant rates to be charged and told that it is necessary for those companies who do this to be in this field because the banks do not give the service.

Mr. FOLLWELL: I have never been accused.

Mr. TUCKER: The charge has been made often in Parliament.

Mr. CRESTOHL: Would you allow me to follow through with just one more question along the same line. Assuming, Mr. Nicks, that there is a conflict of legal opinion as to whether all the banks should enter the small loans field, and assuming that—

The CHAIRMAN: I do not think that there is any question of legal opinion as to whether the banks can go into the small loans field. It is as to whether the rate should be 6 per cent per annum.

By Mr. Crestohl:

Q. Assuming that you were given authority by legislation to enter the small loans field and to charge 10·46 per cent, do you think that the Canadian Bankers' Association or the banks have any other grounds or reasons for refusing to enter the small loans field?—A. I must confess that I think these figures support the fact that we are in the small loans field. We certainly are not leaving any impression that we want to keep out of the small loans field.

By Mr. Tucker:

Q. What I say is true that the number of the small loans is increasing very rapidly, and apparently the record indicates that these are loans to credit-worthy people, because the record of loss is very small. On the face of it, it looks as if the banks are refusing credit to these people because they are not given small loans even though credit-worthy by the record. How do you explain the fact of the tremendous increase in small loans to credit-worthy borrowers, if you are meeting the obligation which I think you admit you have to the poor man as well as the rich man?—A. I can only repeat that it is perhaps because we do not aggressively advertise. We had a noticeable increase of 30 per cent in the period to which I referred.

Q. Can you not get the figures for this in respect to what was set out on page 2 as to the amount of loans outstanding in the same category a year ago? You have the figures for March 15, 1956. Could you get us the figures for March 15, 1955?—A. I could certainly make inquiries as to whether it would be possible to develop that figure. I do not know whether we could develop it back a year ago.

Q. It appears that the ones entering this field are prepared to give the service, and then, of course, the necessity of us authorizing these much higher rates comes in question. There is also some question as to the extent to which it is proper for the small borrower to pay the tremendous advertising costs, which overshadows the banks who give the service at a much lower rate. The Canadian Bank of Commerce said that this service is there for the borrower at an effective rate of around 11 per cent. Yet here we have the tremendous increase in the number of people borrowing at a much higher rate, and they said in their brief to us that the only thing that they could adduce from that would be that it is more important to advertise than give good service at low cost. That was a surprising statement in their brief.

If this is the answer, that this business is there not because it is necessary for people to go to the small loans companies but because they do not know that they can get the service from you—and this other service is right under their noses— then it is something which we should want to think about, because the poor man can less afford to pay 2 per cent per month than can the rich man. That is what is developing in our system today. I think that the Canadian Bankers' Association should be just as interested in this as are members of the Banking and Commerce Committee.—A. I do not suggest that we do not advertise at all. We do, in our advertising, of course, offer many other services because we are anxious to give a full service to our customers; it is not that we are directing it to one service.

Mr. FOLLWELL: Do you use neon signs?

By Mr. Fulton:

Q. You do not go after the man off the street? You are just anxious to give a good and a wide service to the customers? Is it your practice in any way to hope that you will get the casual man coming in looking for a personal loan and nothing else?—A. We try to service those people seeking services from the standpoint of borrowing.

By Mr. Lusby:

Q. Would you say there is a considerable number of borrowers who apply to banks first and are refused?—A. No.

By Mr. Argue:

Q. Do you think in this general field of small loans that with the rate of 6 per cent the banks today are making a profit?—A. No. I think not.

Q. You think there is a loss in that particular department?—A. Yes. That would be my view. Again, with respect to the question which was asked as to whether an effective rate of 10 point whatever it was would create more interest, I think the answer should be "yes".

Q. Would you say, at a rate of 10·46 per cent, that loans in this field would then show a reasonable profit as compared to loans at these other figures? In other words, would a rate of 10·46 enable the banks to promote this type of loan in the same way that they promote other loans? Would it be more profitable at 10·46 than at the other rates?—A. I do not think we would make much money at 10·46; but again, here, I have not mentioned it before, but I have not been able to establish a cost figure.

By Mr. Hamilton (York West):

Q. Your answer might be different if you were just carrying on a particular line of business such as the personal loan field?—A. Quite. But speaking for the Bank of Nova Scotia—and I think the other banks would associate themselves with me in this regard—perhaps the way we are educated, our training has something to do with it. We start off with a deep sense of the necessity for thrift; consequently that may have some effect on the aggressiveness with which we proceed after small loans.

The CHAIRMAN: Gentlemen, it is now 1.00 o'clock. The committee stands adjourned until 3.30 this afternoon.

AFTERNOON SITTING

3.30 p.m.

The CHAIRMAN: We have a quorum, gentlemen. Are there any further questions?

Mr. F. W. Nicks, President, The Canadian Bankers' Association, recalled:

By Mr. Henderson:

Q. At the top of page 2 of your statement you say:

> This survey of all branches of the chartered banks showed that on March 15, 1956, there were outstanding 431,485 instalment loans to individuals not secured by stocks and bonds up to a maximum of $3,500 —what the banks call personal loans. The total outstanding amount of these loans was $220,124,000.

I would like to know if that figure includes farm improvement loans, home improvement loans, and veterans' loans in that group?—A. I quickly say that I think not, although later on there is a figure which would include home improvement loans, but I think that is the only place.

Q. What about farm improvement loans, would you not call that a business?—A. Oh, yes.

Q. Well, do the banks which are members of your association lend money to the loan companies with which we are dealing now?—A. Yes, they have credit lines open to them.

Q. What do you take as security from them?—A. In some cases there is no security required.

Q. Do you take any assignment of their paper or anything like that?—A. Actually, I am thinking of the licensed loan companies and I do not recall —I can only speak for the Bank of Nova Scotia—and we do not take any paper as I recall it from the licensed small loans companies.

Q. What rate of interest do you charge these small loans companies when you lend them money?—A. At the moment I think the rate is 5 per cent.

Q. That is the recent rate?—A. Yes, there was a recent increase in the rate.

Q. What was it before?—A. It increased from 4½ per cent to 5 per cent.

Q. Is there an extensive lending arrangement between the banks and the loan companies on that basis?—A. I can only speak for the Bank of Nova Scotia. There are credit lines with many of the loan companies. We enjoy some of their business but we do not enjoy the business of them all, and we do have credit lines open to them.

Q. If a person getting a small loan from your bank should come in, he woul be charged 6 per cent—is that correct?—A. No, not necessarily, that is the maximum charge.

Q. You say the maximum.

The CHAIRMAN: Are there any further questions?

By Mr. Benidickson:

Q. It must be a lot more expensive to the banks to service a lot of small loans, shall we say, as against more or less a wholesale lot in the form of a loan to a small loans licensee with a relatively insignificant difference in the interest charge.—A. It certainly is more costly, I would judge, to handle a volume of small loans, yes.

By Mr. Enfield:

Q. In answer to a question this morning you were rather unwilling to explain the exact restraint imposed through government policy by the Bank of Canada on your credit and on the extension of credit by the banks. Would you say that government policy as expressed by and through the Bank of Canada has any impact on the volume of small loans business that the banks in your association might do?—A. I do not really think—again speaking for the Bank of Nova Scotia—that our managers are being guided by any instructions which would suggest that they screen small loans prospective customers when they approach us.

Q. The only thing I find wrong with the answer is that it belies one's own experience during the year with one's own local bank—not just an isolated and single experience, but one which has been repeated on many occasions—namely the unwillingness by the banks to extend a new line of credit. It may be that the banks will continue an old line of credit but they are certainly very unwilling to extend a new line.

Q. If these small loans customers come in and request an advance within the field of small loans, I do not think there is any problem there.

By Mr. Cameron (Nanaimo):

Q. Is there not an agreement more or less between the chartered banks and the Bank of Canada that there is to be a curtailment of term lending?—A. Yes.

Q. Would the line of credit which you issue to small loans companies fall within that category?—A. Now we are speaking entirely of the credit line of small loans companies on a wholesale basis apart from a small loan customer himself?

Q. Yes.—A. I think the banks are perhaps exercising some restraint on the extension of any credit line at the moment to small loans companies as such.

Q. As a result of representations made to the Bank of Canada?—A. As a result of the consultations we have had, perhaps.

By Mr. Enfield:

Q. In the annual report of the Bank of Canada Mr. Coyne says that the banks have agreed to work to achieve a minimum liquid asset ratio of 15 per cent which they will endeavour to maintain on a daily average basis from June on. Does this have any effect on the extension of bank credit particularly in the small loans field?—A. No, I do not think it has anything to do with the small loans field particularly.

Q. Does it not mean that you have to maintain higher cash reserves?—A. Yes, but not particularly in that field. That has an over-all effect.

Q. But it does have an effect?—A. Yes, it does have some effect in the small loans field, but we just do not sort them out.

Q. But you have to restrict your credit?—A. Yes.

Q. That is the answer I wanted.—A. I am sorry, I thought you meant that we were discriminating.

The CHAIRMAN: It would have saved time if you had told him what you wanted, and then he could have agreed or disagreed!

By Mr. Follwell:

Q. When you submitted your brief you gave us a breakdown made on the basis of the original amount of loans, and you made a list in the last one of the number of loans from $1,500 up to $3,500. What is your definition of a small loan? What is the bank definition of a small loan? You have indicated

them up to $3,500. Is that the breakoff point for what you term a small loan? —A. Actually this has to do with instalment loans. Why did we pick that $3,500 out? I do not think it reflects our thinking on small loans. Actually I think it was chosen because it was felt it would be more helpful in taking care of such an instalment purchase as an automobile, or something larger in the line of consumer credit, or something beyond the really small loans category. I think that was the thinking behind the establishment of that $3,500 figure.

Q. You are indicating, I presume, that this $3,500 is the cut-off point on the basis of which the banks have set instalment loans?—A. I think that would be pretty well the top.

Q. You have not yet—if you care to—told us what in your opinion is considered a small loan?—A. I have always thought of a small loan as being $1,500 or under, but that was only my own personal opinion.

Q. That is all we want.

By Mr. Henderson:

Q. You said before lunch that the banks did not get any small loans, but when I asked you about small loans, and the loans you make to those companies to carry on their business you stated that the depositor could get a small loan at a maximum rate of interest of 6 per cent. Why does not your bank, or the other banks, take that money that you put into circulation for the small loans companies for them to use, and use it and allocate it to your own banks for small loans business administered by your own banks?—A. Well, actually we have not found a shortage of money to take care of what we call our small loans business. From the standpoint of the raising of money and allocating it to our own small loans business, it means taking a more aggressive step to develop it. Perhaps it has been affected by that 6 per cent maximum charge.

Q. I do not just get that. Do you mean to tell me that there are not people who come to your bank and ask for a small loan, who would take up that amount of money?—A. I do not know. I feel we are taking care of the demands that there are.

Q. You must agree that there must be some demands?—A. There might be some of them turned down. We endeavour to take care of the demands upon us, but we are not going at it aggressively.

Q. It is a problem.—A. I made a point this morning that I think it is a fair assumption that the banks would be perhaps more inclined to go out looking for them if the interest rate was right.

Q. Wouldn't that be a good amount of money to allocate to this proposition of being able to take chattel mortgages, if there were any assets to take a chattel mortgage upon?—A. We do take certain chattel mortgages. I do not know if the fact that we are not taking more has affected our lending in that field.

Q. With your line of credit which you say you give to the small loan companies, you charge them a maximum of 5 per cent?—A. A minimum.

Q. Could the sum of those, which you take with possibly little security for them, not be allocated to your own small loans business?—A. I would be hopeful that we would have sufficient moneys to be able to continue credit lines on that basis as well as taking care of our own small loans customers. I do not think it is necessary for us to close off this credit line to find money for our own small loans purposes.

By Mr. Benidickson:

Q. If a chattel mortgage security is utilized there are certain legal costs and registration costs. Who bears the expense of the chattel mortgage?—A. I believe in our case the customer bears the expense.

The CHAIRMAN: Are there any further questions? If not we shall proceed to the next witness. Thank you very much, Mr. Nicks. Now, Mr. McPhail.

Mr. I. A. McPhail, Deputy General Manager, Canadian Bank of Commerce, called:

The CHAIRMAN: Mr. I. A. McPhail is the deputy general manager of the Canadian Bank of Commerce. I understand from him that as such the small loans operation of their banking business comes under his direction—not his immediate direction, but I should say, perhaps, his supervision.

The WITNESS: Yes, that is within my area of responsibility.

The CHAIRMAN: Within his area of responsibility. He has not prepared a brief, as I understand it, and is here to answer any questions the committee might wish to ask him.

The WITNESS: That is correct, Mr. Chairman. We prepared a brief in April of 1954 in connection with the decennial revision of the Bank Act, and we have not thought any very useful purpose could be served by preparing a fresh brief, inasmuch as our experience has not changed materially since then. I am here to answer any questions to the best of my knowledge that the members of the committee may wish to put forward.

By Mr. Philpott:

Q. Would you say that your bank is as satisfied with your small loans business as you were two years ago when you gave evidence before this committee before?—A. We are not complaining.

Q. At that time your president, I think, said you were quite satisfied with the general set-up and the rate you were getting, and you intended to carry on. Has that been your experience?—A. That has been our experience.

Q. There has been some talk here to the effect that the new policy of the Bank of Canada is restricting, or raising the rates and restricting credit, had an adverse effect on some lines of business, especially in the mortgage field. Has that been true in the small loans field too?—A. Not so far as we are concerned.

Q. You have not cut down at all in the small loans field?—A. Not at all.

Q. Have you cut down in the mortgage field?—A. Yes.

Q. You have cut down in the mortgage lending field but, not in the small loans lending field?—A. Correct.

Q. Is that a matter of policy? In other words, do you regard the small loans field as more important than the mortgage field?—A. Not necessarily more important.

Q. Has the availability of the money anything to do with it? What I am trying to get at is, what is the reason for the difference in the policy?—A. I do not know that there is any specific reason, except that mortgage lending is pretty long-term lending, whereas the personal loan lending is of a much shorter term. I think perhaps that is the answer to it.

Q. That is the only question I wanted to ask, but I wanted to make sure that your bank is still just as satisfied as it was two years ago with the general set-up of the small loans business.—A. Of our personal loans department, yes.

By Mr. Knight:

Q. Mr. Chairman, I would like to ask the witness a question. Your bank would be a member, I presume, of the Canadian Bankers' Association? —A. Yes.

Q. Mr. Nicks, the president of that association, has been giving evidence this morning. My question has to do with the fact that the Bank of Commerce, I think, is the only bank in Canada which more or less specializes in this small loans business, as we understand that term. Now, there has been, or apparently is, a difference in the interpretation of the Bank Act on the part of your bank and the other banks in Canada. To be specific, you people are lending—doing a large business—in the small loans field. We are told that you are, by a system of discounting—and I am not familiar with financial terms but, as I understand that, that is when you take from the borrower the interest ahead of time, as it were, and by that device, if one might use that word, you bring the interest rate of 6 per cent up to approximately 10 or 11 per cent, I do not know the exact figure. Now, in answer to my own questions to Mr. Nicks, he explained that for some reason they did not do that, and that their interpretation of the act makes it impossible, in their own minds, at least, to do that. In other words, there is an implication that what you are doing is in effect illegal, in terms of the act. I would like to get your comment in regard to that, because we thought that if you people had been doing this —carried out this practice since 1936, I think it is—and I think, personally, doing a considerable service to the people of the country, and particularly to these borrowers—we do not quite see why the other banks cannot do the same thing. While I think that 11 per cent per annum is a substantial rate of interest still, by not running that service these other banks are forcing these small borrowers into the hands of what we call the small loans companies, who are charging them what I think is virtually, according to the evidence given in this committee, 26·8 per cent or some such thing, per annum. Now, I would like some clarification on that point, particularly on this question of your interpretation of the Bank Act, and a general comment on the case that I have put before you.—A. Sir, I think perhaps all I can usefully say on that subject is that we have received our solicitor's opinion to the effect that what we are doing is quite legal. We are content to rely on that opinion and, in fact, have been doing it now for 10 years.

Q. Has it ever been challenged?—A. It has not been challenged.

By Mr. Argue:

Q. You are in this small loans field, as you said, the same as you were two years ago. Are you expanding your operations in this field? You have been in it a long time, and you have been in it extensively. What has happened in the last two years?—A. The figures fluctuate. There might have been, in the last two years, a very small rise in it.

Q. As other members have said, there are a great many of us that believe that the Bank of Commerce is doing excellent work in this field. We would like to see other banks, chartered banks, follow the same kind of practice and also promote the use of this field so that they may substitute a rate less than the rate of the small loans companies, in the business that many people have to do now in that field. I want to ask whether you find this particular department in your bank's operations as profitable as the other departments? —A. I do not think we can compare one with the other. We have not taken out any figures which we could use for comparison. I think all I can say is that our personal loans department is profitable.

Q. Can you give the committee some idea of the proportion, or number of persons, who apply for small loans that are turned down? I know you probably

will not have the exact percentage, but is it a tiny percentage? Is it one in four?—A. I think I might have some information with me along that line. For the year 1955 the percentage turned down was 9·12 per cent.

Q. It was 9·12 per cent?—A. It was 9·12 per cent.

Q. Are those all members, or applications for a loan are they?—A. Yes, that is correct.

Q. Nothing to do with bad accounts or anything else in respect of loans that you have made in this department?—A. No.

Q. What percentage have been written off as bad debts, uncollectable; what is your loss pattern?—A. I think all that is covered in the brief that was given in April of 1954. I do not know that I have it here.

By Mr. Benidickson:

Q. I have a copy of that brief, but I was just going to ask you whether there are any significant changes in the pattern since Mr. McKinnon presented that brief?—A. No, there has been no significant change.

By Mr. Argue:

Q. Mr. Chairman, I have one further question. I wonder if the witness could tell us what the ratio of net profit made by the Bank of Commerce is to the capital investment and the estimated surplus? The reason I am asking that question is that we have had a great many statistics presented to this committee showing the rate of return— the net profit related to the invested capital in small loans companies. I wondered if you could give us some idea of the percentage of return on capital made by the lending companies.—A. You mean the capital made available to the personal loans department, as such?

Q. No, no. I would like something that is comparable to the figures that were given to us by the witnesses for the finance companies. They have a number of documents here. For instance, the Bellvue Finance Corporation Limited in 1954—in schedule 3 of that document—made a net profit of $8,100, which they said was 9·5 per cent return on capital and estimated surplus.—A. Well, I am afraid I would not have that because our percentage ratio is calculated against the amount of outstandings.

By Mr. Benedickson:

Q. At page 820 of the 1954 committees proceedings, Mr. McKinnon indicated the net profit, after income tax, as a percentage on the net loans outstanding. Have you any up-to-date figure of that kind?—A. That is a little different from what the—

Q. Yes, I know, it is quite different.—A. No, I have no more recent figure than appeared in the brief.

Mr. ARGUE: What are those figures? Put them on the record so some of us who were not on the committee then will know.

By Mr. Benidickson:

Q. Mr. McKinnon at that time analyzed the personal loans plan of his company, in the year ending October 31, 1952, and he showed that operating profit as a percentage yield on net loans outstanding—2·48 per cent before income tax, and after income tax it was 1·24 per cent net profit.—A. You are reading from page—

Mr. BENIDICKSON: Page 820 of the blue book.

Mr. ARGUE: That was considered by him quite a satisfactory experience?

Mr. BENIDICKSON: He said he was making a profit and felt that they were giving service to their customers, as I recall the general summing up.

The CHAIRMAN: The institutions are hardly comparable, are they—banks and loan companies?

By Mr. Argue:

Q. Mr. Chairman, that is exactly the point I am endeavouring to get at—that the Bank of Commerce has been able to give good service at a reasonable rate of interest—just over 10 per cent, and that the bank, after it has paid its income tax, is able to show a profit of 1·24 per cent on outstanding balances. The Bank of Commerce says that it is satisfied, and the borrowers, I think, would say they are satisfied. I think it is an indication that this is the way small loans in this company should be made to a greater extent in the future.

The CHAIRMAN: There are certain reserves in the bank—there are certain inner reserves.

By Mr. Benidickson:

Q. I have a query, Mr. Chairman, on that point. If the net return is 1·24 per cent, I take it that unlike small loans companies, the bulk of the money that is made available for the small loans business of the Bank of Commerce would be depositors' money?—A. It is bank funds, generally speaking.

Q. Yes, but the larger percentage is from the deposit source rather than from paid-up capital and surplus of the institution, such as is the situation with a small loans company. Now, I take it that, I think, recently you have been paying depositors 2 per cent when they put their savings into your deposit account?—A. That is correct.

Q. And if your net return is only 1·24 per cent I was just wondering how you could show that profit?—A. That is after the cost of funds of course—the cost of supplying funds to the personal loans department.

By Mr. Crestohl:

Q. Mr. McPhail, would you tell the committee how your bank defines small loans?—A. I am sorry, I think that is a very difficult question to answer. It is one that was before the committee in 1954 and was not answered then.

Q. We are two years older, and I hope, perhaps, two years wiser, with some experience. Does your personal loans department consider a certain ceiling in determining whether it is a transaction for the small loans department, or the banks operations generally?—A. No; I would say no. There was an amount mentioned by the previous witness of $3,500 as a sort of limit. Actually I think that is an arbitrary amount and has no particular significance. What really determines a personal loan is the ability of the borrower to repay on a regular basis, in instalments.

Q. How does the bank determine whether a customer who comes in for a loan should be classified as a customer to be dealt with by the personal loans department, in which case the bank would obtain as interest rate of 10 or 11 per cent, or whether he should be dealt with by your regular banking department? What enables you to decide from which source of funds he would get the money?—A. If the borrower's resources are such as to qualify his through the usual banking arrangements it is paid in that way; on the other hand if it is felt that his resources are not adequate for that purpose, but that nevertheless he has good earning power, it would probably come under the personal loans department.

Q. Do you especially advertise your personal loans department?—A. We are doing so.

Q. When you say you are doing so, do you mean you are paying special attention to this department over and above other parts of your banking business?—A. Yes. We advertise other phases of banking also but we do have advertisements specifically related to the personal loans business.

Q. And do you carry any insurance at all to cover losses?—A. Yes. You mean losses through deaths?

Q. Though deaths, yes. Will you tell the committee what type of insurance you carry?—A. It is life insurance that I am speaking of. In the event that the insurance takes care of the unpaid balance.

Q. You cover that with insurance? Who pays the premiums for that?—A. The customer pays.

Q. Could you tell the committee how much the customer pays, or give us an approximately schedule of rates?—A. Yes. For a 12 month loan it is 20 cents per $100; for an 18 month loan it is 25 cents and for a 25 month loan, 45 cents per $100.

Q. You were asked a moment ago about your profits and about what helps you to make those profits. Can you tell the committee whether the overhead on your personal loans department is not largely taken care of in the general overhead of the bank? Perhaps I should put the question a little more clearly. For example, the business is carried on in the same office, in the same branch, and no special rental is paid; the required staff, or management, is there attending to the general business as well as to the affairs of the personal loans department, and the same applies to your lights, telephones and other operating expenses. I assume there must be some means of making an allowance for that?—A. We do endeavour to allocate expenses to the personal loans business.

Q. Yes, but it is not quite as expensive as it might be if you were operating a personal loans business by itself without the advantage of your other business?—A. Yes, if ye were operating a personal loans department by itself in each branch without central supervision the cost of operating that personal loans business in one branch would be prohibitive.

Q. It would be prohibitive. When you say "prohibitive" you mean it might be prohibitive at the rate of 10·46 per cent?—A. At our present rate of interest.

Mr. CRESTOHL: Thank you very much.

By Mr. Henderson:

Q. What does the average chattel mortgage cost?—A. Two dollars for registration fee.

Q. Is there any additional charge?—A. There is no additional charge.

By Mr. Cameron (Nanaimo):

A. You mentioned just now that there had been a slight increase in your personal loans business over the last two years. Could you hazard any guess as to the amount of that increase?—A. I do not think I could. This might be a little helpful: in 1955 at the end of the fiscal year the amount outstanding was roughly $24 million; in 1954 it was $20 million.

Q. That is an increase of $4 million in one year?—A. Yes.

Q. That appears to be a much smaller rate of increase than the rate of increase in the business done by the small loans companies from whom we have heard evidence.

The CHAIRMAN: What were the rates of increases in small loans. Do you remember? That is a 20 per cent increase.

Mr. CAMERON (*Nanaimo*): I think it was higher than that, if I recall it—perhaps Mr. MacGregor could give us that figure off-hand.

Mr. K. R. MACGREGOR, (*Superintendent of Insurance*): Speaking from memory there was no substantial increase at all in the outstanding balances of loans of $500 or less between the end of 1954 and the end of 1955. Over the five year period from the end of 1950 to the end of 1955, small loans balances, if I remember correctly, increased by 52 per cent but large loans balances by 352 per cent.

By Mr. Cameron (Nanaimo):

Q. What Mr. MacGregor has described as large loans balances would come, many of them, within your definition of personal loans?—A. The figures I quoted are not confined to loans under $500.

Q. So you would agree that the rate of increase in your personal loans department has been substantially less than these small loans companies——A. I do not agree with that.

The CHAIRMAN: Remember, the figures which Mr. MacGregor quoted were over a five year period.

By Mr. Cameron (Nanaimo):

Q. Have you any figures for a five year period?—A. I have not.

Q. What I had in mind in asking these questions was this: I wanted to know whether your business was increasing in the way the other small loans businesses are increasing, and, if not, what would be the reason?—A. I am afraid I cannot provide that information for you. We watch our own figures pretty closely but we do not actually try to keep pace with competitors.

By Mr. Fleming:

Q. Does the effective rate of charge to the borrower continue at 10·46 per cent, as was the case two years ago?—A. Yes.

By Mr. Philpott:

Q. Have you any idea why a potential borrower in a typical town, where there is a branch of the Bank of Commerce and also several of these small loans companies, often choses to go to the small loans company and pay a rate of about 26 per cent when he could go to your bank and get a rate of 10·46 per cent? What motivates a borrower to do this?—A. I can only hazard a guess. We do not, perhaps, advertise as aggressively as some of the small loans companies. It may be, also, that the borrowers have formed a pattern, a habit, and prefer to go there.

Q. Is it your experience that some people are still more or less afraid of the banks?—A. I would think not.

Q. You do not find that they are shy, and think there is too much formality at the bank?—A. I think that feeling disappeared 25 years ago.

By Mr. Follwell:

Q. Mr. McPhail, you indicated that you are charging a very reasonable fee for insurance on $100 lent for a year and paid back in monthly instalments. How do you handle that insurance? Does your bank make this charge and assume the insurance risk itself or does it purchase group insurance?—A. We purchase insurance from one or more of the insurance companies under a group life plan.

Q. Do you charge the borrower the same price that it costs you to buy the insurance?—A. We try to keep it in line with our actual cost. As a matter of fact we adjust the charge from time to time in order to keep it in line.

Q. You have indicated to Mr. Fleming that the Bank of Commerce is still operating an effective rate of 10·46 per cent for what I think you call personal loans?—A. We call them personal loans.

Q. And the other banks, through Mr. Nicks, indicated that you are the only bank operating in this particular field at that rate. Do you feel that a borrower in securing a loan from you at 10·46 per cent rather than at six per cent from any other source is being "gouged"?—A. No, we do not think so.

Q. Do you take chattel mortgages on your personal loans?—A. Not on all of them. We do take chattel mortgages.

Q. You do on some. I wonder if you would mind telling the committee the approximate number of loans on which you do take chattel mortgages.—A. Bearing in mind that we have only been taking chattel mortgages during the last 18 months, I would say it probably ranges between 2½ and 3½ per cent.

Q. It is very, very limited?—A. Very small.

Q. There was some discussion this morning—you were present yourself, and you heard it—in the course of which the opinion was expressed by some members of this committee that the banks could do a much wider lending business if they would permit themselves a little more scope in taking chattel mortgages. Do you agree with that?—A. Would you repeat that question—I did not quite follow it.

Q. In your opinion would the banks lend more money if they felt they could do so by making a wider use of chattel mortgage security?—A. Speaking for myself—and speaking for my bank—I think I can say that no one is turned down because he does not give, or we do not take chattel mortgage security.

Q. What security do you take?—A. The only other security we can take is a co-signature or guarantor.

Q. Do you require a co-signer on all your personal loans?—A. Not necessarily. We have loans on which there is only the primary borrower's signature.

Q. Can you tell the committee the percentage of loans on which you required the signature of the borrower only and the percentage on which you required either a co-signer or a chattel mortgage.—A. I think that was in the 1954 brief.

Q. I cannot remember that brief, to be honest with you, but you being a banker and having a good memory for figures, presumably could.—A. Speaking from memory, then—and I am afraid I will have to do that—I would say that around 40 or 50 per cent is one-name paper.

Mr. CAMERON (*Nanaimo*): I believe Mr. McKinnon told us it was 40 per cent.

By Mr. Knight:

Q. By "one-name paper" I presume is meant a document which bears only the signature of the borrower?—A. One signature only.

The CHAIRMAN: Do you take the signature of the wife where the borrower is a married person, in addition?

The WITNESS: Not always.

The CHAIRMAN: Usually?

The WITNESS: I would not even say usually.

By Mr. Follwell:

Q. Could you tell the committee whether the Bank of Commerce has found it necessary to seize chattels offered as security by borrowers?—A. You are talking of chattel mortgage security? Not one such case has come to my attention, and I think I would know about it.

Q. Then you are saying that on chattel mortgages you have never thought it necessary to seize the chattels and sell them off?—A. That is right.

By Mr. Cameron (Nanaimo):

Q. Mr. McPhail, you were here I think this morning when Mr. Nicks was giving his evidence. He told us about the small loans which his bank makes. Does your bank also make that type of loan in addition to your personal loans service?—A. Yes. Any loans which are on an instalment basis, unless independently secured, would find their way into our personal loans department; but in addition to that we do make loans where we are satisfied as to the resources of the borrower which are put into our ordinary branch books.

Q. And they would bear something like 6 per cent?—A. Up to 6 per cent.

Q. Could you give us any idea of how the number of those in that category would compare with your personal loans service?—A. I am afraid I do not have that information here.

By the Chairman:

Q. I was a little confused myself by the question Mr. Crestohl asked and I was not sure whether I gathered from that that all your personal loans business is done from the head office, or do you do it right in the local branch?—A. It is done at the branch level. The applications are made at the branch level and referred through our regional departments to the head office. They have to be approved at the head office or in the regional departments?—Q. What would be the average length of time that it would take a borrower applying to you to receive the loan?—A. Within certain limitations, our branches have authority to make immediate loans.

Q. That would be up to what limit?

Mr. KNIGHT: I did not hear the answer.

The WITNESS: I said that, within certain limitations, the borrowers would get an immediate answer.

By the Chairman:

Q. That would be a dollar limitation?—A. Yes.

By Mr. Cameron (Nanaimo):

Q. What is the limitation?—A. It would be a dollar limitation varying from branch to branch.

By Mr. Crestohl:

Q. Mr. McPhail, would you tell us a little about the mechanics of obtaining the loan and the method of repayment. Does the borrower generally open some form of account with your bank through which he makes the weekly or monthly payments?—A. The answer to that is, yes, he does.

Q. So that you acquire new customers who open savings accounts in that fashion?—A. Our plan helps.

Q. What has been your experience as to the loss of these so-called newly acquired customers after they repay the loan?—A. No survey has been taken on that point, but speaking very practically my impression would be that those accounts stay with us.

Q. Those accounts stay with you and that, of course, becomes a pretty profitable source of business?—A. It is an additional account.

Q. An additional income to your bank which took its origin from your person loans operation?

By Mr. Holowach:

Q. I believe the witness mentioned that 9·12 per cent of all applications that are made for small loans are turned down. Have you any information to translate that percentage into actual figures?—A. No, I just have the percentage.

Q. With respect to life insurance, yesterday we heard a representative of the Niagara Finance Company tell us that part of the service which they provided is a life insurance policy with no extra charge to the borrower. Is it your opinion that if your bank provided such a service it would affect adversely the profit picture? It is a deductible expense for the company as far as income tax purposes are concerned?—A. Yes.

Q. In what way would that affect adversely the profit picture?—A. Our present level of profits would hardly permit us to absorb the charge for life insurance premiums.

Q. With respect to the life insurance premium that is imposed on the borrower, in the event of death does such premium protect the heirs from all liability with respect to that loan?—A. Yes. The amount of the insurance received discharges the obligation.

By Mr. Fleming:

Q. What is your impression as to how your credit standards compare with those applied by the small loans companies?—A. Well, Mr. Fleming, I do not know the credit standards which the small loans companies apply. I can only speak for our own.

Q. You are not in a position to make any comparison then?—A. No.

Q. Nor, I suppose, is your experience extensive enough for comment with respect to the people who may have been turned down by the small loans companies who came to you for a loan, or vice versa?—A. That could be. I do not think actually that it happens very often; but it could happen. It is conceivable.

By Mr. Follwell:

Q. Would you say that there were any other advantages accruing to the bank on the basis of your making a small loan to a borrower at 10·46 per cent? Would you say there were other advantages by reason of the fact that you would get a new account and probably encourage them to be thrifty and to deposit their money, which you could in turn loan and make money on? —A. Yes, it develops more contact with the public and I think the habit of saving engendered by the monthly deposits would encourage thrift on the part of the borrower.

Q. Then it would have those advantages. It would encourage thrift on the part of Canadians and it would provide the bank with funds to service other loans eventually and produce a profit for the bank?—A. That is correct.

Q. Your bank loans money to the small loans companies?—A. I would say yes, we do.

Q. I presume you would loan it at not over 6 per cent at any time?—A. That is the legal maximum.

The CHAIRMAN: Are there any other further questions, gentlemen? If not, we will go on to the next witness. Thank you, Mr. McPhail. I am sure the committee appreciates very much your having taken the trouble to come here.

The WITNESS: We are very glad to have had the opportunity.

The CHAIRMAN: I believe, Senator Vaillancourt, that your witness is Mr. Charron.

Senator VAILLANCOURT: Yes.

The CHAIRMAN: Mr. Charron is assistant secretary of La Fédération des Caisses Populaires Desjardins de Québec and he is going to present in French a bilingual brief which has been distributed to the members of the committee. He is to be questioned in French through an interpreter.

Senator VAILLANCOURT: No, Mr. Chairman. The witness will speak in English.

Mr. Paul Émile Charron, Assistant Secretary, La Fédération des Caisses Populaires Desjardins de Québec, called:

The WITNESS: Mr. Chairman and members of the committee, first I would like to thank the chairman of the Banking and Commerce Committee for giving us the opportunity of presenting to the members of the committee the points of view of La Fédération des Caisses Populaires Desjardins de Québec on Bill 51 to modify the Small Loans Act.

I represent here La Fédération des Caisses Populaires Desjardins de Québec which is composed of twelve hundred Caisses Populaires Desjardins with a total asset of $450 million, with about 1,000,000 members, and outstanding loans in the amount of about $200 million.

An objective study of the last annual reports of the Superintendent of Insurance for Canada on small loans companies and money-lenders licensed in Canada as well as the substantial profits they have realized resulting from a tendency of recent years in a rather heavy increase of loans exceeding $500 which bring larger revenues than the small loans, prove beyond question the merits of the proposed amendments in the Bill 51 to modify the Small Loans Act.

As a matter of fact, close analysis of the last annual reports of the Superintendent of Insurance for Canada on small loans companies and licensed money-lenders operating under the Small Loans Act enacted by the parliament of Canada in 1939 shows that:

(1) the number of small loans have increased at an accelerated pace during these last years, due undoubtedly to the increase of the cost of living but also to the evolution of the commercial methods. The balance of the small loans of the small loans companies has increased from $24,425,312 to $76,948,705 from January 1, 1948, to December 31, 1954.

(2) a noteworthy trend has appeared these last years towards a relatively larger expansion of the operations in the irregulated field of loans exceeding $500 than in the regulated field of small loans of $500 or less, as noted by Mr. K. R. MacGregor, Superintendent of Insurance for Canada, in his annual report on small loans companies and money-lenders for the year ending December 31, 1954. At December 31, 1951, the balance of the small loans of the small loans companies was $61,133,863 and the balance of the loans exceeding $500 was $8,933,116, at December 31, 1954, the balance of the small loans was $76,948,705 and the balance of the loans exceeding $500 was $28,535,748. The small loans company Personal Finance, for example, showed an increase in its small loans from $7,250,850 to $18,446,627 from 1951 to 1954, when its loans exceeding $500 have increased from $8,319,733 to $27,161,733, during the same period. The small loans have more than doubled in volume and the loans of more than $500 have more than tripled in the same period.

Mr. MacGregor mentioned also that the balance of the small loans of the small loans companies and of licensed money-lenders at the end of 1954 showed an increase of 15 per cent on the balance of the small loans at the end of 1952, when the increase in the balance of their loans exceeding $500 for the same period has been of 76 per cent.

Their net revenues have increased appreciably with the increase of their total loans and with expenses proportionally less as the number of loans compared to the total amount of the loans granted was smaller in proportion.

The loans exceeding $500 should benefit of a reduction of interest and charges since, on one hand, they don't generally entail heavier costs and, on the other hand, these loans bring more revenues in the form of interest, which increase naturally with larger loans. A loan of $800 costs less than two loans of $400 each; and, furthermore, a loan of $800 brings a net revenue more than twice greater than a loan of $400. Consequently the rate of interest or the charges should be less than on two $400 loans, the other elements remaining the same.

Now, as noted by Mr. MacGregor, in his 1954 report published in November 1955, it is the general practice of the licensed money-lenders to charge the same rate of interest, i.e. 2 per cent per month or the equivalent, on the loans exceeding $500 as on the small loans.

And it would seem also that the non licensed money-lenders, if not all of them at least a great proportion of them, proceed the same way, and there are even a certain number of them to charge on their loans amounts exceeding two per cent per month.

Then, small loans companies and licensed money-lenders should normally reduce their rate of interest or charges on the larger loans as some of them already do, because the costs do not increase with the size of the amounts of the loans.

After all, the operation costs are unquestionably smaller if the number of loans does not increase proportionally with the volume of loans. Furthermore, the interest collected increases with the volume of loans. Consequently the net profits are higher on loans exceeding $500 than on loans of $500 or less.

Household Finance Corporation of Canada, the eldest and the strongest small loans company (errors excepted) operating under the Small Loans Act has granted, in 1954, a total of 533,396 loans amounting to $119,951,203. It has collected $12,758,246 in revenues on these loans, the cost of which was $6,859,689 and, in 1954, it has paid the sum of $3,048,510 to its shareholders whose share capital subscribed and paid in cash was $3,070,000 at December 31, 1954.

Mr. J. E. Levesque, manager in Quebec City for this company in a public course given in 1954 to the credit men in financial and business institutions, answering the question: is really the rate of 2 per cent per month equal to 24 per cent a year for the borrower, answered: "Not carefully that even with a charge of 2 per cent per month on the unpaid balance at the end of each month, we do not have $24 in charges for a $100 loan reimbursed in 12 monthly instalments. As a matter of fact, the charges on a $100 loan reimbursed in 12 monthly payments, are only $13.52 and not $24 as many would believe. And this is the only charge admitted by the act to cover interests, investigation, collection and administration fees, etc. If these expenses are deducted, the balance or the interest alone is not so exagerated as the majority of people take pleasure in repeating. According to our statistics, the average cost of a loan is $14.11. And as the interest on a $100 loan is $13.52 only, as stated previously, we would not show any profit if all our loans were for $100 only. However, the average of our loans being approximately $250 we show an average profit of $18.96 for each loan:"

This data on the cost of small loans generally proves correct for the other small loans companies by the analysis of the operation costs of their respective financial statements listed in the report of the Superintendent of Insurance

for Canada. These informations allow to show clearly enough the large and exhorbitant revenues realized by the small loans companies, particularly on their operations for loans exceeding $500.

Personal Finance Company of Canada makes more revenues with loans exceeding $500 than with loans of $500 or less. In 1954, Personal Finance has shown a net profit of $923,530 before deductions for income tax, on small loans operations, and of $2,536,170.95 on the loans exceeding $500. The expenses have been, proportionately speaking, much heavier on the small loans than on loans exceeding $500. They were $2,862,360 for the small loans which have brought a gross revenue of $3,785,891, against $3,192,631 of expenses for loans exceeding $500 and bringing a gross revenue of $5,728,802.

Therefore these figures show decisively the pressing necessity for the protection of those who will borrow from these small loans companies, that the Canadian parliament, which has jurisdiction in this matter, amend the Small Loans Act as follows:

(1) To increase to $1,500 the limit of small loans, in order that all loans to that amount will now come under the said act.

(2) To reduce the charges with the size of the loans in agreement with the proposed amendment, as a protection for the small borrowers against unjust and unjustified charges.

Consumer credit has certainly become a necessity in our modern world. According to statistics of the Bank of Canada of April 1956, the consumer credit owing or, if you prefer, the debts on the form of consumer credit were $2,193,000,000 at December 31, 1955, as compared with $1,846,000,000 at December 31, 1954. The sales on current accounts have jumped from 22·7 to 23·4 per cent, and instalments sales from 11·9 to 13 per cent, from January 1, to December 31, 1955.

The consumer credit is not to be condemned in itself. It might bring some economic and social advantages. The problem consists in deciding upon (1) if the use that we make of it is fruitful, (2) and, if that use is obtainable at a fair cost.

These advantages of consumer credit should never be the cause to forget the inconveniences it carries.

How many people live in financial insecurity because of abuses of consumer credit. They have been snarled in the nets of noisy publicity which has brought them to take engagements pretended to be easy but which they were unable to meet. How many misfortunes it also brings to those unable to plan! How many are they who try to figure the interest they will have to pay for their purchases on credit! And if the heavy engagements taken will not be for them a cause of misgiving leading to their unhappiness.

More than half of sicknesses in United States, have maintained the American medical authorities, come from emotive and nervous troubles originated principally by financial insecurity and money problems. Perhaps it is the same thing in Canada, I do not know.

Too many of our people are unable to regulate their desires nor resist to lancinating sollicitation of a multiform publicity which brings them to confuse superfluity from necessary things, and in the end, they accept as normal to live beyond their means. Undoubtedly, this tendency to get into debt to obtain goods which are not always essential, necessary, is not exclusive to Canada and United States. The same tendency seems to exist in Europe. The "Courrier de Genève" pointed out recently that "the steadily increasing number of those who engage all their liquid assets and mortgage all their belongings by multiple engagements, even if they have to live with saveloys and potatoes."

The people become, under the pressure of commercial publicity, gradually enslaved to unlimited needs and they seek by all means, not always worthy of commendation and oftentimes expensive, to buy time and again, without caring to much of the happenings of tomorrow. The wife will have to resign herself sometimes to go out of her home to add to her husband's salary now too small to meet the financial engagements. It is the happiness, the peace of home which is badly menaced. Too many facilities of consumer credit are a cause of trouble in many homes. The social workers well acquainted with family problems are well in position to confirm it. The education of children is sometimes tragically lacking because of these troubles. Would you not believe this to be one of the causes of juvenile delinquency?

Would it be exaggerated to say that a great number of Canadians have mortgaged their future somewhat excessively by purchasing on the instalment plan. This system induces people to reckon on a future which may not turn out as they expect, and to build up hopes which may prove to be nothing but optical illusions to be followed by disappointment and a rude awakening.

We might be considerably surprised if we were to find out the losses sustained over the past few years by people who through lack of moderation or bad reckoning have made too many purchases on time. Those who sell their goods on credit could tell us a thing or two in this connection.

Consumer credit may offer some immediate advantages for the individual and for the general economy, but attention must also be paid to the ill effects it may have on the economy of tomorrow. What would happen if every citizen by purchasing on credit, exhausted his purchasing power for several years to come? For buying on the instalment plan involves the future, indeed, the wages due tomorrow are already used up in payments on unpaid purchases. The purchasing power of each individual being limited, a more or less sudden contraction in sales might well occur one day, followed by a marked decrease in production and that tragic consequence for our economy, unemployment and the total collapse of the purchasing power of this country.

While the instalment plan may, on one hand, activate production and enable people to have a higher standard of living today, it may well, on the other hand, cause a catastrophy tomorrow if it is practised to excess.

To purchase on the instalment plan cannot be regarded as a way to effect savings on the pretext that the only difference resides in the fact that payments are made after acquisition and that it is simply a matter of delayed savings. It must be remembered that the money used to pay instalments has to be deducted from the overall income available for other expenses and that after such deduction what remains may very well be insufficient to meet such essential expenses as food, clothing and rent. Thus optical illusions and false hopes take the place of intelligent foresight.

Sales effected on the instalment plan carry very high rates of interest and those who resort to this system are usually the ones who can least afford it. Example: a man needs $500 to purchase such and such an item and raises a loan at 2 per cent per month, i.e. 24 per cent per year. He has to pay back the loan at the rate of $26.46 per month and in 24 months will have disbursed $635.04; he will therefore have paid $135.04 in interest. If the same man instead of raising a loan had proceeded to save by depositing $5 a week or $21.30 a month, with his Caisse populaire Desjardins, at the end of 24 months with the 2½ per cent interest on his deposits which is capitalized every six months, he would have had $522.

Let us suppose that he then proceeded to buy the $500 item, being able to pay cash he might have obtained a 10 per cent rebate on it. Thus, with the $32 interest on his deposits he would have economized $82 with which he

could have bought something else, this was not the case when he raised the $500 loan elsewhere. It is therefore apparent that savings increase the purchasing power of the individual.

Can it still be said that putting money aside restricts economic activity? On the contrary, savings increase that activity whereas easily obtained credit, of which excessive use is made, creates inflation and renders economic stability impossible to achieve. By borrowing $500 at 2 per cent per month our man reduced his purchasing power by $135.04, whereas if he had proceeded by means of savings he would have increased it.

Another point worthy of consideration is that when spending money they have managed to save, people endeavour to get essential articles for it and not useless ones which, sometimes, may even be harmful to them. It follows, therefore, that putting money aside influences production and steers it in the right direction.

In view of the alarming increase in consumers credit it is to be wondered whether the competent government authorities, whose responsibility it is to ensure economic stability to the best of their ability, should not institute regulations which would avoid abuse and thus protect our economy.

It occurs to us that it might be a good thing if the competent governments controlled sales on the instalment plan. Such essential items as refrigerators, stoves, washing machines, and sewing machines could be sold in this way on condition a certain down payment were made, whereas articles such as radios, television sets, etc., which, without being bad in themselves are to some extent luxuries, should call for a down payment of 50 per cent. This, in our opinion, would be one of the best ways to avoid or at least to control inflation.

If the sellers were compelled by law to demand from everybody a substantial amount as first payment when the sale is made, the purchasers would be incited to save, every week, a few dollars out of their salary to purchase in the future whatever they need. They would learn to practise thrift, they would train to save, they would learn the value of money, they would contract the good habit of thinking before spending, of purchasing only necessary and useful things, and they would avoid financial obligations exceeding their capacity of payment, and living within their means, they would be protected from misgivings and concern of those unable to resist the pressing solicitation of publicity which show them everything so easy and pleasant.

What beneficient influence can small loans companies have or exercise for the good orientation of homes and the sound education of consumers confronted by these problems of consumer credit, the solution of which lies in the proper balance of the budgets in homes and a standard of living based on the revenues of each family.

What can the small loans companies effectively do for the education of families to foresight, thrift and saving? What interest, as a matter of fact, can the small loans companies find in that assistance on the level of education and of moral and social security of families? What lesson can be had from that deplorable situation which the legislator wishes to correct by amending the Small Loans Act?

Lending money is no synonym to rendering service. Every loan sets a problem of reimbursement. Every loans bears, also interest which must be paid back with the capital. These facts are proved once again by the analysis of the financial reports of these last years by the small loans companies and the money-lenders, it is noted indeed that borrowers are getting deeper and deeper into debt and, moreover, the number of borrowers is increasing constantly.

We rather give our confidence to organizations which, not sacrificing the service for the profit, have a policy to grant loans limited to useful and advantageous purposes, reduce to a strict minimum the interest or charges on the loans, strive to guide the families in their administration, train them to foresight, thrift and saving.

Here is how the Caisses Populaires Desjardins devoted to that task understand and handle this problem of small loans.

During his lifetime the founder of the Caisses Populaires, Commander Alphonse Desjardins, always maintained—and we still adhere to his principles —that credit should be made available to those who need it but only for productive or advantageous purposes, in other words, loans should never be granted for frivolous or futile purposes which quite frequently place the borrower in a precarious situation. For instance, a Caisse Populaire Desjardins would never grant a loan for the purpose of taking a trip, for, if the applicant has not been able to save up the money he needs, how could be reimburse the loan? It would be quite a different matter, however, if the applicant had to travel for reasons of health.

Thus the Caisses Populaires Desjardins only grant loans for productive or advantageous purposes. A lot is being said about social security, but so long as there is no family security, that is, moral, material and housing security, it cannot be established. When the majority of families own their own homes, there will be a greater measure of security and fewer subversive ideas for those who own their home or a small piece of land want to defend and protect that house or land. When parents and children live in a house which is truly theirs, peace and harmony are more likely to reign.

To get around this difficulty, young people who feel unable to set aside on their own the $5, $10, or $15 they must save in order to prepare for the future, authorize their employers to deduct the amount from their wages and deposit it on their behalf with their Caisse Populaire Desjardins.

The Caisses Populaires Desjardins have a loans' policy which both allows and encourages their members to save. They insist on small regular payments on loans granted and thus prompt the borrowers to exercise foresight and economy and to budget wisely in order to set aside the money which will enable them to refund their loans gradually. They thus make it possible for our people to free themselves systematically of debt because they compel them as it were, to keep things in order, to be discriminating in their spending and to be moderate in their way of living in order to put money aside to pay off their debts.

The Caisses Populaires Desjardins know that debts are either paid off little by little or not at all. For most people this undertaking to make small regular payments on their loans is the only way to free themselves of debt, they refund their loans little by little, otherwise they are never refunded; they have to think ahead and take the necessary measures to set money aside to settle their debts little by little.

In addition to helping our people to free themselves of debt, the Caisses Populaires Desjardins enable them to effect appreciable savings thanks to their method of calculating interest on the balance due on loans, they do not make people pay interest on the total amount loaned over the entire period of time for which it is lent as do certain financial institutions on their so-called popular loans; these institutions deduct interest on the total amount of a loan at the time the money is handed to the borrower.

The Caisse Populaires Desjardins loans $100 at 6 per cent, refundable in one year at the rate of $8.34 per month. The interest paid by the member on that loan is as follows:

January	$100.00	at	6	per	cent	for 1 month....	$0.50
February	91.66	"	"	"	"	....	0.46
March	83.33	"	"	"	"	....	0.42
April	74.98	"	"	"	"	....	0.33
May	66.64	"	"	"	"	....	0.34
June	58.31	"	"	"	"	....	0.30
July	49.38	"	"	"	"	....	0.25
August	41.65	"	"	"	"	....	0.21
September	33.33	"	"	"	"	....	0.17
October	29.99	"	"	"	"	....	0.13
November	16.66	"	"	"	"	....	0.09
December	8.33	"	"	"	"	....	0.05
Total.....							$3.30

He receives $100 from his Caisse Populaire Desjardins and pays $3.30 in interest. The Caisse Populaire Desjardins does not hand him $94 instead of $100 as other institutions do for their so-called popular loans, saying to the borrower: we have deducted the 6 per cent interest you have to pay on your loan, so here are your $94 and the interest is paid. Thus the borrower receives $94 on a $100 loan. The Caisse Populaire Desjardins, on the contrary, hands the borrower his $100 and enables him to economize $2.70 on the interest.

You will realize the economy which the Caisses Populaires Desjardins, who have so far loaned over a billion dollars, have enabled their members to realize while giving them at the same time a rate of interest on their savings deposits which in itself represents an appreciable economy. This was rendered possible by cooperation and, needless to say, by the efficient administration of the Caisses Populaires Desjardins.

The economy in interest realized on a loan granted by a Caisse Populaire Desjardins becomes even more apparent when one compares the interest charged by the Caisses Populaires Desjardins and that of finance companies whose interest on loans varies betwen 20 and 24 per cent. The interest paid on a loan of $500 granted by a finance company, with monthly payments of $26.46 over a period of 24 months, exceeds by $100 that paid on a similar loan of $500 granted by a Caisse Populaire Desjardins with monthly payments of $22.17 over the same period of time. In the first case the interest charged is $135.04, and in the second $32.08. Thus the economy realized on a loan of $500 is $102.96.

The Caisses Populaires Desjardins are savings cooperatives in order to serve as loan cooperatives. As they are organized by people who are "weak financially" to meet their credit requirements, their first concern is, of course, to meet requests for small loans. A study of the loans effected by our Caisses Populaires in 1953 reveals that the average personal short-term loan was of $390 and the average loan on property, $2,810.

The Caisses Populaires Desjardins have made 93,926 loans in 1953 for total amount of $77,100,000.

76,701 loans were inferior to $1,000.

72,749 loans were personal, and were distributed as follows as to their amount.

12,666 loans inferior to $99.99.
16,637 loans from $100 to $199.99.
30,014 loans from $200 to $499.99.
13,432 loans from $500 to $999.99.

The Caisses Populaires Desjardins encourage their members to accumulate savings for specific objectives.

The regular practice of savings show to the Caisse Populaire that the borrower can reasonably purchase such and such an article which is necessary or useful to him. La Caisse Populaire can loan him the amount he needs; it only comes to complete by a loan what is missing to the borrower to buy "cash" a stove, a sewing machine, a washing machine, a refrigerator, etc.

Knowing their members well, the Caisses Populaires Desjardins are particularly apt to guide them soundly in the administration of homes, to educate their members, to incite them to act with discrimination in meeting their desires, not to confuse the superfluous with the necessary or useful things, to budget their expenses, and to adopt a standard of living based on their revenues.

Les Caisses Populaires Desjardins make that education because they are devoted to the service of their members and they understand its necessity. That is why they must know, before granting such and such a loan for the purchase of such and such an article necessary or useful to family life, if the proposed loan will be really useful to the borrower and if the obligation the borrower desires to assume is proportioned to his revenues and if such a loan is really opportune or pertinent to the happiness of his home.

This is how the Caisses Populaires Desjardins help the families of their members to utilize credit soundly and profitably.

The CHAIRMAN: Thank you very much, Mr. Charron. This is more than a brief; this is also a sermon!

The WITNESS: No, it is a principle; a sound principle.

Mr. CAMERON (*Nanaimo*): Before we adjourn, Mr. Chairman, I would like on my behalf and I think on behalf of many of the members, to thank Mr. Charron for his consideration of those of us who are unilingual in reading the brief to us in English.

The CHAIRMAN: Gentlemen, it is practically 5.30. I suggest that we meet again at 8.15. You may then ask Mr. Charron any questions which you wish to ask.

If we finish with Mr. Charron tonight perhaps we could get on with the bill.

EVENING SESSION

8.15 p.m.

The CHAIRMAN: Gentlemen, we have a quorum. Are there some questions which you wish to put to Mr. Charron?

Mr. Paul Emile Charron, Assistant Secretary, La Fédération des Caisses Populaires Desjardins of Québec, recalled:

By Mr. Monteith:

Q. I have a very elementary question, no doubt, but in the first paragraph on page 4 of his brief, Mr. Charron says:

> The sales on current accounts have jumped from 22·7 to 23·4 per cent...

The CHAIRMAN: What paragraph is that?

Mr. MONTEITH: The last sentence in the first paragraph on page 4 which reads as follows:

> The sales on current accounts have jumped from 22·7 to 23·4 per cent...

Does that simply mean cash sales, sales for immediate cash?—A. Current account.

Q. You mean cash sales?—A. Yes, cash sales.

Q. Thank you.

The CHAIRMAN: Are there any further questions? I begin to suspect that some of you do not want to work on Saturday!

Mr. MONTEITH: You would not be thinking of yourself?

The CHAIRMAN: Yes, I would include myself. If there are no further questions we shall move on to the bill. But first of all—

Mr. FULTON: Is Mr. MacGregor going to be asked to make any reply to the representations that have been made?

The CHAIRMAN: That has not been considered by the steering committee at all. It was never raised.

Mr. FULTON: Who would raise it?

The CHAIRMAN: It would be up to the committee. I am only the chairman here.

Mr. ENFIELD: Let us get on to the bill.

Mr. CAMERON (*Nanaimo*): Have you talked to Mr. MacGregor to see if he would like to?

Senator VAILLANCOURT: This brief is not directed against any organization or anybody. We try to build something for the workers, the labourers and the poor people. I have been connected with the Caisses Populaires for 50 years. I know some ordinary classes of labouring people and farmers and I have been connected with a social organization for 40 years. I have the direction in my locality, in my town, of this problem of trying to help people and trying to educate them. It is very hard to educate people especially adults. That is the reason why we are working with young people in the schools, to educate them in the schools and after that to be better men.

Last winter in the city of Levis, where I am president of a social organization designed to help poor people during the wintertime, we were obliged to furnish food, fuel, clothing, rent and so on to 17 families which numbered more than 100 people; and of those 17 families, 12 were engaged with small loans from $15 a week up to $37.50 a week.

When we were furnishing food, fuel, clothing, remedies, milk and so on, to those families, they were obliged to pay to the finance organizations between $15 and $37.50 per week. This charitable organization did its best to pay for them. But the trouble is that people are influenced by the advertisements when they look at a television screen, or listen to the radio, or look at the newspapers. They are led to consume today and to pay for it the day after; and when these people are obliged to put their hands in their pockets and bring out some money at a time when they are not able to do so, then the situation which arises is very, very, bad.

I think the solution, if it is possible to arrive at a solution, is not only to decrease the interest rate alone, but to oblige people to pay a down payment of 15, 20, 25 or 30 per cent first, on luxury or unessential articles.

Among the families we helped last winter, some were in very bad shape. Here is an example: One of these families, 13 months earlier, had bought a baby carriage for $99, which was pretty expensive; and after 13 months they

were supposed to pay $3 a week. All during the wintertime and the season when they became hard up, they were not able to pay that $3 a week. Yet they received a letter from a lawyer to the effect that they must pay so much and so on—and the fee for the letter was $10; plus 10 or 15 per cent for the collection and so on.

This man became discouraged and he came back to us; and the situation was that all the family was in very bad shape. I went to visit this family to investigate the situation. The mother was very badly deficient and she was in another kind of deficiency; if these people had been obliged to pay $10 before undertaking to purchase this luxury carriage,—I have never paid more than $40 or $30 for a child's carriage, they would not have bought a carriage for $99, probably. This is a kind of education needed, and I think it would save the situation, because we are now in an inflation. It is unnecessary to ask if inflation is forthcoming, because we are already in an inflation; and in 1929 if you remember it, the situation was practically the same—not exactly the same, because now we do have some social organizations to prevent what happened in 1929. It is not necessary to give us a law as in 1929, but after that if we are to build a prosperous country it is necessary to start at the bottom with the education of young people, and to organize, and to build better organizations for tomorrow than we have today; I submit that it is necessary to do it today.

By Mr. Follwell:

Q. Is the senator prepared to answer questions? If so, I have one or two little questions I would like to ask him. Do they make loans only to members of the Caisses Populaires?—A. Yes, only to members.

Q. Could you tell the committee what the qualifications are for membership in the Caisses Populaires?—A. It is necessary to be an honest citizen.

Q. Are you suggesting that there are Canadians who are not honest?—A. Surely!

Senator VAILLANCOURT: We are not 100 per cent perfect!

Mr. FOLLWELL: I am sorry but I did not hear it.

Senator VAILLANCOURT: The first qualification is honesty, because honesty is the best policy!

Mr. FOLLWELL: I am rather inclined to agree with you. We all learned that rule long ago; but you must have other qualifications for membership. How do you go about it?

Senator VAILLANCOURT: You pay $5 for a share, plus 10 per cent for fees.

Mr. FOLLWELL: Do the same qualifications apply to the Caisses Populaires that apply to the credit unions?

Senator VAILLANCOURT: Practically the same.

Mr. FOLLWELL: Is there any relationship between the amount of money that a member can borrow as related to the number of shares that he has?

Senator VAILLANCOURT: There is no relationship.

Mr. FOLLWELL: You say in your brief on page 2 in the fourth paragraph:

> And it would seem also that the non-licensed money-lenders, if not all of them at least a great proportion of them, proceeds the same way, and there are even a certain number of them to charge on their loans amounts exceeding 2 per cent per month.

I wondered if you could tell the committee how many of the non-licensed money-lenders charge over 2 per cent per month, and who they are?

Mr. CRESTOHL: How could he know that?

Senator VAILLANCOURT: We cannot answer that.

Mr. FOLLWELL: Well, you made the statement and I wondered what was the reason you made that statement.

Senator VAILLANCOURT: Because we have received new members into the Caisses Populaires many times who asked us for loans and we always investigate first: "Have you any loans in any place?" And they answer. Sometimes they say, "Yes, we have; we have a loan with such and such an organization and so on; and we have been obliged to pay for $1,000, $500 commission plus 2 per cent."

Mr. FOLLWELL: You are saying that your members have told you that?

Senator VAILLANCOURT: Yes, but we have many.

Mr. FOLLWELL: You have it by word of mouth that that has happened?

Senator VAILLANCOURT: Yes.

Mr. FOLLWELL: And that is all?

Senator VAILLANCOURT: Yes.

Mr. FOLLWELL: All right, so long as we understand it.

Senator VAILLANCOURT: We have not the figures.

Mr. FOLLWELL: We congratulate you upon the preparation of your brief. I see that at page 7 in your brief, the fourth paragraph, you say this:

> What beneficient influence small loans companies do have or can exercise for the good orientation of homes and the sound education of consumers confronted by these problems of consumer credit the solution of which lies in the proper balance of the budgets in homes and a standard of living based on the revenues of each family.

And then you go along from there and you say:

> What can the small loans companies effectively do for the education of families to foresight, thrift and saving? What interest, as a matter of fact, can the small loans companies find in that assistance on the level of education and of moral and social security of families? What lesson can be had from that deplorable situation which the legislator wishes to correct by amending the Small Loans Act?

Mr. FLEMING: Is it necessary to read the brief all over again, Mr. Chairman?

Mr. FOLLWELL: No, but there are other things that I would like to call to the attention of Senator Vaillancourt, here.

Mr. FLEMING: Yes, by way of questions; but we have heard the brief.

Mr. FOLLWELL: All right. If I was as efficient in French as the witness is in English, I would not be reading this in English.

Senator VAILLANCOURT: We will be very happy—

Mr. FOLLWELL: You said in several places in your brief that you do a great deal of helping your people to manage their affairs?

Senator VAILLANCOURT: Yes.

Mr. FOLLWELL: It was indicated that some of the small loans companies have budget material and tell their people what to do.

Senator VAILLANCOURT: Yes?

Mr. FOLLWELL: What do you do?

Senator VAILLANCOURT: We would be very happy if the small loans companies would do the same as Caisses Populaires. If a man asks for $500 or $300 from Caisses Populaires, we ask him this: "What reason do you want it for? Why do you want this money? What is your salary?" And 50 per cent of the time we are obliged to organize a budget for these people.

We will say, "You receive $50—or $60 or $70—per week, and you are obliged to pay so much for rent, and so much for insurance, and so much for other things, and so on, and so on—and so much for food. Can you pay to the Caisses Ppulaires this amount of money?"

Ordinarily these people never realize what they spend. Every week they collect perhaps $50 or $60 or $70 or $100, and that is all they know about it. At the end of the year, for example—I will give you a simple example in this way: one person came to my office and asked for a hundred dollars. That was about 1932, in the days of the depression. The month before that his salary had been cut to the extent of $100 a year. In the year 1934 this man was receiving $100 per week, that is $1,300 per year.

Mr. KNIGHT: You mean "per month", do you not?

Senator VAILLANCOURT: Yes, per month, yes; I should say that he was receiving $25 per week. By the end of the year he would receive $1,300. In the beginning of 1932 the company advised him that he would be paid on a monthly basis, at the rate of $100 per month, or $1,200 per year. And he said, "This is too bad for me, it is too tight for me." Anyway we discussed the situation with the wife and the husband. And then, do you know what the result was? It was not necessary to borrow the $100. At the end of it all I said, "Do you remember when you came to see me as a young boy; do you remember that during the evening we took the pipe and smoking tobacco to my father—tabac Canadien?" But I said to him, "Now, you smoke more than $2 worth a week, cigarettes. Just go back five years ago and use the same system, and we will arrive at exactly the same situation." Two dollars a week for 52 weeks makes $104; that is all.

You know, it is not necessary to arrive at a great principle and a great speech, and so on. Just discuss the problem with him; and if the small loans industry could do the same thing many of their troubles would be settled individuallly. Let them organize their budgeting, because that is the method we use. And I think the small loans industry could do the same thing.

Mr. FOLLWELL: Do you require any endorsers on personal loans, for security?

Senator VAILLANCOURT: Sometimes; it all depends upon who the borrower is. To some borrowers we cannot furnish a penny without an endorsement, and to others you could furnish a thousand dollars; that is just the difference. It all depends on what the situation of the man is, and the morals of the man.

Mr. CRESTOHL: Do you insure loans?

Senator VAILLANCOURT: Yes, all the loans are insured for $10,000.

Mr. BENIDICKSON: How much does that cost?

Senator VAILLANCOURT: To the borrowers, 6 cents per $100 per month. That is $7.20 per $1,000 per annum. Supposing they borrow $1,000, and the first month they refund $100, the next premium is less. But at the end of the year we divide the profits, after all the expenses and the reserves have been taken care of.

Mr. FOLLWELL: Do you have a fair-sized amount of your total loans on real estate, mortgages?

Senator VAILLANCOURT: Yes, oh yes; we have mortgages—last December on mortgages we had $162 million—and $34 million on notes.

Mr. FOLLWELL: What rate do you charge on a real state mortgage?

Senator VAILLANCOURT: On a mortgage it falls between 5 and 6 per cent. It all depends upon the size of the revenue of the local Caisse Populaire.

Mr. FOLLWELL: What would be the largest loan you have on your books?

Senator VAILLANCOURT: Ordinarily, not more than $10,000 or $15,000, because we try to help our members to build their homes—not large buildings. We prefer to divide all our borrowings up among all our members. I suppose some people will ask us for $50,000 for a large building with four or five stories, and they would receive the same treatment. We prefer to give a loan to five members of $10,000 each, instead of $50,000 to one member.

Mr. CRESTOHL: You have a paid staff all the year round?

Senator VAILLANCOURT: Yes, but the directors are not paid.

Mr. HOLOWACH: Do you acquire outside funds from lending institutions?

Senator VAILLANCOURT: No.

Mr. HOLOWACH: Or do you have capital to finance your undertakings?

Senator VAILLANCOURT: We have total assets of $450 million and we have 50 per cent of the total assets practically liquid on cash or on debentures—bonds—federal and provincial government or municipal government bonds.

Mr. HOLOWACH: You have no need of borrowing, then?

Senator VAILLANCOURT: No.

Mr. CRESTOHL: As a matter of fact do you ever approach the banks to borrow cash and place with the banks as collateral, some of those bonds as securities that you have?

Senator VAILLANCOURT: In the past, yes—but not now because we have our own central organization and we receive surplus from all the Caisses Populaires.

Mr. LUSBY: Do you make loans on what we might call humanitarian considerations, even when as a risk it may not look good? You say somewhere in your brief that your organization would not lend money for a pleasure trip. But if a man had to travel for his health, it would be a different matter, would it?

Senator VAILLANCOURT: Yes. It seems to me that the man who had to travel for his health might be even a poorer repayment risk than the man who travelled for pleasure.

Mr. LUSBY: Well that is another matter.

Mr. CRESTOHL: Insurance covers him.

Mr. FULTON: You spoke of the rates you are able to give to your borrowers with respect to insured loans. Do you have a related insurance company?

Senator VAILLANCOURT: We have our own insurance company.

Mr. FULTON: And you are a director of that insurance company?

Senator VAILLANCOURT: Yes, we have our own insurance.

Mr. FULTON: And you are also a director of a couple of other companies down in Quebec?

Senator VAILLANCOURT: Yes.

Mr. FULTON: And you are a man of some influence in Quebec, are you not?

Senator VAILLANCOURT: Oh no, no!

Mr. FULTON: I think I heard you say at some point that you had knowledge of a case where a debtor had received a letter from a lawyer in which the lawyer said that it would cost him $10 for that letter?

Senator VAILLANCOURT: Yes.

Mr. FULTON: Did you report that to the bar society?

Senator VAILLANCOURT: No.

Mr. FULTON: You did not?

Senator VAILLANCOURT: No.

Mr. FULTON: Do you think that was proper practice?

Senator VAILLANCOURT: But we have fixed all this, we have fixed it with the lawyers and with the company in the best way possible.

Mr. FULTON: A special arrangement, eh?

Senator VAILLANCOURT: Just the right treatment.

Mr. KNIGHT: It would be correct to say that you are actually not running a business, at all, in the real sense of the term? You are applying the principles of co-operation to the credit business?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: Is that just about a definition of the work you are doing?

Senator VAILLANCOURT: Would you repeat that, please?

Mr. KNIGHT: What I want to get at is this, that I notice some of my colleagues think that these are strange businesses that we are hearing about—Caisses Populaires and Credit Unions. My question was this; is it not a fact that you are looking at this thing, this supplying of credit, as a social obligation to help people—first of all in the matter of thrift, to do things for themselves?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: And, secondly, that you are actually applying simply co-operative principles to the question of the supplying of credit, is that a fair statement to make? What you are is an immense co-operative organization, where one person helps another person?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: And where the money that is being lent is supplied by the lenders, at times?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: Is it true that you, in your province, do as we do in ours—that you encourage people to make small payments into the Caisses Populaires when they are flush, when they have extra money?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: So that they can build up a little credit among their neighbours?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: And then encourage them, when they want to buy a washing machine or something else—you encourage them to wait and get a little money to make a substantial down-payment, and then they will receive cash from Caisses Populaires, or from a credit union, and they are able to have the advantage of cash in order to buy at a cheaper price?

Senator VAILLANCOURT: Yes.

Mr. KNIGHT: Is that the picture?

Senator VAILLANCOURT: Yes, that is the picture.

Mr. KNIGHT: That is our picture too.

Senator VAILLANCOURT: Yes.

Mr. CRESTOHL: I would like to ask another question.

Mr. TUCKER: Could I ask the Senator this: do you spend much in the way of advertising in the newspapers or in any other way?

Senator VAILLANCOURT: No, we spend practically nothing in newspaper advertising. We give so much service that that is fine advertising in itself.

Mr. TUCKER: You have not found it necessary to spend a lot of money in order to bring to the attention of the people of Quebec the fact that this service is available?

Sentor VAILLANCOURT: Education comes first. If we go too fast we lose our ideal. On June 1, 1933 the total assets of the Caisses Populaires in Quebec were less than $9 million. Now, after 35 years, they amount to $450 million. That demonstrates good advertising.

Mr. CRESTOHL: Senator, can you tell us to what extent your organization is affected by income tax?

Senator VAILLANCOURT: No, because we refund all our benefits to the shareholders and they are supposed to pay the taxes as individuals. Except, of course, that we do pay the administration tax, school taxes and so on.

The CHAIRMAN: Are there any further questions, gentlemen? If not, you will probably recall that the committee did decide to hear Merchants Finance Limited. The president of the company is ill and cannot be here but he has suggested, as I understand it, that Mr. Cawker might make a brief statement on his behalf. I believe the statement will take about two or three minutes to make. If it is agreeable I think that is fair; it is really an answer to the point raised by Mr. MacGregor, as I understand it.

Mr. CRESTOHL: Have we yet decided whether Mr. MacGregor should have the opportunity of being heard again in rebuttal?

The CHAIRMAN: No. I do not think we are going to run this as a legal case, are we?

Mr. CRESTOHL: I am not suggesting we should.

The CHAIRMAN: I think we should get on to the bill after we hear this.

Mr. C. M. CAWKER (*President, Canadian Consumer Loan Association*): Mr. Chairman and members of the committee, I cannot say that I particularly relish this job. The president of Merchants Finance is ill, I understand. I only impose myself on your time for a few minutes in the interest of justice and nothing else.

Immediately after Mr. MacGregor's statement regarding the yield on a loan made by Merchants Finance, naturally, as president of the Canadian Consumer Loan Association, whether it fell within the scope of the act as it now stands or not, I felt it was something at least in the category of character and fitness and that it was my responsibility. Within hours I was in touch with the president of Merchants Finance. He has written a letter to the chairman which I believe is on file. I have a copy of that letter and I think it tells the story. But in case it has not come to the attention of the committee I think it would only be fair to state that the president of Merchants Finance reported to me on July 13 that he had talked to Mr. MacGregor, identified the account with regard to which this accusation was made and confirmed the name of the account. I do not think any purpose is to be served here by mentioning the name of the account. Mr. MacGregor told me that he had no knowledge whether a representative of the Department of Insurance had gone into the office of Merchants Finance and made any investigation and determined whether in fact the account had been paid off and this exorbitant sum realized. Of course, I then asked him if it was made on the assumption that this account had been paid off, and he agreed that it had. The fact of the matter is—and I do not think anything is to be gained, either by reading this letter which sets out the details of the case—this was a bad loan from the inception. It was made on real estate. There had been a search, an appraisal, and a mortgage registration. The important thing which I think the committee should know is that after two n.s.f. cheques on the first two payments—evidently, in the occasional case it happens—there was a disgruntled borrower who said: "How much to pay you off?" without a hope in the world of paying it off, and a rebate was quoted, I am told, "off the cuff". It was quite unrealistic but it was justified to

the superintendent in a letter by the firm's solicitor. The fact remains that the account is still on the books. It has not been paid off. There has been a very small figure realized and rather than yielding 80 or 85 per cent to Merchants Finance there is every indication in the world that there will be a write-off and a loss to the company. The present balance is, I am told, in the neighbourhood of $1200.

I think the "crime" that this company has committed, if it can be called such, is including the legal cost of appraisal, registering the mortgage and all those things which trust companies, credit unions and other such lending organizations usually connected with real estate lending set aside as a separate charge, and with regard to which it is quite plain that the borrower pays the cost. For simplification and standardization I presume this company included it in the "all-up" per month charge. I think that might be a rather good idea for some other body to suggest to the trust companies and insurance companies, for then we could take a much more realistic view of just what it costs to borrow money from trusts and the respectable lending agencies. I have checked the returns of the Department of Insurance for 1954 and in the field under $500 I find the following entries: chattels in possession at the close of the previous year—none; additional possession of chattels made in the current year—none; totals, none; partial payments on account, under the same heading, none; chattels sold, none; restoration of chattels in agreement with borrowers, none; chattels in possession at the end of this year (1954), none; totals, none.

Mr. Climans, the president, tells me that his salary is $27,000 a year. He has been in business for a great number of years—something like 25 years, I believe. He operates a reasonably large business; not big in terms of the American companies but it is a private business with a comparatively small staff, and if I know anything about this business he works pretty hard. The dividends and directors' fees are a matter of public record and seem to me to be quite modest. I think that is, in essence, what Merchants Finance would like to say to this committee.

Mr. CAMERON (*Nanaimo*): Before you go, I notice that you have not mentioned the rate which was charged by Merchants Finance in connection with this.

Mr. CAWKER: This particular loan was a $1,500 loan over a two year period, and the charge for two years, including registration of not only the chattel mortgage but also a third real estate mortgage was $600, in other words, a $2,100 contract for 24 months. But, to answer your question nothing, or an infinitesimal amount, has been charged so far because I do not think he is even going to get his principal back, let alone the interest.

However, I might mention that I have an audited statement over the signature of their auditors and it is an analysis of gross charges realized on loans over $500 for the years 1950 to 1955, and it shows that their gross yield—and here I think is where they expose themselves to what I consider as most unfair interpretation of charges—including the fees and so on that go with it—their gross yield averaged, during the five years, 25·8 per cent, ranging from a low of 23·7 per cent to 30·2 per cent; and the company shows, as a percentage of net profit to capital employed, a figure of 11 per cent. The auditors have noted also that Mr. Climans personally guarantees a bank loan which has averaged about a quarter of a million dollars for the past six years.

The CHAIRMAN: Thank you, Mr. Cawker. Now, gentlemen, we shall get on with the consideration of the bill. Have you all got copies of the bill?

On subclause (1) of clause 1—"Cost".

The CHAIRMAN: This, as you will see from the underlined portion, proposes to include charges for life insurance, personal accident insurance or sickness

insurance within the cost of the loan. It is a definition clause. It will be recalled that Mr. Dunbar suggested an amendment to this. I do not pretend to be a great constitutional lawyer but it is very serious that we can only control any of those charges by bringing them under our interest jurisdiction and relating them to the cost in relation to the loan. I am advised that Mr. Varcoe considers this amendment to be unconstitutional and outside the federal powers, in other words *ultra vires.*

Mr. FULTON: Which amendment?

The CHAIRMAN: The amendment suggested by Mr. Dunbar the other day.

Mr. FULTON: Does Mr. Varcoe say why? If we can bring it in, why cannot we put it out? I am not speaking on the merits of the proposal. What an extraordinary opinion! If we can bring insurance rates in why cannot we put them out· Did Mr. Varcoe favour the committee with an opinion or just a statement?

The CHAIRMAN: I believe it is because they are attempting in the amendment to regulate the size of the insurance premium and that is considered to be a regulation of contract and not a regulation of interest, because the suggested amendment specifically refers to: "not in excess of 50 cents per $100 per annum."

Mr. HENDERSON: Do you have that opinion of Mr. Varcoe on the record?

The CHAIRMAN: No. But I would be inclined to agree with him on that point.

Mr. FULTON: Do you know if there were any discussions between Mr. Varcoe and Mr. Dunbar who, I believe, said that he would make himself available?

The CHAIRMAN: I have no knowledge of that. I believe you, Mr. MacGregor, were talking to Mr. Varcoe.

Mr. MACGREGOR: Yes. I forwarded a copy of the proposed amendment to him and I saw him and discussed it with him this morning. Substantially his view was as you have expressed it.

Mr. CRESTOHL: Mr. Chairman, most of the witnesses who were here gave evidence that they do make a charge to the borrower for the premium for insuring the account. I think it might be discrimination if some people in the business of lending money are enabled to make such a charge and others in the same business of lending money should be legislated against with respect to the same right and privilege that other members have. To me it is a bit paradoxical to find that one law in that sort of thing is constitutional and that another one would be unconstitutional. Perhaps we can revise Mr. Dunbar's writing to bring it in line with the language used by those organizations which are permitted to charge. If the witnesses had disclosed to us exclusively that they do not charge premiums for insuring the loan, then, of course, that would be it.

The CHAIRMAN: Those other companies you referred to who are not prohibited never do this and, therefore, they can do what they want.

Mr. CRESTOHL: Then we should not legislate to prohibit those small companies and I think we should propose allowing them to enter into an arrangement which would allow them.

The CHAIRMAN: I believe Mr. MacGregor stated that Mr. Varcoe thought the present section would prohibit the charge of insurance premiums but to make absolutely sure he would suggest this amendment. Am I interpreting what you said correctly, Mr. MacGregor?

Mr. MACGREGOR: Yes and no, Mr. Chairman.

Mr. PHILPOTT: As a point of order: what clause are we on?

The CHAIRMAN: Subclause (1) of clause 1.

Mr. MACGREGOR: Mr. Chairman and members of the committee, the purpose of this proposed amendment to paragraph (a), the definition of cost of a loan, is to clarify the present law so as to make clear whether an extra charge for life insurance, or sickness and accident insurance, may be levied against the borrower in addition to the maximum permissible charge. There is a little uncertainty about it at the present time. I think it can be expected that if the maximum permissible rates are reduced some lenders may be inclined to make insurance arrangements at additional expense to the borrower in order either to supplement the lender's profits to some extent or at least to enhance the security of the lender.

Up to the present I must admit there has been no problem in that respect, mainly because where insurance arrangements have been made the lender has absorbed the cost. But for the reason I have just indicated, there is a possibility that abuse might develop and our reason for thinking so is that serious abuses in that respect have arisen in the U.S.A.

If the amendment proposed is made, of course, there is no doubt that the insurance charges are included in the definition and that the lender would have to absorb the cost. If the amendment is not made then some doubt will persist as to whether or not lenders may make insurance arrangements at additional cost to the borrowers. If they do, and do so at net cost to themselves, I would admit that no great harm is done, and that the borrower would get value for his money. That is the problem: to know whether lenders would abuse the provision of insurance to the borrowers who would bear the cost. At the very least it means that the borrower pays for the insurance and it enhances the security to the lender.

The CHAIRMAN: It is a mutual protection?

Mr. MACGREGOR: That is true. As an example, there would likely be a profit to the lender even if it were practical on constitutional grounds to make an amendment of the kind proposed yesterday for the purpose of limiting the charge for insurance. The charge proposed yesterday was 50 cents per $100 initial amount of a loan repayable in twelve monthly instalments.

The CHAIRMAN: The maximum?

Mr. MACGREGOR: The maximum. Evidence was furnished by the representative of the credit unions that their insurance charge is 55 cents per $1,000 of insurance per month, which is equivalent to about 35 cents compared to the 50 cents. Evidence was given this morning by the representative of the Canadian Bank of Commerce that their charge is about 20 cents. So, one can see the possibility of gain to the lenders if they could continue to charge the borrower the maximum under the act, as proposed yesterday, of 50 cents. There are, of course, dividends—or experience rating refunds as they are called—that the lender would receive.

The view has been expressed that other organizations do charge borrowers an additional amount for insurance. I think that Senator Vaillancourt a few moments ago mentioned in the case of the Caisses Populaires that the borrowers do pay for the insurance. He incidentally mentioned a premium of 60 cents per month per $1000 which translated into the same terms would mean about 40 cents per $100 of initial amount of loan .

Mr. ENFIELD: They have their own insurance company?

Mr. MACGREGOR: That is true. But, generally speaking, I think insurance charges are absorbed by the lender rather than by the borrower.

Yesterday Mr. Smith stated that the credit unions absorbed the cost in their case, and I know that that is the situation.

In the case of the personal savings scheme of the Bank of Nova Scotia, I know that bank also absorbs the cost. At the present time practically all of the licensed lenders that provide such insurance absorb the cost. In most of the states of the U.S.A. contiguous to Canada as, for example, New York, New Jersey, Connecticut, Ohio and Michigan, my understanding is that the lenders are not permitted to make an extra charge for life insurance.

Briefly, the purpose of the amendment is one of clarification. No problem exists at the present time in that respect. It remains to be seen what abuse, if any, may develop; perhaps none may.

Mr. ENFIELD: There will not be any abuse under this amendment because there will not be any insurance.

Mr. MACGREGOR: I might also mention this, that I think it is generally accepted that the corner-stone of good small loans legislation is to have one over-all maximum permissible charge. Life insurance arrangements have posed perhaps the greatest problem as an exception in this matter. For administrative purposes, it is of course desirable to have certainty. If the amendment is not made it means that lenders may, at their own discretion, make an additional charge for the life insurance, but whether abuses will develop remains to be seen. If they do we would have to deal with them as best we could to ensure that the lenders who make such arrangements do not make a profit to themselves by charging the borrowers more than the insurance costs them.

In the case of the Canadian Bank of Commerce, my understanding is that the insurance cost is charged against the borrower but that it is charged against the interest that is credited to the borrower on his instalments accumulating in his deposit account. However, their scheme is such a special one that I do not regard it as a precedent.

Mr. CRESTOHL: Should we not first determine whether or not the committee has the authority, constitutionally speaking, to adopt an amendment of that type? If we have, then we will proceed to deal with it. If we have not the authority, then we will simply have an academic discussion without any particular result.

The CHAIRMAN: Mr. Varcoe expressed the opinion that it is constitutional. This whole act has never been challenged and it is still debatable as to whether it is sound constitutionally. My own view—with some diffidence—is that it would be supported by the Supreme Court of Canada simply because they would recognize that it was within the national interest. That may sound like pretty odd law. If it had come to the Privy Council, I do not know what they would have done.

Mr. CRESTOHL: Do you rule that we can continue to discuss the amendment?

The CHAIRMAN: Yes. As I see it, the question is, if we are to legislate now on very low interest rates, by leaving this out, would it encourage the lenders to use this insurance to lend where perhaps they otherwise would not.

Mr. CAMERON (*Nanaimo*): I think that Mr. Crestohl is referring to Mr. Dunbar's suggested amendment.

Mr. CRESTOHL: Yes.

The CHAIRMAN: No. As far as Mr. Dunbar's suggested amendment is concerned, Mr. Varcoe has given it as his opinion that it is unconstitutional because it proposes to say "not in excess of 50 cents per annum".

Mr. FULTON: That is an odd opinion, because Mr. Varcoe when he was here said that we could legislate as to the interest rates and could set maximum interest charges. He also said that we could legislate as to insurance, as the bill proposes. Well, then, if we can legislate as to maximum interest charges,

and can define insurance as interest, why cannot we legislate as to maximum insurance charges? I am not impressed by Mr. Varcoe's opinion, which is only brought to us as hearsay.

Mr. ENFIELD: On a point of order; is Mr. Dunbar's suggested amendment at present before this committee?

The CHAIRMAN: No; it has never been moved.

Mr. REA: May I ask you a question, Mr. MacGregor? I think I know what you are referring to when you discuss insurance. Let us say that a lender gets insurance for $8.40 per $1,000 per year; now if he were to sell that insurance to his borrowers at $10 or $12 per thousand would that not put him in the category of being an insurance agent, and he would not be allowed to do it?

Mr. MACGREGOR: I do not think he would be regarded as an insurance agent if he were the holder of a group insurance policy.

Mr. REA: He would be making a profit on insurance and, whether it would be termed a commission or not, he would not have a licence to take a commission and he would have to pass it over to his borrowers at what he got it for, so he would not be in the category of a commission agent?

Mr. MACGREGOR: The insurance contract would be made between the insurance company and the lender.

Mr. REA: Yes, I realize that.

Mr. MACGREGOR: The position of the lender is that of a policy holder.

Mr. REA: But he is selling it at a higher cost to the borrower and he makes a profit on it, and that could be termed a commission, and he would not be allowed to do that because he is not licensed as an insurance agent.

Mr. MACGREGOR: I agree that some difficult questions do arise; but the policy could be written at a nominal premium and the lender may ask the borrower to pay that premium, and each year the lender may receive a dividend.

Mr. REA: He might get an "experience" rate.

Mr. MACGREGOR: Yes, and the result may be the same.

Mr. REA: The "experience" rating is not as high; and at least he would have some control. Because of the experience rating, he would have nothing to do with it.

Mr. MACGREGOR: Quite, and the average rate might vary a great deal depending on the size of the group, the size of the loans, and so on.

Mr. ENFIELD: The evidence indicated that Niagara Finance provided this type of insurance without extra charge to the borrower. But apart from that, the other companies were not taking out insurance on their loans. Can you say, or do you think, that the enhancement of using that insurance would outweigh the cost of the insurance that the company is going to have to pay if this clause is passed as it stands?

Mr. MACGREGOR: In other words, does the lender take out insurance solely for the additional security that he enjoys?

Mr. ENFIELD: That is right.

Mr. MACGREGOR: I think there are two main reasons why the lender takes it out: the first is that reason, and the other, the advertising value of it, I suppose.

Mr. ENFIELD: I am afraid that very few loans would be insured.

The CHAIRMAN: I think that Niagara Finance said that somewhere around 7 percent of the borrowers died during the terms of their contracts, and that

if they were to pay for the insurance for the other 93 per cent it would not pay them; they would lose money on it, just to get the 7 per cent covered, and it would not pay them.

Mr. MACGREGOR: There are 7 lenders that provide life insurance at no additional charge. The Niagara Company pays the entire cost; and there are six others: Trans Canada is another large lender which does so.

Mr. CRESTOHL: I was impressed with Mr. Dunbar's evidence and the thing which impressed me most was the optional feature in the proposal that the borrower would have the option of taking out life insurance on the loan or not. I think that is a creditable feature. I wrote down the amendment as he gave it to us and I had it retyped. I would not hesitate to move that proposed amendment if you would receive it on constitutional grounds notwithstanding Mr. Varcoe's opinion.

The CHAIRMAN: I cannot rule out an amendment if you want to make it; all I can do is to put it to the committee. It strikes me that if you you are going to put an amendment which at least one legal mind has said is unconstitutional, it would be better to strike out the amendment in clause 1 and leave the law the way it is.

Mr. CAMERON (*Nanaimo*): This is Mr. Dunbar's amendment?

The CHAIRMAN: Yes, I mean, with all respect to Mr. Fulton, that lawyers have been known to disagree, and there is the possibility that this might be unconstitutional.

Mr. FULTON: Yes, there is that possibility!

The CHAIRMAN: I am not anxious to put unconstitutional law on the statute books. I would prefer to leave the section the way it is rather than to amend it.

Mr. FULTON: Hear, hear!

Mr. PHILPOTT: Would that mean the deletion of the whole of clause 1?

The CHAIRMAN: No, not exactly.

Mr. PHILPOTT: Clause 1 paragraph 1?

The CHAIRMAN: No, there are some other features. These words have been added "in relation to the above" and so on. It would eliminate, I would suggest, from "renewals" on, would it not? Mr. MacGregor suggests that since there are no substantive changes in the clause in respect to insurance, if we are to drop the insurance feature we just eliminate paragraph 1 subclause 1 entirely.

Mr. PHILPOTT: Well then, I so move.

The CHAIRMAN: All those in favour of deleting subclause (1) of clause 1 will raise their right hands.

Mr. CAMERON (*Nanaimo*): May we have a recorded vote on this?

The CHAIRMAN: Surely.

Mr. ENFIELD: You did say that as far as you are concerned, to date there had been no abuses of this type of charge in your investigation?

Mr. MACGREGOR: That is correct.

Mr. ENFIELD: This was a sort of insurance clause?

Mr. MACGREGOR: Yes.

The CHAIRMAN: The motion is that subclause (1) of clause 1 be deleted.

Mr. FLEMING: Before the motion is put may I ask Mr. MacGregor if in case this clause should be eliminated, can we have his assurance that he will give this aspect of the business his close attention and if he finds any

abuses—that is to say, in cases where the lending company is vending the insurance at a profit to itself—that he will make those cases known and report them?

Mr. MACGREGOR: I can give you that assurance very readily. I need not say that if the paragraph is dropped the future depends largely on the lenders themselves; and I would hope that if they make insurance arrangements they will do so at net cost to themselves just as the witness from the Canadian Bank of Commerce mentioned this afternoon, that they will make an adjustment in charging their insurance costs against their borrower to get it on a net basis. In my earlier evidence I mentioned that there were two lenders who, prior to the coming into effect of the Small Loans Act in 1940, had made arrangements at additional cost to the borrowers, and that we have not disturbed those arrangements. They are small licensed lenders. We looked into those policies not long ago and corresponded with the company that issued them. As a result, a substantial reduction in premiums was effected in both cases on the basis of the experience under them.

Mr. FLEMING: Perhaps we could expect the same result to follow?

Mr. MACGREGOR: We must look for the co-operation of the lenders themselves. It could develop into a situation where it might appear that we were interfering with the conduct of their business, and I do not want to get into that position. But usually in these matters they can be discussed in an objective way. I hope that no abuses will develop, but it simply remains to be seen the extent that the lenders co-operate in that respect.

The CHAIRMAN: We will take a vote then.

I declare subclause (1) of clause 1 deleted.

The subclause (2), "Paragraph (c) of section 2 of the said Act is repealed and the following substituted therefor": —the only change there is raising the limits of the jurisdiction to $1,500 from $500. Shall the subclause 2 carry?

Subclause 2 agreed to, and that it be renumbered as subclause (1).

That is a similar thing in subclause 3 of clause 1. It is to increase the jurisdiction to $1,500. Shall the subclause 3 carry and it be renumbered as subclause (2)?

Agreed.

Shall clause 1 carry as amended?

Agreed.

Mr. ENFIELD: Where are we?

The CHAIRMAN: On clause 2 of the bill.

Mr. ENFIELD: Are we on clause 2 now, Mr. Chairman?

The CHAIRMAN: Clause 2, subsection (1) of section 3 is simply changing the penalties, as I understand it. What is the change there, Mr. MacGregor?

Mr. MACGREGOR: The change is in the penalties. Those changes were made by the Department of Justice to bring them into line with penalties in the Criminal Code as recently revised.

Mr. FLEMING: I think the change is this, is it not: formerly the breach was an indictable offence, whereas now it is an offence punishable on summary conviction?

Mr. FULTON: Mr. MacGregor, as a matter of interest only, because I am in favour of heavier penalties, can you tell us why the fines are so much heavier than the fines in the Bank Act for an offence against that act?

Mr. MacGregor: I cannot answer that question, Mr. Fulton. The amounts that have been inserted there are solely the responsibility of the Department of Justice, and they simply assured me, when I raised the question, that they were made to conform with the recent revision of the Criminal Code.

The Chairman: Shall the proposed subsection (1) of section 3 carry?

The proposed subsection clause agreed to.

Mr. Follwell: Mr. Chairman, in clause 2, are you on subsection 2 now?

The Chairman: I was just going on to it, so you can consider anything on it.

Mr. Follwell: On subsection (2) I have a motion of an amendment to move. I feel that we should take a realistic approach to this, and I am prepared to move this amendment. It would appear to me that it sets out that in that area between $1,000 and $1,500 in this bill it provides that the money-lenders will lend only at what might be termed 6 per cent bank interest rate. It has been brought forward to the committee that some of the loan companies are paying somewhere between 5 and 10 per cent for the money. So, it is a foregone conclusion that they are not going to lend money out at ½ of 1 per cent. For that reason, Mr. Chairman, on clause 2 of the bill I move:

> That subsection (2) of the proposed new section 3 of the Act be enacted by the said clause be deleted, and the following substituted therefor:
>
> (2) The cost of a loan shall not exceed the aggregate of
>
> (*a*) 2 per cent per month on any part of the unpaid principal balance not exceeding $300;
>
> (*b*) 1 per cent per annum on any part of the unpaid principal balance exceeding $300, but not exceeding $1,500;
>
> (*c*) 1 per cent per month on any remainder of the unpaid principal balance exceeding $1,000.

The Chairman: Have you a copy of that?

Mr. Follwell: Yes.

Mr. Knight: Mr. Chairman, before we go on to this, I would like to ask Mr. Follwell—I did not perhaps hear him right.

Mr. Follwell: I think the chairman will read it.

Mr. Knight: No, it will not be in the motion. Did you say that some associations were paying between 5 and 10 per cent for the use of money? You said between 5 and 10 per cent. What did you mean, or did you mean that?

Mr. Follwell: I said between 5 and 10 but what I meant was that it was asserted that the rate paid was somewhere between 5 and beyond that. I do not think anybody pays more than 10 per cent. That was my own opinion.

Mr. Knight: I thought 5½ was the highest paid.

The Chairman: That was the bank interest. Lots of these people borrow privately and have to pay higher interest rates.

Mr. Tucker: So far as I am concerned, Mr. Chairman, I understand the effective rate in the bill—

Mr. Enfield: Are we discussing the amendment now?

The Chairman: You are speaking on the amendment, are you?

Mr. Tucker: Yes. Could we have that amendment read so we will all know exactly what it is?

The Chairman: I will give you its effect. It is exactly this, if you look at the present clause 2, subclause (3): it will eliminate paragraph (c) and change paragraph (b) by changing the words "one thousand" to "fifteen hundred dollars". That is its effect.

Mr. MONTEITH: It would eliminate subsection (c).

The CHAIRMAN: Yes. It gets rid of half of one per cent from $1,000 to $1,500 and substitutes 1 per cent.

Mr. FULTON: Well, $500 to $1,500.

Mr. CRESTOHL: $300 to $1,500.

Mr. TUCKER: Mr. Chairman, I do not intend to take more than a minute on this. I understand the effective rate under the bill is, on the proposed rates —the effective rate on a loan of $1,500 is about 16 per cent per annum. In view of the fact that those companies, that are doing the bulk of the business, on the basis of the rate set out in the bill, will make over 16 per cent on the amount of their investment in their common shares, after paying all interest and expenses, and that is higher than that made by any other industry except the pulp and paper industry, I do not think that we should further increase the rate, so I think we should carry the bill in this regard. I intend therefore to vote against the amendment.

The CHAIRMAN: By the way, Mr. MacGregor suggests that the drafting of this amendment could be improved.

Mr. FOLLWELL: I do not doubt that; I certainly do not doubt that. I certainly do not profess to be a lawyer, just a common ordinary salesman.

The CHAIRMAN: You have my sympathy.

Mr. FOLLWELL: A farmer trying to get along on asparagus.

Mr. CRESTOHL: Stop writing law.

Mr. MACGREGOR: If I understand your intention, Mr. Follwell, it seems to me that all that is necessary to accomplish it is to add at the end of paragraph (a) the word "and," delete paragraph (b) and at the beginning of (c) delete the words "one half of" and then change $1,000 to $300. That would simply retain the same form as the clause in the bill.

Mr. FOLLWELL: I thought to change $1,000 to $300.

The CHAIRMAN: Mr. MacGregor's suggestion for a better wording of the amendment would be: after paragraph (a) add the word "and" then delete paragraph (b) and re-letter (c) to (b) eliminating the words "one-half of" and changing the words "thousand dollars" to "three hundred dollars".

Mr. CRESTOHL: Where do you put paragraph (c)?

Mr. MACGREGOR: It is not needed because a loan is defined to be a loan not exceeding $1,500.

The CHAIRMAN: If you do not mind I will reword that; it will take some time. I am not enjoying this. I would rather Mr. Fulton did it. I do not know whether this is any better but I will read it to you:

> Moved that section 3(2) of the Small Loans Act be amended by adding at the end of section 3(2) (a) of the Small Loans Act the word "and"; and that paragraph (b) be deleted; and that paragraph (c) be amended by deleting the words one half of', and deleting the words "one thousand" and substituting therefor the words "three hundred".

That could be "vetted" by Dr. Ollivier. I do not guarantee it is the proper wording.

Mr. CAMERON *(Nanaimo)*: Will you tell us the effect, Mr. Chairman?

The CHAIRMAN: The effect is simply to change one half of one per cent to one per cent between $1,000 and $1500.

Mr. FULTON: The effect is to change the effective rate of interest from $300 to $1500 to one per cent.

Mr. ARGUE: Mr. Chairman, I am going to oppose the amendment because I think the evidence we have been given, particularly by Mr. MacGregor, shows it is quite possible for at least the majority of small loans companies to operate under the provisions of the bill as it was referred to us by the house. If one half of one per cent per month is the legal limit it works out, according to Mr. MacGregor's evidence, to an interest rate equivalent to 1·27 per cent per month at least on $1500. As a matter of fact I think 1·27 per cent is not only adequate but that it is a very large interest rate, and I think in the light of the evidence given to us by the credit unions, by the Caisses Populaires, by the Bank of Commerce that this committee should not have foremost in its mind what may happen to some of the small loans companies dealing with this particular range of loans, and whether or not they will be able to operate; but that this committee should set the maximum interest rate that the ordinary people of this country can afford to pay, and then take whatever other steps may be necessary to ensure that such moneys are offered at that rate.

The CHAIRMAN: Does anyone else want to speak on this?

Mr. ENFIELD: The committee will recall that Mr. Tucker said, Mr. Chairman, that he could not see why the companies should make 16 per cent after this adjustment under Bill 51 bearing in mind that such profits were second only to those of the newsprint industry. I would like to point out that we were given two tables on which to compare the profits of the various industries and companies. The list to which Mr. Tucker referred was calculated on the basis of net profits after the payment of dividends on preference shares had been deducted. However, the table on the previous page provides information indicating the profit before such dividends are deducted. As such dividends are paid to the holders of the preference shares out of earned surpluses—that is, profit—I feel that the first table was the more realistic and provides material for a better comparison of the earnings of the various companies. On this list we find that the earnings of the loans companies are, rather than 16 per cent, 12·95 per cent compared with the highest earnings on the list—those of the newsprint companies—which are 27 per cent.

The difference between the industries is the method of financing and issuing shares. If you issue, as these paper companies do, large blocks of shares bearing fixed rates paid out of earnings and surplus, that is one thing; if you operate, as do the Canadian small loans companies, with no such issues it is another. It does not seem fair to deduct the surplus paid in the way of preference share dividends from the one set of companies and then compare the profits of the two groups.

Mr. TUCKER: They regard the interest on those preferred shares in the same light as borrowings on debentures, and consider that that should be paid before arriving at the actual profit on the investment in the company's common shares. I consider that when the people who are investing their money in these small loans businesses are getting the second highest return of any industry in Canada on their investment in common shares, if this bill is passed as it is, that this committee should not think of still further increasing their return by raising their rates.

Mr. ENFIELD: I have put my argument which I think, in some degree, offsets the point which you make. At least I think that it should be given some consideration.

I was glad to hear Mr. Argue say that he did not think it matters whether or not Canadian small loans companies continue in business.

Mr. ARGUE: I said that it should not be the first thing, the uppermost thing, in the minds of the members of the committee.

Mr. ENFIELD: I myself think that this increase in the rate from $1,000 to $1,500 is realistic because it will perhaps allow the Canadian companies to continue in that field which was not, apparently, previously being serviced. It does give them some measure of relief from the measures as proposed in Bill 51, not too much it is true; but I think it is a good thing to keep Canadian companies in the field. For that reason, I think that the increase is well warranted.

The CHAIRMAN: All those in favour of this amendment?

Mr. ARGUE: May we have a recorded vote.

Mr. HENDERSON: In speaking to this amendment I am quite sure that no one wants to raise the interest to borrowers, because there are a lot more borrowers than lenders; but we are entering a new field here, raising our limits from $500 to $1,500. I think Mr. MacGregor's department is to be congratulated highly for that. I come from a fairly fast-growing community and there is a great deal of demand for personal loans, both small and large. I, like Mr. Argue, put a great deal of emphasis on what Mr. MacGregor's report says, and I particularly refer to page 37 where I see that in the second paragraph Mr. MacGregor, in making his report to this committee, also anticipated that there would be some doubt as far as this one-half of 1 per cent on $1,000 to $1,500 was concerned, where he says: "It will probably be said that a rate of one-half of 1 per cent on the part of a loan between $1,000 and $1,500 is unrealistic..." Those, I think, are the words which we should bear in mind because it is so close to the rate paid on borrowed money in many cases.

Mr. MacGregor points out, quite correctly, that this is the part of the loan which is paid first and is outstanding a very short time. I might say further that even if this is the part of the loan paid first we must consider the loan as a whole.

A person goes in and borrows $1,440, and that is the category in which I feel from experience, locally we must make every endeavour to make sure that the loan companies are providing this service to the people, and at the same time that the people are not going somewhere else to get their money. We also must remember that these people who borrow $1,000 to $1,500 are in many instances the people who are not getting a loan from the banks because they might be people who do not have the security, or credit, but still have to be serviced.

Mr. MacGregor stated: "For loans between $500 and $1,500, being the proposed new area of regulation, the effect would vary, depending upon the pattern or distribution of loans by amount." I am not too sure that we are able to get the exact number of loans in the amount between $1,000 and $1,500. That really, as far as regulation is concerned, is a new field.

I notice further, at the top of page 38, Mr. MacGregor stated: "That the two largest small loans companies have only a very small proportion of loans over $1,000, whereas many money-lenders do about as much business above $1,500 as between $500 and $1,500." It seems to me that between those figures there is a big question mark, as it were, in the loans business in Canada today.

I strongly recommend that this bill be put through as soon as possible, because we want to raise our regulation from $500 to $1,500. But with respect to that area in there, between $1,000 and $1,500, although I do not have any exact detailed statistics on it, we have calculations made on the assumed charges of 2 per cent per month. I submit that, in many places in Canada today, particularly in places which are growing very fast, there is a greater rate paid than 2 per cent per month either in the organized loans business or the loan-shark business, and for those reasons I would hate to see people with that business having to revert to the alternative of doubling on their loans between

$500 and $1,000 or going over the $1,500 mark. That might be what we might consider to be double borrowing or avoiding the legislation which we have hoped to put into effect; and at the same time we would be allowing the people whom we are really trying to regulate to move to another group, to move higher than $1,500.

There has been a point brought up here about keeping the Canadian companies in business, which I heartily endorse. By doing that we would ensure competition in the business, and we must keep this point in view, that what we are setting is a maximum; and if some company wants to charge ½ of 1 per cent on that basis there is nothing to prevent it.

I will conclude this by saying that I feel this is a field which we know very little about now, but at the same time it would keep our own companies in the business. I would refer back to the second sentence I stated, whereby Mr. MacGregor himself has said that it is close to the rate paid on borrowed money, in many cases, and for that reason I believe the result is to support the borrower to get a service in that area between $1,000 and $1,500 and not be driven to loan sharks.

An hon. MEMBER: Question.

The CHAIRMAN: Put the question. I declare the amendment lost.

Mr. FULTON: What were the totals?

The CHAIRMAN: 7 to 16. Shall subsection 2 of the proposed new section 3 of the Act carry? We now come to subsection (3).

Mr. ARGUE: No, before you leave this subsection I have a further amendment I wish to move. I am certainly pleased that one-half of one per cent is remaining on the larger amount, and I want to repeat the conviction of the members of the C.C.F. group that 2 per cent per month is an outrageous interest rate; it is something which should not be tolerated in a progressive country and it should not be tolerated on a loan of any amount.

The CHAIRMAN: Excuse me for just a second; it is now 10 o'clock. Are we willing to carry on?

Mr. FLEMING: Yes, the house is sitting late tonight by agreement, and the leader of the house has asked the members to stay on. I do not see why we should not carry on.

Mr. ARGUE: I believe that one per cent per month is an interest rate that should be ample; it is an interest rate that all the ordinary borrowing public can afford, particularly the poor of whom we have heard so much and who must borrow within this category. And because we believe that one per cent per month is adequate I wish to move that subsection 2 be amended by deleting all the words after the word "exceed" in line 31 and substituting therefor the following words "one per cent per month".

The CHAIRMAN: You have heard the amendment.

Mr. ARGUE: I am not too sure of the draftsmanship of it, but I did have some legal advice. The thought I had is a maximum of one per cent per month.

The CHAIRMAN: From $1 to $1500?

Mr. CAMERON (*Nanaimo*): No, from $1 to $1000.

The CHAIRMAN: Well, you have eliminated all the words after.

Mr. ARGUE: Perhaps this amendment should be corrected. The thing I have in mind is that one per cent per month should be the maximum rate on all loans not exceeding $1000.

The CHAIRMAN: Well then, you had better draft your amendment because this amendment would make it one per cent up to $1500.

Mr. ARGUE: Can you change it?

Mr. FLEMING: I think, to save time, that what Mr. Argue wants is to change the word "two" to "one" in paragraph (a).

Mr. ARGUE: That would do it.

The CHAIRMAN: It would not be good draftmanship that way.

Mr. ARGUE: No. Change the word "two" to "one", and that would be perfectly satisfactory.

The CHAIRMAN: That would not be the final form of the draftsmanship. A provisional form would be to change "two" to "one" on "not exceeding $1000", instead of "not exceeding $300", and eliminate (b). We know what we are doing. Do you want it recorded?

Mr. ARGUE: Yes, if you please.

Mr. FOLLWELL: Is the amendment to change the rate from 1 per cent on any borrowing up to $1500?

The CHAIRMAN: No, from $1 to $1000 it would be 1 per cent, and from $1000 to $1500 it would be one-half of one per cent. That is the effect of the amendment.

(*At this point a recorded vote was taken*).

The CHAIRMAN: Has anybody's name not been called? I declare this amendment lost, 4 to 19.

Shall subsection (2) carry?

Subsection (2) agreed to.

In respect to subsection (3) I believe that Mr. Benidickson has an amendment.

Mr. BENIDICKSON: I have heard people say that with the larger amounts of loans outstanding in the present pattern with a term of 15 months, it is rather restrictive and has resulted in an undue amount of rewriting or resetting-up of loans. As far as the minister is concerned, he has received representations along this line, and if it is the wish of the committee that this should be changed, I understand that members of the committee do favour a change, and it apparently would be of some benefit to the borrower in that his monthly payments would be smaller over a month to month period, 10 or 15. I have no objection. I do not intend to make an amendment.

Mr. FULTON: Well then, just where do you stand?

Mr. BENIDICKSON: If anybody else wants to move an amendment of that kind I will vote for it.

Mr. FOLLWELL: I would be very pleased to move that in subsection (3) of the proposed new section 3, in line 41, where the word "15" appears it be deleted and that the word "twenty" be substituted.

The CHAIRMAN: All those in favour?

Mr. FLEMING: Who is asking for it, Mr. Benidickson?

Mr. BENIDICKSON: I have heard quite a number of members indicate it.

Mr. FLEMING: Do you mean members of the committee?

Mr. BENIDICKSON: Yes, they seemed to suggest that this possible revision to the frequency of renewing the note would be helpful.

Mr. FLEMING: I thought you meant that representations had been made to the minister and to the parliamentary assistant, and I wondered by whom they were made?

Mr. BENIDICKSON: No. They were made here in the committee.

The CHAIRMAN: You have heard the amendment. All those in favour of this amendment?

Mr. ARGUE: What does this amendment do?

The CHAIRMAN: It makes the borrowing period 20 months instead of 15 months.

Mr. FULTON: I do not think it does, with all due respect. Subsection (3) is restricted to loans of $500 or less.

(3) Where a loan of five hundred dollars or less is made for a period greater than fifteen months or where a loan exceeding five hundred dollars is made for a period greater than thirty months, the cost of the loan shall not exceed one percent per month on the unpaid principal balance thereof.

You are changing 15 to 20.

The CHAIRMAN: The reason for that is stated that there are a great many re-negotiations of these loans which do cost money and it would save so many re-negotiations if they could carry on for the period of 20 months. That is only on the loans under $500.

Mr. FULTON: Yes. For which—I see.

Mr. CAMERON (*Nanaimo*): The 2 per cent would apply over a longer period?

Mr. ARGUE: That is right.

The CHAIRMAN: All the rates would apply.

Mr. CAMERON (*Nanaimo*): All the rates, yes.

Mr. ARGUE: May I ask this question: if a loan of $500 is obtained during a period of sixteen months, what is the rate of interest under the bill as it is now drafted?

The CHAIRMAN: It is 2 per cent up to $300 and 1 per cent—

Mr. ARGUE: I would like to ask Mr. MacGregor this—

The CHAIRMAN: I am sorry.

Mr. ARGUE: If a loan of $500 is now made for a period of 16 months, what is the rate provided in the bill?

Mr. MACGREGOR: Under the act, or under the bill as it reads?

Mr. ARGUE: Under the bill.

Mr. MACGREGOR: It is 1 per cent per month.

Mr. ARGUE: The effect of the amendment if it were to be extended to 20 months, would be to allow a rate of 2 per cent on $300 and 1 per cent—

Mr. MACGREGOR: That is correct.

Mr. ARGUE: The effect of this amendment then, under those circumstances, would be to increase the rate above the rate provided in the bill?

Mr. FULTON: It is to extend the time.

Mr. TUCKER: The effect of it now, in short, is this, that if they have got to accept a rate of 1 per cent if the term is over 15 months they will make no terms with terms longer than 15 months. This means that the instalments are larger than they would be if the term could be 20 months. So they make the term 15 months or less, then if as a result, the instalments are larger than the person can carry, the loan has to be re-negotiated at increased cost and trouble to everybody. So the idea of the amendment is to permit a loan for as long as 20 months, under the terms of subclause 2.

The CHAIRMAN: All those in favour?

Subsection (3) agreed to as amended.

Shall subsection (4) carry?

Subsection (4) agreed to.

Shall clause 2 carry as amended?

Clause agreed to.

What is the effect of clause 3?

Mr. MACGREGOR: At the present time, section 3 of the act states that if a moneylender does not charge more than 12 per cent per annum on a loan, which under the act means a loan of $500 or less, then he does not need to apply for a licence. However, the 12 per cent per annum specified in section 3 of the act—I have referred to section 3; I should have said section 5 but the description that I have given is quite right. The maximum rate now of 12 per cent per annum that an unlicensed lender may charge means that the maximum effective monthly rate is ·95 of 1 per cent, which is very awkward in practice. Nevertheless, that is the way we have had to interpret the act. The proposed amendment would substitute the maximum rate of 1 per cent per month which an unlicensed lender might charge. It is really an increase from ·95 of 1 per cent to 1 per cent. It is proposed for administrative reasons only.

The CHAIRMAN: Shall clause 3 carry?

Clause agreed to.

The CHAIRMAN: Clause 4. That is the same thing.

Clause agreed to.

The CHAIRMAN: I believe, Mr. Benidickson, you have an amendment there on clause 5?

Mr. BENIDICKSON: What had you in mind, Mr. Chairman?

The CHAIRMAN: If you are not prepared to propose it, I will propose it.

Mr. FULTON: Can you?

The CHAIRMAN: Yes.

Mr. BENIDICKSON: I think you were referring probably to section 16. I had in mind that might come at the end of the section; however, if you think it should come now, I might explain what has been discussed.

The CHAIRMAN: Actually, if you will look at the proposed amendments, they are all part of the same general scheme. The proposal, in brief is to change section 16, which involves 15 and 17 as well, to permit a licensed moneylender or small loans company to borrow on the strength of debentures, bonds, etc.—in other words, to place them in the same competitive position as the foreign-owned subsidiaries, whose payment companies can operate on debentures and bonds. You will recall that Mr. McClure stated that the Canadians were at a disadvantage, but it was a disadvantage caused by our own Canadian legislation. It is proposed to eliminate that disadvantage and place them in the same position as the American-owned subsidiaries, so that they my have a chnce of getting cheper long-term money.

Mr. CAMERON (*Nanaimo*): Are you proposing this as an amendment to our clause 5 of the bill?

The CHAIRMAN: The way the amendment is to be brought forward is to insert the following cluse—I would move that we insert the following clause as clause 5. Five then would be renumbered 6.

Mr. FLEMING: Are you taking a clause that amends section 16 of the act ahead of one that amends section 14? Would this not normally follow clause 5 of the bill?

Mr. BENIDICKSON: Mr. Chairman is perfectly right. It is a substitute for the present clause 5.

Mr. FLEMING: It is a substitution for clause 5?

The CHAIRMAN: It is a new clause, which will go into this bill, and the present clause 5 will then be clause 6.

Mr. FULTON: It would be neater if you put it in between clause 5 and clause 6. In other words put it in as clause 6, and number clause 6 and clause 7 as clause 7 and clause 8.

Mr. MONTEITH: Clause 5 deals with section 16 and you were dealing with section 16?

The CHAIRMAN: No, this is a proposal to amend section 13 of the act, which is necessary to be amended in order that section 16 can be amended. If you have the act itself there, the act respecting small loans companies, and will turn to section 13 of it—

Mr. BENIDICKSON: Could I make that motion, Mr. Chairman? I think you have a copy of the amendment.

The CHAIRMAN: It is moved by Mr. Benidickson—

Mr. FULTON: You wound it up good, finally.

The CHAIRMAN: Subsection 3 of section 13 of the said act is repealed, and the following substituted therefor:

> (3) Paragraph (*f*) of subsection (1) and paragraph (c) of subsection (2) of section 60, subsection (3) of section 62, paragraph (c) of section 63, sections 65 to 72—

And really that is the main change because you will see that in the original act it is sections 64 to 72. Section 64 prevented them from lending on debentures or bonds; so it is "65 to 72",—

> and sections 81 and 88 of the Loan Companies Act do not apply to the company.

Mr. FULTON: Have you had an opinion from Mr. Varcoe on this?

The CHAIRMAN: Yes. Shall the amendment carry?

New clause 5 agreed to.

The CHAIRMAN: Now it will be necessary, Mr. Benidickson, to have a motion that we renumber clause 5 as clause 6.

Mr. BENIDICKSON: I so move.

Motion agreed to.

Mr. FOLLWELL: I think I should put forward at this time the information that we will probably have to make an amendment in this new clause 6 if we are going to be consistent with the amendment which was previously moved and carried, and that is on page 4 at line 14. You will see that the words "fifteen months" appear there and to be consistent we should amend that to "twenty months" and I so move.

The CHAIRMAN: You have heard the amendment gentlemen. Do you agree?

Amendment agreed to.

New clause 6 as amended agreed to.

Mr. FLEMING: Have you an amendment there to repeal section 16 of the Small Loans Act?

The CHAIRMAN: Yes. Will you move this amendment, Mr. Benidickson?

Mr. BENIDICKSON: I do.

The CHAIRMAN: I will read this to the committee. It will go in as clause 7.

Insert the following clause as clause 7:

"7. Sections 15, 16 and 17 of the said Act are repealed and the following substituted therefor:

Borrowing powers of Company.

"15. If authorized by by-law sanctioned by a vote of not less than two-thirds in value of the subscribed stock of the Company represented at a general meeting duly called for considering the by-law the directors of the Company may from time to time,

(*a*) borrow money upon the credit of the Company; and

(*b*) hypothecate, mortgage or pledge the real or personal property of the Company, or both, to secure the payment of any money borrowed for the purposes of the Company.

Mr. FLEMING: In other words you are leaving out the present subclause (*b*) which reads: "limit or increase the amount to be borrowed".

The CHAIRMAN: That is right. Sections 15, 16 and 17 really go together there and, if you will listen, I am putting in a new section 16, and 17 as well.

Limit on aggregate of moneys borrowed. No deposits.

16. The aggregate of the sums of money borrowed by the Company shall not exceed ten times the amount of the Company's unimpaired paid-up capital and surplus.

17. The Company shall not accept money on deposit."

Mr. FLEMING: Mr. Chairman, I asked a question as to the effect of the limitation of section 15 (*b*) of the present act dealing with the limitation or increase in the amount to be borrowed. Could we hear from Mr. MacGregor on that?

Mr. MACGREGOR: I think paragraph (*b*) of section 15 as it stands implies that the company may borrow without limit, whereas the proposed section 16 would place a limitation upon the aggregate borrowing powers of the company at ten times the company's unimpaired paid capital and surplus.

Mr. FULTON: What is the purpose of that? We did not seem to hear about it in evidence. Why that change?

The CHAIRMAN: Which change? You mean the limitation to ten times?

Mr. FULTON: Yes, the limitation to ten times.

The CHAIRMAN: In part 2 the small loans companies are subject to all the provisions of the Loan Companies Act except certain named sections in section 13 of the Small Loans Act. Amongst the particular sections that were previously excepted was section 64 of the Loan Companies Act relating to the issuance of debentures. In the amendment now proposed section 64 would disappear as one of the excepted sections. Under the Loan Companies Act, under the Trust Companies Act and under the Cooperative Credit Associations Act organizations that accept money from the public or borrow money from the public are limited to a maximum borrowing power of ten times the company's paid capital and surplus or reserve. That is the origin of the proposed limitation to ten times the capital and surplus in the new clause.

Mr. FULTON: In effect, one section has been left, the applicability of which you wish to retain.

Mr. MACGREGOR: That is correct.

The CHAIRMAN: Shall the new clause carry?

Mr. WALKER: I submit that this is a matter which has never been discussed and which very much affects the Household Finance Corporation. You have had a witness before you, Mr. McClure, who could have spoken on this question, but we have not had any warning whatsoever. This, in effect, requires

a subsidiary to do something the value of which completely escapes me at the moment. Why a subsidiary should be limited in the amount it can borrow from a parent escapes me at the moment. I do not see why any restriction whatsoever should be placed on the amount that companies can borrow. It only makes it more expensive for the borrower if it is done.

Mr. BENIDICKSON: It is not a restriction on the borrower. It is a restriction simply on borrowing by debentures—something you cannot do now.

Mr. ENFIELD: It is too bad that they did not have the material to study.

The CHAIRMAN: As I understand it, Mr. Walker, Household Finance only borrows about five times its paid up capital, anyway.

Mr. WALKER: I am merely making the point. I have not seen the wording and I am not at all sure that I understand the exact effect of this. I was somewhat knocked between the eyes. After all, we had our top financial man here and it was not put to him.

The CHAIRMAN: At that time I do not think it was being considered. It was after he gave that evidence it began to be considered.

Mr. HENDERSON: I think Mr. McClure, when he came back as a witness, was asked about the restrictions on Canadian companies and he said that by this legislation we were limiting the Canadian companies and preventing them from acting on the same basis as the American companies who were borrowings, not just to debentures—

The CHAIRMAN: He gave evidence to that effect.

Mr. MACGREGOR: I think the amendment as proposed applies to all borrowings, not just to debentures.

Mr. CRESTOHL: Then Mr. Walker is perfectly right. We are impairing their facilities and the position they have at the present time, instead of improving them.

Mr. WALKER: Is it proposed, Mr. Chairman, to allow us to accept deposits?

The CHAIRMAN: It says in the proposed new section 17:

"The Company shall not accept money on deposit." As I understand it this would not affect your company, Mr. Walker, because you only borrow about five times your paid up capital and surplus anyway.

Mr. CRESTOHL: They may want to borrow more in the future.

Mr. FLEMING: I thought this was dealing with borrowing from the public. We discussed for some time, and questioned Mr. McClure, on the matter of the issuance of debentures, in other words the borrowing of money by the issuance of bonds, debentures or other securities. I thought we were dealing with that on the basis of borrowing from the public. Our discussion was always about striking out section 16 of the act. Now this goes into sections 15 and 17 as well. It amends 15 and eliminates 17 and substitutes a new provision. It is unfortunate that this was not submitted in advance.

Mr. FULTON: Perhaps we should have another meeting on it, Mr. Chairman.

Mr. FOLLWELL: Mr. Walker has spoken. I do not know if anyone from the Canadian Consumer Loan Association wishes to speak.

Mr. FULTON: I think we all appreciate the fact that we want to get the bill through as early as possible, but would it not be fair to stand it over and have another meeting tomorrow. Mr. Walker says that it raises a point on which he had not had notice, and none of us on the committee had any notice that it was the intention to introduce this amendment. I think we are in agreement with the general principle, but it is possible that it creates results which we would not want it to create. I therefore move that this amendment stand until tomorrow morning.

The CHAIRMAN: You would either have to eliminate the new section 16 or re-word it; that is the one which limits it to ten times the amount of unimpaired paid up capital and surplus.

Mr. FULTON: It may be that when the representatives of the company have had time to think it over that they may think that ten times is sufficient.

The CHAIRMAN: Mr. Cawker, do you have any views on this?

Mr. CAWKER: As president of the association, I have, because this removes one restriction and imposes another. I fail to see what connection there is between the Small Loans Companies Act and this act. If we are to survive, and it is doubtful, I agree that we have got to be able to borrow money. In the case of my own company I have been very fortunate to get the ratio up to 7·92 at the moment. I would like an opportunity to compete with the American companies, but it seems that we get one restriction out and another one in. Are we protecting the borrowers or the public or what? I fail to see any rhyme or reason to this. It is something, from the standpoint of the association, which we violently oppose.

The CHAIRMAN: The reason for it frankly escapes me, when you are not allowed to accept deposits.

Mr. WALKER: May I add that the small loans companies in order to comply with that, if coming near the ten times mark, would have to come back to parliament in order to increase their capital if the authorized capital is paid up.

Mr. MACGREGOR: The wording relates to capital and surplus. I am rather surprised that opposition is expressed to the proposed limit of ten times the company's capital and surplus. My own opinion is that that is unduly high. I think that if the companies are to be permitted to issue debentures to the public that there ought to be some limitation on the relationship between the aggregate borrowed money and the shareholders stake in the company, otherwise there might be a shoe string capital, and an enormous indebtedness to the public subscribing to the debentures.

Mr. ENFIELD: How do you sell bonds on that basis?

Mr. MACGREGOR: In the examples we were furnished with by the Canadian Consumer Loan Association various cases were given of low, medium and high borrowing ratios; eight to one was given as a very high ratio and at the present time there is an average ratio of three or four to one. So it does seem that ten to one, which is the limitation in all the other acts for the same purpose, is exceedingly high rather than low.

Mr. CRESTOHL: Why do you not attach to that the point raised by Mr. Walker? If you have limited to ten times the powers of borrowing from the public, it is understandable, but not in limiting the company in borrowing from sources other than bonds or debentures.

Mr. MACGREGOR: They might borrow from the bank and the debenture holder would have what is left, whatever that might be.

Mr. CAWKER: We certainly, in Canada, amongst the Canadian lenders have low borrowing ratios because we have had one source, banks or friends. Now, for the past sixteen years I think it is fair to say that we have laboured under the misapprehension that we could not borrow outside. Now then it follows, I think, that the borrowing ratios for the Canadian companies are low because we do not have American currency to build up our borrowing ratios.

Now I say again, are we trying to protect the borrower and the Canadian investing public as well? I plead for the Canadian companies and an opportunity to give the American companies some opposition. I think Mr. MacGregor has mentioned eight to one. I mentioned 7·92 in my own case. If we are going

to give competition in this industry, then when we remove one and replace it with another then we are back where we started.

Mr. CAMERON (*Nanaimo*): The chief American competitor of Mr. Cawker, represented by Mr. Walker, is apparently able to operate on the ratio of about five to one. So I cannot see what all the indignation is about by limiting it to ten to one. Apparently all the American companies, of whom you are so fearful,

Mr. CAWKER: I get 7·92 at the moment—

see no necessity of it.

Mr. FLEMING: Mr. Chairman, it is regrettable that we did not have an opportunity of seeing this amendment in printed form before and that these gentlemen did not have an opportunity to see it and to make their representations to us after due consideration. We have discussed, from time to time, at various stages of the proceedings, the possibility of eliminating the fetters imposed on the Canadian companies by section 16 of the Small Loans Act with respect to the raising of money by bonds and debentures and other securities. It has been clearly established that in that respect the Canadian companies are at a disadvantage with the American companies. I understood all along that what we had in mind was the elimination of the fetters now applied to the Canadian companies. It is evident that what we have before us is the elimination of one fetter but the attachment of something else, and I gather from what has been said very forcibly by Mr. Cawker that the new fetter would probably be more onerous even than the existing one.

Mr. Chairman, if this is the only basis on which we will achieve the elimination of this fetter, then I for one am against the amendment.

Mr. CAWKER: Household is quoted at 7·273. There is a small difference in percentages, but a big difference in money.

Mr. BENEDICKSON: I think that we could have this discussion tomorrow morning with the representatives from the industry.

Mr. FLEMING: And deal with the other sections at the same time.

Mr. PHILPOTT: I move that this clause stand.

Mr. MONTEITH: Mr. Fulton moved that a while ago.

Mr. HENDERSON: Mr. Chairman, could we have a copy of the amendment typed for the use of the members of the committee?

The CHAIRMAN: Yes. I will arrange to have that done.

We will now adjourn until 11.30 tomorrow morning.

HOUSE OF COMMONS

Third Session—Twenty-second Parliament

1956

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: JOHN W. G. HUNTER, Esq.

MINUTES OF PROCEEDINGS AND EVIDENCE

No. 26

BILL 51

An Act to amend the Small Loans Act

including Report to the House

SATURDAY, AUGUST 4, 1956

WITNESS:

Mr. H. C. Walker, Counsel, Canadian Consumer Loan Association.

EDMOND CLOUTIER, C.M.G., O.A., D.S.P.
QUEEN'S PRINTER AND CONTROLLER OF STATIONERY
OTTAWA, 1956.

77563—1

STANDING COMMITTEE

ON

BANKING AND COMMERCE

Chairman: John W. G. Hunter, Esq.,

and Messrs.

Argue
Ashbourne
Batten
Bell
Benidickson
Blackmore
Cameron (*Nanaimo*)
Carrick
Crestohl
Deslieres
Enfield
Eudes
Fairey
Fleming
Follwell
Fulton
Gour (*Russell*)
Hamilton (*York West*)
Hanna
Henderson
Hollingworth
Holowach
Huffman
Knight
Low
Lusby
MacEachen
Macnaughton
Matheson
Meunier
Michener
Monteith
Nickle
Pallett
Philpott
Power (*Quebec South*)
Rea
Regier
Roberge
Robichaud
Rouleau
St. Laurent (*Temiscouata*)
Thatcher
Tucker
Viau
Vincent
Weaver
White (*Hastings-Frontenac*)
White (*Waterloo South*)

Eric H. Jones,
Clerk of the Committee.

ORDER OF REFERENCE

HOUSE OF COMMONS,
SATURDAY, AUGUST 4, 1956

That the name of Mr. Roberge be substituted for that of Mr. Gingues on the said Committee.

LEON J. RAYMOND,
Clerk of the House.

REPORT TO THE HOUSE

SATURDAY, AUGUST 4, 1956

The Standing Committee on Banking and Commerce begs leave to present the following as its

NINTH REPORT

Your Committee has considered Bill 51, An Act to amend the Small Loans Act, and has agreed to report the Bill with the following amendments:

1.—*Clause 1:* Delete sub-clause (1) thereof and renumber sub-clauses (2) and (3) as sub-clauses (1) and (2) respectively.

2.—*Clause 2:* In subsection (3) of the proposed new section 3 of the Act, delete the word "fifteen" in line 41, page 2, and substitute therefor "twenty".

3.—After clause 4 insert the following new clause as clause 5:

5. Subsection (3) of section 13 of the said Act is repealed and the following substituted therefor:

Certain provisions not applicable.

(3) Paragraph (f) of subsection (1) and paragraph (c) of subsection (2) of section 60, subsection (3) of section 62, paragraph (c) of section 63, sections 65 to 72 and sections 81 and 88 of the *Loan Companies Act* do not apply to the Company.

4.—Renumber clause 5 of the bill as clause 6.

5.—*Clause 5 (new clause 6):* In proposed new subsection (3) section 14 of the Act, line 14, page 4, delete the word "fifteen" and substitute therefor "twenty".

6.—After clause 5 (new clause 6) insert the following new clause as clause 7:

7. Section 16 of the said Act is repealed and the following substituted therefor:

16. The Company shall not accept money on deposit.

7.—Renumber clause 6 of the bill as clause 8.

8.—Delete clause 7 of the bill and substitute the following as new clause 9:

9. Sections 1 to 4 and section 6 of this Act are applicable only to loans made after the 31st day of December 1956.

A copy of the Minutes of Proceedings and Evidence relating to the said Bill is appended.

Respectfully submitted,

JOHN W. G. HUNTER,
Chairman.

77563—1½

MINUTES OF PROCEEDINGS

SATURDAY, August 4, 1956.

The Standing Committee on Banking and Commerce met at 11.30 o'clock a.m. this day, the Chairman, Mr. John W. G. Hunter, presiding.

Members present: Messrs. Bell, Benidickson, Cameron (*Nanaimo*), Crestohl, Deslieres, Fairey, Follwell, Fulton, Hanna, Henderson, Holowach, Huffman, Hunter, Knight, Matheson, Monteith, Philpott, Roberge, Robichaud, Tucker and Weaver.

In attendance: Mr. H. C. Walker, Counsel, Canadian Consumer Loan Association, and other representatives of Small Loan Companies and interested organizations; and Messrs. K. R. MacGregor, Superintendent of Insurance; R. Humphrys, Chief Actuary; and H. A. Urquhart, Administrative Officer; all of the Department of Insurance.

The Committee resumed its clause by clause consideration of Bill 51, an Act to amend the Small Loans Act.

The Committee agreed that after clause 5 (new clause 6) there be inserted the following new clause as clause 7:

7. Section 16 of the said Act is repealed and the following substituted therefor:

16. The Company shall not accept money on deposit.

It was agreed that clause 6 be renumbered as clause 8; that clause 7 be deleted and that there be substituted therefor the following as new clause 9:

9. Sections 1 to 4 and section 6 of this Act are applicable only to loans made after the 31st day of December 1956.

On the preamble:

Mr. Walker was called and spoke on the amendments to the bill, and was retired. Mr. MacGregor answered questions directed to him.

Following debate Mr. Tucker moved, seconded by Mr. Cameron (*Nanaimo*),

That we now report the bill.

The said motion was resolved in the affirmative: *Yeas*: 14; *Nays*: 0.

The preamble being called, a point of order was raised that in accordance with the above motion it had already been decided to report the bill. The Chairman stated, and Mr. Tucker agreed, that the intent of the motion had been to carry the bill as amended without further delay.

The Committee agreeing, the preamble was carried.

On the title:

Mr. Crestohl moved that the title be changed to "Consumer Instalment Loans Act".

The said motion was negatived: *Yeas*: 8; *Nays*: 11.

The title was carried.

The bill was carried as amended.

Ordered,—That the Chairman report the bill as amended.

At 12.20 o'clock p.m. the Committee adjourned to the call of the Chair.

Eric H. Jones,
Clerk of the Committee.

EVIDENCE

SATURDAY,
August 4, 1956
11.30 a.m.

The CHAIRMAN: We have a quorum, gentlemen. It will be recalled that last night we were discussing the insertion of a proposed new clause 7. A problem came up in connection with section 16 of the Act. It is now suggested that the way this will read will be as follows—the proposed new clause 7 will read as follows:

> 7. Section 16 of the said Act is repealed and the following substituted therefor: "The Company shall not accept money on deposit."

Mr. FAIREY: Finis? That is the end of it, just one clause.

The CHAIRMAN: Yes.

Mr. MONTEITH: Section 16 is taken out.

Mr. FOLLWELL: Do you mind reading that again, Mr. Chairman? Would you start from the beginning, please?

The CHAIRMAN: The way this proposed new clause 7 will read is:

> Section 16 of the said Act is repealed and the following substituted therefor:—

and the substitution is: "The Company shall not accept money on deposit."

Mr. FOLLWELL: Thank you; you are very kind.

Mr. FULTON: Mr. Chairman, is it intended not to have the new proposed section 15 that we were presented with last night—not to have that at all?

The CHAIRMAN: That is correct. It simply removes from the Act the prohobition against issuing bonds, debentures, or other securities for money borrowing.

Mr. CAMERON (*Nanaimo*): It places no limit on the ratio?

The CHAIRMAN: The limit will be—how they can sell their debentures.

Mr. CAMERON (*Nanaimo*): Yes.

The CHAIRMAN: Or their bonds.

Mr. FULTON: On that point, sir, somebody remarked last night that such an issue will be subject to the various provincial security exchange commissions and similar bodies, and it was suggested it would give protection to the public; is that correct?

Mr. CAMERON (*Nanaimo*): That was my understanding, yes.

The CHAIRMAN: It is certainly true in my own province, Mr. Fulton. They have to file a prospectus with the securities commission and it is quite a strict one.

Mr. FULTON: Opinions expressed in the United States notwithstanding?

The CHAIRMAN: Quite. I do not think we will be floating any of these with the S.E.C.

Shall the new clause carry?

Clause agreed to.

Now it is necessary to renumber clause 6 as clause 8. Would you please refer to clause 6.

Mr. CAMERON (*Nanaimo*): In the bill?

The CHAIRMAN: Yes.

Item agreed to.

The CHAIRMAN: Shall clause 6 as amended carry?

Item agreed to.

The CHAIRMAN: Then it is necessary to delete clause 7 of the bill and to substitute the following: clause 9—"Sections 1 to 4 and section 6 of this Act are applicable only to loans made after the 31st day of December, 1956." That is just a consequential change as a result of the previous changes. Shall the new clause 9 carry?

Item agreed to.

Shall the preamble carry?

Mr. WALKER: Mr. Chairman, may I speak?

The CHAIRMAN: Certainly Mr. Walker. Would you come forward?

Mr. TUCKER: Mr. Chairman, on a point of order. The committee is considering the bill, clause by clause, and ordinarily they consider the bill *in camera*. When we consider our report, I submit we consider our report *in camera*, and the bill is then reported.

Mr. FOLLWELL: With all deference to Mr. Tucker, notice is usually given that we are *in camera*, and we have given no notice that we are *in camera* today.

The CHAIRMAN: I just happen to disagree with you, Mr. Tucker.

Mr. TUCKER: I suggest that when we are considering the bill, and when we have finished hearing the witnesses, we should report the bill now without hearing any further argument on the matter.

Mr. CRESTOHL: May I move that we extend the courtesy to Mr. Walker that we hear him.

The CHAIRMAN: I might say that Mr. Walker was one of the legal people here in 1938, and gave his opinions to the committee at that time. He was one of the men who was vitally interested in it at the time it was passed. He has been following the legislation ever since, in this work. I think if he has something to say to this committee it might be of value to hear it.

Mr. TUCKER: Mr. Chairman, if we hear from him, then we are under an obligation to hear from somebody else who might want to reply to him. I understood that we definitely decided we came to the end of hearing evidence and we were going to consider the bill on the basis of the evidence that we have already heard. Now, if we reopen the heading of evidence, then how do we know that somebody else is not going to want to speak, and somebody else, and so on? How can you extend the courtesy to one person and not extend it to the other?

Mr. PHILPOTT: Mr. Chairman, I would ask, how long will Mr. Walker be?

The CHAIRMAN: Mr. Walker, how long would you be?

Mr. WALKER: I can reduce it to a very few minutes.

Mr. FOLLWELL: Mr. Chairman, I think we should hear whatever witnesses the committee decides to hear.

Mr. FULTON: I might point out that there are some new amendments now before us which were not included in the bill at the time we heard the evidence. We are free agents and we can decide whom to hear and whom not to hear, and I think it would be only fair and courteous to hear him.

The CHAIRMAN: If the committee wishes to over-rule me that is their privilege, but I personally feel that Mr. Walker should be heard.

Mr. TUCKER: I agree that the committee can hear witnesses if they desire to do so, but I think it should be made clear what witnesses are to be called before a witness gets up and addresses the committee.

The CHAIRMAN: Mr. Tucker, I am not trying to be arbitrary in any way, but I have one slight obligation as chairman of this committee to try and conduct its affairs, and I think that Mr. Walker should be heard. If you disagree you can appeal my ruling, and if you wish some other witnesses called whom I do not want to hear, you have the same privilege.

Mr. TUCKER: But, I am suggesting, Mr. Chairman, that as a member of the committee I have the right to make an observation on it too.

Mr. CRESTOHL: Mr. Chairman, you have a motion before you.

Mr. FOLLWELL: So does every other member of the committee.

Mr. TUCKER: I am not objecting to anyone else making an observation.

The CHAIRMAN: Mr. Walker.

Mr. H. C. WALKER (*Counsel, Canadian Consumer Loan Association*): I need not make any observation about the amendment as it is now or ought to have been last night, but I am impressed by the fact that this was an insertion of a totally new clause that was not referred to in Bill 51. I was under the impression that what the committee could do in the way of amendments was restricted to Bill 51. If we are going to impart new clauses into Bill 51, I suggest that there are some other clauses that should be put into Bill 51 that have not even been touched on. Perhaps the most important one is the change in the name of the Act. The association and my own company, which I represent—Household—would very much like to have the name of the act changed to the "Consumer Instalment Loans Act". That would be very much more appropriate, we submit, and then there is this idea of calling loans up to $1,500 "small loans". It is my experience and my submission that the behaviour of companies depends a lot on how they are regarded by the public. I cannot say how they are going to be regarded from now on, because I can see the possibility of a loan shark type of operation with a completely unrealistic rate, but if there is anything to preserve, and that is a debatable question, I would urge that the act be given a more modern name. Our own department, the Bureau of Statistics, refer to these as "consumer loans", and they are consumer instalment loans. I doubt very much if they are properly described now as "small loans".

I would like therefore to urge upon the committee that consideration be given to the change of the name to "The Consumer Instalment Loans Act". That would have a consequential amendment in part 2, and the small loans companies would then become consumer loans companies.

Now, following the same line of thought, the name "money-lenders" has obviously received, over the years, an unfavourable connotation. When you hear of the immense business that companies like Niagara are doing—$34 million of loans,—is it desirable from any point of view to give it a rather off-colour connotation? What good does it do? If it drives people into back alleys we know that is bad. If you can give them something that they are proud of they are more likely to live up to that name. Therefore, I suggest that consideration be given to the adoption of some such word as "licensed lenders", or "registered lenders", or something of that kind.

I do not know, Mr. Chairman, if members of the committee really appreciate the distinction between part I companies and part II companies. Mr. Varcoe touched on it, but he did not explain it. It has become important

because of the attitude that Mr. MacGregor has indicated to this committee. I do not say it is a wrong attitude from his point of view, but it is certainly wrong from the legal point of view, and one which, with the future that now lies ahead, is going to lead to a great deal of difficulty. A part I company cannot be restricted in the matter of the way in which it sets up its capital or the way in which it seeks to obtain that capital from the public. Mr. MacGregor has taken it upon himself to try to be consistent and to adopt the provisions of part II and to make them effective in part I. There is no legal basis for that whatsoever. I suggest that any part I company that wants to have preferred stock or stock on a $10 par, or which wants to issue bonds and debentures and get its money in any way—that its provincially-given powers permit could force Mr. MacGregor to continue to issue a licence to that company. He has, as you have heard him say, attempted to produce consistency out of inconsistency by suggesting to these companies that if they want to remain in his "good books" they had better do what he tells them to. He has no legal right whatsoever to do that. What has been done is this—and there was a very good reason for doing it was this: by setting up part II companies you added a jurisdictional base that was completely absent in part I. There was, as Mr. Varcoe indicated, some doubt as to whether the power of regulation was sufficient to enable effective legislation to be put on the books. Let me say that the fact that the legislation has not been challenged in 16 years is not because it is necessarily broad legislation but because the lenders themselves decided long ago it was better to have decent business conditions, and it was their co-operation, nothing less, that has made this legislation as effective as it has been.

We have in part II a series of irritating limitations which do not apply to part I. I would suggest that some of them be removed. You have, for example, limitations under part II because of the introduction of sections of the Loan Companies Act, to which we are by no means analogous, which make it difficult for us to set up our capital as we would like to set it up. It requires us to qualify our directors in a way not required of any other company, to limit the executive powers of our directors in a way that ordinary companies do not have to submit to—petty things of that kind that have made it unattractive to seek incorporation under part II.

If the terms of reference of this committee have been broadened, as apparently they have, I suggest we could go into all these various matters, Mr. Chairman, which are long overdue. It was my mistaken impression that I would have been out of order if I had sought to have some member introduce these things.

Mr. PHILPOTT: What you are asking for, specifically, is a change then in clause 1 of the Small Loans Act—

Mr. WALKER: To "Consumer Instalment Loans Act". That must be fairly in order because you can amend it in the preamble and the title to Bill 51, and the rest would follow by consequential amendment.

The CHAIRMAN: You suggested, Mr. Walker, that if the title were changed to "Consumer Instalment Loan Act"—to which, I might add, the government would have no objection—it would involve a consequential change somewhere in part II.

Mr. WALKER: Well, the statutory name of the part II companies is "Small Loans Companies".

The CHAIRMAN: You wish to change it to "Consumer Loan Companies"—is that it?

Mr. TUCKER: I move that we now report the bill, Mr. Chairman.

Mr. CAMERON (*Nanaimo*): I second the motion.

The CHAIRMAN: You have heard the motion, gentlemen, that we now report the bill.

Motion put and agreed to.

The CHAIRMAN: Shall the preamble carry?

Mr. FOLLWELL: Mr. Chairman, at this stage, is it permissible for me to ask Mr. MacGregor a question in order to obtain an opinion or a direction?

The CHAIRMAN: I think that could be allowed, yes.

Mr. KNIGHT: On a point of order. I did not hear you declare the result of that vote.

The CHAIRMAN: It was affirmative. The motion carried.

Mr. CAMERON (*Nanaimo*): We did not hear you say so.

The CHAIRMAN: I thought it was so obvious that we did not need it.

Mr. KNIGHT: I cannot see through the back of my head and I wondered if it was on the record.

Mr. CHAIRMAN: You should requisition a pair of swivel eyes.

Mr. FOLLWELL: I understand, Mr. MacGregor, that the Household Finance Company has two companies—Household Finance Corporation and Household Finance Corporation Limited. I would like to inquire whether you would issue that company two licences under this new legislation?

Mr. MACGREGOR: We have not received any application yet; we have not considered the matter. It would be my hope that the business would be consolidated into one company and that only one licence would be issued.

The CHAIRMAN: Shall the preamble carry?

Mr. FULTON: Since we have carried the motion to report the bill I do not know what happens to the preamble. That is a problem for whoever put the motion, but how can you carry the preamble after you have reported the bill?

Mr. CRESTOHL: I think you rushed that motion, Mr. Chairman; before we put that motion I think we should have asked whether the preamble carries and whether the title carries, and only then proceeded to the question of whether we should report the bill.

The CHAIRMAN: That is what I am now proposing to do.

Mr. FULTON: It is not a happy situation for you, but you put the motion to report the bill and it was carried. How can you now ask us to consider the title and the preamble?

The CHAIRMAN: I think it was Mr. Tucker who moved this motion to start with, and, as in the case of so many motions of his, it was quite out of order, because, for one thing, he did not move that we report the bill with amendments.

Mr. TUCKER: Like a whole lot of other people I indicated that we should proceed with the reporting of the bill. I would point out that a good deal of time was taken in getting other motions which have been moved in this committee into proper order. All I wanted to do was to suggest that we should go ahead and report this bill without hearing further argument or evidence. Everybody, I think, understood that. If there is any attempt to make a suggestion that all the amendments I make are out of order I am very sorry, but I did suggest merely that I thought the time had come for us to proceed to the reporting of this bill and, naturally, that included carrying the preamble and the title.

The CHAIRMAN: Now we have a new interpretation.

Mr. FULTON: That was not the motion that was made, though it may have been Mr. Tucker's intention.

The CHAIRMAN: You can appeal my ruling if you wish, Mr. Fulton, but I am going to put it now in accordance with orthodox procedure.

Shall the preamble carry?

Preamble agreed to.

The CHAIRMAN: Shall the title carry?

Mr. CRESTOHL: No. We have been seeking during the course of this inquiry to obtain from the witnesses a definition of what they consider a small loan to be. We have attempted to find some way of circumscribing the definition of a small loan, but not one of the witnesses was able to tell us exactly what a small loan was considered to be. I, in any event, was left completely in doubt as to what constitutes a small loan, and when we have a bill before us to amend "The Small Loans Act" I still do not know what it means or what it intends to cover. I was impressed by what Mr. Walker has said, and if the title which he proposes more adequately describes the intention of this act I would move that the title be changed to "The Consumer Instalment Loans Act."

The CHAIRMAN: It is moved that the title be changed to "Consumer Instalment Loans Act."

Motion negatived.

The CHAIRMAN: The motion is lost. Shall the title carry?

Title agreed to.

The CHAIRMAN: Shall I report the bill with amendments?

Agreed.