

The Korean boom of 1950-51 was followed, after only a short pause, by the investment boom of 1953-54. Recession in 1954-55 was accompanied by an easy monetary policy, during which the banks built up their liquid assets in the form of government bonds. Then a second and greater investment boom got under way in late 1955, which carried the Canadian economy and the banking system into another period when resources were strained to the limit. At this time new measures of restraint were introduced into the Canadian banking system by the monetary authorities, including an agreed secondary reserve ratio of 7 p.c. in addition to the cash reserves of 8 p.c. already prescribed in the Bank Act Revision of 1954. A further agreement with the Bank of Canada was aimed at restraining term loans for capital purposes* and in 1956 bank loans to instalment finance companies were also put under some restraint. The boom of 1955-57 was followed by a mild recession in 1957-58, moderate recovery in 1958-59, slackening in 1960 and recovery again in 1961. In this period the banks have not regained the liquidity which characterized earlier postwar recessions, and there has been a growing need to husband resources carefully for the various and growing alternative outlets which developed as the result of economic growth, and of the efforts of both the Government and the banks themselves to provide new uses for bank credit.

One of the first government measures was the Farm Improvement Loans Act of 1944, under which the chartered banks were authorized to make loans to farmers for the purchase of equipment and livestock and for making various improvements to their farm buildings and facilities. These loans are often for sizable amounts (an average about \$1,500) and the terms have been gradually extended to a maximum sum of \$7,500 outstanding to any one borrower with a maximum period of ten years (four years for implements). The banks are guaranteed against loss up to 10 p.c. of their loans made during the three-year "lending periods", up to a maximum total of loans by all banks. This total is \$400,000,000 for the lending period to end in mid-1962. By the end of 1961 the total amount of loans made under this Act was more than \$1,100,000,000.

The 1954 Revision of the Bank Act introduced a major change in banking practice, by enabling the banks to acquire mortgages issued under the National Housing Act. About 35 p.c. of all NHA mortgage loans in the years 1954-59 were made by the chartered banks, but at the end of 1959 the NHA interest rate was raised to 6½ p.c. and the banks withdrew from this field of lending. Notwithstanding this, by Dec. 31, 1961 they held some \$950,000,000 in NHA mortgages, representing about 5 p.c. of total assets.

Another change affecting housing in the 1954 Revision enabled the banks to make Home Improvement Loans under a guarantee system rather similar to the one developed for Farm Improvement Loans. By the end of 1961, Home Improvement Loans amounting to \$238,000,000 had been approved and the banks had about \$66,000,000 of such loans on their books.

A more recent measure, passed in November 1960, is the Small Business Loans Act, which guarantees, under terms to the banks almost exactly similar to those of the Farm Improvement Loan Act, certain types of bank loan to small businesses for the purposes of making capital improvements to premises and equipment. This provides for loans that do not fall within the usual scope of bank lending to small business, by reason of the term nature of the loan, together with the lack of collateral resources of the borrower. Of course, chartered banks already make loans to small businesses for a great variety of purposes, including many of a medium-term character; indeed, the working capital loan to the small-size or medium-size industry or commercial enterprise is the traditional stock-in-trade business of the chartered banks.

In April 1961 the charter of the Export Finance Corporation of Canada Limited, which had been incorporated by special Act of Parliament in June 1959 for private interests, was acquired by the chartered banks. The principal purpose of the Corporation is to assist in the medium-term (one to five years) financing of exports which have been insured by the Export Credit Insurance Corporation, a Crown company.

* Such loans were almost entirely a postwar innovation in Canadian lending practice, and had increased markedly during the easy-money period of 1954-55. Since 1956, term lending has generally been confined within narrower limits though it is still practised when conditions permit.