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## Standing Committee on Finance

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**Thursday, June 11, 2009**

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**Chair**

**Mr. James Rajotte**

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Thursday, June 11, 2009

• (0900)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call to order the 35th meeting of the Standing Committee on Finance. Pursuant to Standing Order 108(2), we are continuing our study on measures to enhance credit availability and the stability of the Canadian financial system.

We have with us here today two organizations. From the Business Development Bank of Canada, we have the president and CEO, Mr. Jean-René Halde. From Export Development Canada, we have the senior vice-president, financing products group, international trade, Mr. Stephen Poloz.

Gentlemen, thank you for coming in again. This is your second appearance before the committee with respect to our study on access to credit. The main reason for bringing you back is that members wanted an update on how the measures specifically in the budget are proceeding. You'll find a lot of interest in both of your organizations on how that's going along.

We'll start with your opening statements. We'll start with the BDC first, please.

**Mr. Jean-René Halde (President and Chief Executive Officer, Business Development Bank of Canada):** Thank you, Mr. Chairman.

[Translation]

Good morning, and thank you for inviting me back. I will keep my comments short and to the point.

When I was here in March to discuss business access to credit, you may recall that I reported that in response to the credit crisis, we increased our traditional lending and that we would soon be sending our annual report to the Minister of Industry for him to table in the House. While I cannot yet speak to the specific numbers in the report, it will show that we have increased our lending portfolio by more than \$1 billion in the last fiscal year, an increase of some 11% compared to last year.

You may also recall that I mentioned two new initiatives. The first was the Business Credit Availability Program (BCAP). The second was the Canadian Secured Credit Facility (CSCF). These two initiatives are up and running and available to the market. I will first describe the BCAP and then the CSCF.

[English]

BCAP is a program in which BDC, EDC, and private sector financial institutions are participating to help ensure that at least \$5

billion in loans and credit support is made available to creditworthy businesses whose access to financing would otherwise be restricted. It's best understood as a program of greatly enhanced referrals between BDC, EDC, and banks to collaboratively finance creditworthy clients. For us it also means offering new financing possibilities to Canadian businesses.

How we do it for each business depends on the need. For larger corporations we're now participating in syndicates to replace departing lenders. For mid-market sized loans, financial institutions are sharing an increasing number of commercial mortgage deals on a *pari passu* basis with BDC. When mortgages are small, where it's not efficient or cost-effective to have the paperwork, we purchase a 50% interest in the mortgage portfolios. The original lender maintains and manages the relationship with the client and collects and remits payment to BDC. This is much simpler for the client. There's one registration, one agreement, one negotiation, one payment, and it provides much-needed capital for commercial development projects.

You should also know that we've completed the work to create a new operating line of credit guarantee. Its aim is to support Canadian businesses who are constrained by reduced access to working capital credit and to share the risk with other banks. In line with BCAP's objectives, it provides incremental financing to creditworthy companies by preventing reductions in operating lines of credit or enabling fast-growing businesses to gain access to a larger operating line of credit.

The new BCAP collaboration is working well, entrepreneurs are getting more opportunity to make their case, potential deals are being referred, and businesses are benefiting. Through BCAP specifically, we at BDC have provided more than \$600 million in new financing to Canadian businesses since February.

In terms of the Canadian secured credit facility, also in the budget, the government asked us to establish and manage this facility, which has an allocation of up to \$12 billion. Its primary objective is to stimulate economic activity in Canada by supporting sales and leasing of vehicles and equipment through BDC purchasing term asset-backed securities. A second and very important objective is to promote renewed investor confidence in the Canadian term asset-backed securities market, as well as in vehicle and equipment financing more broadly.

The CSCF is now up and running. We've already allocated close to \$11 billion to two distinct groups. First was the large enterprise tranche with \$10 billion. Following a price discovery process in early May, we sent commitment letters on May 15 to fifteen eligible originators who have AAA securitization experience. The minimum transaction size for these transactions was \$300 million.

Second was the small enterprise tranche. This was for \$1 billion. We recently sent the allocation letters and will be sending formal commitment letters today, June 11. In the second tranche, originators need not have securitization experience. The minimum transaction size is \$100 million and the maximum is \$300 million.

The second tranche completes our first allocation. We anticipate a second round of allocation in August. In that round we expect to allocate the remaining amount available, which will be at least \$1 billion. With these allocations now in place, we expect the first cheques will reach the market in a few weeks.

In sum then, BDC is proactively helping business gain access to credit. We're increasing our regular lending and still investing in our technology companies and venture capital funds. We're also doing the two things that the government asked us to do: participate actively in BCAP and establish and manage the CSCF. Through BCAP we've provided Canadian businesses with \$600 million in new financing in slightly more than four months. Through the CSCF we are allocating \$12 billion to restore liquidity and confidence in the term asset-backed securities market. Our people understand the importance of what's happening in the economy and, I believe, have risen to the challenge.

• (0905)

[Translation]

Thank you for your time, and I will be happy to respond to your questions.

[English]

Thanks for your time. I'll be happy to respond to your questions.

**The Chair:** Thank you very much for your presentation.

Now we'll go to EDC for their presentation.

**Mr. Stephen Poloz (Senior Vice-President, Financing Products Group, International Trade, Export Development Canada):** Thank you, Mr. Chairman.

We're very pleased to have this opportunity to report to the members of this committee on our progress in helping Canadian businesses access more credit.

Since our president last met with you in March, the volume of demand for our credit insurance, in particular, has grown at a swifter pace than we've ever experienced in EDC's history. By the end of April, for example, we had already exceeded the number of new credit insurance transactions that we had for all of last year.

[Translation]

As you are aware, Export Development Canada supports Canadian businesses by providing market expertise and financial tools to help them expand their business internationally and reduce their credit risks. Our services are more important than ever during

this credit crunch, when traditional financial institutions have limited flexibility.

[English]

On the financing side, in particular, EDC provides loans and lines of credit to foreign companies buying from Canada; loans to help Canadian companies invest in projects or operations abroad; guarantees to banks, making it easier for them to lend to exporting companies; and equity financing, either directly to Canadian firms or through private equity funds.

Importantly, EDC's credit insurance not only protects firms against the risk of non-payment but also acts as security that allows their banks to extend their borrowing power.

We do all this directly and in partnership with private sector financial institutions. And we do it on commercial terms, without annual appropriations from Parliament.

Thanks to prudent financial practices in better times, EDC was able to step into an expanded role in the second half of 2008, taking on the most business in our corporate history. We served over 8,300 Canadian companies last year, and that was an 11% increase over 2007. EDC facilitated \$86 billion in exports and investments, an increase of over 23% since 2007.

• (0910)

[Translation]

As you know, the government also turned to EDC to help address gaps in the domestic credit market. It boosted EDC's share capital, with the possibility of injecting more capital if needed, and broadened our mandate and scope of activity for a two-year period. The government also raised the limit for our Canada Account from \$13 billion to \$20 billion. This account is used to support transactions in the national interest. EDC facilitates these transactions.

[English]

For example, as of May 31, EDC had about \$12 billion in loan commitments under the Canada Account, including about \$8 billion in financing for General Motors and Chrysler to assist them as they restructure.

Importantly, our domestic activities are being done in cooperation with the private financial sector and BDC. In April and May, EDC established new arrangements with Canada's major credit insurance providers, and with banks and surety companies, to collaborate on domestic credit insurance and domestic bonding through reinsurance or guarantees.

We expect these arrangements to add about \$3 billion in new financial capacity to the domestic market to help Canadian companies get through the recession.

Let me outline basically how it works. EDC provides reinsurance or a guarantee on part of a transaction amount. The bank or the insurer reserves, therefore, less of its own capital to take on new risk, and it can then provide more credit to Canadian companies, either existing ones or new ones.

[Translation]

In addition, EDC and BDC are working with Canada's banks to add financing capacity to the market through the Business Credit Availability Program, the BCAP. Together, we are providing loans at market rates to businesses with viable business models whose access to financing is restricted.

[English]

We also meet regularly with representatives from the Department of Finance and the Bank of Canada to share information and search for more effective ways to collaborate.

Let me now provide a snapshot of EDC's activity in the first four months of this year. Our financing and insurance volumes for Canadian companies reached \$22.5 billion. That's just above what we did for the same period last year. Credit insurance is by far our most important financial tool, at \$16.4 billion in this period. It was nearly five times our financing volume. Our export business volume in emerging markets reached nearly \$5.6 billion in this period. That's tracking about the same as our results at the same time last year, in spite of the more troubled economy we face at this time.

There were a couple of highly challenged sectors. EDC served 446 forestry companies in this period, for a total business volume of \$2 billion. Nearly half of our customers in the forestry sector are from Quebec. In the automotive sector, EDC's commercial business reached a volume of nearly \$1.4 billion in this period. Receivables insurance took up almost \$1 billion of that amount.

Overall, we've served 600 more customers to the end of April than we did for the same period in 2008, with some 7,100 companies so far this year. This compares to the 8,300 customers I mentioned earlier for all of last year. This barely takes into account our new domestic transactions that are just now coming on stream. Seen against the 22% forecasted decline in Canadian exports this year, this strong demand for EDC's services I think is even more noteworthy.

Finally, I'd like to give you a sketch of our latest developments. On March 18, for example, EDC committed up to \$40 million in the \$180 million renewal of a syndicated facility for New Flyer Industries Inc. This Winnipeg-based company manufactures transit buses with a focus on energy-efficient vehicles. The syndicate of lenders included Scotiabank and Bank of Montreal.

● (0915)

[Translation]

Just last week, we announced that we were providing \$57 million in debt refinancing to Clearwater Seafood, a Canadian icon in the seafood industry with well-established markets around the globe. The financing will be provided by EDC and BDC, along with GE Capital Solutions and the Nova Scotia government.

These are just two examples of how EDC is making use of the additional flexibility granted in this year's budget.

[English]

By the end of May, we had signed nearly \$100 million in loans under our temporary domestic powers, and there's more than \$700 million in the pipeline so far. The take-up on our domestic bonding, reinsurance, and guarantees by both surety and banking partners in

Canada on behalf of their customers was almost \$19 million, but there is more than \$900 million currently in the pipeline under review. On the domestic credit insurance side, we're still in the process of completing the various partnership agreements, but we expect take-up to be strong.

As you can see, EDC is working hard to help Canadian companies through this economic downturn. I'd also like to reiterate that we operate in the commercial sphere, just like a bank or insurance company. We do not provide subsidies of any kind to any industry. Our customers must have viable business plans to show that they can honour their financial obligations.

As we move through 2009, we will continue to provide more companies with the additional access to financing that they need to survive and compete beyond this recession. Always we are focused on the benefits that we provide to Canada. In 2008, for example, EDC helped generate 4.4% of Canada's total GDP and supported 572,000 Canadian jobs.

Thank you. I welcome your questions.

[Translation]

Thank you for your attention. If you have any questions, I would be pleased to answer them.

[English]

**The Chair:** Thank you very much for your remarks.

We'll start with questions from members, beginning with Mr. McCallum for seven minutes.

**Hon. John McCallum (Markham—Unionville, Lib.):** Thank you, Mr. Chair, and thank you to both of you for coming back.

You'll remember, Monsieur Halde, that I was somewhat critical the last time you were here. I kept asking, of the extra billions of dollars you have, how much has actually gotten out the door. I'd like to return to that topic. If I understand you correctly, there's more than \$5 billion authorized in additional credit support, and so far you've gotten \$600 million out the door. That's just a little over 10%. Is that a fair or unfair representation?

**Mr. Jean-René Halde:** I think that's a slightly inaccurate perception. What was said in the January budget was that BDC, with EDC and with the financial institutions collectively, would put out \$5 billion through the BCAP. Of that amount, since the budget, we've put out—between February 1 and May 31—\$578 million, and by now we're well in excess of \$600 million, given today's date.

So that we're clear, the \$5 billion was a mix of the financial institutions and us basically referring business to each other, helping each other out, and so on. This is not all about BDC doing \$5 billion.

**Hon. John McCallum:** The \$600 million is correct for BDC?

**Mr. Jean-René Halde:** The \$600 million is correct.

**Hon. John McCallum:** But what you're saying is that the \$5 billion is not exclusively BDC.

**Mr. Jean-René Halde:** That's correct.

**Hon. John McCallum:** If we turn to EDC, there's the statement, "By the end of May we had signed nearly \$100 million in loans under our temporary domestic powers..." Is that \$100 million a part of this business credit availability program?

**Mr. Stephen Poloz:** Yes, it is. Thank you for the question.

As I mentioned in my remarks, we have between \$800 million and \$900 million altogether. Most of that is in a pipeline that is not yet signed. That's a process that takes sometimes weeks, or sometimes a month or two.

• (0920)

**Hon. John McCallum:** It's fair to say, then, that out of the business credit availability program, in money out the door so far we have \$600 million from BDC and \$100 million from EDC. Is that a fair statement?

**Mr. Stephen Poloz:** I would say it's not a fair statement, because we have authorized considerably more than that; we just haven't actually signed the final legal documents with the companies.

**Hon. John McCallum:** Talking about money actually out the door, it is a fair statement. Is that right?

**Mr. Stephen Poloz:** It's a fair statement on the financing front; however, we also have other tools at work. There's the bonding facility and the reinsurance facility for accounts receivables insurance, which works triangularly through the customers' banks. They get more capacity that way.

**Hon. John McCallum:** If we're just talking about BCAP—the business credit availability program—and we're talking about how much money has actually gotten out the door, then I think you're agreeing that it's correct to say \$600 million for BDC and \$100 million for EDC.

**Mr. Jean-René Halde:** That's as of May 31.

**Hon. John McCallum:** Yes.

**Mr. Jean-René Halde:** Mr. McCallum, that is correct, but to be added to that are the dollars from the financial institutions—because this is a program between all three parties—that they should be reporting. I suspect they'll be reporting that in the report to Parliament at some point.

**Hon. John McCallum:** May 31 is an interesting date, because it's approximately 120 days from the budget, and that's the date on which Mr. Flaherty said the money should be out the door. You're telling me that as of that date, out of the \$5 billion there was \$600 million from BDC, \$100 million from EDC, and some unknown number from private banks?

**Mr. Jean-René Halde:** That is correct. I don't know their number. However, I believe that will get reported, because I believe the finance department was trying to track that.

**Hon. John McCallum:** I'll turn to the Canadian secured credit facility if I have a little more time.

It certainly sounds impressive that \$11 billion out of \$12 billion has been allocated, but then I'm reading that not one cheque has yet been sent out. It says the first cheques will be delivered in a few

weeks, but none of that money is out the door, shall we say. Is that a fair statement?

**Mr. Jean-René Halde:** Again, it is and it isn't. The key is to change the behaviour of the auto dealers and the equipment dealers. At this point in time, having received on May 15 a letter from BDC formally committing to writing a \$1 billion or \$1.5 billion cheque, those companies should be, as we speak, telling their dealer network that they can go back and lease, loan, and be aggressive, because they know that once they put those bundles of leases and loans together in an asset-backed security, they have us as a purchaser. As we speak, they are busy putting the security together, having this credit enhanced properly and having this go through the rating agencies. The behaviour, hopefully, is changing as we speak.

**Hon. John McCallum:** Actually, that question was directed more to Mr. Poloz, because it was you who said the first cheques would be out in a few weeks, I believe, in your statement. Wasn't it EDC that said that?

**Mr. Jean-René Halde:** No, CSCF is our program, and the formal commitment letters went out May 15. The behaviour should be changing as we speak. The companies are building the various asset-backed securities, and as soon as they submit them, they'll get the cheques.

**The Chair:** You have about 30 seconds left.

**Hon. John McCallum:** Okay, but I think it might be incomplete.

But it's still correct to say that of the \$12 billion, no cheques have yet gone out and the first cheques will be out in a few weeks. That's what you said, so I take that to be the truth.

**Mr. Jean-René Halde:** That is technically correct.

**Hon. John McCallum:** Thank you.

**The Chair:** Thank you.

*Monsieur Carrier, s'il vous plaît.*

[Translation]

**Mr. Robert Carrier (Alfred-Pellan, BQ):** Thank you, Mr. Chair.

Gentlemen, I would like to welcome you and thank you for being here today.

I listened attentively to your presentations, and I realize that they are complementary. Mr. Poloz's presentation contains some interesting figures. As for the Business Development Bank of Canada, we heard that it did not want to get into the details of its investments.

I am a member for Quebec, where the forest industry is very much in the news. We heard from industry representatives, who were calling loudly for loan guarantees, something the government has refused up to now, stating that they are illegal. Export Development Canada, which focuses more on promoting importing or exporting by our businesses, provided 446 forestry sector businesses with \$2 billion worth of support. Close to half of those businesses are from Quebec. It would be interesting to know, for information purposes, what type of support you have granted to forestry companies.

• (0925)

**Mr. Stephen Poloz:** Thank you for your question.

In general, we support these companies by providing insurance called accounts receivable insurance. If the company sold lumber or pulp and paper to an American firm, for example, it will have accumulated corporate debt. We insure that debt for 60 or 90 days, or something like that. Then, the company can show the EDC insurance to its bank, which will increase its credit. That is a type of guarantee. It is a sort of triangle formed by the business, EDC and the bank.

It is an indirect method of increasing the credit margin available to that company. This structure is very popular among forestry sector businesses in Quebec. There are also direct loans, but they are not very common.

**Mr. Robert Carrier:** So, you help the forest industry primarily by offering loan guarantees. How would you quantify these guarantees? They have virtually no worth, unless they are calculated the way an insurance company would do. You calculate the risks of non-payment, which allows you to come up with a total of \$1 billion.

**Mr. Stephen Poloz:** It is easy to quantify because businesses in Quebec or Canada must declare the exact amounts of their exports to the United States or elsewhere. We insure 90% of the amount declared and the remaining 10% represents the company's risk. It is a type of risk sharing in the contract. Then, the company can show this insurance to the bank and receive credit, because it is guaranteed by EDC.

**Mr. Robert Carrier:** In your opinion, is it because of the current economic uncertainty that this amount has increased so much over the past year? And did this help our companies' export?

**Mr. Stephen Poloz:** The amount depends on the export level. For example, for a purchase of \$100 million made in the United States this year, the amount would be less if the same purchase had totalled \$150 million last year. It depends on export levels. It is a matter of arithmetic.

This year, exports are lower than usual, lower than last year. Under this arrangement, they are probably at the lowest level. However, at the same time, this arrangement works very well with the banks, that is, very smoothly.

• (0930)

**Mr. Robert Carrier:** I would now like to address a question to Mr. Halde.

**The Chair:** You have one minute left, Mr. Carrier.

**Mr. Robert Carrier:** Mr. Halde, as for your actions with regard to the forest industry, which are not detailed in your presentation, how have you been able to help the industry, which is currently in crisis?

**Mr. Jean-René Halde:** The existing programs and—we hope very soon—the guarantee program for lines of credit are, of course, accessible to all businesses, including those in the forestry sector.

Currently, our portfolio, which is technically defined by Industry Canada as being part of the forestry sector, amounts to \$560 million. This includes more than just sawmills. I also includes people who process wood and so on. People who manufacture fence posts would be included as well. It is not just forestry in the sense that you and I might understand it. All the programs are available. In my opinion, the BCAP, the program that enhances working capital for businesses, can be very useful to forestry producers.

That said, I would remind you that our job as bankers is still to stretch risk as much as possible while ensuring that the business remains solvent, that is creditworthy. However, we do go as far as we can. Our risk appetite is still much greater than that of a traditional financial institution.

[*English*]

**The Chair:** *Merci.*

We'll go to Mr. Wallace, please.

**Mr. Mike Wallace (Burlington, CPC):** Thank you, Mr. Chair.

Thank you for coming back. I was one of the ones advocating for you to reappear after you were here a few months ago. From our perspective, we're looking for your leadership in terms of helping us get the money out the door, as Mr. McCallum has been talking about.

I have a couple of questions. I'll start with the BDC.

You've told us that basically, without seeing the report, it's up by 11%, but I want to focus in a little bit on the secured facility that we put together and that you've talked about. There are two segments; one is getting cheques out the door or allocated relatively soon, and then there's another round in August.

We were hearing that there were some issues in terms of setting that facility up, and that it was a new business line of sorts for BDC. I think some of us had expectations that it would be up and running, but we just don't know the mechanics of it. Do you want to give us a fairly quick overview of what it took for BDC to get this up and running and to be able to react as quickly as you have?

**Mr. Jean-René Halde:** Yes, I'd be happy to.

Clearly this was not an area of expertise for BDC, so the first thing we had to do was acquire the expertise, both by hiring people who had the relevant expertise and by getting the best consulting firms in the area. Once that was done, we had to decide on the exact program. The next step was to do a price discovery process, which meant writing to all the various stakeholders and asking how much funding they would need, given different pricing. If a company is in relatively good shape and can borrow relatively well in other markets besides securitization, they might say that past a certain number of hundreds of basis points they're really not interested and that they'll finance themselves in other ways, while others would really want that.

So we had to go through a price discovery process with all of the stakeholders, and quite candidly, it was a bit of a lengthy process, because we were waiting for them to come back to us with the information. Once that came in, we then made a selection of who should get what, in conjunction with the Department of Finance and in consultation with Industry Canada. Once that was done, the letters went out. They were initially just allocation letters telling them what they were getting. Then, about five days later, the formal, lengthy, legal letter hit them. That's what I was saying to Mr. McCallum: at that point, the behaviour of those companies should start to change.

● (0935)

**Mr. Mike Wallace:** I appreciate that. We do hear in our ridings from individuals, which we've told you before, that they're not getting any response from BDC, or they're not getting a positive response. Could you explain to me again what your mandate is in terms of creditworthiness and so on? You're not a charity. It is taxpayers' money you're spending and lending out. Could you give us an overview of what your philosophy is as a bank, as a development corporation, in terms of taxpayers' money?

**Mr. Jean-René Halde:** With great pleasure. The requirement is that our long-term return on equity be greater than our long-term cost of funds, which means that we've got to be showing a small profit. We're not in the business of maximizing profit. That's what financial institutions are for. We're there to earn a return equity greater than cost of funds, which translates into our having the ability to take much more risk than a financial institution because, you know, we don't need to make 20% return on equity; we'll be happy with 4% return on equity. And that translates then into taking more risk, but still, at the end of the day when we lend to a business, we have to make the assumption that generally that money will come back.

If financial institutions stop here, we'll go here, further to the right on the risk curve, but there's only so far we can go, because there are other agencies that are in the subsidy business, the granting business. That's not our role.

So we're fearful at times that people don't appreciate that we've got a mandate but that it has an end at how much credit appetite or risk appetite we can take.

**Mr. Mike Wallace:** I think my colleagues will have more specific questions, but I have a new question for the EDC, a general question.

During your presentation you talked about exports being down in general. I think numbers this week showed us that exports are down compared to what we were hoping for in terms of a balance, but the demand for your services is up. Can you explain that dichotomy to me?

**Mr. Stephen Poloz:** Certainly. When we're in a phase of the business cycle when risks are higher, such as now, companies are much more likely to make use of EDC's insurance services. Exporting sounds like a very easy thing of getting a sale and getting the money, but in fact there's a lag between making the sale and getting the money, and that lag can be 60 days, 90 days, 120 days, this sort of thing.

So while that's happening, the company is actually at risk of not getting paid. It's almost like lending money to the foreign company that has done the buying. And in an environment like this where the entire world is in recession, the possibility that your buyer will go bankrupt and not pay you, or just simply not pay you, is much higher than normal. So in that environment, companies are much more likely to use EDC's services to insure those receivables. We've seen this in every other business cycle also. So if you like, EDC's penetration into exports goes up during phases like this.

In addition, there is a lot of international activity that companies are doing now, which is investing in foreign economies, to build global supply chains or to get a presence in a foreign market. We call this integrative trade, and that aspect of their actions, which we help

to finance, is separate and not counted in exports, although it creates exports and imports—actually, trade in both directions—down the road.

So our business activity has gone up across the board for more than one reason.

**The Chair:** Thank you. I'll go to Monsieur Mulcair, *s'il vous plaît*.

[*Translation*]

**Mr. Thomas Mulcair (Outremont, NDP):** Thank you, Mr. Chair.

I would like to welcome Mr. Poloz and the president of the BDC, Mr. Halde. My first question will be to him. I will borrow an expression he used earlier, risk appetite, to distinguish between his bank and traditional banks that we are more familiar with.

I will also have a second question to ask him in the seven minutes during which I will have the pleasure of conversing with him. I wonder what suggestions he could make to us. Many questions have been asked, and we may have certain ideas as to the answers, but are there specific things parliamentarians could do to make his life easier and thus do more to help our economy recover?

Earlier, he gave an excellent explanation to Mr. Wallace, saying that BDC is prepared to go as far as it can in terms of risk. He compared BDC to charter banks, among others. Has BDC conducted objective analyses to determine whether its appetite for paperwork is greater?

During your presentation, when speaking about mortgages, you said that it is not efficient or cost-effective to add to the paperwork. Something I hear very often is that people are very satisfied when they work with BDC. However, they also say that they like paper. Have you performed objective analyses of the number of forms people dealing with BDC must fill out as compared to charter banks? Is that simply a reflection of the increased risk?

● (0940)

**Mr. Jean-René Halde:** There are two parts to my answer.

Analyses clearly prove that we take on more risk than other financial institutions. We do benchmarking, and we can easily prove that the risks we take on are greater.

As for paperwork, we try to keep it to a minimum. To be frank, our technological platform is old, and we are in the process of replacing it. Next year, once this computer project is completed, we will finally have arrived in the 21<sup>st</sup> century, and we will be able to reduce paperwork considerably. So there is really no link between the two. We simply happen to have an old technological platform, which we are currently updating.

**Mr. Thomas Mulcair:** I appreciate the witness' honesty. It is very refreshing.

Let's go now to my second question. Having been a high-level official in the public service and having also been elected as a member, I always try to respect the difference between these two roles. So I am not trying to get partisan with you.



However, there is something I would like to know. It was implicit in Mr. McCallum's questions earlier. Today, there is a report being tabled, and we will begin to check what monies were actually spent in other sectors.

With regard to paperwork, are there things that fall under the government's responsibility that could be changed to make your work easier?

**Mr. Jean-René Halde:** That is an excellent question, and I must admit that I had not thought about it. Usually, we are the ones who must be accountable. I would like to think about it before I answer your question.

You know, we at the Business Development Bank of Canada are fairly independent, and thus interactions with the shareholder are infrequent.

I will think about it and get back to you with an answer.

**Mr. Thomas Mulcair:** Are you satisfied with the sums at your disposal to do your work at this time? Does the shareholder look after you properly?

**Mr. Jean-René Halde:** The shareholder was kind enough to promise us additional capital so that we could do our work properly. Obviously, if the number of applications rises, as in the case of the Canadian Secured Credit Facility, then additional capital will be required. However, given what we have to do now, everything is fine.

I have another more technical detail to mention. We will soon reach our limit of paid-in capital. So this will have to be reviewed eventually. However, for the time being, our capital is sufficient to do what we have to do.

**Mr. Thomas Mulcair:** Earlier, Mr. Carrier brought up the forestry sector with you. I will share with you our political analysis of the situation.

We believe that it was a mistake to systematically and across the board reduce the taxes paid by large corporations. By definition, a company that had not made a profit and thus did not pay taxes did not benefit from these reductions. Inevitably, the oil patch and the banks were the ones that received the lion's share of these tax reductions. The forestry and manufacturing sectors were already in big trouble before the current crisis.

We also believe that, since the Second World War, successive generations of Canadians, who live in the second largest country in the world in terms of surface area and who helped build the country and give it value, have accomplished a tour de force, especially given that today, the population is just over 30 million. However, in our opinion, the economy has been substantially destabilized over the past three or four years. That is our political argument.

Considering what I said to you earlier, even though I do not want to lead you down a political path, according to the way you see things, is it part of your written or assumed mandate to adopt a balanced approach? Despite the fact that you must make a profit, do you still try to help sectors that are important in a given province but that are in trouble, like the forestry and manufacturing sectors? Do you try to get things back on track to avoid job losses in these sectors, which have been so hard hit?

● (0945)

**Mr. Jean-René Halde:** Our role is clearly to try to find the gaps. So we try to work for sectors that are less accessible to the private market. For example, we know that the tourism industry has been hard hit by the current crisis. So we are working very hard to help that industry. The manufacturing sector has also been hard hit, of course, especially given the declining demand. So we are also working hard to help that sector out.

Earlier, Mr. Poloz referred to a loan that was granted to Clearwater. We helped Clearwater because it is an excellent company in the fishing sector, but it has experienced difficulties because of the economic crisis. So we try to work as hard as possible to help out sectors that are in genuine need.

**Mr. Thomas Mulcair:** I practised commercial law for many years. The BDC was in the same building as my riding office when I was the member for Laval. I can tell you that I heard only good things from everyone about your work.

**Mr. Jean-René Halde:** Thank you very much, that is greatly appreciated.

**The Chair:** Thank you, Mr. Mulcair.

[English]

We'll now go to Mr. McKay, please.

**Hon. John McKay (Scarborough—Guildwood, Lib.):** Mr. Poloz, you said in your presentation that EDC had about \$9.5 billion in loan commitments under the Canada Account, including \$4.2 billion to GM and Chrysler to help them restructure. Have you provisioned for that loan?

**Mr. Stephen Poloz:** Thank you for the question.

The Canada Account is a separate facility that is actually run by the government itself, and EDC is simply the agent that takes care of the transactions on behalf of the government, so the loans that appear on Canada Account are government risk as opposed to EDC risk. The provisioning, therefore, is taken by the Department of Finance in the context of their actual budget lines. EDC works with Finance to recommend a provisioning rate, depending on the actual commercial risk that's being undertaken, so it is provisioned, but it is not provisioned on EDC's provisions.

**Hon. John McKay:** So when the Prime Minister says we're not likely to see any of that money back, he's probably right?

**Mr. Stephen Poloz:** That's a difficult judgment for me to make. The restructuring plans are very good plans. I think the economy will recover next year. Car sales will recover, so I think there's a reasonable expectation.

**Hon. John McKay:** What advice is EDC giving to the Department of Finance for the purposes of provisioning that particular loan?

**Mr. Stephen Poloz:** A loan of that degree of risk would normally be provisioned on the order of 30% or 40%. That would be normal commercial practice. These rules of thumb are followed by almost all banks, including EDC.

**Hon. John McKay:** Do you mean there's a 40% writeoff?

**Mr. Stephen Poloz:** It's just a provision to ensure that you have a reasonable amount of funds in the vault in case there is a writeoff. It's attaching a probability based on the rating. Let's say it's a triple-C rating or a double-B rating; these are formulas all banks follow. The provisioning rates would vary from as low as 4% or 5% for a very high-quality loan to something over 30% for a lower-quality loan. You have not written the loan off at all, but you've taken some insurance against it.

**Hon. John McKay:** Are you saying that even for companies on the precipice of bankruptcy, there's still a rate of 30% to 40%?

**Mr. Stephen Poloz:** I'm generalizing. In response to your question, I don't actually know exactly what provision rate was chosen for these particular loans.

**Hon. John McKay:** Just on the face of it, it would seem that 100% would be the only rate that seems anywhere close to sensible.

**Mr. Stephen Poloz:** The honourable member is correct in thinking that it's obviously not a commercial loan in the usual sense, and that therefore the provisioning rate would theoretically be higher. However, it is a very complicated process to choose that rate, and I don't really know what the government has chosen.

• (0950)

**Hon. John McKay:** I just was not clear about whether this actually came off your books. What you're telling me is that it doesn't come off your books; you are merely an administrative agent. If in fact you were writing \$4.5 billion off your books, you'd pretty well be looking at losses for the next few years.

**Mr. Stephen Poloz:** That would be a very difficult scenario for us.

**Hon. John McKay:** Mr. Halde, you decided to go around purchasing 50% of mortgage portfolios as a kind of quick in on the BCAP program. On the face of it, it makes perfectly good sense, but how do you know that has actually stimulated further economic activity?

**Mr. Jean-René Halde:** The assumption is that the banks that are contacting us to do this are saying that capital is limited in some of the various categories they're in, and that our ability to take half of the commercial loan enables them to basically keep capital for other purposes. That way the market has access to credit in a bigger way, because part of it is assumed by BDC.

**Hon. John McKay:** It's an assumption rather than any empirical evidence, I should think.

Now, you said you're in on *pari passu*. Is there any part of that 50% where you're actually the lower end of the *pari passu*, or is it entirely—

**Mr. Jean-René Halde:** No, generally it's fully *pari passu*.

**Hon. John McKay:** Okay, thank you.

**The Chair:** Thank you, Mr. McKay.

We'll go to Mr. Bouchard, *s'il vous plaît, pour cinq minutes*.

[Translation]

**Mr. Robert Bouchard (Chicoutimi—Le Fjord, BQ):** Thank you, Mr. Chair.

Welcome to both of you. My first question is about credit insurance.

Let us take the example of a business that sells lumber to the United States and that has customers in Quebec and in Canada. Let us imagine that some of its representatives meet with you and tell you that over the next six months, the company must provide certain quantities of lumber to its customers. If I understand correctly, you could provide that company with insurance on its accounts receivable. Then, those same representatives would go see their banker and tell him that they need money and that they have insurance on their accounts receivable. I assume that a loan would be granted. Are there any savings on the interest rate? As compared to credit insurance, what would be the savings for this sawmill?

**Mr. Stephen Poloz:** Are you referring to the rate paid by the Canadian company?

**Mr. Robert Bouchard:** Yes.

**Mr. Stephen Poloz:** EDC operates on a commercial basis. Its rates are determined by the commercial market. This is very important, because the EDC does not give subsidies to businesses. That would go against international rules set by the World Trade Organization. It is very useful for Canadian companies. Its rates are established based on the commercial market.

The company pays EDC, which in turn takes the risk of non-payment. After having checked the quality of the buyer and determined whether it is a sound company and whether there is a performance record, we assume the risk. This insurance can also be obtained through a bank, which does not take on any risk because the loan is guaranteed by EDC. The bank converts this insurance into cash for the company.

**Mr. Robert Bouchard:** Very well.

Let us take another example, an equipment manufacturer that works for AbitibiBowater. It is the spring, and the equipment manufacturer notices that some machinery must be replaced. The company must purchase machinery, it must make an investment, so it needs a loan. It goes to see its bank and is told that the bank cannot lend it any money.

So the equipment manufacturer comes to see you. What do you tell it? Are you prepared to help it? Can you lend it money? Could an equipment manufacturer that works for AbitibiBowater take out a loan with you?

• (0955)

**Mr. Stephen Poloz:** I am going to respond hypothetically, because I cannot discuss specific transactions. If a Canadian export company comes to see us and requests funding for machinery and equipment that will improve its ability to export, EDC will certainly be able to grant it a loan. In such a case, it is clear that this loan will depend on the quality of the Canadian company and its financial situation. Such loans would not be granted to businesses that are not creditworthy. The risk must be commercially justifiable, but it may be higher than what is acceptable for a charter bank. Usually, EDC tries to find a solution with the company's banker in order to share the risk or increase the company's financial capacity.

**The Chair:** You have 30 seconds left, Mr. Bouchard.

**Mr. Robert Bouchard:** I will be brief.

I can see that the rates will necessarily depend on the risks.

You spoke briefly about the trade agreement. Do you respect the softwood lumber agreement when you grant loan guarantees? Is the softwood lumber agreement between Canada and the United States respected? Is it all legal? When you grant these loans, are they legal?

[English]

**The Chair:** Okay, keep it brief, please.

[Translation]

**Mr. Stephen Poloz:** Thank you, Mr. Chair.

Yes, the agreement is respected. EDC must comply with international legislation, which governs the agreement, and therefore, the commercial rate must definitely be commensurate with the risk. If we share the risk with another bank, we are sure to have the commercial rate because we are on an equal risk basis with the same conditions. In such a case, the softwood lumber agreement and other international agreements are definitely respected.

[English]

**The Chair:** Okay. *Merci.*

Mr. Kramp.

**Mr. Daryl Kramp (Prince Edward—Hastings, CPC):** Thank you, Chair. Welcome again, gentlemen.

Mr. Halde, I'd like to thank you and your staff for responding to some specific sector information that we were looking for. I appreciate the efficiency of that response. You mentioned in your opening remarks that your annual report will be soon sent to the Minister of Industry. When is "soon"?

**Mr. Jean-René Halde:** I believe the report is being sent some time next week, and then it's going to be up to the Minister of Industry to table it in Parliament. It may not be next week; it might be the week after, but we're talking weeks.

**Mr. Daryl Kramp:** We're not talking six months?

**Mr. Jean-René Halde:** No, we're talking weeks.

**Mr. Daryl Kramp:** In that report, there's some information I'm looking for. If it's in there, fine. If not, I would like to see it presented to this committee. I'd like to know if there are any statistics on the loans that have been issued in the last 6 to 12 months. You mentioned in your report that this year you had an 11% increase in loans. I'd like to know the size of these loans—\$250,000, \$500,000, \$1 million, or over \$1 million—and to what sectors they have been allocated. We need to see where the loans are going. If that information is not in the report, I'd like for you to comment on it, or give the committee access to some of it.

**Mr. Jean-René Halde:** Some of that information will be in the annual report and some will not. But that information is available, and we'd be happy to share it with you on our next visit.

• (1000)

**Mr. Daryl Kramp:** Thank you very kindly.

Has your priority for security changed during this recession period? In other words, have you moved your yardsticks on the availability of credit with respect to terms and conditions? The devil's in the details, and any loan application can have onerous terms that can't be met, rendering the credit unavailable. Are you easing the availability of credit, or is it just business as usual?

**Mr. Jean-René Halde:** The reaction of many financial institutions at a time like this is to tighten up credit terms and conditions. We have not done that. On the contrary, we are trying to go the other way as best we can, always remembering that we have to deal with creditworthy businesses. We will, for example, provide a holiday on capital repayment if we think the business is going through a tough time but has a good future, a good management team, and a good business model. We will actually release a company from repaying capital for up to six months. We're trying to go as far as we can and still be prudent bankers.

**Mr. Daryl Kramp:** Mr. Poloz, what is your minimum threshold for credit availability? Obviously you're not going to deal with someone coming in who wants \$2,000 for an aluminum boat. What is your threshold?

**Mr. Stephen Poloz:** That's an interesting question. We don't have a threshold under our export guarantee program for small companies. Their bank does the loan, and the bank has a channel by which they ask for a guarantee. It's 50% or 75%, depending on the situation. The amount is not really a question for us.

**Mr. Daryl Kramp:** I'm not as familiar as I might be with the relationship between BDC and EDC. How much complementary interaction on direct files or cases is there between the two lending institutions?

**Mr. Jean-René Halde:** There's an increasing amount of cooperation, particularly in this difficult period. Today as we speak, there's a joint effort with clients to work together and help them think about growing their businesses, globalizing, and so on. The referrals back and forth are good. Generally we work quite well together.

**Mr. Daryl Kramp:** Thank you very much.

**The Chair:** Thank you, Mr. Kramp.

We'll go to Mr. Pacetti, please, for five minutes.

**Mr. Massimo Pacetti (Saint-Léonard—Saint-Michel, Lib.):** Thank you, Mr. Chairman.

And thank you to both of you for appearing. It's always interesting.

I'd like to begin with you, Mr. Halde. Thank you very much for your intervention in the case I asked you about. Again, it was good dealing with you and your officials or employees—whatever you want to call them. I think we solved the problem, and we'll see for how long.

I just have a couple of questions. In your brief you state that the Canadian secured credit facility is up and running and has allocated close to \$11 billion to two distinct groups.

What would those two distinct groups be?

**Mr. Jean-René Halde:** The first group would be people who have done securitization before and are used to dealing with large amounts. Examples of them would be Ford Credit, Chrysler, GMAC, Nissan—the large players. The second group is made up of smaller corporations that still do equipment leasing, auto leasing, and so on, but that in some cases have never done securitization before and certainly could not reach the \$300 million minimum of the large enterprise tranche. So those would be smaller companies.

**Mr. Massimo Pacetti:** It wouldn't necessarily be one company. So it's not as if just Nissan received part.... One group means more than one particular organization.

**Mr. Jean-René Halde:** I'm sorry if that wasn't clear. The \$10 billion was offered to a total of 15 organizations, who will collect—

**Mr. Massimo Pacetti:** The \$11 billion was for 15?

**Mr. Jean-René Halde:** There's \$11 billion in total that we've committed now; \$10 billion, the large tranche, was offered to 15 companies; and the small tranche, the \$1 billion, had nine different companies in there.

**Mr. Massimo Pacetti:** Okay, that was my question. So of the \$11 billion, the maximum you would lend to somebody would be \$600 million?

• (1005)

**Mr. Jean-René Halde:** No, there are a couple of large numbers in there exceeding \$1 billion.

**Mr. Massimo Pacetti:** And the minimum would have been \$300 million?

**Mr. Jean-René Halde:** Yes, \$300 million, that's correct.

**Mr. Massimo Pacetti:** What they'll do is package—

**Mr. Jean-René Halde:** They will basically now go back and package their.... Let's take the example of autos, because that's one we're all familiar with. They will take, let's say, their auto leases or auto loans and create a bundle of those, adding up to \$300 million. This would be looked at by rating agencies to make sure we're comfortable—

**Mr. Massimo Pacetti:** The same rating agencies that rated the last ABCP...?

**Mr. Jean-René Halde:** The answer is yes, but I suspect they'll be substantially more prudent; plus there's the fact that we're also going to have our own team reviewing this. So we'll make sure it's all duly triple-A; and if it's triple-A, we'll be issuing the cheque.

**Mr. Massimo Pacetti:** I guess the question is that we've heard from Tricor, one of the corporations that came before the committee, and my understanding is that they didn't receive any part of this, whether it be the first tranche or second, the first group or second. My understanding is they have experience but they didn't receive any of the money.

Would you like to comment on that?

**Mr. Jean-René Halde:** Quite candidly, I cannot comment on that specific file.

There are some who could not get to the \$100 million minimum threshold. Unfortunately, the facility, as developed by the Department of Finance, was to restart the asset-based security. When it was conceived by Finance, I think everyone had in mind a minimum tranche of \$300 million. It's only when we spoke to the various stakeholders that we recognized collectively—Industry Canada, Finance, and us—that we had to create a second tranche for smaller businesses. But it was not conceived to help someone out.

**Mr. Massimo Pacetti:** If you give me a couple of weeks, I can come up with \$100 million. I don't think I can do that overnight. You have to provide some time for somebody to put a package together, whether it be \$100 million or \$300 million.

This is my last question. You spoke about the other billion dollars being a first round and then a second round. I'm not sure how I can reconcile the \$12 billion. If you're giving \$11 billion to the large enterprises, and then there's another \$1 billion that you've given to small enterprises, and another \$1 billion that you're going to give later, it comes out to \$11 billion plus \$1 billion plus \$1 billion, which is \$13 billion.

**Mr. Jean-René Halde:** No. Let me try to reconcile the numbers.

We have \$12 billion to allocate. The first allocation was done in two pieces, \$10 billion and \$1 billion, which leaves \$1 billion for the month of August.

**Mr. Massimo Pacetti:** In terms of large enterprises, you have \$11 billion.

**Mr. Jean-René Halde:** The first shot was made up of two tranches, \$10 billion and \$1 billion, that's the \$11 billion. And there's \$1 billion left, to go to \$12 billion.

**Mr. Massimo Pacetti:** The \$1 billion left is going to be for small enterprises?

**Mr. Jean-René Halde:** We will see what happens.

Quite candidly, we still don't know if everyone will be interested in going ahead with the programs. Some of them might say that by now they've figured out a different way to finance themselves, that they can issue corporate bonds and they don't need securitization. We're still waiting for all of the responses to find out exactly where we stand.

**The Chair:** Thank you.

We'll go to Mr. Dechert, please.

**Mr. Bob Dechert (Mississauga—Erindale, CPC):** Thank you, Mr. Chair.

Gentlemen, good morning, and thank you for your presentations.

Perhaps you can clarify, Mr. Halde, for me, Mr. McCallum, and others, as there seemed to be some confusion earlier about the way the asset-backed security market normally operates. He was concerned about the speed with which the cheques are written. Isn't it always the case—just help me so I understand it—that dealers sell, lease, and finance their products? The finance company then packages those together into a trust, and then when they have a certain aggregation of value, they offer that security to the marketplace. Isn't it the same thing that's going on now? You can't put the cart before the horse. The sales and the leasing have to be done, consumers have to be there to buy the products, and the aggregate bundle of securities has to be put together into a trust and then offered.

Is that the stage you're at right now?

**Mr. Jean-René Halde:** I wish I had explained it as well as you just did. Yes, you are absolutely correct.

**Mr. Bob Dechert:** Thank you.

As we speak, dealers across Canada, hopefully, are offering special incentives to customers and those vehicles and equipment are being sold. Within a few weeks, the package of securities will be offered to you and you'll purchase it.

•(1010)

**Mr. Jean-René Halde:** Our hope is that by now the large auto and equipment companies, knowing that the BDC will be buying their paper, are talking to their dealers and saying, “We now have the ability to go back to leasing and lending like the good old days, so go ahead and be aggressive in the marketplace. Get those cars rolling off the lot. We will bundle this, and when we have enough and it adds up to \$300 million, we'll go to the BDC and they'll write us a cheque.”

**Mr. Bob Dechert:** Essentially, the marketplace today should be similar to the way it worked prior to the credit crisis, we hope.

**Mr. Jean-René Halde:** Except that you have to take into account that there are a few more factors, like the fact that we're in a recession, and consumer behaviour, I'm sure, is affected by that. There are all sorts of other reasons. But technically, in terms of the finance market, yes.

**Mr. Bob Dechert:** I have a further question for both of you gentlemen. Can either of you remember a time in Canadian history when either of your organizations was required to put so much money out into the marketplace in such a short period of time?

**Mr. Stephen Poloz:** The answer to that would be, no, never in our history, and not just domestically but internationally, which is our primary role. The international markets are very tight for financing also. Ordinary trade finance has shrivelled up. So we are very much in demand across the board.

**Mr. Jean-René Halde:** If I could add to that, I'm a relative newcomer to BDC, with only four years of service, but we do have people who were there in the 1982 recession and people who were there in the 1991 recession. What I'm hearing from these people is that never has the bank been more aggressive in trying to put money out there, looking at every single way we can to help, doing all sorts of stuff we had never done.

Getting involved in syndication is something we had never done. Buying bundles of commercial mortgages is something we had never done. Offering an operating line of credit guarantee is something that I think we might have done once, a long time ago, but certainly not in the recent past. There's an awful lot we're doing today that has not been done before.

**Mr. Bob Dechert:** Thank you.

Mr. Halde, a number of my colleagues, including Mr. Wallace and Mr. Mulcair, have asked you a similar question. That is, what could the government do, in terms of the regulations under which you operate, to enable you to have more latitude in taking a higher-risk profile?

All members of Parliament have heard from small and medium-sized businesses in their constituencies indicating they're having difficulty obtaining financing from BDC. They all, of course, say their businesses are good quality, long-term businesses that are going through a bit of a difficult situation. What do we need to do, as a government, to make it easier for you to raise your risk profile and help some of those companies a little faster?

**Mr. Jean-René Halde:** It's very tough for me to respond to that question, because we're just one instrument of public policy among

many in the arsenal of the government. There are, as you know, regional economic development agencies.

**Mr. Bob Dechert:** Is there a loan-loss reserve ratio that's set by regulation that the government could amend, under which you operate?

**Mr. Jean-René Halde:** We don't have a loan-loss reserve ratio. Everything is on our balance sheet.

One of the ways that has been done in the past—not frequently, but it has been done in the past—is for the government to provide us with a loan-loss reserve in some cases for specific programs where it is understood that a particular project will not make money and, accordingly, the bank needs to be reimbursed. It has happened very infrequently in the past, but it has. And maybe that's something one should look at. But we don't make public policy, we're just the instrument.

**The Chair:** Thank you, Mr. Dechert.

We'll go back to Mr. Pacetti, please.

**Mr. Massimo Pacetti:** Thank you, Mr. Chairman.

I have a couple of questions to EDC.

I'm hoping you can help me, actually, with a specific case, but before I get to that, can you just clarify your mandate? I notice in your brief you start by saying that “EDC provides: loans and lines of credit to foreign companies buying from Canada; loans to help Canadian companies invest in projects or operations abroad”. I thought your mandate was mainly insurance, but you're also a lender?

**Mr. Stephen Poloz:** Thank you.

Yes, that paragraph you're referring to relates to the financing side of EDC. EDC is both, if you like, a bank and an insurance company. And it's true that easily two-thirds of the trade that we support uses our insurance products, but the other third or so uses our financing products.

In the financing, most of our loans are to foreign buyers or to foreign projects where we therefore finance the purchases from Canada of exports, so we're lending, but the obligor is the foreigner.

•(1015)

**Mr. Massimo Pacetti:** Would that put you in a position to compete even against BDC? Are you competing against BDC?

**Mr. Stephen Poloz:** In the domestic marketplace we would also, for example, lend working capital to an exporting company. And under our ordinary regulations or our previous regulations, we would be looking at companies that had at least 80% of their revenues coming from exports. Those regulations have been suspended, as you know, for this two-year period. And in that environment we have enhanced our collaboration with BDC, ensuring that in the new business flow that comes from banks—because we partner with banks in this situation under BCAP—for companies with sales less than \$50 million, BDC is the first port of call; and if they're larger than that, the first point of contact would be EDC. But in that space it depends on the sector who does what. So we collaborate closely.

**Mr. Massimo Pacetti:** You collaborate, but do you compete?

**Mr. Stephen Poloz:** No, we don't compete. Usually we collaborate. We may share where the risks are a little higher and maybe we take a piece each, but most of the time it's clear who has an established relationship and who doesn't and we work it out.

**Mr. Massimo Pacetti:** You do work it out. Okay.

Who is your competition in Canada in terms of the insurance business? I know you have CIT Group Inc. I'm not sure who else would be your competitors.

**Mr. Stephen Poloz:** Exporters have access to private sector insurance from a variety of providers. Most of them are European, actually, in base: Atradius, Euler Hermes, Coface. Those companies are present globally and are available to Canadian companies.

We don't actually compete with those companies. Generally what we do is offer a broader range of countries, or buyers. We charge usually a slightly higher price to ensure that we are not competing openly with those companies. And we often engage in reinsurance agreements with them so we actually can buttress their capacity.

**Mr. Massimo Pacetti:** Who would Euler be? Who would CIT be? Apparently GMAC is in the market as well. Are these Canadian companies?

**Mr. Stephen Poloz:** You're mixing both lenders and insurance companies in the same question. Generally speaking, those are international companies with a strong Canadian presence.

**Mr. Massimo Pacetti:** My understanding—and maybe this is going to be more specific—is that in particular cases where companies are doing export, you're three times the price of, let's say, a Euler or a CIT in terms of just the premiums, and then there's a percentage in terms of the insurance business. I don't want to question what your premium is, because I'm sure you have a cost factor, but I'm just wondering if you have a different cost factor for some businesses versus others and how you determine what the premium rates are. I would imagine your premium rates would be based on risk, and then your percentage would be pretty well the same across the board.

**Mr. Stephen Poloz:** There are a lot of questions in there.

Let's put it in a hypothetical situation. The pricing does vary by risk. It depends on what country the foreign buyer is in, how risky things are. It depends on the actual financials of the foreign buyer. We assess the individual foreign buyer to see what risk is being contemplated. The company comes to us with perhaps six foreign buyers spread across various countries, or it could be just one foreign buyer. So the price depends on the bundle of foreign buyers presented to us.

And it's very important that we compare apples to apples. A private insurer may have five buyers that they will accept, and we may have six or seven buyers—

**Mr. Massimo Pacetti:** In this particular case, it's you versus private, and it's a three to one ratio. I'm just wondering if that makes any sense if you're trying to help a Canadian company.

• (1020)

**The Chair:** Very briefly.

**Mr. Stephen Poloz:** It's very important to make sure we're comparing apples to apples, because they may have fewer buyers on

their list and lower limits. Having a buyer on your list that you allow, for example, only a \$2 million limit may not help you as an exporter, when you have many more millions to—

**The Chair:** You'll have a chance for another round, Mr. Pacetti. Thank you.

I'm going to take the next Conservative round.

First of all, gentlemen, thank you very much for coming in and appearing before us and responding to our questions.

I did want to ask about the Canadian secured credit facility. Mr. Pacetti raised the issue of one company, Tricor, and we've certainly heard from a number of organizations and companies. One of the concerns raised is that the triple-A rating is too high. They're saying a double-A rating should be there, because while the offer is being made and the letters are being sent off, I think you said June 11, they won't actually be able to utilize the program because they won't have the triple-A rating.

I'm just wondering, Mr. Halde, if you can address that. If, for example, a double-A rating were accepted, what would be the difference in terms of assessment, in terms of associated risk level? How does it change from a triple A to a double A, and is BDC considering or would it consider that?

**Mr. Jean-René Halde:** Let's first understand that the triple-A rating requirement was part of the budget, so we were asked to undertake the CSCF with a triple-A rating as the requirement. We're starting with what we were given.

Secondly, the way to get to a triple-A rating is by putting up extra collateral, so if it's a \$100 million facility of leases, basically what you'd do to credit enhance it, so you can put it to triple A, is to put additional leases in the bundle so that there's an assurance that if something were to go wrong, there's enough there so that there would be \$100 million at the end.

There's a cost to that, obviously, and at some point some of them might say the cost of doing that is just getting to be a bit too high for me, I'm not willing to go there. There is an ability generally to get there, but you have to make a choice.

**The Chair:** You're right. That's exactly what they're saying. They're saying the cost of doing that is prohibitively high in their case, so they're not going to be able to use the program, which they would like to do.

In terms of risk, I respect the fact that the government has set that triple-A rating, but can you advise the committee, if there were a double-A rating, how much more risk there would be to BDC and to the government?

**Mr. Jean-René Halde:** At this point, people have to come back to us in a matter of weeks, saying how much of the facility they will take up now that we've committed to it. They have to come back and say they'll take it all, take half, or whatever. One told us he'd found cheaper financing and wouldn't be using ours, which is fine, because we'll reallocate it to someone else. Once this process is over, a few weeks from now, I think we'll have to reassess. Depending on the responses we get, we'll have to reassess where we want to go. We'll need to sit down with Finance and Industry and decide what the next steps should be.

**The Chair:** It could be part of an ongoing dialogue, then.

**Mr. Jean-René Halde:** Definitely.

**The Chair:** Some organizations that have appeared before us, like the Canadian Recreational Vehicle Association, said they were not part of this program but would very much like to be. Do you have any comments on that?

**Mr. Jean-René Halde:** We are aware of that. I think the people who appeared before you were from an association. This is not as if it's a single company that's trying to do something. It's a group of companies, which means that every single one would have to be dealt with individually. The facility was not designed to do that. Collectively, someone will have to look at other forms of helping. I don't think CSCF was designed to do what they have in mind.

**The Chair:** So there would have to be an additional program to serve their needs?

**Mr. Jean-René Halde:** Correct.

**The Chair:** The Marine Manufacturers have also approached us. They've written to every member of the committee. They talked about BDC offering floor plan financing to Canadian manufacturers for goods shipped within Canada. They mentioned BDC, but I think they're also open to EDC. They say it's not possible within the current structure but want to know if there might be something going forward.

• (1025)

**Mr. Jean-René Halde:** CSCF, the credit facility, does cover floor plans. Part of the \$11 billion will definitely go to floor plan financing.

**The Chair:** Mr. McKay.

**Hon. John McKay:** I was going to ask a question on this floor plan business. I'm encouraged to hear that it may be in the consideration stage. We heard from the Marine Manufacturers that they were at the beginning of the season, that they had customers, but that they couldn't buy product to get it on the floor so they could display it. In the old days, I think it was actually BDC's mandate to support that kind of activity. Am I wrong about that?

**Mr. Jean-René Halde:** I believe you are, partly. In the good old days, there was a securitization market available, and dealer floor plans made that market, at least for the larger players. The \$11 billion has been allocated to firms, and they can do idle loans or idle leases, equipment loans or equipment leases, or dealer floor plans. And some of them will. Some of them have said they were going to use the commitment we've given them to do some dealer floor plans.

We also know there are smaller organizations where the dealer floor plans are an issue. There's no easy answer to this. Quite honestly, for some of them there really are no programs right now. Industry is aware of it, Finance is aware of it, and we're aware of it, but there's no easy answer for the smaller players when it comes to dealer floor plans.

**Hon. John McKay:** Can we at least say that it is under consideration?

**Mr. Jean-René Halde:** Absolutely. The same people who have appeared before you have spoken to us extensively. Everyone is well aware of the issue. It is being looked at with great care.

**Hon. John McKay:** I think sooner would be better than later. We are in the middle of June. We're experiencing lousy weather, and there won't be many boats sold if we don't get moving on this.

Mr. Poloz, you've increased your volume of credit insurance nearly fivefold. Can you give us a profile of that volume? What's the difference between this year and last, not only in volume but in the profile of the products you're insuring?

**Mr. Stephen Poloz:** Thank you.

First, let me clarify that the reference to "five times" in my introductory remarks was to indicate that insurance is several times more important as a tool for EDC than pure lending. It's true, however, that it is up substantially compared with a year ago, for the reason I gave earlier: that at this stage in the business cycle, companies become more concerned about the risk of waiting two or three months for payment from a foreign buyer. They're much more likely to request insurance in that situation, because the odds of that foreign buyer's going bankrupt during that time are much higher. So we got a big increase in applications for that program.

**Hon. John McKay:** Concerning that foreign buyer, are there geographic locations, are there industry-specific locations? What is it that's making our exporters more nervous?

**Mr. Stephen Poloz:** The entire world is in recession; there are really no exceptions to that. Growth has slowed everywhere, and so those risks have risen everywhere.

Generally speaking, people are more concerned to insure a receivable if it's in a developing country, as opposed to the United States; that's a general rule of thumb. It would be fair to say that the biggest increase has been on the U.S. side, because people are most concerned about the recession in the United States, and that's a very important destination for many of these exports.

Geographically, I don't think there's really much of a story there. Everybody is more concerned, and generally a company will ask us to insure their entire book of buyers. They could be spread all around the world.

Secondly, though, speaking sectorally, there are sectors that are in more difficult shape than others: the auto sector, the forestry sector. The forestry sector has been in recession much longer than everyone else, because the U.S. housing sector was the first part of this story. The auto sector came after that. The more generalized risk increase has been more recent. So sectorally there are leading edges, and similarly, on the way out probably the first sector to show strength will be the commodities sector. It's very common in upturns.

• (1030)

**The Chair:** Thank you.

Thank you, Mr. McKay.

We'll go to Monsieur Carrier.

[Translation]

**Mr. Robert Carrier:** Thank you, Mr. Chair.

I will continue on the topic of the forestry sector because it is of great concern to us in Quebec.

Mr. Poloz spoke of investments of one billion dollars in loans or loan guarantees. My colleague asked a specific question about forestry company equipment. You can finance or guarantee a loan jointly with a bank. Is that right?

**Mr. Stephen Poloz:** Yes, that is indeed the case. Our usual mandate is to increase export capacity. We can grant loans to businesses to finance and share the risk with their bank, and so forth.

**Mr. Robert Carrier:** You estimate that activity at one billion dollars for Quebec. You say that there is \$2 billion for the forestry sector, half of which goes to Quebec companies.

Quebec companies are complaining that they have not received loan guarantees from the government, and thus they lack funding. The official argument put forward by the government is that further to the softwood lumber agreement, these loan guarantees are no longer possible. But you are saying that you do grant loan guarantees to the forestry industry.

What type of loan guarantees does the softwood lumber agreement prevent you from granting?

**Mr. Stephen Poloz:** As I mentioned, most of our activities in this sector consist of granting credit insurance. This is the most common formula for these businesses. Direct loans are much less common, as our direct guarantees, but they are available in theory.

The issue is broader than that. If a company applies for a loan and its bank does not want to lend it money, then that company's situation must be analyzed. We must find out if it is not creditworthy or why the bank does not want to be involved. It is not just a matter of conducting a commercial transaction simply because there is a need.

According to international rules, it is very important for EDC to ensure transparency in order to remain commercial and to grant loans to creditworthy businesses.

**Mr. Robert Carrier:** If I understand correctly, you are not of the opinion that the U.S.-Canada softwood lumber agreement prevents you from granting loans. You operate on a basis of trade and risk assessment. In certain cases, you determine that the risk is not justified and so you do not grant the loan.

As you are undoubtedly aware, the government's official argument is that the softwood lumber agreement between Canada and the United States prevents you from providing loan guarantees to the forest industry. I do not know whether Mr. Halde has an opinion on this subject, because we discuss it regularly in the House of Commons. We are always told that loan guarantees are not allowed under the U.S.-Canada softwood lumber agreement.

Does that ring a bell with you? Do you have any limitations? Mr. Halde, do you have an opinion on this? I would like to hear both versions.

• (1035)

**Mr. Jean-René Halde:** I must confess that I would like to give you a more informed answer than what I could give you right now. I would like to think about it before I give you an answer.

**Mr. Robert Carrier:** Does that mean that it is not really a problem? The forestry companies took the time to come and meet with us and to issue a plea for help. They need loan guarantees from

the government, which is not granting any. You must be aware of these requests.

**Mr. Jean-René Halde:** This morning, I met with Minister Blackburn and Minister Lebel to discuss forestry. We are concerned. My answer is that we have not yet implemented our guarantee on the letters of credit. That will be launched soon. I would rather check than answer you without having the proper information. You asked me a specific question. As for the forestry sector, we have not yet implemented our guarantee on lines of credit. I would rather give you the right answer than take a chance.

However, I can tell you that all efforts are being made to provide assistance. That is what I explained this morning to the two ministers. All of our other programs are up and running, and we are in the process of implementing this one.

**The Chair:** Thank you.

[English]

If there's anything either of you gentlemen can provide to the clerk with respect to that issue—I know it's a very large question—if there's something you want to do formally, we'd appreciate it.

I have Mr. Kramp next, please.

**Mr. Daryl Kramp:** I'd like to discuss, Mr. Halde, your role or capacity as a traditional lender, with the recognition that there are some serious complaints that our big five just aren't filling the marketplace, even though they may have some capacity.

In particular—I'll just use one example, and I know that every colleague around the table has many examples like this in their riding—I'll take an auto dealership that has been in business for 20-plus years, blue chip all the way: always made money, never missed a payment, always on time, and in a financially great position. They carried a line of credit for \$5 million; now the bank advises them to cut it immediately to \$500,000. I ask you how many vehicles you can put on a lot for that.

Secondly, of course, they always required an additional, say, \$100,000 just as a deposit to keep on file, and now they want that up to half a million dollars—of course, coincidentally, just the same amount as would match the line of credit that is offered. And of course, instead of the prime plus one or prime plus three-quarters rate they always enjoyed as a preferred customer, now it's prime plus five per cent. Quite frankly, the bank is saying to them, you're out of business.

That is happening across this country for those who are not tied to traditional sources such as a GMAC. But of course they don't take them, because they weren't a customer before; they were with a different company.

Do you have a role, or will you potentially have a role or a capacity to serve people like this, or do we have to wait for some particular point, until we come up with a new instrument or new vehicle? What are your thoughts on this?



**Mr. Jean-René Halde:** We already have a great number of auto dealers as clients. As a matter of fact, as the auto crisis was evolving, rest assured that we were reviewing our auto dealer portfolio on a regular basis. We do lend to these folks and we are happy to do so. We look at it case by case, and depending on the case, if we believe that the business is fine and has....

Now, you have to understand that we generally do project financing, which is usually putting up the dealership or something. We also do some working capital support, more recently as part of BCAP.

Every single situation is looked at individually. If we can help in this case, if you have a particular example in mind, we'll look at it.

**Mr. Daryl Kramp:** There isn't a member around this table who doesn't have horror stories like that.

**Mr. Jean-René Halde:** And we get those calls on a regular basis.

**Mr. Daryl Kramp:** Bona fide, not fly-by-night, risky....

Thank you very kindly.

Mr. Wallace will share my time.

**The Chair:** Mr. Wallace, you have two minutes.

**Mr. Mike Wallace:** That's fine. It won't take me two minutes.

Just so I'm clear on the floor plan financing, I'm hearing from my marine friends and those in the recreational business, and the agriculture community, actually, for their dealerships, that they'd have a hard time making a triple-A rating. They would be out of luck, the way the current security facility is set up. Is that not correct?

•(1040)

**Mr. Jean-René Halde:** If they can't put together a security of at least \$100 million triple A—the purpose of that facility was to do that—then I guess that facility can't help them.

**Mr. Mike Wallace:** Okay. Are you aware of the program they have south of the border in the United States to help floor plan financing specifically for dealerships? Have you been following what they've been doing down there, or are you too busy trying to get this organized up here?

**Mr. Jean-René Halde:** The answer is not enough, probably. For example, just so you know, we met not long ago with PricewaterhouseCoopers from the U.S., which dealt with the TARP program and the TAF program. The reason we did is that we wanted to make sure, with the way we were structuring CSCF, whether we could learn from them in terms of their U.S. experience. I'm happy to report that they thought the way we were putting the CSCF together was quite good.

On the dealer floor plans, no, specifically, I'm not familiar.

**Mr. Mike Wallace:** Finally, I have a comment. Actually, I was encouraged to hear you say that some organizations may not take us up on the money that's available, because the whole purpose of our doing this is to make sure there's credit and financing available for business to continue to operate. If they are able to find it in the private sector or elsewhere, that's a good-news story, in my view.

**Mr. Jean-René Halde:** Honestly, I believe that's what we'll be hearing from the better financed ones, that they will say, no, we have cheaper sources of funds, thank you very much.

**Mr. Mike Wallace:** Thank you very much.

**The Chair:** Thank you, Mr. Wallace.

We'll go to Mr. Pacetti.

**Mr. Massimo Pacetti:** Thank you, Mr. Chairman.

Just quickly, Mr. Halde, before I go back to Mr. Poloz, I think you received a letter of May 21 from Sara Anghel. I think that's what the chairman was referring to. It's a letter dated May 21, 2009. It's from Sara Anghel, the vice-president, government relations and public affairs. It's regarding the marine....

In order to avoid going around in circles and having to call you back, perhaps you can just keep us posted as to what is happening, so we don't get a letter from them again saying that things have not been working out. I understand that you are working on it. If you can at least let us know in writing, I think it would help the committee so we don't have to keep going in circles, if it's at all possible.

**Mr. Jean-René Halde:** I'll be happy to keep you up to date.

**Mr. Massimo Pacetti:** The other request would be, I think, what we're all saying. If we're talking about boat sales and recreational vehicles, I think that means things are turning around. If there is something we could do in terms of maybe lowering the requirements from triple-A to double-A, you have to let us know as well. It's a two-way street. I think you're hearing the same thing around the table.

Mr. Poloz, at the end of the last part of my questioning during my last intervention.... If I go to BDC for financing, I know they're sort of the lender of last resort and that it's going to cost me three, four, or five points more than a regular bank. I'm going to have to pay for that type of lending. Everybody is aware of that. I'm just wondering, is that EDC policy? That's what I'm trying to get to. Again, I'm referring to a couple of cases where it doesn't seem that EDC is competitive. Is that the purpose of EDC? Is that the mandate when it comes to insurance?

**Mr. Stephen Poloz:** Thank you.

You said lending, but I think you mean insurance. Is that correct?

**Mr. Massimo Pacetti:** Yes, insurance. I'm sorry. I meant lending from the BDC point of view.

**Mr. Stephen Poloz:** Okay.

We do both, of course, and in both cases we're seeking a price that is defensible under international law, so that it's a commercial price. As I was saying before, it's very important when someone says "This was so much more, that can't be right"—

**Mr. Massimo Pacetti:** I understand all that. I'm saying with BDC it's almost clear. I see Mr. Halde smiling a little bit—you can interject. But dollar for dollar, if you were to go to a bank and you were to go to BDC, I think BDC would be a little bit pricier.

Go ahead.

**Mr. Jean-René Halde:** I'd love to respond to that.

We price for risk, and we price for risk, we believe, appropriately. But we also have a mandate to be complementary to the financial institutions. One of the ways to be complementary is to make sure we don't steal the deal from the financial institution by being cheaper. So we make an effort to be slightly different from the financial institution. The purpose is not always to be the highest; it's a function of risk.

• (1045)

**Mr. Massimo Pacetti:** I said the same thing in fewer words. I'm just wondering if the same holds true for EDC. I'm not aware that it does.

You're the main player in the market. Is that correct?

**Mr. Stephen Poloz:** Yes.

**Mr. Massimo Pacetti:** Again, I'm talking about insurance.

**Mr. Stephen Poloz:** On the lending side, it is our hope that every rate we charge is fully defensible as a commercial rate. There's no policy to try to be more or anything like that. We're very often *pari passu* with financial partners, so then it's identical. That's simple.

On the insurance side, we are very careful to make sure we are not seen as a competitor to the private market. So there is an explicit policy to be slightly—and I'll use the term advisedly, just as my friend has—more expensive. When you have examples that are significantly more expensive, it is usually the case that there is a big difference in what's being covered, the deductible, whether there is a minimum payment per year, whether there are more buyers or fewer buyers, and whether there are larger limits. That's why I was asking you to please compare apples to apples.

**Mr. Massimo Pacetti:** I'm aware of that, and I understand your situation. I'd like to talk to you a little bit more about it after the committee meeting.

I have just a quick question. In your brief, you talk about your business volume reaching nearly \$5.6 billion. I think your volume in terms of dollars is the same, but in terms of transactions it's much greater. Did I read it inaccurately?

**Mr. Stephen Poloz:** No, you were right. We have more customers with similar dollar volumes to last year. What that tells you is, as one

of the other honourable members was asking, exports are much lower at this time than they were last year, so that level means that more people are coming to us—and they're generally smaller companies—looking for protection from those risks that have arisen. That is, of course, our forte. That segment of offering insurance to really small companies so they can trade is very important to EDC's mandate.

**The Chair:** Thank you, Mr. Pacetti.

I want to thank both of you for coming in today. We certainly appreciate this ongoing dialogue.

Monsieur Carrier.

[*Translation*]

**Mr. Robert Carrier:** Mr. Chair, it has been specified that we would receive more information on the loan guarantees for forestry companies. Mr. Halde promised to provide us with information on their position in this regard. Has a deadline been set?

**Mr. Jean-René Halde:** I will send you that information in one week.

**Mr. Robert Carrier:** Will that be sent to the committee clerk?

**Mr. Jean-René Halde:** I can send it to the clerk.

[*English*]

**The Chair:** You can provide that to the clerk, and we'll ensure that all members of the committee get it.

Thank you. We've added some responsibilities onto you, and we appreciate your taking on the challenges. We do look forward to an ongoing dialogue, so I hope you find this helpful as well. I do want to mention that we found both EDC and BDC, especially recently, very cooperative, at least at the government relations level. I think all members are finding that increasingly so. We certainly appreciate that very much.

**Mr. Jean-René Halde:** Thank you very much. Just be assured we're doing everything we can to help out there.

**The Chair:** Thank you.

The meeting is adjourned.







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