

CANADA

# CANADA'S ECONOMIC ACTION PLAN

Improving Access  
to Financing  
JUNE 2009



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Government  
of Canada

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du Canada



On March 18, EDC committed up to USD 40 million to participate in a USD 180 million dollar renewal of a syndicated facility for New Flyer Industries. Winnipeg-based New Flyer manufactures heavy-duty transit buses, including drive systems powered by clean diesel and energy-efficient gasoline-electric and diesel-electric hybrid vehicles. The syndicate of lenders included the Bank of Nova Scotia and the Bank of Montreal.

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## Canada's Economic Action Plan

Many Canadian communities, businesses and workers have been seriously affected by the economic slowdown. That is why our Government brought forward Canada's Economic Action Plan. It is a clear blueprint to stimulate the economy, protect Canadian jobs and support those hit hardest. It is delivering \$62 billion in stimulus, among the largest of the Group of Seven (G7) economies.

The Government is delivering on Canada's Economic Action Plan today, when it is needed the most. It will provide a boost to output and employment. It is an investment in our future.

### The Plan:

- Reduces taxes permanently.
- Helps the unemployed through enhanced Employment Insurance and training programs.
- Avoids layoffs by enhancing the Employment Insurance work sharing program.
- Creates jobs through a massive injection of infrastructure spending.
- Helps create the economy of tomorrow by improving infrastructure at colleges and universities and supporting research and technology.
- Supports industries and communities most affected by the global downturn.
- Improves access to and the affordability of financing for Canadian households and businesses.



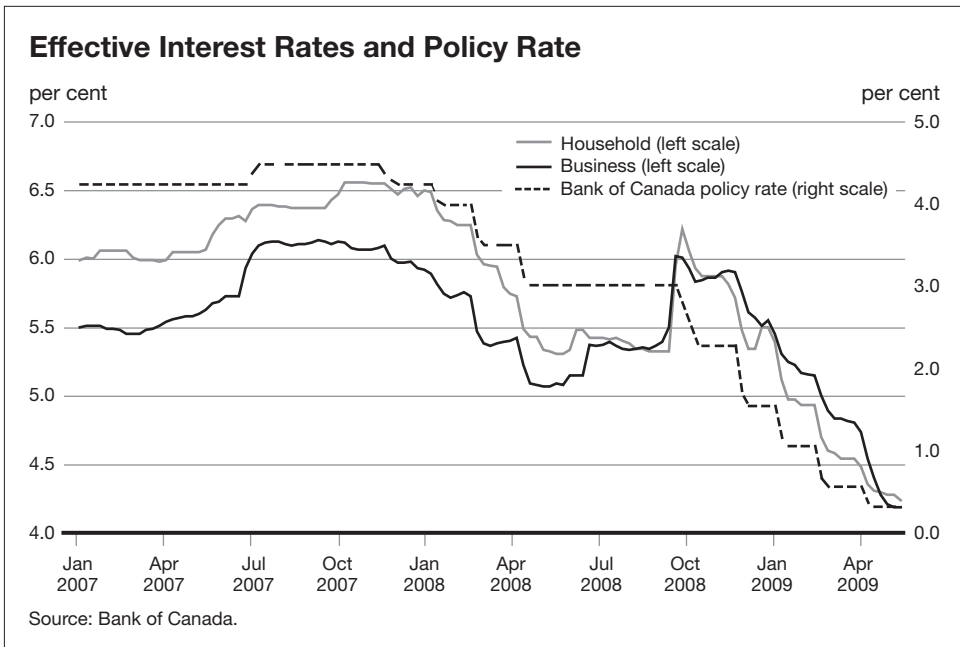
## A Comprehensive Plan to Improve Access to Financing

The Canadian financial system has weathered the global financial crisis very well, but the global credit crunch has still had an impact on the Canadian economy. Creditworthy businesses have been finding it more difficult to get the financing they need to invest and create jobs. Creditworthy families have had trouble getting loans on reasonable terms to do things like buy cars or improve their homes.

Canada's Economic Action Plan takes unprecedented action to improve access to credit and financing for Canadian families and businesses through the Extraordinary Financing Framework (EFF).

All of the elements of the EFF are in place and fully operational. To date, over \$115 billion has been provided to improve the availability of financing for Canadian households and businesses, all of it on a commercial basis to protect the taxpayer.

This has had a real impact on credit conditions for Canadians.





## Recent Developments in Credit Conditions in Canada

### Household Credit Is Growing

Total household credit growth remains strong but lower than in mid-2007, at the start of the financial crisis. As of April 2009, the quarter-over-quarter annualized growth of total household credit stood at 6.7 per cent.

### Business Credit Is More Challenging

Business credit has been essentially flat in 2009. In April 2009, the quarter-over-quarter annualized growth rate of business credit was 0.6 per cent.

Since the start of this year, however, there has been a significant improvement in credit supplied to businesses by financial markets, some of which has substituted for credit provided by banks. In particular, net issuance of bonds by non-financial corporations rebounded to almost \$6.5 billion in the first four months of 2009 after a decline of about \$2 billion in the fourth quarter of 2008. By contrast, bank lending to businesses declined in each of the first four months of 2009, and by 13.3 per cent on a cumulative annualized basis, after growing sharply in the last quarter of 2008.

The terms and conditions available to borrowers continue to tighten. In the Bank of Canada's most recent *Business Outlook Survey*, about one-third of firms reported tighter credit conditions over the past three months relative to the previous three months.

### Interest Rates Are Falling

Average interest rates have fallen steadily for both households and businesses. Over the past year, the prime rate fell 250 basis points and posted 5-year mortgage rates have dropped 140 basis points. The average effective household interest rate was 4.23 per cent in May compared to 5.46 per cent in December 2008. Similarly, the average effective business interest rate was 4.16 per cent in May compared to 5.75 per cent in December 2008.



## New Support for Vehicle and Equipment Financing

The securitization market in Canada has faced serious challenges. As a result, consumers and businesses have had a harder time obtaining leases and loans on reasonable terms for vehicles and equipment. This has caused a drop in sales and has added to the struggles that our manufacturers have already been facing.

To address this, the Government has rolled out the Canadian Secured Credit Facility (CSCF). Through the CSCF, the Government is purchasing up to \$12 billion of newly issued term asset-backed securities backed by loans and leases on vehicles and equipment and floor plan (inventory financing) loans. This gives lenders who were holding these securities extra financial room to extend new loans and leases for those who need them.

### Canada's Economic Action Plan: Working for Canadians

#### Canadian Secured Credit Facility—Example

George owns a farming equipment sales and leasing company in Saskatchewan. In the past, as part of his service to customers, he helped his customers acquire new equipment by arranging loans or leases through the manufacturer. For the last year, he has not been able to provide financing to his clients, which has sharply reduced his sales. With the manufacturer having obtained a confirmed allocation under the Canadian Secured Credit Facility, George can now plan with confidence to make loans to those planning equipment purchases, stimulating sales of farming equipment and contributing to Canada's economic recovery.

Under the Large Enterprise Tranche of the CSCF, allocations to 15 Canadian lenders were made in mid-May.

Allocations under the \$1-billion Small Enterprise Tranche have also been made, ensuring the CSCF also reaches smaller market participants.

In total, \$11 billion has been allocated under the CSCF.

The remaining \$1 billion will be allocated no later than August 2009.



## Direct Support for Small and Medium-Sized Business

Through the Business Credit Availability Program (BCAP), the Government will provide at least \$5 billion in direct lending and other types of support to businesses affected by the credit crunch.

This incremental credit, delivered through Export Development Canada (EDC) and the Business Development Bank of Canada (BDC) in close partnership with private lenders, is filling gaps in market access and leveraging additional lending.

As of mid-May, the financial Crown corporations had all of their new business lines in place and were fully open for business.

EDC and BDC have reported total activity under BCAP of close to \$700 million, assisting over 800 businesses. BCAP activity is expected to ramp up quickly over the coming weeks.

A dedicated BCAP website ([www.fin.gc.ca/bcap](http://www.fin.gc.ca/bcap)) has been launched to provide information about the program.





## Canada's Economic Action Plan: Working for Canadians

### **Business Credit Availability Program Success Stories**

#### **Canadian General-Tower Limited**

Export Development Canada provided \$7.5 million in general corporate financing to Canadian General-Tower Limited (CGT). Based in Cambridge, Ontario, CGT supplies vinyl and leather materials which are used in interior seating systems, door panels and instrument panels for the automotive sector. The financing will be provided as a general purpose corporate facility, which will enhance CGT's financial flexibility and operational liquidity. While the auto sector is experiencing significant challenges, companies like CGT are well positioned to emerge from the auto sector turmoil, with better market share and a more global perspective.

#### **Chemical Manufacturing Company**

The Business Development Bank of Canada provided \$25 million to participate in a financing package for a management buy-out of a chemical manufacturing company with plants in Quebec, Ontario, Alberta, British Columbia and Australia that has been in business for close to 50 years. The company's first owner is retiring and selling his shares to the current management team in order to preserve continuity. The financing includes management investment, a balance of sale, a \$50-million term debt shared pari-passu by the Business Development Bank of Canada and Desjardins, a new line of credit of \$50 million shared by two Schedule I banks, and \$25 million in subordinated financing from an investment firm. Without the involvement of all these parties from the Canadian banking community, this transaction would not have happened, and jobs at the company would have been at risk.

#### **Wescast Industries**

Export Development Canada established a new credit facility with the Toronto-Dominion Bank and Wescast Industries, where Export Development Canada provided \$30 million in financing for Wescast, to be used for working capital requirements and general corporate purposes. Based in Brantford, Ontario, Wescast is a supplier of cast iron exhaust manifolds for the car and light truck markets in North America, Europe and Asia.

#### **Seafood Fishing and Processing**

The Business Development Bank of Canada provided \$9 million in a refinancing deal to a company involved in seafood fishing and processing since 1986, which operates out of three sites in Newfoundland and Labrador. The company's previous term lender, Glitnir Bank of Iceland, has been nationalized and is pulling out of the North American market. The Business Development Bank of Canada's involvement was for the refinancing of the debt owed to Glitnir to allow the company to pursue its operations with its high season coming.



## Support for Canadian Lenders

The global credit crunch has made it difficult for Canadian banks and other lenders to raise the funds they need to extend credit to their clients.

Under the Insured Mortgage Purchase Program (IMPP), the Government stands ready to buy up to \$125 billion of insured mortgage pools from Canadian lenders. This initiative comes at no additional risk to taxpayers. The mortgages are already insured by Canada Mortgage and Housing Corporation and are being purchased on commercial terms, generating a positive return.

To date, \$58 billion of term liquidity has been provided to financial institutions under the program. As liquidity conditions have improved over the past months, lenders have not participated as aggressively in the IMPP.

However, the IMPP continues to be an important source of liquidity should alternative sources of funding become less available.

Under the Canadian Lenders Assurance Facility, which is now fully operational, the Government will provide insurance on the wholesale term borrowing of federally regulated deposit-taking institutions. This puts our financial institutions on a competitive footing internationally, as other governments have taken similar steps to insure wholesale borrowing.

The Canadian Life Insurers Assurance Facility, which is now also available, extends the same type of facility to life insurance companies.

For more information on Canada's Economic Action Plan, visit

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