CMHC SCHL

Helping to house Canadians

Question habitation, comptez sur nous

Conference Proceedings

Toronto, Ontario
October 31 – November 1, 1990

Canadian Housing Finance Conference

Conférence canadienne sur le financement de l'habitation

The Honourable

L'honorable

Elmer MacKay

Minister responsible for Canada Mortgage and Housing Corporation

Ministre responsable de la Société canadienne d'hypothèques et de logement

Canada

NHA 6464

Conference Proceedings

Toronto, Ontario
October 31 – November 1, 1990

Canada Mortgage and Housing Corporation (CMHC) offers a wide range of housing-related information. For details, contact your local CMHC office.

CMHC subscribes to the sustainable development theme of the federal government. Quantities of our publications are limited to market demand; updates are produced only when required; and recycled or environmentally friendly stock and environmentally safe inks are used wherever possible.

Cette publication est aussi disponible en français sous le titre *Délibérations de la Conférence — Toronto (Ontario) 31 octobre – 1er novembre 1990 — Conférence canadienne sur le financement de l'habitation* — LNH 6465.

Canada

CANADIAN CATALOGUING IN PUBLICATION DATA

Canadian Housing Finance Conference (1990: Toronto, Ont.)

Canadian Housing Finance Conference: conference proceedings, Toronto, Ontario, October 31 – November 1, 1990

Issued also in French under title: Conférence canadienne sur le financement de l'habitation.
ISBN 0-662-18822-5
N° de cat. MAS NH13-2/1990E

1. Housing — Canada — Finance — Congresses. 2. Home ownership — Canada — Congresses. 3. Public housing — Canada — Finance — Congresses. 4. Housing policy — Canada — Congresses. I. Canada Mortgage and Housing Corporation. II. Title.

HD7287.55C32 1991 332.7'22'0971 C91-098631-2

Printed in Canada
Produced by the Public Affairs Centre, CMHC

CONTENTS

FOREWORD

The first-ever Canadian Housing Finance Conference was convened by the Honourable Alan Redway, Minister of State (Housing), to address the pressing need for increased affordable and accessible housing in Canada. The aim of the conference was to create an opportunity to bring out the views and ideas of experts in housing finance concerning future directions for the 1990s and beyond.

The invitational conference brought together approximately 150 Canadian and international experts from the business community, financial institutions, the academic sector, philanthropic organizations, governments and industry associations. Every possible new and innovative means of financing Canadian housing were explored.

The first day of the conference focussed on the potential applicability of foreign housing finance systems or mechanisms to Canada, as well as the feasibility of innovative approaches that had been developed in Canada. The focus shifted on the second day to possible new funding sources for housing for low-income people. This included a discussion of the role of housing partnerships involving governments and private sources, such as philanthropy and self-help, in the provision of adequate and affordable housing for low-income people.

Three background papers were prepared for the conference. They were as follows:

- "The Applicability Potential of Foreign Housing Finance Mechanisms in Canada," by Mark Boléat
- "Feasibility and Implementation of New Housing Finance Ideas in Canada," by James E. Pesando
- "Corporate Sponsorship of Housing," by George Fallis.

Copies of these papers can be obtained by contacting:

The Manager
Canadian Housing Information Centre
Canada Mortgage and Housing Corporation
National Office
682 Montreal Road
Ottawa, Ontario K1A 0P7
Fax: (613) 748-6192

OPENING ADDRESS

BY THE HONOURABLE ALAN REDWAY
MINISTER OF STATE
(HOUSING)

Few are given the rare opportunity to participate in what could be termed a "ground-breaking" event. Without sounding immodest, it is my opinion these next two days represent just that – a ground-breaking event. Although numerous occasions to discuss housing matters have presented themselves over the years, never before has there been an occasion when so many individuals representing such varied and influential resources have so willingly given their time to discussing the most fundamental aspect of housing – finance. Each of you are contributing to writing a page in Canadian housing history. I thank you for that.

A unique feature of this conference is the important mix of perspectives all of you are bringing to it. We have here today experts from financial institutions, the academic community, philanthropic organizations, governments, industry associations and non-governmental housing agencies. I welcome our distinguished guests from abroad, and I am anxious to know their views on the means available to help finance housing in the coming decades. We will also look at how the public and private sectors can co-operate to provide more affordable housing to low-income families.

Within the time allotted to me this morning, I would like to provide some brief observations on the housing industry in Canada. By world standards, Canadians are well-housed. We have about nine million dwellings and a population of just over 26 million people. While some 85 percent of the population have traditionally met their housing needs, either ownership or rental, with their own resources, the remaining 15 percent have had to rely on some form of government assistance.

Several factors – for example, rapid economic growth or a major influx of population – can influence these numbers. If we are to continue to improve housing opportunities, we must look therefore for mechanisms that will not only preserve the 85 percent level but also encourage it to grow.

Directly and indirectly, the residential construction industry amounts to or accounts for slightly over one million person-years of employment. Housing expenditures alone account directly for over 7.4 percent of our gross national product.

Last year, the value of the stock of mortgages on residential properties reached $225 billion, indicating that residential construction is a major contributor to a well-balanced economy. It is big, big business. But it is also the business of government. This year, the federal government is spending $1.8 billion to help those Canadians who cannot afford to fulfill their housing needs on the private market.

Ever since the Great Depression, each generation has aspired to be better off than the last. Given today's economic climate, many young people – employed people with moderate incomes – are perhaps wondering whether they will ever be able to enjoy the same benefits of property ownership that their parents enjoyed.

Affordability is a major problem for us. More affordable housing and mechanisms facilitating easier access to financing are urgently needed.

We need to rethink the problems confronting us and to return to the basics. If we do this, I am confident we can discover new approaches to dealing with these financial constraints.

Canada has faced serious housing problems before, and we have overcome them. In the past, through its housing agency, the Canada Mortgage and Housing Corporation, the federal government has worked with other government levels and the private sector to create housing. For example, when the demand for market housing was great in the early '50s, the federal government did not respond by building houses. Instead, it developed plans and set standards; residential builders did the work.

The ensuing relationship between the public and private sectors proved to be very effective: tens of thousands of homes for returning veterans and their families were built. This was also the beginning of one of the most competitive and competent building industries in the entire world.

Later on, the need to provide financing for homes gave the impetus for further private and public co-operation – and so something called mortgage insurance was born. Financial institutions, and others in the private sector, provided the bulk of mortgage financing for construction and ownership. The builder or the home-owner paid a premium, while the government guaranteed the loans.

This partnership has remained relatively unchanged for almost four decades. Since 1954, CMHC has provided mortgage loan insurance for more than 34 percent of all dwellings in Canada.

But perhaps the most significant broadening of the public-private relationship has come with increased government support for non-profit housing groups. Currently, CMHC is immersed in agreements involving nearly 640 000 social housing units, with about half of the agreements sponsored by non-profit housing associations.

Affordability, and access to financing, is the major factor in people's ability to house themselves. Saving for a downpayment to qualify for a mortgage and the monthly cost of the mortgage payment as it relates to household income are the two most significant barriers to homeownership.

The federal government has been working on a number of fronts to extend access and to improve affordability. For example, an index-linked mortgage (ILM) as part of the federal co-operative housing program is being experimented with. Initial payments under an ILM are at about 60 percent of the level of a conventional mortgage. I look forward to your views, as I can see the tremendous possibilities for its use in a wider context, perhaps in the private marketplace.

Mortgage-backed securities, introduced a few years ago to make more money available for home financing, have already made available more than $4 billion for mortgages. CMHC hopes these securities will encourage a return to longer-term financing, thereby adding to the stability of ownership costs.

Other ideas for expanding the sources of mortgage financing have also been proposed. I am thinking in particular of the concept put forward by the Canadian Real Estate Association that will allow first-time home buyers to access Registered Retirement Savings Plans. A similar idea is also being actively considered in the United States. In fact, legislation is now before the United States Senate to adopt this principle.

A five percent downpayment could also help young families who can pay a monthly mortgage payment but are finding it difficult to save enough for a downpayment.

These ideas may have the potential to be developed into sound business propositions by the financial community and, concurrently, could very well contribute to increasing the opportunities for homeownership. One of the main reasons for holding this conference is to discover how such proposals can be realized practically and still be of some benefit for those in the financial community.

As the federal Minister of Housing, my job is to ensure we continue to have the resources to help Canadians requiring government housing assistance. To this end, the government has to be both creative and compassionate. I was delighted with the earlier comments of a major business leader, Allan Taylor, chair and chief executive officer of the Royal Bank of Canada, who echoed my sentiments. To quote him: "Social responsibility in business may or may not be front-page news these days. It ought to be. It is in the national interest that it be. Because, given the pressures on government to limit spending growth, the degree to which businesses are able and willing to respond to social issues will increasingly influence the type of society in which we live."

Governments have a duty to provide sound management of the economy. However, governments do not have access to unlimited dollars. The key to bridging this gap, therefore, is partnership. Private-sector profit motives and public policy objectives should not be at odds. Governments, business and non-profit groups can share their expertise in the pursuit of the common good.

No longer is it possible to commit large amounts of public funds to achieve this objective. By pooling our efforts and by working in partnership, we can find new ways to provide homes for all Canadians.

Affordable housing is the cornerstone to solid living environments that not only promote the well-being of individuals but also allow for their integration into a productive society. We cannot expect to create dynamic communities that will foster efficient, productive individuals if these same individuals cannot meet their basic shelter needs.

Other countries facing similar dilemmas have sought solutions that might work in the Canadian context. For the moment, I wish to review and examine these solutions with the objective of implementing those that demonstrate real promise.

I hope we will look at all of the suggestions with an open mind, to be critical yet positive, to ensure that we can put to use in a very practical manner – some of the concepts elucidated in this conference.

I am looking forward to hearing lively discussions about the opportunities that may arise for the financing of housing in this country. We must not fail Canadians in the deliberations we are undertaking today and tomorrow. If we do not look ahead now, our children, and our nation, will be the losers. I am counting on each and every-one of you to be creative and thorough, so that future generations might know the comfort, security and dignity of owning or living in a decent, affordable home.

Co-Chair's Remarks

By Tom Alton
Chair, Canadian Banker's Association's Mortgage Committee

This conference challenges us to apply our creativity, common sense and technical knowledge to the multifaceted task of identifying new approaches to the subject of housing finance. As such, the conference represents a rare chance to map out a new direction of public housing policy rather than just responding to it. From my many years of working in the Canadian housing industry – working with some of the best builders, some of the best developers and some of the best lenders in the world – I am confident we can meet the challenge.

But partnerships, including private-public partnerships, suggest a meeting among equals. There is an implicit commitment by governments to take seriously our concerns, our suggestions, our ideas and our cautions. Certainly, not all of the approaches voiced here today and tomorrow, and over the months and years to come, will prove practicable. As Mark Boléat has written in his paper, programs that are effective abroad may not work here, and vice versa. On the same note, however, a suggestion that at face value appears unworkable may, in fact, contain the germ of a very successful program.

Over the next two days, our task will be to examine, clearly and objectively, proposed programs and ideas and to determine how they could work in Canada. And while avoiding preconceptions, we must recognize certain realities. For one thing, demographic trends dramatically affect housing demand, and the last four or five decades have seen a major demographic transformation in Canadian life. Change is even more inevitable in the years to come.

Our population more than doubled between 1941 and 1986, and three-and-a-half times more households had to be accommodated. Although the average household shrank 40 percent from 4.5 persons to 2.7 persons, rising affluence effectively increased people's expectations about the size and quality of the homes in which they wanted to live. During this period, our residential construction industry boomed.

What can we expect in the 1990s? One thing is clear: the changing nature of our population will have a profound impact on housing. When the demand for housing by first-time buyers has been largely met by the mid-1990s, some forecasters predict housing demand and prices will permanently soften. My crystal ball is not as clear, but I am sure we cannot afford to ignore our changing population when assessing how much housing we will need, and where and when it will be needed.

A second reality is that housing is and will likely remain a private-sector initiative. It is a fact that more than 90 percent of housing units are privately owned, almost all of them built by the private sector. Not to ignore the efforts of other players in the Canadian housing scene, most of the financing has also been from private-sector sources, on a competitive basis.

The federal government has increasingly focussed on the overall management of the economy, promoting the efficiency of financial markets while targetting direct assistance to those most in need. Provincial and local governments have concentrated on basic infrastructure – roads and municipal services – and on regulatory issues, with some doing a better job than others in promoting development and avoiding NIMBYism (Not In My Back Yard) and excessive red tape. Governments and the third sector have helped to house those less well off, who are not being served by the free market.

The net result is that better than four out of five Canadians are well-housed. The average Canadian spends about 20 percent of his or her income on housing, and about

63 percent of all Canadians own their own homes. We have a system marked by technological innovation and featuring so many choices of mortgage features, amortization periods, terms and prepayment and payment options that borrowers can virtually tailor-make their own mortgages.

A third reality is that public funds are limited, and likely to become more so. The federal deficit seems stuck in the $30 billion range, and accumulated debt continues to grow at an unacceptable rate. It seems unlikely that funds for new housing initiatives will be readily available except either through direct funding mechanisms or tax expenditures. Indeed, all levels of government are having to re-examine their spending and taxing programs. The private sector cannot afford to commit massive amounts of money or other resources without receiving a reasonable return, particularly in today's economic situation. Canada is in a recession, and the housing industry is bearing more than its proportionate share of the burden.

Although the system works well for most people, it does not work for all, including the homeless, the 25 percent of renters who pay more than 30 percent of their incomes on rent and the prospective first-time buyers who cannot afford a downpayment or the resulting mortgage payments, or both. It is to address these challenges that this conference has been called. We will be discussing many ideas over the next two days, some old and some new. This conference will challenge the various experts to give these ideas full scrutiny.

Some issues and questions to be addressed include defining the precise nature of Canada's housing problem. The system works well for most people; but for the rest, is the issue really housing? Or is there a broader issue at stake, for instance, the distribution of income and wealth? To what extent should social equity concerns govern our policy decisions? To what extent does a Canadian market need new financing instruments? As Professor Pesando points out, there has already been substantial innovation by the private sector in response to high and volatile interest rates. The lack of an instrument or its disuse may well spring from a lack of real demand.

Some observers have suggested that a bias exists towards promoting homeownership. How much support should go to rental and other tenure forms? Should housing policy focus more strongly on renovating the existing housing stock, either owned or rented? Should assistance be directed to low-income families and individuals? Or is there justification for helping out middle-income Canadians? We should also explore how provincial or local governments can play more active roles. In his paper, Professor Fallis emphasized strongly the need for locally based initiatives.

In light of what is needed to keep mortgage loans sound and mortgage insurers solvent, we should examine further changes to the equity requirement for home buyers. Might funds locked away in RRSPs be used as part of a home buyer's downpayment, as has been proposed by the Canadian Real Estate Association? The Canadian Home Builders' Association has called for a separate financing mechanism for home buyers, one insulated from money markets. Is this really feasible? We will look at this suggestion. We should also assess the mortgage-backed securities market and its impact on borrowers and lenders. The co-operative financing program, including index-linked mortgages, which is nearing the end of its pilot stage, gives us a chance to judge the attractiveness of ILMs to borrowers and lenders and what their future might be.

Mark Boléat has suggested that Canada is an example to be followed rather than a country needing radical reform. I think most of us concur that Canada has a very good housing finance system. But certainly there is room for improvement.

Developing such improvements and establishing the framework in which they can be successfully implemented are the intents of this conference. Let us take full advantage of this unique opportunity.

DAY 1
ACCESS TO HOMEOWNERSHIP

THE APPLICABILITY OF FOREIGN HOUSING FINANCE SYSTEMS TO CANADA

BY MARK BOLÉAT
THE BUILDING SOCIETIES ASSOCIATION, UNITED KINGDOM

As is the case in many other countries, the housing finance system in Canada is currently under scrutiny. Since interest rates that are both relatively high and unstable are causing problems for many families and for the institutions that make housing finance loans, it is proper that attention be focussed on whether there are better ways of financing house purchases. An examination of the international experience is helpful because one cannot easily experiment with a new housing finance system, and mistakes can be costly.

In my presentation, I will briefly examine the fundamental characteristics of various housing finance systems, analyse Canada's system in an international context and, finally, consider a number of policy issues.

Housing finance systems have certain characteristics that distinguish them from other markets. A housing finance loan differs from most other loans made by financial institutions. The loan has to be for a long term, typically 20 or 25 years, yet the borrower may well decide to repay it prematurely. Loans are well secured, effectively on an asset, which under all but exceptional circumstances does not lose value, on the income and wealth of the borrower and, to some extent, on the effects of inflation and sometimes on government subsidies.

Housing finance loans are large in relation to the income of its borrower. Typically, a borrower may borrow up to three times his/her annual income.

The housing finance market is also large in relation to other markets. This means that housing finance cannot be ignored either in the formulation of policy about the role of financial institutions or in the formulation of monetary policy.

Because the housing finance market is large, the big retail financial institutions have to play a part in it. When people buy a house, they usually require other services, such as life and property insurance. If retail financial institutions are not involved in the mortgage market, they are not making full use of their assets. Therefore, they are not maximizing their profitability. Significantly, in some countries, in the past, banks have not played a major part in the mortgage market, but the situation has changed dramatically over the past few years. I cite as examples the current situation in the United Kingdom, France, West Germany and Italy.

While the housing finance market is large, housing finance loans are fairly simple transactions. The significant number of new loans each year means that processing can be heavily mechanised. However, there are no significant economies of scale in the housing finance market; therefore, there is no reason why a housing finance market should not have hundreds of lenders – indeed, in some cases, thousands of lenders.

In industrialized countries, there are two basic types of housing finance systems: the deposit-based bank system and the mortgage bank system. Under the deposit-based system, banks and other such deposit-taking institutions use deposits to fund housing finance loans. This is the most common system, and the one used in Canada. This system is particularly appropriate for two reasons. First, there is a huge amount of financial resources in the form of deposits, and therefore raising adequate funds to meet the needs of the housing finance market is no problem. Second, the institutions that raise retail deposits – banks and so on – are retail institutions well-placed to undertake housing finance business.

The fundamental problem with this system is that borrowers require long-term loans for 20 or 25 years, while retail deposits are seldom raised for longer than five years; in most countries, the bulk of retail deposits have a maturity of less than one year. There are a number of different approaches to dealing with this problem, but none are ideal for the housing finance institution, the borrower and the taxpayer.

The first approach – and a very simple one – is to ignore the problem, that is, to make long-term, fixed-rate loans, funded by variable-rate, short-term deposits in the hope that, over the long run, the average yield on loans will remain above the average cost of deposits. No sensible regulatory authority today would lend on this basis. However, this was the housing finance system used in the United States until the end of the 1970s and, I am reliably told, in Canada until an earlier period. In the United States, the result has been the beginning of the thrift crisis. The government's reaction was not to deal with the problem at source but rather to give the thrift institutions greater powers in the hope that they could make profits to counteract the losses on their mainstream business. This made the problem worse.

The second approach is to shift the entire risk to the borrower, that is, to conduct all operations on a variable-rate basis with the rate of interest charged on outstanding mortgage loans changing as required to meet any rise or fall in the cost of the deposits. This system, which has been used effectively in the United Kingdom, Australia and other countries, ensures the health of housing finance institutions, unless the rise in interest rates is so great as to increase bad debts to an unacceptable level.

Even though interest rates can increase rapidly, the experience of most countries is that the variable-rate mortgage, if understood by borrowers when they take out their loans, can be accommodated. In the United Kingdom, for example, over this 18-month period beginning in 1988, mortgage interest rates rose from 9.5 percent to 15.5 percent; at the same time, house prices declined sharply and incomes increased only modestly. This meant that the vast majority of borrowers were paying 65 percent more for their loans over this period. The rise in interest rates placed a heavy burden on those who bought in 1987 and 1988, but this burden is being carried by those concerned.

Where there is likely to be hardship, lenders have a number of devices available at their disposal. They can simply require borrowers not to meet any higher interest charges, with deferred interest being capitalized into the loan; as incomes increase, it then becomes possible to pay off this deferred interest. Of course, one hopes that interest rates will fall.

A third way to deal with interest rate risk is to adopt the Canadian mechanism, that is, to fix an interest rate on loans for a limited period of between six months and five years, with the loan being rolled over into a new fixed-rate loan at the end of the initial period. This system works extremely well when interest rates are stable, but then, so does any other system. It also works well when interest rates increase modestly over time or vary around a stable average over time. However, this system does not work well when rates fluctuate sharply, resulting in considerable variations between the rates paid by individual borrowers, depending of course on the date the loan was taken out.

The fourth way of dealing with interest rate risk – really a refinement – is to lay it off through a secondary market. In this case, deposits cease to be the funding mechanism. I will examine the nature of secondary markets in more detail subsequently.

In those countries where the deposit-taking system dominates, there is the search for an elusive concept, that is, of using it but ensuring that borrowers have stable interest rates. In this context, the contract savings schemes used in Germany, through Bausparkassen, and in France merit consideration. Some people view these schemes as methods of using the deposit-taking system to allow cheaper, sustainable, fixed-rate loans to be given to borrowers.

In Germany, there are 30 specialized Bausparkassen. They are divided into public-sector Bausparkassen, which are departments within or subsidiaries of the Landesbanks, or the regional girobanks for the savings banks, and into private-sector Bausparkassen, which are connected with other private-sector financial institutions, insurance companies or banks. Bausparkassen alone are entitled to offer a Bausparkasse contract. Through this contract, individuals agree to save a certain amount over a certain period of time. When the total amount saved reaches 40 percent or 50 percent of the contractual amount, borrowers are entitled to the whole of the contractual amount as a loan. Savings rates vary between 2.5 percent and 4.0 percent, and the lending rate varies between 4.5 percent and 6.5 percent.

The matching is achieved because the system operates at below market interest rates, with Bausparkasse loans funded directly by the savings contracts. In addition, there are government premia and tax benefits, although these have been recently reduced. The system is structured in such a way that it can never provide more than a small fraction of the total financing a home buyer requires, typically between 20 percent and 30 percent. Accordingly, the Bausparkasse system has to be used in tandem with other systems.

In practice, the loan package is arranged such that a Bausparkasse contract is taken out as a tax-efficient method of repaying a mortgage loan. For example, a borrower may borrow 60 percent of the value of a property through a first mortgage loan from a mortgage bank at a fixed rate of interest, with a second loan of, say, 20 percent, at a variable rate from a savings bank. When a Bausparkasse contract matures, it is used to repay the savings bank loan.

A similar system is the Épargne-Logement scheme, which operates in France. But the main structural difference is that it can be offered by any bank rather than only by specialist institutions. The market leader is the Crédit Agricole.

These two systems do not offer cheap, fixed-rate loans. Another fundamental problem with them is that their stability depends on some who enter into savings contracts not taking out their loans. It is also necessary to attract new business continually in order to meet the obligations to those with existing contracts. In other words, if the system was stopped today, if no new contracts were entered into, how would the institutions fund their obligations to those who have entered into savings contracts over the last five years? The answer is, they could not. Therefore, the system cannot be allowed to stop. This is not a very sensible way to fund a housing finance system.

This particular problem is specific to France, not Germany. Being cautious people, the Germans set up their system such that the availability of funds determines whether one's right to a loan can be matched. If there is not enough money, then borrowers have to wait longer for their loans. On the other hand, in France there is a contractual obligation to give a loan; therefore, the institutions assume some risk in that their assets and liabilities are not matched.

The German Bausparkasse contract has been a part of the German housing finance system for many years, and this is not likely to change. A similar system operates in Austria, and the Épargne-Logement system in France is also well entrenched, having been established in 1965. The one thing to be learned about housing finance systems is that they largely depend on historical developments, not on the needs of particular markets. Significantly, no other industrialized country has attempted in recent years to introduce a contract savings system as part of its housing finance system.

The second principal housing finance mechanism is the mortgage bank system, which uses a system of double intermediation. Mortgage banks do not take deposits and do not have branch offices. They raise their funds on the wholesale markets and obtain their loan business through introductions, often from a related institution in their group. In some countries, for example, in Italy, Sweden and Denmark, deposit-taking institutions have not been allowed to make long-term mortgage loans. Hence, specialized mortgage banks that obtain their business from the deposit-taking institutions have cropped up. The mortgage banks fund themselves by selling bonds to or by raising loans from those same deposit-taking institutions or from life insurance companies and pension funds.

Most mortgage banks operate with fixed-interest rates on both sides of their balance sheets to ensure they match assets and liabilities. But they are vulnerable if they allow borrowers to redeem their loans at a time of falling interest rates. If, for example, the mortgage rate falls from 15 percent to 10 percent, then borrowers with 15 percent loans can refinance them at 10 percent. But this essentially means the mortgage bank is left having to finance a bond carrying a coupon of, say, 14 percent.

Elsewhere, such a problem is negated because borrowers are denied the right to redeem their loans without lenders being compensated for the loss of the value of the corresponding bond. In Denmark, for example, one can only redeem a 20- or 25-year mortgage by buying back the bond used to finance it. Thus, if one takes out a loan of $200 000 Canadian at a rate of interest of 20 percent and the rate of interest then falls to 10 percent, one can repay the loan, but at double the cost. Ergo, it would cost $400 000 to redeem a $200 000 loan.

It is possible for the mortgage bank system to work on a variable-rate basis. This is done in Italy where rates typically are fixed for six-month periods. For this type of system to work, there has to be a large capital market for long-term, variable-rate instruments; in most industrialized countries, such a market does not exist. Having said this, one should note the Italian housing finance market is extremely small.

Secondary mortgage markets are not a new source of funds for house purchases. A refinement rather than a different type, this type of refinancing mechanism holds little relevance for the home buyer. However, they can help the entire mechanism to work more effectively, and thereby reduce the cost of funds. When used with a mortgage bank system, secondary mortgage markets can give liquidity to the mortgage market; when used in conjunction with a deposit-taking system, as in the United States, they can reduce the interest-rate risk for deposit-taking institutions.

When looking at secondary markets, it is important not to be blinded by the United States experience. The United States has an extremely sophisticated secondary market, one that has developed because of a grossly inadequate primary mortgage market. The secondary mortgage market in America has been a way of overcoming the deficiencies of the primary market, deficiencies that do not exist in Canada or other countries. Until recently in the United States, institutions were not allowed to lend across state borders and had to fund fixed-rate loans under a variable-rate deposit system. Given such a situation, a secondary market is essential. More importantly, however, the American secondary market is a market where mortgages are transformed into government-backed securities with the help of one public and two semi-government agencies. It is somewhat ironic that building societies in Britain will soon be entitled to hold American mortgage-backed securities as liquid assets on the grounds that they are government-backed, but they will not be allowed to hold British mortgage-backed securities as liquid instruments because they are not government-backed. It is unwise to look at the U.S. housing finance system as a model for other countries.

Canada has an interesting housing finance system: there are no large specialized institutions – in other words, institutions that have the bulk of their business in housing finance loans. The largest lenders are chartered banks, trust companies and mortgage loan companies. This system differs markedly from the British system, where the mortgage market is dominated by institutions that are predominantly housing finance lenders.

One can attribute the Canadian position to a number of legislative reforms, including the most recent changes to the Bank Act. As Canada has not restricted its banks in the same way as other countries, its banks have been allowed to take their natural place in the mortgage market, thereby pre-empting the development of specialist deposit-taking institutions.

The minimal role of the government in the mortgage market is also a contributing factor. Many countries have state-owned mortgage banks or secondary market institutions: in the United States, the housing finance system is partly nationalized through deposit insurance, federal mortgage insurance and, most importantly, the federal guaranteeing of mortgage-backed securities; in France and Spain, government mortgage banks play an important role as regulatory agencies and as mortgage lenders; and strict regulations govern the terms of mortgage lending in such countries as West Germany, Belgium and Denmark. In many countries, housing finance institutions are protected by the government either through special tax arrangements or other incentives – although this special treatment is rapidly coming to a halt. Housing finance loans are artificially favoured, for example, by tax deductibility of the mortgage interest, although attempts have been made to reduce the impact of this type of arrangement.

Several foreign reports about the British market indicate that building societies are protected from the banks. On the contrary, they have no such protection. Indeed, Britain's policy objective is to abolish the special status of building societies because a special position is not desired. Building societies want to be governed by the same regulations as banks. Although mortgage lending in Britain used to be favoured through tax relief on mortgage interest, this view is now less popular.

This is the way things are proceeding in other countries, as well. I note that several people attending this conference want a housing finance system that is insulated from the capital markets. If I may comment: first of all, it is against the trend of every other country; second, it is impossible in a financial market such as Canada's. But, no doubt, these are points one can debate.

Perhaps the absence of specialized institutions has contributed to the important role that the Canada Mortgage and Housing Corporation plays in research and innovation and, most importantly, in mortgage insurance and guarantees. It is significant that CMHC's mission statement includes a reference to its role as an agent of innovations in the mortgage market. In very few countries would a government agency claim such a role.

I mention insurance specifically as this is one area that distinguishes Canada's system from other countries. In most other countries, a government has never contemplated that one of its functions is to insure mortgage loans. At first glance, it is difficult to comprehend why a government in a country such as Canada, which has an extremely sophisticated insurance industry, can provide mortgage insurance better than private companies. However, a specific policy objective in Canada is to ensure that

Canadians in all parts of the country have equal access to mortgage financing, and that is where cross-subsidization – some borrowers subsidizing others – comes into effect.

Also, the Canadian system does not have a standardized mortgage instrument. In Britain, as in many other countries, the housing finance system is clear to everyone. For example, in Britain, the mortgage instrument is a variable-rate instrument. To the extent that there are any deviations from this, they are very modest. As an example, only one percent of borrowers have loans with a fixed rate for three years. In other countries, such as Denmark, there are only fixed-rate loans. Canada's roll-over system was looked at by many as a model in the 1970s but has since proved problematic because fluctuating interest rates led to considerable inequities among borrowers and hardship for some people.

To prepare for this conference, I was asked to point to some lessons from other countries. What is it that other countries can give to Canada? What can Canada learn? This exercise has proven to be extremely difficult for reasons I will elucidate.

Looking first at the mortgage instrument, people in Canada are looking for something that does not exist: a cheap, long-term, fixed-rate loan, funded by chartered banks, trusts and other companies in a financially viable way, with no government support. If the intent is to reduce inequities that result from the roll-over system – that is, with some borrowers paying substantially more than others for their loans – this can be done by moving toward a variable-rate system. I understand this is precisely what is happening in Canada, with many borrowers opting for six-month loan periods. Frankly, there is not much difference between a six-month roll-over period and a variable-rate mortgage system.

It is more difficult to eradicate problems caused by sharp fluctuations in variable rates unless the government is prepared to subsidize some borrowers. Incidentally, I understand that previous attempts to do so have failed because people have not wanted to be subsidized – an interesting situation that has also occurred in other countries. In Britain, for example, there was a home-loan scheme where the government handed out interest-free loans of £600 and grants of £120 to almost all first-time buyers. Take-up was an estimated one percent of that originally estimated by the government, and the cost of administration exceeded the amount of loans given out. The only reason the government was reluctant to abolish this scheme was that it did not want to admit failure. The only step it could take was to slip in a clause successfully abolishing it. Examples can be found elsewhere of governments desperately anxious to help people but the people not wanting government help.

One can look at mechanisms for smoothing the effects of interest rate fluctuations. In Britain, many lenders are now offering deferred interest rate mortgages where the rate of interest charged on the account can differ considerably in the early years from the rate of interest the borrower repays later. For example, a loan can be made at a rate of interest of 15 percent but with repayment based on 10 percent. The unpaid interest is added to the capital sum each year, and repayments go up, year by year. This system works well if interest rates fluctuate up and down. But if interest rates continue an upward spiral, the danger exists of an escalating debt and financial risk to lenders, as well as to borrowers. Commercial bankers may well recognize this technique of lending people money to pay the interest on loans they cannot afford to repay.

A second issue for consideration in the Canadian environment is mortgage insurance. Should the government use a public fund to assume the risks of mortgage innovations?

Third, there is the question of the extent to which CMHC, and therefore the government, should support the secondary mortgage market. In the United States, the role of government agencies in the secondary market has been to transform that market into a market for government-backed securities; concern now is being expressed about the role of government-sponsored enterprises that have massive contingent liabilities resting on a small capital base. Also, the effect of reducing the rate of interest on loans by 25 basis points is to make it unprofitable to be a portfolio lender.

In Britain, a secondary mortgage market has developed without government intervention and with private mortgage insurance and private insurers guaranteeing the timely payment of principal and interest. There is a case for pump priming by the government to get a new market going, and even a case for continued presence in this market. However, as in so many other areas, governments need to carefully avoid abusing their monopoly powers, which are capable of distorting markets and changing significantly the nature of the security that mortgage loans offer to institutional investors.

It is fashionable in many countries to criticise the existing housing finance system and to point to others as models. Anyone looking at the Canadian system would perceive it as a model to be followed rather than as one needing radical reform. This is because Canada has none of the obvious failings of many other countries. In Britain, the high cost of mortgage interest tax relief – running at £7 billion a year, or $16 billion Canadian – has had a major distortionary effect. In France, the disequilibrium of the Épargne-Logement system is creating problems. In Italy, the prohibition on banks making long-term loans has resulted in a grossly underdeveloped housing finance system. The existing regulatory system in Germany is incompatible with either the common European market situation or integration with East Germany. In the United States, the regulatory system has produced financial disaster. In Denmark, the inflexibility of the system, where everything is defined by regulation, has exposed the mortgage-lending institutions to substantial losses.

Canada stands alone as one of the few countries with a relatively efficient and effective housing finance system.

Concerns about the Canadian mortgage instrument are mirrored elsewhere. Denmark does not favour a situation where people living alongside each other can be paying interest rates as far apart as 10 percent and 22 percent. Britain does not favour a system where people can face increases in their mortgage repayments, with the mortgage rate rising from 9.5 percent to 15.5 percent in an 18-month period. And politicians certainly do not like it when the end of that period coincides with an election. Eastern Europe does not favour a system that provides three percent mortgages to a privileged minority in a climate that has a 25 percent inflation rate.

A stable and efficient housing finance system can exist only in a stable economy. The key to having low, fixed-rate mortgage loans is to have an economy where the general level of interest rates is low and stable. Also, one cannot give borrowers low and stable interest rates when the general level of interest rates is high and unstable without providing an unacceptable degree of government subsidy or wrecking the financial viability of mortgage lenders.

New Housing Finance Ideas Emerging in Canada: Their Benefits and Feasibility

By Carl Beigie
Chief Economist
McLean McCarthy Ltd.
Deutsche Bank Group

Over the past three years or so, the Bank of Canada has felt compelled to constrain a potential re-emergence of inflationary pressures by allowing shorter-term interest rates to rise substantially. A growth in various monetary aggregates (the so-called money supply) had become clearly excessive if the goal of reasonable price stability were to be sustained. Moreover, a growth in the demand for funds to finance business and personal spending in the acquisition of goods and assets was not only exceedingly high but also, for a prolonged period, quite unresponsive to moderately higher interest rates.

The difficulty lies, in a significant part, in the magnitude of the demands for financing a greatly bloated budgetary deficit. The pace of attack on this fiscal imbalance was so moderate that the counter-cyclical burden on monetary policy was exaggerated. Another source of some financial burden lies in the adjustments that were necessitated by the Canada-United States Free Trade Agreement, which was finalized in early 1988. The implementation of the FTA will require a meaningful increase in Canadian capital investment for a number of years.

A related aspect of the FTA is that it generated a demand-driven value of exchange (or so-called Ricardian rents) in certain regions of Canada – broadly speaking, in Metro Toronto and, in combination with other migration-related factors, in Vancouver. Property values in these areas accelerated sharply. The prospect of gaining access to significant new capital gains boosted both construction activity and the demand for mortgage financing.

The sharp and recent rise in housing costs in a few pockets of the country signals a structural – and largely "one-time" – problem for Canada. A reliance on monetary policy discipline to constrain inflation has added to the increased burden of finding funds to meet the downpayments needed to acquire homes in these areas. More generally – and more typically – high interest rates have also posed problems for new home buyers seeking to meet higher monthly mortgage payments and for those having to renew mortgages.

It appears that high interest rates have now been "successful" in slowing the Canadian economy and in raising the national rate of unemployment sufficiently to ease inflationary pressures of the "demand-pull" variety. Various elements of "cost-push" inflation persist, however, such as the imposition of the Goods and Services Tax and residual "catch-up" by labour in bargaining negotiations. Although these problems remain a potential cause of continuing near-term price pressures, the Bank of Canada policies are not compatible with higher inflation over the longer term.

The excessive counter-cyclical responsibility placed on monetary policy in Canada has resulted in an unusually protracted "inversion" of the yield curve. Short-term rates have moved markedly above longer-term rates, when the conventional relationship is for the yield to increase with term to maturity. High short-term nominal rates have appeared even higher in historic perspective after recent inflation rates have been adjusted to produce an estimated "real" rate of interest.

This very "tight" monetary policy experience was aimed at slowing domestic demand growth. It hit all interest-sensitive sectors, although the most sensitive of all traditionally – the house-building sector –

had remained surprisingly resilient in the face of high interest costs. The past several months have witnessed a major reversal in this sector's performance.

When interest rates begin to ease and a better balance on the inflation front is achieved, the housing outlook will eventually improve. But this will take time.

Meanwhile, Canada's export (and import-competing) sectors have also been hard-hit by a strong Canadian dollar (relative to the U.S. dollar) that has accompanied an exceptionally wide spread in Canadian short-term interest rates.

Moreover, excesses in certain major regions in terms of housing demand have constituted an integral part of the problems that have given rise to very high short-term real interest rates. Now that the cyclical peak in these rates appears to have passed in the wake of tight monetary policy, it is not unreasonable to begin anticipating a return to a more normal yield curve.

How will a return to more traditional conditions in the financial markets affect the Canadian housing sector?

Several key factors can be expected to affect housing access and affordability. Higher housing prices in a few strategic regions seem to have been greatly overdone. On average, prices in these areas are likely to fall, possibly significantly, from the levels that were reached by late 1989. The markets will respond to reduced inflation expectations and greater realism about the medium-term benefits for Canada from the FTA. Incomes, however, are likely to be affected adversely: over the short term, recession-like conditions will cause increased unemployment; over the longer term, Canadian families can anticipate incomes rising less than expected.

The most important factor affecting homeownership opportunities, however, could lie in the level of global real interest rates that might be observed for the next decade, and possibly longer. I make this comment based on the average rate of interest, independent of the precise shape of the yield curve, that has occurred. I hypothesize that Canada (and the United States) has been "helped" until quite recently (the past 18 months or so) by depressed domestic demand growth abroad relative to the foreign output potential. The supply minus domestic demand difference was exported with little hesitation to an "over-heated" North American economy. Moreover, along with goods came sufficient, relatively "cheap" funding to finance our large current account deficits in international payments. The term "cheap" applies to the cost of funds relative to what they would have been had foreign markets (particularly in Japan and West Germany) achieved fuller employment and met internally generated demand.

I expect that North America will face much tougher competition for funds in the future than has been the case throughout most of the 1980s. Non-North American members of the G-7 are now much closer to realizing full employment. Their domestic demand growth has strengthened. And they are prepared to channel an increasing flow of output to new claimants as a way of accelerating economic expansion.

Alongside new sources of demand, world monetary authorities are steadfastly resisting moves to expand monetary aggregates at a pace that would ensure significantly higher inflation. Rising demand and constrained supply mean, simply, that real interest rates will remain high for a number of years. Nominal rates will be lower, or higher, depending on the degree of success central bankers have in maintaining discipline over money-supply creation.

A major implication of a sustained period of higher real interest rates on housing in Canada is that housing affordability will be reduced. People will either have to commit a higher portion of their incomes to achieve the same shelter objective or moderate their objectives. Indeed, many may have to do both. Moreover, the legacy of a substantial internal (governmental) debt that must be financed at high real interest rates for a considerable period of time will add to the factors constraining government from acceding to demands for improving the shelter available to average Canadians.

It appears to me that the prospects for major effective changes in housing finance in Canada during the 1990s, and quite probably beyond, are quite limited. In my view, the most urgent task is to raise the rate of per capita real growth in output. That task will necessitate both a rise in productive capital formation and an increase in the rate of domestic savings out of income generated. It is my opinion that for some time Canadians, in the aggregate, have become "over-sheltered" in relation to the country's productivity performance – at least over the past two decades. Ideas for improved access to homeownership, the topic to which I now turn, would be most effective if they are formulated on the realization of a tougher environment for providing shelter.

Housing finance in Canada is, in general, an effectively integrated part of a broadly efficient capital market. Institutional lenders with large debt financing dominate, while private-sector firms (for example, chartered banks, trust and loan companies, caisses populaires and credit unions and, to a decreasing degree, life insurance companies) supply the bulk of the funds. The gradual linkage between the mortgage sector and the overall capital market has been facilitated by the removal of outdated regulations, which earlier had caused mortgage rates to lag behind general movements in competing rates.

Mortgage financing in excess of 75 percent of property value is generally prohibited unless there is insurance, generally paid for by the borrower. One possibility to be explored for increasing accessibility is to modify insurance regulations. In contrast to the situation in the United States and Britain, mortgage payments in Canada are not deductible when computing taxable income.

My assumption is that the government's financial situation will not allow it to permit mortgage interest rate deductibility into the indefinite future.

It strikes me as quite reasonable that Canada should seek to maintain the residential mortgage market as an integral part of an efficient capital market. It would be more desirable to promote effective and fair competition among mortgage lenders and to work at minimizing the regulatory obstacles that might inhibit innovations. Beyond this, I am hesitant to look on housing as having any special claims for particular focus by government policy-makers. I believe Canada should be seeking to improve individuals' earning prospects in internationally competitive markets. How that improved income is spent is best determined in an environment of information choice from among unbiased alternatives.

Apart from the special capital gains treatment under the taxation regime, which exempts earnings from the sale of a principal residence from tax, this country's treatment of the home purchase decision is relatively unbiased and effectively facilitated by the residential mortgage market. Therefore, despite the excesses of recent years, which are causing current problems in housing markets across the country, I am skeptical – or at best cautiously optimistic – about most proposals I have come across for improving housing accessibility. With this background, let me turn to an examination of the chief among these proposals.

One proposal involves easing NHA lending terms by reducing the required downpayment from 10 percent to five percent, thereby raising the loan-to-value (LTV) ratios to 95 percent. The benefits of such an initiative are improved accessibility, increased number of potential buyers and a shift forward in time of the effective demand for housing.

On the downside, I believe real house prices have been bid up excessively in certain key markets. Moreover, demographic and economic prospects over the next decade or so appear to be less favourable to housing. I suspect the number of mortgage defaults will increase.

Another set of proposals relates to initiatives for expanding the sources of mortgage finance. First on the list, in my mind, are proposals allowing potential house buyers to access their RRSP funds to assist in their house purchases. Such initiatives would have an obvious positive effect on accessibility, but there would be major implications both for taxation and pension policy. With the new schedule for RRSP contribution ceilings beginning in 1991, this could be a very substantial new source of housing financing.

RRSP-related proposals are generally confined to allowing first-time buyers to use such funds as a downpayment. This appears to me to be a good place to investigate the prudence and fairness of such RRSP tax-deferred savings – prudence as a pension asset and fairness to members of employer-sponsored retirement plans, for example. If these issues can be sorted out effectively, I anticipate growing pressures by more mature individuals for expanding the use of RRSP funds in greater amounts and with fewer limitations.

A second proposal for expanding funding sources involves increasing the use of mortgage-backed securities. Canada's experience with developing such "securitization" is behind that of the United States, possibly a reflection of a greater degree of efficiency in the Canadian housing finance arena. If, as is claimed, such securitization would carry potential benefits in terms of lower mortgage rates and increased innovativeness in mortgage finance, one has to ask why there has not been greater interest in developing this approach more fully in Canada.

Another approach to increasing mortgage finance sourcing involves various degrees of "unbundling" the shelter from the investment functions of house buying. One of these proposals would entail that the buyer of a home relinquish a portion of the gains from price appreciation for a buy-down on some part of the downpayment or for a preferential mortgage interest rate. This would aid accessibility. Of course, the dweller in a house might not put as much effort into maintaining the value of the house if he or she had to give up some or all of the capital gain.

Another type of "unbundling" involves separating the asset of land from the asset that is built on it. Land-leasing and lease-to-purchase arrangements would effectively lower both the initial downpayment and the monthly mortgage payments. The result would be to encourage housing accessibility. The cost savings from a land lease, however, would be fairly modest, and Canadian preferences appear to be such that arrangements of this kind would be popular only under specialized conditions.

The next topic I wish to explore covers an area where innovation has already taken place: "new" mortgage instruments. A certain attractiveness has been attached to variable-rate mortgages (VRM), which are eligible for NHA insurance. A variant of the VRM is the ARM, or adjustable-rate mortgage. With an ARM, a home buyer takes on debt at a floating interest rate. The ARM may contain various types of "caps" to protect the borrower, but such caps (and ARMs as a whole) merely "repackage" the interest rate risk; the magnitude of that risk is not reduced.

A variant of the ARM, namely, the "average interest rate mortgage" (AIRM), may interest some borrowers who seek to reduce the uncertainty caused in recent years by the appearance of interest rate volatility. The AIRM would involve the borrower taking out a series of variable-length mortgages with rates varying with the duration of the loans.

The issue with any ARM is what it adds of value to the borrower. Much depends on interest rate conditions expected in the medium term. Until such expectations stabilize, innovations are likely to be overtaken by underlying circumstances.

A different approach to what I have been discussing is the index-linked mortgage (ILM). The ILM fixes the real interest rate, which eliminates the inflation risk. It would be of interest to promote a larger and more regular flow of ILMs to try to determine their attraction to borrowers and to investors. However, with apparent real interest rates so high in recent years, I have serious doubts as to the probable appeal of this rather novel (and seemingly quite expensive) instrument.

Proposals to provide alternative housing finance systems have also been emerging. These include government issuance of special bonds using risk-free credit ratings to obtain mortgage financing. I am not enthusiastic about this type of proposal, and I suspect neither are lenders nor borrowers.

More elaborate proposals involve separating the mortgage market from the overall capital market. One example is a form of savings-lending contract where prospective home buyers make regular deposits, earning below full market interest in return for eligibility for receipt later of below-market mortgage interest rates. Proposals along such lines strike me as possibly better approached by making Canadian RRSP funds more innovative and flexible. If variations from market-driven systems are to be encouraged, my preference would be to coordinate the variations rather than to accentuate the proliferation of opportunities.

The conclusions to my remarks are at best modest. Canada has done reasonably well in sheltering most of its residents. Preferences for homeownership remain quite high, but I am unclear as to the extent to which the demand for houses is aimed primarily at providing shelter. Alternatively, since many Canadians are most familiar with their shelter being their principal major lifetime investment, they may regard homes as both a shelter and an investment. Given the economic climate I foresee in Canada for at least the next decade, today's youth may have a completely different vision.

As I have said, several proposals merit careful analysis and possibly experimentation, but I believe we would already have heard pressure for major changes if their general effectiveness and fairness were so obvious. By all means, new alternative means for improving accessibility to housing are worth examining further. Some will doubtless prove worthwhile, but more will assuredly be at the margin.

Having said this, I contend that the highest order of priority lies in improving individual earning skills in a productivity-led rapid expansion of the national economy's performance. This will require a renewed emphasis on patience and discipline. For those sections of the country with booming housing prices, the options will include a reevaluation of homeownership versus rental. But that approach will require that far more attention be paid to removing the extreme supply disincentives caused by rent controls.

Ultimately, the best hope for a solid, more stable housing industry in Canada resides in meeting the simultaneous goals of low inflation, high employment, vigorous income growth from productivity advances, balanced internal budgets and external transactions, and reasonable fairness in the distribution of society's costs and benefits. Then Canada would be given the best chance to arrive at moderate real interest rates over the long haul.

Panel Discussion and Question Period

By Ivan Wahl
Chair
FirstLine Trust Company

I find myself agreeing with many of the comments made by this morning's speakers. In particular, I found Mark Boléat's remarks enlightening: from an international perspective, he is clearly knowledgeable about housing finance in the western hemisphere.

At the same time, I believe that Canadians for the most part are well-housed. I also believe housing finance in Canada is a fairly well-organized and reasonably efficient process. There is still room, however, for significantly improving the quality of housing in this country, and one way to achieve this would be to offer Canadians lower interest rates.

However, Mr. Boléat made mention of several points with which I must take issue. One is that, in comparison to other countries – the United States, in particular – the role of CMHC has had little bearing on the situation of the average home-owner. In this context, I am speaking specifically of the mortgage-backed securities program.

While the market for mortgage-backed securities in the United States was developed for significantly different reasons than was the case in Canada, the end result – lower interest rates for borrowers – will eventually occur in Canada as well.

In addition, while Mr. Boléat claims that the net saving to the United States consumer is about 25 basis points, our empirical findings indicate that, in terms of real savings and using a benchmark like a 10-year treasury bond, the figure is well in excess of 100 basis points.

We are beginning to experience the same phenomenon in Canada. The mortgage-backed securities market has grown from nothing in January 1987 to just under $5 billion. During that period, the average saving to the home-owner on our securities – and we are in possession of roughly 30 percent of the MBS market – has been 25 basis points.

We believe that market-driven mortgage-backed securities are a partial solution to the affordability problem in Canada. But many savings can be had in the MBS market above and beyond those already realized. We believe that the spread that is earned today – the luxury of the existing banks and trust companies keeping their mortgage portfolio on their own balance sheets – is in excess of 200 basis points. With securitization, that can probably be shrunk to about 150 basis points.

What can we do? In his comments, Carl Beigie questioned the slowness of securitization. Out of $225 billion worth of residential mortgages, $5 billion in MBS only represents 2.5 percent of the marketplace.

I suggest that our failure to securitize has nothing to do with the fact that borrowers of the world like lower interest rates or that savers of the world do not like higher interest rates, which are the end result of securitization.

Instead, our failure to securitize is a result of the fact that we have an oligopoly in Canada. Twelve lenders control about 88 percent of the residential mortgage market, and the oligopoly favours the status quo. One way to give Canadians access to lower interest rates is to increase securitization. To this end, I wholeheartedly agree with Mr. Beigie's comment that the government should promote greater competitiveness within the mortgage market in order to reduce interest rates for Canadians. One way to do this is to reduce the regulatory hurdles affecting securitization.

The Office of the Superintendent of Financial Institutions' new BIS [Bank for International Settlements] guidelines promoting capital adequacy for banks (ultimately to be extended to trust companies) give a zero-risk rating for NHA mortgages that are held on bank balance sheets. At the same time, CMHC has established that the net worth of a mortgage-backed security issuer must effectively have a risk rating of two percent. Why would one level of government call something a risk-free asset for capital adequacy purposes, while another level of the same government requires two percent? Just for the record, CMHC's two percent is 10 times more onerous than mortgage-backed securities requirements in the United States under the GNMA program.

Although the criteria are less stringent than ours, default rates in the United States are two to two-and-a-half times higher than in Canada. If the government shows interest in promoting greater competition within the mortgage market, it is imperative that some of these regulatory hurdles be eliminated.

In closing, I would like to say that the proposal regarding the use of the RRSP pool of capital for self-mortgaging is one that we strongly support. We believe this pool, which currently stands at $100 billion and will, over time and especially with the new limits, grow to more than $200 billion, is an important source of housing finance, primarily for an RRSP holder's own mortgage.

Again, I am flying in the face of my deposit-taking competition. Several programs in existence allow home-owners to use their RRSPs for their mortgages, effectively earning the mortgage rate of interest on the RRSP and eliminating the 200-basis point spread that banks and trust companies currently enjoy.

There are alternatives, and we can certainly promote such facilitating mechanisms as the use of RRSPs as downpayments for first-time home buyers.

Gordon Thompson
President, Canadian Home Builders' Association

We at the Canadian Home Builders' Association view this conference as a call for action. We are confident the marketplace can be improved. However, our involvement in this conference stems from a much broader concern that we have as an industry regarding housing affordability and accessibility in Canada.

Many, many forces at play in today's marketplace are working against the objective of providing Canadians with affordable housing. The issues of taxation, the environment and no-growth policies are creeping into an increasing number of our communities.

Within the mainstream of the home building industry, however, the Canadian Home Builders' Association is involved in the design and implementation of many programs that will increase housing affordability. In other words, home builders are looking for ways to make housing more affordable in this country.

We realize, however, there are many other partners in the housing delivery process, and so our concern becomes one of "Well, what are they doing about improving housing affordability for Canadians?" Accordingly, in our policy statement and our objectives outlined for the coming decade, one of the areas identified as having room for improvement is the financial industry. After all, collectively, the financial institutions are one of the biggest players in the home building industry.

This conference represents an opportunity for this country's financial institutions to co-operate with the housing industry in trying to find ways to improve housing affordability in Canada. In other words, we are partners. It is important in this sense to remember that housing is important to society. What motivates builders is the concept that housing provides a broadly based security of tenure. It allows people to control their environment.

As well, housing creates wealth, so it is hardly surprising that home-owners seldom end up on welfare. Several people have mentioned, quite correctly, that governments cannot just spend more money to solve our housing affordability problems.

But such a statement must be taken in context. Government subsidies cannot be eliminated completely. A portion of our population will always require subsidization. We are in a "Pay me now or pay me later." situation. There is no avoiding subsidies and support programs. Sooner or later, some people will wind up in some form of subsidized housing. I ask you, "How many people in this room benefited from some form of subsidy when you bought your first home?" The real solution, then, lies in creating affordable homeownership opportunities.

There is room for improvement. This conference is a step in the right direction because we cannot move forward until we have acknowledged that things can be improved.

Together, I believe we can come up with workable solutions. It has often been said that if you are not part of the solution, you are part of the problem. So I welcome those people from the financial institutions who are here today and applaud their desire to find ways to legitimately introduce into the Canadian marketplace creative financial options. I trust the government will pass the necessary regulations to allow these options to find their way into the marketplace.

I believe the most important comment made this morning was the one that acknowledged the wonderful financial system in this country. It has served this industry and the Canadian home buyer since the First World War in an enviable fashion and sets a fine example for other countries.

However, this country's housing affordability crisis and the forces that are conspiring to limit homeownership to 62 percent of the population are not things we should be proud of as a nation.

At a recent national warranty conference, in Dublin, Ireland, Canada's 62 percent was, sadly, in the bottom quartile of homeownership figures for the 14 major countries in attendance.

Thus, while I acknowledge the wonderful job our financial institutions are doing and the exemplary status these institutions hold in the eyes of the world, I must say that our current track record in providing affordable housing is anything but exemplary. It is rather embarrassing. As George Bush has said many times: "We have to wake up."

Tony Maxwell
Director, Policy and Research Division
Office of the Superintendent of Financial Institutions Canada

Residential mortgage exposure has traditionally been one of the least troublesome areas for financial institutions and their regulators. In Canada, we "regulators" often find ourselves lying awake at night worrying about LDC debt, leverage buyouts and development financing, but we rarely worry about residential housing.

As Ivan Wahl noted, because of the lower risk, international bank capital rules require only half as much capital behind conventional residential mortgage financing as compared with most other types of lending. This is not to say that housing financing is risk-free lending, and I remind you of what happened in Alberta in the early 1980s. However, as Mark Boléat has pointed out, the risks of housing financing are divided among the borrower, the lender and the government. To date, the portion of the risks retained by Canadian financial institutions has been fairly well-contained.

However, the climate may be changing. Financial innovation is constantly finding ways of slicing up risk into different trusses, which can then be retained, sold off or purchased according to each participant's risk-reward appetite. The emergence of asset-backed securities in general and the NHA mortgage-backed securities program in particular are illustrations of this process. Asset securitization is an innovation with a lot of good points. But, it also raises some questions.

Before examining these questions, let me first tell you what regulators look for when financial institutions are seen to be endorsing new products. Two key words here are management and capital. And since capital is at least in part a product of accounting, we must also look at the accounting process.

In terms of management, we look at the abilities and experience of company officers and key employees of the product area in question. Legislation currently limits the types of investments individual financial institutions and pension funds can make. In future, however, under proposed legislation, most of these limits will be removed and increased responsibility will be placed on directors to act "prudently."

Even under a prudent portfolio regime, our office will continue to look for evidence that managers and directors understand the risks involved, know how to quantify, monitor and manage these risks and limit positions so that, if these risks actually materialize into losses, the losses can be absorbed by the company without the company itself being put at risk.

The ability to absorb losses brings me to the second key word. "Capital" used to be defined as shareholder equity, or excess of assets over liabilities. In recent years, it has been expanded (at least for banks) to include such things as subordinated debt. Assets were only those things that were reported on the balance sheet, and the capital leverage limits used by regulators to control the growth of companies implicitly treated all assets as being equally risky.

With the increasing proliferation of sophisticated financial products, however, the old approach was clearly inadequate. In 1988, the Bank for International Settlements (BIS) adopted a risk measurement system for banks which, together with a minimum capital rule, addresses the most glaring weaknesses of the old system. In particular, it distinguishes among different classes of assets with different credit risk attributes by assigning "risk weights." Typical commercial loans are risk-weighted at 100 percent, mortgages at 50 percent and government debt instruments, or OECD government debt instruments at least, at 0 percent. These types of debt instruments include government-insured loans, such as NHA-insured mortgages.

The BIS agreement also requires banks to place a minimum of eight percent capital against their risk-weighted assets by 1992. Under the pre-BIS regime, all assets – including insured and uninsured mortgages – required approximately five percent capital, most conventional mortgages required only four percent and NHA-insured mortgages did not require any capital.

For Canadian banks, the bottom line is a reduction in the cost of funding their mortgage portfolios. While these rules currently apply only to banks, under the new legislation they will also apply to trust and loan companies.

For all its virtues, the BIS agreement is still a crude instrument. Although it deals more or less adequately with default risk, it does not address other types of risk, such as position risk or interest rate risk. As we have heard at this conference, interest rate risk in particular can be significant in mortgage financing. A study is now under way at the BIS to determine whether additional capital should be required to address interest rate risks. While it will take some time to see this work through to a conclusion, in the final analysis, banks could be forced to more closely match their fixed-rate mortgage assets with their funding sources.

Even well-conceived capital rules, however, do not provide much protection if the asset valuations are inflated or if the earnings have benefited by benevolent treatment of either earnings or costs. This brings me to my next point – accounting.

In examining any new financial product, an early understanding of how it will be dealt with under Canadian generally accepted accounting principles (GAAP) is critical. What we look for, first and foremost, is whether Canadian GAAP addresses the situation at all. If it does, we determine whether the treatment is appropriate for the particular circumstances of financial institutions.

Along with the Canadian Institute of Chartered Accountants, we are currently examining the weaknesses of Canadian GAAP. We believe it is in everyone's best interest to have as few differences between our accounting rules and GAAP.

Returning to the issue of asset-backed securities, I should say that this successful and fast-growing financial innovation has accountants and regulators working long hours to come up with appropriate accounting and capital rules. A number of questions have arisen in this regard. Questions such as:

1. Can the sale of an asset – such as a pool of mortgages – really be considered a sale if, through recourse provisions, some or all of the credit risks in the pool have been retained by the original seller?
2. If a bank provides a guarantee for the first $10 million of losses on a $100 million portfolio, should it be required to maintain capital against $10 million or $100 million?
3. When assets are securitized but the seller retains the obligation to service them, how much of the interest rate spread between the assets and the securities can be capitalized and taken as profit on the sale, and how much should be set aside as a servicing fee and taken as income over the life of the assets?

These are the kinds of capital- and accounting-related questions that arise each time a new product takes hold.

Management, capital and accounting are not our only concerns. We also look at other things, including significant geographic concentration, unusually fast growth, undue reliance on appraisal values, markets that depend on speculative activity for liquidity and large exposures to a single credit. While all of these situations are tolerable within limits, our definition of acceptable limits sometimes differs from that subscribed to by an institution.

Don Axford
Director of Policy Research
Consumer's Association of Canada

The Consumer's Association of Canada (CAC) believes Canada's housing finance system is relatively efficient and effective. In fact, CAC believes our housing finance experience compares favourably with that of other countries.

CAC is well aware of the power held by our large financial institutions and the need to keep real competition in the marketplace. Nevertheless, CAC believes there is considerable choice in the residential mortgage market, and takes pride in doing its part to bring competition to this aspect of the Canadian marketplace.

For more than 40 years, the CAC has been fighting for and securing basic rights and protections for all Canadians. From a consumer perspective, it is far too easy to characterize consumer wants as being impossible or unrealistic. As Mark Boléat noted in his paper, what many consumers appear to want is a cheap, long-term, fixed-rate loan, funded – in a financially viable way – by private financial institutions with no government support. While this might be the dream of many people, I believe, however, it is an oversimplification. CAC believes the Canadian consumer is much more realistic than such a statement would imply. The Canadian consumer simply wants the best possible deal for him or herself and has little faith in magical solutions or panaceas.

As well, it is wise to remember that consumers are also taxpayers. It is highly unlikely they will do something as a consumer that they do not wish to do as a taxpayer.

Rather than "wanting it all," the consumer interest can perhaps be summarized as wanting only three things: price, choice and security.

With respect to price, consumers want the total price of their housing – taking principal, interest and other charges into account – to be as low as possible. This is realistic.

With respect to choice, consumers want options. They want methods of financing that will suit their immediate needs and options and meet their future needs. They need options and want choices that will allow them to face various financial scenarios – promotions, inheritances, unemployment – as they move through their lives, and deal with all of life's uncertainties.

And consumers want security. They want their capital protected; their investment protected. They want to know they will be able to continue to make their mortgage payments. From a consumer point of view, the purchase of a home is generally the largest single purchase an individual will ever make and often the largest single item in the household budget.

Consumers are aware of the rules of the game. They accept that it costs money to borrow money and that the cost rises or drops with the level of risk accepted by the borrower. That is part of the choice mentioned earlier. If you are ready to accept risk, you should be rewarded by paying a little less. However, consumers want to know how much housing they can actually afford or, in other words, how much money they can afford to borrow and the risk associated with borrowing that money. In homeownership, the risk is not only in handling future interest rates but, increasingly, it is inherent in value and potential devaluation of the house purchased.

The CAC supports the search for new financial options in an effort to offer greater choice to individuals and their families. These options will hopefully reduce the overall price paid by the consumer while at the same time increase security. In this way, consumers will be able to comparison-shop, not only among different financial institutions as they do now but also among different financing mechanisms. A word of caution, however. To make appropriate choices, the consumer must be adequately informed. As the options and combinations become more complex, the information about these options becomes more difficult to understand and provide.

The CAC is interested in proposals such as the one posited by the Canadian Real Estate Association regarding the use of RRSPs in conjunction with other options to finance homeownership. Ironically, one of the most interesting aspects of this particular proposal is that it limits the need for choice — that is, the need to choose between saving for retirement and homeownership. However, there are many consumers who would be happy not to be burdened with that decision.

The idea of combining financial options to create a mortgage package that is tailor-made to suit the needs of the individual consumer is attractive. But again, because the RRSP option is only part and not all of the overall financing package, it will take an informed consumer to weigh the pros and cons of such packages. Despite its complexity, however, the package may well be advantageous.

Personally, I would look carefully at the first-buyer approach, or the first-home approach. Canada's population, whether by choice or by economic necessity, is very mobile. When Canadians move, they tend to move long distances, not just down the road. As an aside, falling markets in the 1980s forced many Albertan and British Columbian home-owners to, in effect, start over. Are those people who bought homes and then lost them considered first-time home buyers? Similarly, if you are accessing your own RRSP for homeownership, why make this a one-time option?

In closing, I would like to say that the CAC would be happy to assume its share of responsibility in indicating those areas of housing finance in need of improvement. Although we would be looking at this issue from a consumer perspective, we feel these views would be consistent with those of both government and the financial industry.

Derek Hum
Professor of Economics
University of Manitoba

In his excellent paper, Mark Boléat noted that, with respect to housing finance, the Canadian situation is not bad. My main criticism here would be that Mr. Boléat considered financing as a consumer good. I believe he failed to appreciate that, as Carl Beigie pointed out, housing is, for most Canadians, a consumer and an investment good. In fact, the real homeownership problem of the last 20 years has been caused by the idea that Canadians feel cheated by the roulette wheel. High interest rates are preventing them from entering the housing market to purchase the Canadian equivalent of a French Impressionist painting. "If only I could come up with the downpayment to buy one of these paintings and put it into my RRSP, I will be happy when I retire."

The prevailing myth in this country is that Canada **owes** us housing. We all believe we have the right to be home-owners. Having said my controversial piece, I would now like to look at housing from an investment point of view.

In our grandparents' time, homeownership was a good, safe bet: their blue chip of a house increased in value slowly and inexorably. Today, the situation is completely different. When viewed as a capital asset, one finds that it is very costly to finance housing when terms are uncertain and unpredictable. The volatility of the housing market has been proven dramatically over the last 15 years or so. In the early '70s, when housing prices rose at different rates in all cities, the positive correlation blinded everyone, including the economists, who felt the fundamental problem was that demand had outstripped supply. Then the housing markets in Vancouver and Calgary crashed, and housing prices that were supposed to be stable dropped dramatically. Today, the Toronto market is fluctuating.

The moral of the story is that, as an asset, the purchase of which we are trying to finance, homeownership is no longer a safe bet. And this is what should influence our thinking with regard to new financial instruments. In my view, we are not only in for a long-term downward trend, as Carl Beigie has suggested, but we are also looking at purchasing an asset with a very risky future.

If this is true, the implications for housing finance innovation are twofold.

In the first place, it might not be in the best interest of the future retiree to use RRSPs to purchase a home. This undiversified block of money may be subject to risk.

Lowering the downpayment amount and increasing the loan-to-value ratio would be like reducing the margin requirements on the Vancouver Stock Exchange. Leverage works both ways. When prices go up, the return to equity is high. But when prices take a small drop, one can easily achieve negative equity and be wiped out. Recall, if you will, the ill-fated AHOP where one could, for example, buy a home with a downpayment of five percent or less. If the value of that home drops by five percent or more, you have negative equity. We know what a slight downward dip in housing prices does to this highly leveraged kind of purchase.

Similarly, with regard to the notion of access to funds through RRSPs, two key elements are at play. The first is that you have a pool of funds to which people should have access in order to solve their downpayment problems. Tied to that is the notion that these funds ought to be secured to some kind of deferred payment mortgage in order to solve the additional problem of the high cost of carrying charges.

The idea is that homeownership is affordable if the market rate of interest can be deferred until later. Skewing the time profile of these payments by any amount would be a good thing. However, the argument for the deferred payment mortgage was predicated on the notion of a youngish, yuppyish family, usually with young children, with good income prospects. And, as Carl Beigie has said, if this is not the case, we are in trouble. You do not want to give easier, front-end loading payment terms to somebody whose income is going to go down.

So again, the dilemma. As George Fallis wrote in his paper, there is a gap, and sooner or later it has to be financed and paid for. The risk is such that you can repackage it, but you cannot eliminate it.

At this point, I would like to make an outrageous suggestion. If the idea behind the deferred mortgage proposal is to give affluent, up-and-coming, mobile potential home buyers a break in terms of rescheduling the time profile of payments, would it not be more simple administratively to offer a different expedient, such as allowing first-time home buyers to deduct a portion or all of their municipal property taxes against their federal income tax for the first five or six years?

Although many of you might consider this concept a bit far-fetched, there is a kind of rough justice involved in the sense that the concept does address the time profile of burdens. Although it has no bearing on the principal or the interest of the debt, it effectively lowers the carrying burden.

While this concept is not necessarily the best idea put forward at this conference, it is a simple solution, and simplicity sometimes has its virtues. If property taxes are proportional or at least roughly related to the purchase price of a house, then the kind of benefit to be had with this kind of program is going to be greatest for those who choose to spend more on housing. In addition, it can be considered regionally sensitive as well.

The downside of such a program is that in terms of dollars and cents, its cost will rise over time, and it will worsen the deficit. The point is, however, there are all kinds of innovative financial ideas we can come up with. Rescaling the time frame of the often overbearing burden of carrying costs is one way to help the first-time home buyer.

Question Period

Gary Schnarr of the Canadian Real Estate Association (CREA) noted that CREA is currently researching the RRSP downpayment proposal, with a view to looking specifically at the implications of such a proposal on tax policy. Schnarr says that, while the program will, in some ways, dovetail existing income tax policy, in other ways the tax policy itself may have to change. As far as pension legislation is concerned, CREA is now exploring the possibility of expanding the use of retirement savings to employer-sponsored pension plans.

In response to Axford's comment regarding the one-time use of RRSP funds, Schnarr assured the audience that CREA's proposal does not intend to dissuade individuals from moving into a second home. To that end, when RRSP funds are used by a first-time home buyer to purchase a home, these funds need not be paid off when the home-owner upgrades to a more expensive dwelling.

With regard to the rising and falling of housing markets, Schnarr said that, when using RRSP funds for downpayments, the amount at risk does not change any more than the downpayment used by an individual does in after-tax dollars. "The idea behind the proposal," said Schnarr, "is simply to be able to use before-tax dollars rather than after-tax dollars and to make housing more affordable for first-time buyers."

Andy Rowe, from the firm Andy Rowe Consulting Economists, disagreed with two statements made by the speakers: that most houses are built by the private sector and that most are mortgage-financed.

According to Rowe, 50 percent of single-detached starts are principally financed by means other than a mortgage, and at least 20 percent of total dwelling starts in Canada are undertaken by the households themselves. "They are self-help, self-building activities."

Rowe was concerned as these statistics suggest the occurrence of important activities that do not fall within the boundaries or the parameters of issues being discussed at the conference.

Rowe believes it is dangerous to search for a national solution that occurs exclusively within these boundaries for two reasons. The first is that solutions useful to those things that are outside the discussions – such as self-help – are going to be rejected. These would include the linking of savings and loans, which is consistent with the profile of self-help builders and is useful in the context of the smaller amounts of financing required for self-building activity.

The second is that solutions will most likely be mortgage-related, although half of the new housing starts in the country are principally financed by means other than a mortgage. This would mean that adopted solutions are only addressing the needs associated with one-half of the new housing starts in Canada.

"To be effective," said Rowe, "we have to recognize that we need a variety of solutions to housing finance problems and a variety of mechanisms that are compatible with the nature of housing production in Canada." Understandably, the mechanisms that will effectively serve self-help builders will be different than those serving industry builders. Similarly, the problems experienced by mortgage lenders in dealing with the portability issue will require different responses than those needed to deal with people who do not use mortgages as the principal means of financing.

In closing, Rowe observed that self-help housing is of comparable quality to industry housing, is more affordable and provides a higher degree of security of tenure.

In response to one delegate's question, Axford would not single out any one suggestion made at the conference as being best for consumers. His only comment in this regard was that the pros and cons of each option should be examined in greater detail. "We are aware that people in different circumstances have different needs. The issue is too complex for us to choose one option over all the others. They are all worth looking at."

Charles McIlravey of Confederation Trust questioned whether first-time home buyers have any RRSP money.

Using CREA's numbers (in excess of 250 000 people), Axford responded that, although it was not a viable option for all first-time home buyers, a large number of individuals would be in a position to use RRSP funds in their financial homeownership package. Axford noted that young couples in particular appear to take advantage of the tax-deductible aspect of RRSPs and often accrue a fair bit of equity in a relatively short period of time. This would indicate that the RRSP option is available to a number of first-time buyers.

Continuing with the RRSP proposal, a delegate reiterated that one of the benefits of this plan is that home buyers do not have to choose between homeownership or an RRSP. By putting funds into an RRSP that can be used for a home purchase, individuals can use large amounts of money in the future.

The before-tax implications of RRSP funds make housing far more affordable than having to come up with the same amount of money on an after-tax basis. Thus, the question is not how many people have money in their RRSPs to access but rather how many more people would benefit from the plan should it be implemented.

Alexandra Wilson of the Co-operative Housing Federation of Canada raised the issue of financing rental housing. While most of the discussion had focussed on financing owner-occupied housing, Wilson reminded the audience that 38 percent of Canadians do not own their own home, and their needs should also be addressed.

According to Wilson, 60 percent of those people living in Metro Toronto are not home-owners. Fifty-seven percent of female-led households in that same area are renter households, while only 30 percent of households maintained by men are renter households.

Agreeing with Wilson, Boléat questioned the idea that the higher the level of owner-occupation the better. In Britain, which has the highest level of owner-occupation in the world for those under 25 years old, there is virtually no rental sector. There, the building societies are now building for rent. Housing associations that provide low-income rental housing receive loans from the building societies. According to Boléat, index-linked mortgage financing is a good way of funding rental housing but is totally unsuited to funding owner-occupied housing. The only solution in which index-linking is used to finance owner-occupied housing is in countries plagued by endemic inflation.

Boléat noted that affordability and affordable homeownership are two separate issues. There will always be people who need help with their housing costs. Whether this is met through owner-occupied housing or rental housing is a public policy decision. However, the risks in owner-occupied housing are much greater. Heavy repair costs and rising mortgage rates make owner-occupied housing a high-risk way of helping the poor.

Noella Fisher, legal advisor to the Nova Scotia Department of Housing, wondered about the legal implications with regard to leaseholds over freehold mortgage situations as a result of decreased security. In response to Carl Beigie's suggestion to go to 95 percent financing under the NHA, Fisher bumped that up to 100 percent, noting that a large number of people are doing that anyway.

Going back to the percentage of homeownership in Canada, Thompson stated that the real issue is that Canadians should be afforded decent, safe housing and that we are in a position, nationally, to be sure that people have a choice. Unfortunately, noted Thompson, what we are seeing instead is that, increasingly, Canadians do not have a choice. "We are witnessing the complete disintegration of the rental housing market from coast to coast. With a rapidly disappearing rental sector and individual homeownership on a downward spiral, we have a serious problem. What we need to do is get them both going in the same direction so that Canadians have a choice."

Directing his remarks to Axford, Dave Chapman of The Equity Centre questioned the change in consumer expectations over the past 20 years. Having come to expect an unrealistic lifestyle in terms of housing, any reduction in carrying cost in the initial years of the mortgage achieved through new mortgage instruments may simply result in further overconsumption of housing.

In response, Axford stated that the search for choice and for competition in the marketplace is a realistic one and that, when given the facts and provided with information, the consumer will take a realistic position and make realistic choices.

Axford believes, if Canadians are truly overhoused, as some people say, then that is their choice. After all, it is really their money. And unlike a lot of other commodities, there is a status aspect associated with housing that may have a bearing on that choice. However, along with choice in the marketplace must go the knowledgeable consumer. Consumers have to know the cost of what they are buying, the implications of what they are buying and the risk of what they are buying. Perhaps if they were in possession of this information, they might choose to purchase differently.

Axford noted the RRSP option might be particularly well-suited to self-employed people, who often have difficulty securing a mortgage from financial institutions and have a fairly high RRSP deduction.

Myrna Bentley of the Canadian Co-operative Credit Society was concerned that the issue of seniors' housing had not been addressed. She raised the seniors' life lease model as one possible model worthy of examination.

Wayne King of the Toronto Home Builders' Association told the audience that the first-time Toronto home buyer was not looking at 2 000-square foot houses with Jacuzzis but rather 900-square-foot freehold townhouses on the fringes of the city, which were starting at $89 900. King believes that first-time home buyers do not have high expectations in terms of their housing.

Peter Blake of City Bank of Canada blamed much of the affordability problem, particularly for young first-time home buyers, on the fact that, with equal payment mortgages, the real cost of a house has been shifted entirely to the front end. This results in a double blow, as the highest costs occur at the lowest point in the young home buyer's earning cycle.

Blake stated that, in response to such a dilemma, the United States is looking at index- or inflation-linked mortgages as a realistic alternative for first-time home buyers. He also noted that, contrary to Mark Boléat's comments, this system has proven successful in a number of countries.

Blake downplayed the role of financial institutions in housing finance. As mere intermediaries, financial institutions have two options for reducing costs: increasing the simplicity of the instrument by having less administration or reducing risk.

In response, Thompson pointed out that family income levels is the key to the discussion. During the last decade, the housing needs of baby boomers have been the primary focus, as they finally purchased their big house. This market has now been fulfilled, and first-time home buyers are currently dominating the marketplace – not those with another property to sell and with homeownership equity. Homeownership financing has not really been an issue in the past.

But this has changed very dramatically. The first-time home buyer market is *the* issue now. "Many municipalities across Canada have recognized the need to provide the kinds of density that we need to be able to bring this kind of housing on. So the issue of homeownership financing and how this house gets financed is rearing its head every single weekend," said Thompson. "When people go into the

Bank of Montreal to buy a GIC, they don't bring their kids with them. When they come into my sales pavilion, they do bring their kids with them. They run around the house and figure out where the dog is going to live, and then they decide to make a purchase decision, and they have got the down-payment because they borrowed from their Mom, or whatever. Then they go off to the bank, and then they come back, and we have to give them their cheque back."

According to Thompson, the situation facing the first-time home buyer is often discouraging. They are couples with young children who have borrowed their down-payments from their families. They are both employed, they have good incomes, they have stable backgrounds, yet they cannot buy a house. "There is something wrong with a system that puts us in a position where people who have achieved a reasonable level of wealth relative to their position in life cannot afford to buy a home," said Thompson.

What must be addressed is that, for the next several years, the market will be dominated by people who are at a point where they have the biggest bill of their life at a time when they have the least amount of income.

With regard to reducing either the risk or the complexity of the product to realize savings in administration, Wahl said that, in this consumer-oriented society, what people want is a great deal of choice. Thus, while his company tries to make mortgage-backed securities look alike, he does not feel it is possible to provide consumer choice while at the same time reducing the complexity of the mortgage instrument.

The only other avenue open, said Wahl, is to take the financing off the balance sheets of financial institutions because the existing systems are inefficient. "The potential savings will lie in the ability to bypass the existing financial institutions."

Ian Bandeen of Burns-Fry Ltd. commented that the overall objective seems to be to realize lower rates, to get greater prepayment provisions, to get more flexibility for the average home-owner. Having said this, however, Bandeen noted that the average Canadian home-owner is "a very transaction-averse animal. He does not shop around. He does not seem to really understand how one gets the most suitable principal and interest payments."

The real task, Bandeen said is to educate the consumer. This task should be high on CMHC's priority list.

LUNCHEON SPEAKER

WARREN POTTER
REAL ESTATE EDITOR, *TORONTO STAR*

In my opinion, housing policy in Canada is unique in the western world because there is no policy. Perhaps this is because the country is so big and has a very small population, or because there are several tiers of government – federal, provincial, regional and municipal – with differing ideas of how to improve the housing situation. Perhaps it is because our lending institutions resist any change in the financing of homeownership. Or perhaps it is because of the NIMBY (Not In My Back Yard) syndrome – a North American phenomenon.

Now is the time to revamp our housing policy: to offer incentives to homebuyers; to write off mortgage interest payments against income tax; to issue long-term mortgages, say for 25 years, at a fixed rate.

Banking institutions are reluctant to lend money for mortgages for a fixed rate for 25 years. But, realistically, how many people live in the same house they bought 25 years ago? Mortgages could be made non-transferable, so that if the mortgagor sold the house in five years, the new owner would take out a new mortgage at the current rate. There could be a small yearly insurance fee to safeguard banks if the interest rate rose above two or three points. This idea is worth exploring.

Making the terms for downpayments more flexible – as is done in Britain and the United States – is also an idea whose time has come in this country.

CMHC does offer a 10 percent downpayment. But if a mortgage with a five percent or even zero downpayment was allowed, first-time buyers would be helped.

Another major factor contributing to high prices in such places as Toronto and Vancouver is the price of land; which is controlled by a handful of developers. They control the land; they control prices. It is a fact of life; it is termed good business.

Even the federal and provincial governments own substantial tracts of land in and around the Metro Toronto area. For example, both levels of government have been sitting on thousands of acres of land in Pickering bought nearly two decades ago. The federal land was to be used for the Pickering airport, the provincial land for a satellite town. If you want cheaper housing, release this land at or below market value if builders will guarantee they will build affordable housing.

When commodities are scarce, prices go up; when commodities are plentiful, prices go down. In the Greater Metro Toronto area, we are in a crisis. Immigrants who flock to this city need housing, as do native Canadians; our roads are clogged because people have to move further out to find affordable housing.

Land prices are a major factor in the price of homes – consisting of about 50 percent of the purchase price of a house in the Toronto area.

One idea might be to lease government-owned land and give the purchaser a 99-year lease. Builders would still be able to make a buck then. My house in the United Kingdom was on land leased for 99 years; I paid a modest user fee for the land.

The Toronto Home Builders' Association has just costed the price of a new home selling for $235 000. The taxes, levies and permits paid on this home, as well as the provincial educational levy, comes to $41 000, or 17.5 percent of the price of a home.

The federal government cannot be immune to criticism either. The proposed Goods and Services Tax will add from 4.5 to seven percent to the purchase price of a new home. Although there is no GST on resales, purchasers and vendors will have to pay an extra seven percent to their lawyers and vendors will have to pay seven percent extra on the fee charged by the real estate agent.

PLENARY SESSION

Rapporteur's Remarks
By James Pesando
Professor of Economics
Institute for Policy Analysis
University of Toronto

It would have been ideal if consensus had emerged from the workshops so that I could provide precise advice to the Minister. Unfortunately, but perhaps not unexpectedly, this was not the case.

Having said this, let me summarize the intent of this two-day conference. The mandate of the first day was to consider two issues: the potential applicability in Canada of housing finance systems abroad; and innovations, given Canada's housing finance system, that might enhance affordability or accessibility.

The first of this morning's keynote speakers indicated that Canada should perhaps see itself as one to be emulated rather than as the emulator. Viewed by our colleagues from abroad, it appears our housing finance system is successful. Consistent with this general observation was the minimal discussion that took place in the six workshops about the possibility of adopting, in a Canadian setting, features of housing finance systems from other countries. To the extent that it focussed on finance issues *per se*, the discussion today really focussed on the second half of that mandate, that is, innovations in the context of the existing housing finance system in Canada.

Before I attempt to put in perspective the central points made by the workshop facilitators, I want to emphasize three points. Point number one: an important concern was expressed that the issue of rental accommodation, as well as the owner-occupied market, should be very much on the consciousness of those who formulate and consider policies. Point number two: housing finance issues are subordinate to such issues as the high cost of land and, consequently, the high price of dwellings and the configuration of dwellings. Even though the mandate was to review housing finance issues, in many instances the participants could not resist the temptation to point out that perhaps these issues are secondary to other obstacles. Point number three: there was concern that the macroeconomic mix – a policy of high interest rates combined with a large federal deficit – was the single most important venue through which progress could be made on the accessibility front.

Concerning issues of finance, again my job would have been easier if I had been able to list in order of importance those areas that officials at CMHC should examine most carefully. Let us look at two issues that received considerable attention by the workshop participants.

First, the notion of raising the loan-to-value ratio to 95 percent with NHA insurance is a fairly well-specified initiative and therefore can serve as a barometer for the sentiments of the group assembled. Unfortunately, this initiative did not evoke universal response. In one of the six workshops, it was met with considerable enthusiasm; in another, it was disparaged; and in two, it received scant attention.

The second item that received attention was the RRSP proposal. A part of the failure to arrive at consensus on this particular initiative is because it is not well-defined. As an example, many participants made the comment that the proposal ought to be simplified by making investment in a principal residence an eligible RRSP investment under the terms of the Income Tax Act. Others felt that RRSP funds, although they could be considered a downpayment, could function like a mortgage, with deferral of interest on that mortgage.

Much of the debate about the virtues of an RRSP investment reflect the lack of precision about the nature of the initiative itself. For instance, a few individuals expressed the sentiment about this being a poor investment for an RRSP because too much of the RRSP funds would be concentrated in one non-diversified asset. This type of concern implies to me that the use of RRSP funds is being talked about as an equity downpayment with return on the portfolio essentially set by the rate of appreciation of the home.

This view, therefore, is quite unlike the view expressed that the use of RRSP funds, as indeed is presently the case, would have to be in the form of an insured mortgage, even though the time path of that mortgage might look fundamentally different than most mortgages we see in the marketplace. For those who take that as their point of departure, the concern about diversification is a non-issue because, in effect, the RRSP is a risk-free instrument, not unlike an insured zero coupon bond. Even if 100 percent of the RRSP funds were in that particular asset, the concern with diversification need not be addressed.

As a footnote, I am preparing for CMHC a detailed review of the RRSP proposal. When starting this review, I began from the premise that the only way to make the RRSP proposal viable was to think of an equity downpayment. But after three months of study, I am now of the view that the only way the RRSP initiative can work is if it is a fully insured mortgage with the deferred interest feature.

In terms of the other issues raised by the keynote speakers and presented in the background papers, in fairness to everyone, it was difficult to identify the most important. With respect to the index-linked mortgage, one theme strongly enunciated was that the instrument's appeal is likely confined to either socially assisted housing or rental housing; in all likelihood, it will not be embraced by the owner-occupied sector. For an individual owner-occupier, an index-linked mortgage might be one additional source of uncertainty in a world where more uncertainty is not needed.

"Good press" was given to mortgage-backed securities, with much debate centering on the cost savings that could be realized on behalf of mortgagors.

One of the concerns raised in several workshops related to the move towards longer-term mortgage instruments. The discussion surrounding this particular topic illustrates perfectly how divergent some recommendations are: Mark Boléat reinforced the notion that a variable-rate mortgage, even though it puts the interest rate risk on the borrower, may be a satisfactory solution; yet, at the other extreme, there were those who argued that the single, most important innovation we might wish to promote is to extend the term to maturity.

So perhaps the lesson one can extract from all this – and it is a point that the representative of the Consumers' Association of Canada emphasized – is that choice is really the goal we should work towards. Variable-rate or short-term mortgages may be entirely acceptable for some people, while mortgage-backed securities as a means of extending terms to maturity may be attractive for those wishing to lock in interest rates for longer terms.

As a final statement, some specific initiatives were mentioned. For example, the Nova Scotian government is borrowing and extending mortgage loans directly. Such initiatives are being undertaken but were not covered in the keynote addresses this morning. One of the benefits of such a group assembled here is that certain notions unbeknown to many of us are being introduced for the first time.

In conclusion, the lack of consensus among everyone here – all of whom wished to provide useful comments about accessibility and affordability – could be envisaged as a comment that flexibility and choice are likely the goals of everyone.

Question Period

One delegate questioned the apparent lack of effort by Canadians to tap into the country's major pension funds for the purpose of financing housing in general and rental housing in particular. The delegate referred to a recent *Globe and Mail* article that indicated that the billion-dollar Ontario Municipal Employees Retirement (OMERs) Fund would only invest in commercial buildings worth upwards of $50 million. Noting that there was no mention of housing in the article, the delegate questioned whether there would be some legislative action at the provincial or federal level in the next 10 years to force investment in housing by Canadian pension funds.

Because the objective of those responsible for the development of pension legislation is to maintain the financial integrity of the fund to ensure that those charged with fund management invest prudently, Pesando did not feel this would occur. "The trend in pension fund management," said Pesando, "has been to reduce barriers and enhance flexibility for pension fund managers themselves to elect how to allocate their funds." Thus, although today's environment is more flexible and pension fund managers who wish to diversify and invest could put funds into mortgage-backed securities or take a direct role in terms of mortgage lending, this is unlikely to happen.

In the case of OMERs, explained Pesando, this very large fund recently decided to allocate a much larger fraction of its money to equity investments. Rather than target those funds only to such equities as stocks, OMERs decided to take an equity interest in commercial property. Pesando told the audience that it would be naive to imagine that pension fund legislation would begin to tailor other objectives onto its basic purpose.

Pesando noted that Ontario's new NDP government already has legislation on the books that would require pension plans registered in the Province of Ontario to provide contractual inflation protection. If this formula is put in place, said Pesando, there would be a new role for index-linked mortgages.

Jean-Yves Lord of the Co-operative Housing Stabilization Fund called for increased understanding of the ILM mechanism perhaps through an informational travelling road show sponsored by CMHC. Although the instrument has worked well for housing co-operatives, Lord noted that, with minor modifications, the ILM could be used to finance homeownership and rental housing and, as an instrument, the ILM could be attractive to pension funds offering indexed pensions.

Pesando noted that the five-year experimental ILM program has recently been reviewed. With the entire product only in the vicinity of $900 million, Pesando questioned whether the case for a significant expansion of the index-linked mortgage program is sufficiently strong that a commitment be made to improve the quality and particularly the quantity of the product including, as a by-product, improved information flow.

He noted that one of the dangers of the ILM is that it cannot deliver all of the potential cost-saving unless it is magnified in importance. "On the other hand," said Pesando, "unless it is magnified in importance, the pension fund managers – who are the source of the cost-saving – do not want to get involved." This is where feedback is extremely valuable, said Pesando, because at some point that program must either be upscaled in terms of size, product flow, timeliness and quantity; or relegated forever to the relatively minor role which it plays at present.

Referring back to the issue of attracting pension funds to invest in mortgages, Frank Clayton offered the following as one reason funds are prepared to invest in commercial and not residential mortgages: with commercial mortgages the borrower is locked in for 15 to 25 years without any prepayment of interest. Clayton suggested changing the Interest Act to allow a borrower and a lender to negotiate prepayment privileges. If this were the case, pension or life insurance funds or even individual strip bond investors might be interested in investing in mortgages.

Clayton also noted the impact of Canada Deposit Insurance Corporation (CDIC), which only insures GIC deposits for a period up to five years. Clayton suggested that CDIC insure 10-year GICs as a means of allowing the lending institutions to make 10-year term mortgages.

Dinner Speaker

James Nelson
President
Mortgage Bankers Association of America

The Mortgage Bankers Association of America is a trade association much like the National Association of Realtors or the National Association of Home Builders. Simply stated, the Mortgage Bankers Association of America seeks to be the pre-eminent trade association in real estate finance and to provide legislative, educational and communication services to all those involved in real estate finance in the U.S., including housing finance and commercial real estate finance. Of the 2 600 member firms in the association, about 1 800 are considered originators and servicers of mortgage loans.

I grew up understanding that mortgage banking really had four functions to it. The mortgage banker was a person or a company – a financial intermediary, if you will – who originated, underwrote, sold and serviced mortgage loans. This definition has changed drastically in the last decade, with few firms involved in all aspects of the business anymore. The major U.S. financial and business institutions – City Corp., Sears, Prudential – are the major servicers of mortgage loans, and they acquired this business from networks of very small, very entrepreneurial originators, who operate in and understand their local markets.

Of the 1 800 who are mortgage bankers, about 950 are either banks and thrift institutions, or subsidiaries of banks and thrifts. Another 850 are independent mortgage companies. Our associate members – who number around 500 – are the people who provide services to mortgage bankers: title companies, private mortgage insurance companies, attorneys, accountants, and so on. The 300 other members are life insurance companies, including the major Canadian life companies, pension fund advisors, real estate investment trusts and investment banking firms.

What brings all of us together is the need for legislative and regulatory representation. Mortgage Bankers' staff of some 145, in Washington, D.C., has the primary function of representing us on the legislative and regulatory scenes with agencies involved in housing finance.

Moving, if I may, to the homeownership market in the U.S., according to 1987 census statistics, about 64 percent of Americans own their homes. And of those 45 years and older, 77 percent own their own homes. The U.S. tax system does help facilitate homeownership: the interest costs of the mortgage and the amount paid for property taxes (which vary widely from state to state) are deducted from federal and state income taxes.

There are frequent efforts by tax reformers to eliminate the tax benefits of homeownership, and occasionally minor modifications are made that affect only a small portion of home-owners. For example, a home-owner can deduct the interest paid on the mortgage on the first and second homes, up to $1 million of the mortgage amount, but cannot do so on the third home. Also, the interest on home equity loans, which is the current way of doing second mortgages, is deductible, up to certain limits. And when you sell your home, you are not taxed on the capital gain if you buy another one. If you are 55 years or older, a one-time exemption of $125 000 from capital gains is provided when you do sell your home.

Turning to home financing, historically, thrift institutions, or savings and loans, were the main source of home financing in the U.S. This, however, is changing. In 1985, the thrift institutions originated 51 percent of all of the home mortgage debt in the U.S. In 1989, they originated 40 percent. My suspicion is that the number was closer to 35 percent by the end of 1990, and is still declining.

Mortgage companies originated, in 1985, about 24 percent of the home mortgage debt; today, that level is about 28 percent. The biggest increase, interestingly enough, has fallen to the commercial banks who, in 1985, originated only 20 percent of the home mortgage debt; in 1989, it was 32 percent. Their share of the mortgage market is increasing significantly, signalling that the role of commercial banks in home mortgage finance is going to be significant.

As I indicated earlier, the originators are not always the servicers anymore. These functions have been unbundled so that now, different people do different things. While the thrifts serviced about 45 percent of all home mortgage debt in 1985, in 1990 they were responsible for only 33 percent. In 1985, mortgage companies serviced 29 percent. Today, that figure has risen to roughly 36 percent. In the same time period, commercial bank servicing jumped from 17 percent to 23 percent. So you can see that the balance between those who make and those who service the home mortgage debt is shifting.

With regard to mortgage-backed securities, the Government National Mortgage Association (GNMA) Program (the most prominent of the mortgage-backed securities programs in the U.S.) was intended to be a recognizable instrument that would attract a much broader range of investment in mortgage debt. What they were aiming at primarily were the pension funds. In the U.S., these funds have traditionally been invested in bonds and stocks, so they recognize these types of debt instruments. Apparently, despite the prominence and dominance of GNMA as a player, we have not been very successful in attracting this group of investors. In terms of who holds the mortgage debt, between 1985 and 1989, the pension and retirement funds dropped from five to four percent.

Currently in the U.S., there are more than $800 billion of outstanding mortgage-backed securities. This is a staggering amount of money. Four hundred billion dollars – half of the mortgage-backed security debt – is represented by GNMA guaranteed pools of FHA-insured and VA-guaranteed loans. In other words, the federal government lending programs are securitized, sold and guaranteed by GNMA.

The remaining $400 million is considered to be conventional debt in a conventional mortgage pool that has been issued by FNMA and FHLMC, private companies that are considered to be government-sponsored entities. In terms of assets, FNMA is the third largest private company in the United States. Currently, between 65 and 70 percent of all residential financing ends up in a GNMA, FNMA or FHLMC mortgage pool or, in some cases, represents a direct loan purchase by FNMA.

Why has the mortgage-backed securities market gained so much prominence in the U.S.? And why has it enjoyed such an incredible level of activity? First of all – and this is the key factor – in the GNMA case, and subsequently in FNMA and FHLMC, we are dealing with a homogenous product. All of the mortgage documents look alike. As well, the loan characteristics of these securities in terms of size, limits of size, term of loan, and so on, tend to be common to all. The underwriting standards that are used to determine whether these loans are made or whether they comply with the standards set forth for these programs are also common standards.

Second – and not to be minimized – the government credit backing of GNMA has given that instrument its bond-like characteristic. It is not a typical mortgage where you are given a wad of paper that most people do not understand. It is a security instrument; a bond. You can clip coupons. It is tangible and easy to understand.

GNMA has the full faith and credit of the U.S. government behind it, and this is generally a very convincing argument. In contrast, FNMA – which issues conventional debt pools – has the full faith and credit of FNMA. Although this is not insignificant, it is not the U.S. government. For GNMA, the government agency functions as a surety rather than an insurer.

As well, GNMA guarantees the performance of the issuer. In other words, if my company issues a GNMA security, GNMA is guaranteeing the purchaser of that security that I will perform. If I do not, GNMA will step in and perform on my behalf.

The third characteristic of these securities that lends itself to success is that fixed-rate loans dominate the U.S. residential lending scene, and these instruments work much better with fixed-rate loans. There are securities with adjustable rate mortgages, and during the '80s, these represented 30 percent of all conventional loans made. In times of high lending rates, this can climb as high as 50 and 55 percent.

Because they do not always have a common rate change index, adjustable-rate mortgages are much harder to deal with in mortgage-backed securities pools. Some of the indexes to which some adjustable-rate mortgages are tied are different from other mortgages in the pool. As a result, on the first day of each month, you have to monitor and deal with rate changes. This is not the case with pools of fixed-rate mortgages. In addition, it is difficult to calculate yield over a long term on pools of adjustable-rate mortgages. Finally, with a smaller volume and more complicated administration, adjustable-rate mortgage securities are much less liquid. They just do not provide the depth of the market that fixed-rate pools do.

One of the things that has happened occasionally in recent years is that international purchasers of GNMA and other mortgage-backed securities have become a factor in the market. To put this in perspective, however, while markets in Tokyo, Frankfurt and London do distribute GNMA and FNMA and FHLMC securities, only about one percent, or $8 billion of U.S. mortgage-backed securities, are held by international sources – although this is expected to grow depending on the exchange rate risk and the perception of the exchange rate risk, and so on. There is still at this point, however, a lack of critical mass and depth in the international market for mortgage-backed securities.

The other outstanding characteristic of the mortgage-backed securities market is that it has been very efficient over the last 15 years. It has been described as, and truly is, a remarkable engine for generating capital for housing. Conceived 20 years ago and put into play in 1970, the GNMA mortgage-backed security was, as I mentioned earlier, an effort to make an investment in mortgages more easily understood by a broader segment of the capital market. It did this by avoiding the complicated documents and underwriting issues involved in an individual mortgage and creating a bond-type investment instrument.

It has been said that mortgage-backed securities turned frogs into princes; that the security was both gradable and tradable. It gave access to the capital markets through Wall Street, which is critical. No mortgage banker in this country can access capital markets as well as the investment banking community, and we had begun to realize that we needed to work with them rather than around them.

So the GNMA Program slowly got under way. In the period between '70 and '75, it grew to $2 billion in volume. Interestingly, in the first two or three years of Canada's Mortgage-Backed Securities Program, it has already reached $5 billion. That bodes well for the future of the program in Canada. Since 1975, however, we grew to the point where we now have, as I said, $800 billion in mortgage-backed securities. The industry just took off and now accounts for two-thirds to three-fourths of all of the mortgage debt that is placed in the U.S.

To prevent abuses of the system, a program must be in place that provides incentives for the security issuer to consistently apply high quality underwriting standards. Two methods of policing have proven very effective in keeping the issuers from throwing any old mortgage into the pool.

In the first place, GNMA has a well-developed and well-defined system to oversee and audit its issuers. As well, it has very rigid standards in terms of meeting payment deadlines, audit requirements, maintenance of capital, maintenance of net worth, and so on. Second, GNMA issuers are obliged to continue to advance payment even if they have not yet received it. The small- to medium-sized banking firm does not have to advance many payments on behalf of its borrowers to feel the pinch. So the system does tend to keep your underwriting in line.

I would now like to move to the issue of housing affordability and supply you first with a little bit of history.

The first real housing effort, begun in the 1930s, was the Federal Housing Administration (FHA). This is the federal insurance program that has been responsible for so much of the growth of the U.S. mortgage industry. Many of these mortgages are financed with only a five percent downpayment. The interest rate is not subsidized; it is established at the market rate. That the insurance is issued by the U.S. government, however, means FHA mortgages can be pooled and sold as triple-A-rated securities. The second type of mortgage to develop was one that was and is still available to veterans of military service in the U.S. As long as he/she qualifies, the veteran has traditionally been able to buy a home with no money down and to have a lender guarantee performance on that loan. The third type of mortgage is one that is guaranteed by our Farmers' Home Administration and applies in certain rural areas where the administration makes loans directly.

The fourth type of single-family home mortgage used by the U.S. prior to 1980 to address the affordability issue is the one financed by the housing finance agencies of various U.S. states. With this type of mortgage, a state housing finance agency sells mortgage revenue bonds at a favourable interest rate, with tax-exempt interest rate treatment. A state housing finance agency would sell mortgage bonds, for example, where the interest on them is exempt from tax. Consequently, if a federal bond is selling at eight percent, a tax-exempt bond might sell for six percent. The interest on those mortgages is passed on to the borrower so the borrower can benefit from the lower rate of interest. Generally speaking, these housing finance agency programs are limited in terms of the size of the mortgage a person can get and in terms of the income level of the family taking advantage of them.

These four housing programs were in place before 1980. They represent a well-established and significant part of the U.S. market for housing finance. But over the last decade, we have made several efforts and initiated several programs aimed at broadening our base and making housing more affordable for more Americans – just as you are trying to do here.

In the U.S., we have an incredibly complicated system for providing housing for low-income families. Unfortunately, it does not work as well as it should. We have an estimated 300 000 homeless persons in the U.S. Most of these individuals are found in urban areas. Many have psychological problems and are on the streets, in part, because the funding for mental health institutions in the U.S. has been drastically reduced. Each major American city has shelters for the homeless, and a federal program provides both transitional and group homes for those using these shelters.

Our public housing program has been in existence for more than 50 years. Largely funded by the federal government, there is a long waiting list for public housing. We also have a subsidized housing program, known as Section A. The main program provides money to landlords. A tenant pays 30 percent of his or her income as rent, and the government pays the balance. Because this program reaches those who have as much as 80 percent of the median income in their areas, a great many families are eligible for Section A. Because this program became so expensive, however, President Reagan shut it down to any new applicants. As a result in terms of new players, it has been inactive for the past several years. A sizeable portion of the 1991 housing budget will be used to preserve Section A subsidies for those tenants who have already secured them.

Twenty years ago, landlords agreed to enter into a 20-year subsidy contract with the federal government when they built certain types of housing. These contracts are now beginning to expire and the landlords, who now possess mature 20-year old projects in developed areas, would like to receive market-rate rent. This presents a tremendous problem and one which we have not yet resolved.

Unfortunately but understandably, the U.S. currently provides housing for low-income families by pulling together financing from a variety of sources. Here, we get into the public-private partnership, which is one of the topics discussed at this conference. A commercial bank, for example, will sometimes provide a non-profit, church- or community-related organization, with money to construct or rehabilitate an apartment project or a group of single family homes for low-income families. Commercial banks in the U.S. are now required, under the Community Reinvestment Act, to make public the ways in which they assist low-income families in their communities. Each commercial bank is required to reinvest a certain amount of money in community activities. They are evaluated annually by the regulators on this issue.

Working with the federal and the state funding programs requires experience, yet there have been a number of successful private-sector ventures. The National Housing Partnership, which was established by Congress, built or rehabilitated thousands of units using tax benefits that are unfortunately no longer available under the law. The Enterprise Foundation, which was started by a famous U.S. shopping centre developer, uses profits to develop projects in targetted cities, which are then sold for tax credits. The Local Initiative Support Corporation was established with money from the Ford Foundation and has pooled funds from banks and insurance companies to rehabilitate housing in several cities.

Private-sector initiatives, however, remain very much on a spot basis, and there is no co-ordinated effort in the private/public system.

As I already mentioned, FNMA is the third largest corporation in America, and it buys both single-family and multi-family housing mortgages. It has committed to provide more than $4 billion in low- and moderate-income housing finance, primarily for single-family houses, purchased by moderate-income families. It will provide credit enhancement for the sale of state housing bonds, will buy tax credits and will purchase pools of mortgages originated by local non-profit organizations on low-income housing.

Earlier this year, the Mortgage Bankers' Association entered into an agreement with FNMA in which the latter committed $120 million to mortgages for low-income multi-family housing. That program calls for $20 million in each of the following six cities: Boston, Columbus, Ohio; Minneapolis and St. Paul; Nashville; San Antonio and Seattle. The MBA in turn arranged for groups of mortgage bankers, investors and others in those six cities to solicit and screen the loans.

While FNMA is providing minor concessions on the long-term mortgages, its primary interest is in giving special consideration to unusual loans on usual property types. For example, it will consider forward funding commitments that are virtually impossible to obtain in the private and conventional sector. As well, it will look at single mortgages on scattered-site apartment buildings and will consider very small projects. Despite these concessions, it is difficult to find projects that qualify. The FNMA/MBA initiative was announced in May '90, yet to this date we have only managed to put together six projects for about $11 million. Obviously, we are still looking.

During the '80s, several new ideas have emerged in the marketplace. Many of these are discussed in the background papers for this conference. Adjustable-rate mortgages (ARMs) comprise one of these new ideas. ARMs now represent approximately 30 percent of new conventional loans in the United States. Typically, they include both annual and lifetime caps. The most popular of these is called the two to five cap, with a maximum increase of two percentage points in any one year, and five percent over the lifetime of the loan. Most ARMs have convertible features where the borrower may elect, at a specified time, to convert to a permanent fixed-rate loan.

Buy-downs also emerged in the '80s and are used primarily in the new housing market. The idea here is that a home builder can put up a certain amount of money to buy down the mortgage interest rate for their home buyers over a period of years. We have talked considerably in our country about using Individual Retirement Accounts (IRA) for downpayments in much the same way as some of you are proposing to use your RRSPs. Shared appreciation mortgages have also emerged, as have reverse mortgages.

We in the U.S., are always dealing with new and innovative programs and it is obvious from reading the background papers of this conference and studying your programs that you are as well. I do not think, however, that our countries have come up with all of the answers to our affordable housing problems or the best manner in which to attract capital for our housing projects. It is the challenge of these difficult issues that make our industry so exciting and challenging and keep us alert, alive and dynamic.

An Overview of Public/ Private Partnerships with Special Emphasis on the Role of Government

By Michael Geller
President, The Geller Group

For many years, perhaps too many, we have been operating on a certain track – sometimes deviating – with governments making funding available in ever-increasing amounts to other levels of government, to non-profit groups and to the private sector and consumers. Now the time has come for us to change gears. This morning I hope to provide some advice about the direction governments should take, particularly concerning the private and non-profit sectors.

To a large extent, the problem is that our world is narrowly defined as the city in which we live. While the Minister and CMHC have a more national perspective, for most of us the housing crisis is more narrowly conceived: what are we going to do with unsold condos in downtown Toronto; or how are we going to deal with immigrants in Vancouver moving up the market? We forget that, in many parts of the country, that same housing crisis does not exist.

On the other hand, different ideas and innovations are certainly valuable. In fact, often I find that some of the most interesting things are taking place in parts of Canada where conferences are rarely held – in New Brunswick, in Winnipeg, and so on.

But let me digress somewhat from this point and raise the question about what we mean by "public" in the phrase public/ private partnerships. Certainly, we think of governments, and the federal government has played a very significant role in housing, which goes back to the post-Second World War with the Veterans Housing Program. Public housing was also the result of federal government initiatives. Most interesting is that the government recognized they could no longer build and own these projects, that it was important to bring others into play. Thus, in the '60s and '70s, we saw the introduction of new programs that brought in the non-profits and co-ops, and many of the provinces, to play a more significant role.

An ensuing problem in those initial years for industry associations such as the Urban Development Institute (UDI) was to watch non-profit and co-ops, which they regarded as relatively inefficient groups building housing often for groups they thought could be housed in projects built and operated by the private sector. I know of one Vancouver developer who was upset that a co-op was being built across the street from his condo and stealing away potential buyers. At least, that is how he saw it. Do not get me wrong. I think the co-ops and non-profits have played a significant role and delivered a considerable number of units.

Notwithstanding, the government did not ignore the private sector. An interesting array of programs have been developed, including AHOP, which has been much maligned. In British Columbia, AHOP focussed attention by reducing the price of housing. AHOP came in at a price limit of $47 000 at a time when most new houses cost between $50 000 and $55 000. Yet, using innovative ideas, builders were able to bring down the price because they wanted to make housing work within that government program. While a lot of people may have got hurt in Alberta, a lot of people in British Columbia are living in homes today that they otherwise would never have bought in the absence of AHOP.

Other interesting programs were the various rental programs, going back to the Limited Dividend Program, CRSP, ARP, MURB and so forth. Although these rental programs certainly helped, they also hindered. As with some of the social housing programs, the development industry became addicted to them to the point that, when the valve was shut off, so did the housing supply.

Some people attribute this to the resulting market distortions. But we also became used to buying on sale: if there was no sale, then we were not buying.

Now we are having to break the addiction that we developed during those years. In recent years, CMHC has pulled out of directly delivering and funding the programs, with the provinces assuming more of a direct role.

CMHC is now tackling other initiatives, such as the sponsoring of this conference, the ACT Program, which is encouraging a review of regulatory reform, and research and demonstration programs. Federal funding as it has existed is not going to continue. That so much of the federal money has to go toward funding older projects or projects that have already been committed is a serious problem for CMHC. I suspect that when we look at partnerships, we should be looking not only at what we'll do with new housing but what we can do with some of the existing housing.

We cannot, of course, ignore other levels of government. Some have argued that the provincial government has tended to try to emulate the federal government; but the provincial governments would argue that they develop programs the federal government then emulates. The fact is we have seen a variety of unilateral provincial programs.

Municipal governments have also taken an active role in housing, particularly because of their having an important resource, land. On the other hand, people in this room might argue that municipal governments have played as much a role in retarding as they have in encouraging the development of affordable housing.

That is something that will have to change. One way might be to look to the regional government. In Vancouver, for instance, the regional government there used to have planning powers until one of the projects, a favoured project of one of the Cabinet ministers, I might add, was turned down. The minister abolished the planning function in regional government. A recent study of the regional government involved a review of development controls as they relate to the development of seniors' housing, not unlike the ACT Program. More and more, I believe the problem of getting housing built comes down to getting approvals for developments.

As for the private sector, which is as diverse as the public sector, my first comment is that the developers invariably get blamed for rent increases because people fail to understand the different players involved: the lenders, the developers, the landlords, people who simply invest in housing but have no interest in building it, people who like building it but have no interest in owning.

Down the road, other important players will be involved. I have always been surprised that the Canadian Manufactured Housing Institute and manufacturers have not played a more important role. I suspect they will in the future. Renovators are certainly going to play a much more important role, if only because it is going to be so difficult to build new housing projects. Other key players will be those who administer pension funds, as well as the private homeowner, collectively known as the public. I hope we collectively agree that people who are well-housed cannot be permitted to make all of the housing decisions for those looking for homes.

Then we move to the third sector. We all talk about public/private partnerships, but, as somebody mentioned yesterday, the third sector – non-profit groups, charitable, ethnic-based organizations and community organizations – has played a significant role. Although this sector too has become addicted to government programs, it brings some very important qualities to future partnerships. For one thing, some of these groups (churches, societies, legions) own land. This is very important in the equation, especially if one is trying to bring down the cost of housing. For another thing, they also have credibility, maybe not in the land developer's eyes, but with governments and with the people they are trying to serve. Third-sector groups also have an expertise that cannot be ignored. Some extremely sophisticated non-profit developers have emerged across the country. They also have volunteers, who are prepared to do things for nothing – an important ingredient in the ongoing management of projects. Finally, their clientele consists of people who have a sense of allegiance to their projects.

If we are going to bring these groups together – non-profits, governments, private sector – we are going to have to eliminate some myths. For example, developers' view of non-profits are that they are inefficient, inexperienced, only interested in housing the poor, always vote NDP and are wasteful. Non-profits' view of developers is that they are crass, greedy, only interested in themselves and without any public purpose. And the view by both developers and non-profits of governments is that they have to come up with the money. The reality is otherwise: additional government funds are not forthcoming anymore.

There is agreement on several fronts, however. It is becoming increasingly difficult for non-profits and the private sector to get housing projects, even seniors' projects, approved because of municipal concern about community opposition, especially since such opposition has become camouflaged by a concern for the environment.

So, how do we, collectively, make things happen? Certainly paramount in my mind is the need to first break down the barriers among the various sectors. We also have to rethink the various forms of housing tenure.

We all have different views of what constitutes a condominium. And when we think of co-operatives, we think of CMHC-sponsored low-income projects occupied by people with long hair who vote for the NDP. If I were to visit New York, however, I would find that the commonly held opinion of a co-op is that it is a luxury form of housing on Park Avenue. When I was growing up in Toronto, the rich people lived in apartments on Bathurst Street; they were not condominiums but rental housing.

Perceptions play such an important role in our lives.

The point I am trying to make here is that many future opportunities lie in our abilities to break down the notions that non-profits build co-ops, that governments build rental housing and that the private sector builds condos. Some of the most interesting projects today involve non-profits building condos, the private sector building co-ops and the private sector, in association with pension fund groups, building rental housing.

For those of you who have visited Vancouver, I remind you of the south shore False Creek development, which was assembled by the City of Vancouver, whose idea it was to build a new community by leasing land and getting private and non-profit housing built on it. The private housing stock took the form of condominiums. People in Toronto who were told about this said that condominiums cannot be built on leased land in Ontario without getting complicated air rights. There is no reason why we should not be able to. In B.C., the law was changed to make sure it could be done, and CMHC found a way of insuring the loans.

Leased land was a new concept for the non-profits, but the potential was tremendous for reducing the initial cost of the housing. To improve the appeal of leases, the city quite wisely offered potential residents three choices: to repay the lease up-front for 60 years; to assume a lease that was tied to the cost-of-living index; or to gamble and assume a lease tied to the market conditions, on five-year intervals. Leases were made acceptable because of the manner in which they were marketed and because of the opportunities they afforded in terms of where one could live.

In the same development, the university non-profit building society wanted to build condos for people who already owned homes, but who were considered an important part of the community's socio-economic mix in the community – the overall concept being that no-one wanted False Creek to be one socio-economic group. To accommodate this request, the province agreed to a modest write-down on the land lease and CMHC insured low-ratio loans. The loans were restricted to $30 000, the objective being to attract people who already had equity but had low or moderate incomes. The province also imposed restrictions on the size and price of the housing.

These types of initiatives do not cost any money, but they certainly get across the idea that a person can live in 1 000 square feet and in a house that costs $99 000.

In a MURB development, the city leased the land to a company on condition that it made 30 of the 140 units available to a non-profit co-operative, which would manage those 30 units. The units were scattered throughout the development. This scenario occurred in two situations at False Creek.

I want to emphasize that these were new programs, designed by the city in concert with the federal and provincial governments to try to meet a segment of the market that was not being served under the traditional government programs.

I am not pretending we can accommodate the very low-income people when we talk about eliminating government subsidies. I am suggesting that a whole segment of the market, people who are not in a position to afford a market house, has been virtually overlooked for many years. For a variety of reasons, these people do not need full government assistance or do not want to live in full government-assisted housing. When we talk about public/private partnerships in the ensuing years, we should think about this segment of the population, which could benefit most from some of the initiatives I have enunciated here today.

In the City of Vancouver, several new programs are currently being administered. Some of you may have read about the Vancouver Land Company (VLC) properties, which is a private developer's initiative that has some support from the mayor. To build housing, the developer and mayor pulled together as a board of directors all the people who normally do not talk to one another: a labour leader, a developer, citizen representatives and pension fund representatives. The board's mandate is to build private rental housing where rents are tied to the cost of living, leases are guaranteed for 80 years and assurances have been made that the units will not be sold off as condominiums. A group of sophisticated investors and businessmen think they can make this proposal work, and have received assistance from the provincial government in the form of an interest buy-down under a current rental housing program, which is currently available to everyone.

The City of Vancouver has agreed to lease the land at a modified market rate, with the payments graduated over time and based on the overall economic performance.

Intended to deliver 1 200 to 2 000 units, the VLC program was somewhat of a political initiative because the City of Vancouver, with the City Manager serving on the board of directors, leased the land to this group without going through a public tender process. However, the understanding was made that the same deal will be available to other developers.

Although the program has taken some heat from various critics, it is accomplishing something – it is producing market housing. And if people want to rent supplement some of the units, they are welcome to do so.

Another program operating in B.C. is the Neighbourhood Stabilization Program, which is intended to provide housing in existing communities for people currently living in single-family homes who want to live in multi-family housing. As a developer active in the rezoning of these neighbourhoods, I can tell you the private sector had a difficult time to get community acceptance for multi-family, even for three- and four-storey buildings. The mayor suggested that we let people who live in those communities initiate the projects, with the city leasing the land at market rates. The community group is responsible for putting together a form of housing that combines care and shelter with self-contained apartments. Congregate housing is one name for this form of housing. But let me digress slightly to state that the private sector has discovered it cannot deliver congregate housing at a price seniors are "prepared" to pay. But I believe a segment of society could be served that otherwise would not be served through such an initiative where the expertise of a private developer building a project is combined with the willingness of a non-profit group owning and managing the project.

We have gathered here at this conference to talk about co-operation. And I tell you today, it is not an option. It is probably the only course open to us if we are to continue to supply housing to those who cannot afford full market housing. How do you make co-operation happen?

One idea is that we have to stop thinking of housing as a Lotto 649 ticket, as a speculative investment.

Another idea is that we need to join each other's clubs. For example, an application for membership in UDI from a non-profit society was recently accepted. Private developers must find out what is going on in the non-profit sector. How many of you have ever heard of CHRA? There is a major group, which holds conferences, is as interested in developing housing as the private sector and is experiencing similar problems.

We all need to find out what is going on throughout the country. Very few of us probably know about the very interesting projects that Peter Trites, the Minister of Housing in New Brunswick, is putting together. A couple of years ago, I had the privilege of judging CMHC's Housing Awards Program and discovered some interesting things being built across Canada: a seniors' housing project combined with a school because there were not enough classrooms to make it a school and not enough seniors to make it a seniors' project.

We need government initiatives, and I am not talking just money. Make available start-up funding to a group, then when the project gets going ask for the money back. Sometimes just getting started is what is so important. Or provide some rent-geared-to-income subsidies or, at the municipal level, a preferential land lease. These initiatives may be all that are needed to make a project happen, a project that 10 years ago would have received $600 a month in federal-provincial subsidies.

We also need to recognize the people who do good things. The *Toronto Life* article on do-gooder developers probably did as much to draw positive attention to those in the private sector who are motivated not just by money but by a broader need to serve the community.

The Role of Philanthropy in Public/ Private Partnerships

By Allan Gregg
President, Decima Research

The objective of the second day of this conference – encouraging partnerships between the public and private sectors in the challenge of housing Canadians – suggests innovation and commitment being adapted to meet the needs of a changing society and changing circumstances.

In recent years, our country has undergone profound change at the level of public opinion – change far in advance of that which we are witnessing at the institutional level, at the level of government decision-making, at the level of service sector financing and, arguably, in the entire area of housing.

At the root of this change is the way in which Canadians view themselves and their responsibilities to others, as well as their expectations with regard to government, business and the voluntary sector. As Canadians look at their community responsibilities in a different light, their combined response will call for an increasing merger of private interest with the public good.

A famous historian once described our Canadian identity as the narcissism of small differences. As we look – with a certain vanity – into the reflective mirror of the United States, we often define ourselves in terms of what Americans are not. Where they experience war, we find peace. Where they have racial tension, we practise tolerance. Where they exhibit mean-mindedness, sectarianism and conflict, we are charitable. Looking at studies of Canadian identity, this is, in fact, the case. We see ourselves as being more charitable, more tolerant and more pacifist than other countries in the western world.

That is hardly the stuff of hairy-chested nationalism, but it is our identity nonetheless. What we find in the course of our research, however, is that our experience is increasingly at odds with the perception we have of ourselves. Thus, while we see ourselves as unique and different within the mirror of the United States, our lives are becoming increasingly the same. The difficulty of owning a home in this country is greater than that reported in the U.S. The incidence of robbery and violent crime in our two countries today is virtually the same as is the ability to obtain illegal drugs.

If our image is different, yet our experience is the same, something must give. Over time, we might succumb and conclude that we are exactly the same. More likely, however, we will experience a period of significant introspection in which we come to understand that if we really want to be different but are increasingly becoming the same, we had better start doing some things differently.

Through our research, we have found that when it comes to charitable behaviour – as opposed to charitable attitudes – we find ourselves wanting in comparison with our neighbours to the south.

In keeping with our self-image, we find Canadians understand, or at least have an understanding of charity on a moral level. In a survey carried out for the Canadian Centre for Philanthropy, when it was suggested that if more people were generous with their time and money, we could meet a great deal more of our community needs, 84 percent of the Canadian population agreed that a link exists between individual charity and benefit to the larger community.

In response to the vested-interest suggestion that it is important to give to the community because you never know when you might need help yourself, the same survey found 86 percent of the population in agreement. This can virtually be considered public opinion unanimity.

Similarly, when we asked whether the population believed that a goal of giving 1 percent of pre-tax income to charity was "too low," "about right" or "too high," almost 80 percent of our respondents felt that was a reasonable, if not a "too low" level. And this charitable mindedness runs throughout most of the population.

But then, when we asked these people if they had donated in the last year, we found that 16 percent had given nothing at all. Half of the remainder had given less than $42, with the lion's share of the gifts registering in the area of $10 to $50. It is easy to write this off as simple hypocrisy. Canadians have generous attitudes, but in the final analysis they are embarrassingly miserly.

However, when Canadians are asked if they are willing to give more than they have, four in 10 answer affirmatively.

It is when we look at where these people are giving that an explanation and a pattern begin to emerge. The most frequent display of charitable behaviour for Canadians is demonstrated at the doorstep. Following the doorstep is the place of work, the collection box, a friend or a neighbour. Thus, what we see over and over again is charitable giving by virtue of doorstep ambush. The only time the average Canadian is asked to respond in a charitable way, to translate this generosity of mind into generosity of act, is at the doorstep. And they almost always respond charitably. They give to the Heart Fund, to the Cancer Society, to the Salvation Army, because this is who comes to their door.

Evidence of this pattern increases as we look at how people treat philanthropy as part of their day-to-day life. Almost two-thirds of Canadians budget for groceries, rent and car payments, but only 17 percent budget for charity. It simply is not one of the lion items they sit down and review. Thirty-six percent think about their donations before they make them, which means that 64 percent do not. They give with absolute spontaneity.

While 53 percent of Canadians give to the same charities on a regular basis, 47 percent give by virtue of random probability. What is most interesting here is the difference in the frequency of giving and the amount of the gift based not on what the majority does but what the minority does. Those who budget, that small group of 17 percent, give seven times more than those who do not budget. Those who think about their donation give five times more than those who do not. And those who give regularly to a charity provide gifts that are three times more generous than those who give on the basis of random chance.

The most obvious explanation for these differences – that is, the nature of the decision to make a gift and the pathways through which the gift is made – is evidenced in the experience of religious-giving. Those who give to religious causes give 300 percent more on a median basis than those who give to non-religious causes.

This is not related to religion *per se* but rather to the fact that collection is organized through an institution and conducted on a regular basis with some notion of moral good or beneficial end result. What this research showed us is that those who are interested in encouraging philanthropy of the population are knocking on an open door in dealing with Canadian attitudes. In other words, quit drilling, you have struck oil. Eighty-six percent of the population agrees with the charitable proposition. The gap between the charity-mindedness of the Canadian population and its behaviour is a result of the unstructured pathways and conduits through which we look for donations. The success of the United Way with payroll checkoffs again is evidence of this. Similarly, corporations that introduce employee programs to solicit donations find 10 times the amount they do compared to when these pathways and conduits remain unstructured.

The pattern we see for the population in general is reinforced in corporate Canada. Sixty-nine percent of big business CEOs are prepared to define themselves as at least somewhat if not very generous.

Fifty-two percent of individuals running medium-sized businesses perceive themselves to be similarly generous. Ninety-four percent of big business CEOs believe they have some, if not a great, responsibility to the community, while 76 percent of those running medium-sized businesses agree that that responsibility exists. On the specific issue of philanthropic- or charitable-giving, virtually 90 percent of big business CEOs in Canada and 79 percent of those running medium-sized businesses claim that this is, at least somewhat, if not very, important.

The same pattern of giving exists in corporate America. For large corporations, the average gift is $330 000, although the median is significantly below that. In medium-sized businesses, the median amount is only $3 000, although the average is higher. Fifty percent of medium-sized businesses give less than that amount. The key to explaining the differences between companies is not variations in perceived generosity or responsibility or the importance attached to giving, but with practices, pathways and policies that make philanthropic-giving a part of their business decision-making and business operations.

Eighty-one percent of big businesses have policies and procedures governing charitable donations. A slightly larger number have a studied budget. As we would expect, in medium-sized businesses, the numbers are significantly smaller.

Thus, we see a population that is charity-minded, that is prepared to make an effort and accept increased responsibility for the communities in which they live and operate, but a widely underdeveloped distribution network that does not capitalize on the generosity of Canadians. Those who are involved in the game are currently trying to improve this situation.

In determining what it is that the population expects in this regard, we asked Canadians how important they think it is for business to be involved in various activities and the importance of each of these activities. The number one priority for Canadians is support for those causes seeking cures in the health care area. Second is assisting the disadvantaged in the community. Third is support of hospitals and health care services; fourth is environmental concerns; fifth, post-secondary education; followed by the promotion of amateur sports and fitness, supporting projects to Third World countries, promoting social causes independent of the other areas looked at, helping to meet spiritual and religious needs and, at the bottom of the list, supporting the arts and cultural pursuits.

In our studies of corporate philanthropy, two things stand out very clearly. First, the broader the application of the philanthropic effort and the broader the application toward widespread social benefit and betterment, the more supportive the population is of these activities.

Second, the Canadian population could be described as "cynically enlightened." They are cynical because they understand that the corporate community's generosity is not a function of charitable motivation. They make donations to improve their public image and, in the end, increase their share of the market. Their enlightenment is intriguing. Because, while they have a clear understanding of the motive behind corporate activity, they see nothing wrong with it. In fact, they concede corporations who are visibly involved in charitable activity are smarter than those who are not. Given the choice, Canada's cynically enlightened population are much more willing to patronize a smart company than they are a stupid one.

They recognize that MacDonald's involvements with Ronald McDonald House and March for Dimes are deliberate schemes to make them feel less guilty about letting their kids eat fast food. At the same time, however, they believe that because

MacDonald's is involved with those charities, they probably do care about the quality of their fast food and deserve to be patronized. Thus, broad-based societal applications to the act of giving are linked directly with consumer and corporate benefit.

We have seen some remarkable changes in this country over the last decade, and change does not occur in a vacuum. Decima Research has been monitoring the public mood using three aggregate indicators. The first is national satisfaction: how satisfied the people are with the operation of the system; how they are describing the economy today; how satisfied they are with the direction in which the country is headed. The second indicator is personal satisfaction: how satisfied Canadians are with their own personal circumstances. The third is economic expectations. Like the others, this is a composite measure, but one that taps into levels of optimism and pessimism expressed specifically with regard to the future.

If we go back to the early part of the decade, we see that Canadians looked at these three things in very different ways than they do today. They were significantly more dissatisfied than satisfied with the operation of the system, but most felt that, by and large, their circumstances were a lot better than those of others.

In contrast to that negative assessment of how the system was working and the kind of neutral assessment of how people were doing personally, we saw a population that was widely bullish and optimistic about the future. They simply felt that our potential was being wasted. The world was not as good a world as it should have been. Aspirations fell short of achievement.

By the mid-1980s, the personal satisfaction indicator surpassed the economic expectations indicator as an increasing number of Canadians described their personal circumstances in more positive terms than they did their expectations about the future. And at the close of the decade, the national satisfaction indicator and the economic expectation indicator began to coincide for the first time as significant portions of the population began to feel the system was operating as well as it would in the future. What we witnessed at the end of the decade, however, was a crash of expectations, and with it a shift away from emphasis on quantity of life – give me more – and toward quality of life – give me better.

Upper- and lower-income earners came to the same conclusions from diametrically-opposed perspectives. The upper-income earner's unbridled quest for more material goods appeared to be satiated. They are no longer working themselves to the bone to get that BMW. Their priorities are changing, and other things are becoming more important.

Meanwhile, lower-income earners were saying, who is kidding whom? I am never going to get a BMW. But someone better fix our health care system so I can at least have dignity in sickness, if not health. Someone better fix the education system so my children can have the opportunities that are increasingly being denied to me.

For different reasons, both ends were coming to the same basic conclusion: better rather than more. When we ask people, in these times of economic anxiety, to indicate what they believe is the most important problem facing the country today, the number of people citing the economy dropped from more than 80 percent of the population to less than 40 percent. More than 60 percent are now citing non-economics. This is not supposed to happen. Conventional wisdom tells us that these soft concerns only exist in times of economic prosperity. As economic anxiety increases, people must once again look at bread-and-butter concerns.

So much for conventional wisdom. The concern that is receiving the most attention today is the environment. In a recent survey we asked whether in the past six months concerns about the environment have resulted in "major," "minor" or "no real changes" to the way people live. In just two-and-half years, the number who claim "major changes" has doubled. The number who say they have made no changes has fallen by 60 percent. We believe, however, that this is just one concern in a basket of social issues that reflect a complete re-alignment of our value system. Again, we asked a very simple question: "In the last few years, has your family become more important or less important to you?" Eighty-seven percent reported that their families had become more important.

Part of that basket of social concerns, which has drawn virtually no public attention, is a pending crisis in our cities. We asked people where they are living: "in the core area," "the downtown area," "a major urban centre," "a town within 100 miles from a major urban centre," or "on a farm?"

And then we said, "Forget about where you are living. Given a choice, where would you prefer to live?" Then we looked at the correlation between these two questions. We found that 41 percent of Canadians who live in the urban core of either Vancouver, Montreal or Toronto would choose that location above any other. Fifty-nine percent, or six out of 10 people, would prefer to live elsewhere. The 41 percent who would choose to remain where they are include mainly the very young, the very old, the very wealthy and the very poor. What we are looking at is the prospect of the Manhattanization of our three major urban centres, where those who live there include those who can either afford to deal with the vaguaries that are prompting the 59 percent to want to leave, or those who cannot, by virtue of circumstance, afford to leave.

In terms of community life, the majority of people polled feel that, if anything, things have changed for the better. Listed as areas of improvement are recreational facilities, the community as a place to raise a family, senior citizens' care and facilities, the community as a place to retire and the friendliness of people.

This is interesting because three of those items – "a place to raise a family," "a place to retire," and "the friendliness of people" – are the best proxy indicators for how happy people are with their community.

Other community improvements include: "quality of the police force," "availability of child care," "quality of post-secondary education," "availability and cost of health care," "availability of waste disposal and management systems" and "quality of grade-level education." In combination, these two lists basically deal with infrastructure considerations. People feel that, if anything, their community "hardware" – schools, hospitals, day care, seniors' care – is better than it was before.

With the next list of items, things begin to get worse. It is in areas such as "safety from physical harm," "quality of drinking water," "quality of air," "number of poor and homeless," "behaviour of youth," "safety from pollution," "availability of rental accommodation," "incidence of violent crime," "illegal drug-use problems," "cost of rental accommodation" and "cost of owning a home" that people see a deterioration rather than an improvement.

And a pattern emerges. Community infrastructure has improved, but the social and moral fibre of the community has deteriorated. Included here is the elusive dream of owning a home or securing reasonable accommodation.

The reason Canadians believe their communities are still a good place to retire and to raise children is because the social and moral decay they see occurring is not yet in their backyard. The crisis is only pending. Over the next decade, when it does move into the backyard, we might well see a mass exodus from our cities.

Put into context, the challenge facing our communities is overwhelming. Historically, city problems have always been related to infrastructure – our bus system does not work; we need a new domed stadium; we have a ghetto – and their solutions were always infrastructure solutions – build this, build that, build the other.

Today, the problems facing cities are of a moral and social nature, and these cannot be solved with feats of legislation. Governments cannot bring in legislation that says, "Thou shalt not swarm. Just say no." What teenager has ever responded to just "say no?"

The irony is that, while many people believe the infrastructure has improved, many are prepared to cite that particular improvement as the cause of the social and moral deterioration of our communities.

Many people feel it is time we stopped development. Others believe that kind of growth and development is necessary in order to maintain our prosperity. And, with a post-war ethos that says progress and development are normal, we find half of the population saying that they must stop. Anyone trying to build or develop anything today – be it a dam, a bridge, a road, a waste disposal facility, a low-income housing project – will find a constituency that says no and even a larger constituency that supports them.

As if this is not enough, we find that people no longer have faith in the traditional initiators of community-level solutions. When asked who best understands the concerns of the public, 11 percent chose the government, 16 percent chose business and 70 percent chose the voluntary sector. No contest. When asked who has the most new ideas to solve our social problems, the voluntary sector received 60 percent of the votes while government and business received only 16 and 19 percent. In terms of setting social priorities, while 25 percent felt the government could be trusted most, 51 percent looked to the voluntary sector. While 39 percent found business to be the most efficient, 48 percent chose the voluntary sector. And, with regard to who is the most accountable, 48 percent again chose the voluntary sector.

"Who has done the best job of solving local problems?" – the voluntary sector is still ahead at 43 percent, although the government received 31 percent of the people's confidence. Interestingly enough, there is a three-way 30, 30, 30 tie for "who is best able to plan for the future?" "Who are the best managers?" – no contest, the private sector at 55 percent. "Who knows how to use technology?" Again, 58 percent chose the private sector.

As far as Canadians are concerned, no one pillar of society can solve all the problems facing our communities. And this means that partnerships are absolutely essential. Without partnerships, those who believe we have a responsibility to continue to develop and build will find public opinion so resistant that these goals will be virtually impossible to achieve.

With the development of more structured pathways and conduits, public and corporate charity and philanthropy can be mobilized in support of these partnerships. To guarantee that private interest is consistent with the public good, we will have to reorder our thinking. Good marketing can work in combination with good morals. There is a common will to move forward, not alone, but together, in conjunction with our other partners in society.

This is a tall order. It will not be easy, but it can be done.

The Role of Self-Help in Public/Private Partnerships

By Mimi Silbert
President and CEO
Delancey Street Foundation

I run an organization that has faced many of the problems we are discussing at this conference. The people who come to Delancey Street are essentially those at the bottom of the barrel. Our average resident has been a hard-core substance abuser for 10 years, has been in and out of prison four times, is unskilled, is functionally illiterate and has never worked – even at an unskilled job – for as long as six months. In other words, our residents tend to have every anti-social skill in the books.

We spoke earlier about the issues of responsibility and change as being two things most people struggle to avoid. For the residents of Delancey Street, avoidance has become a fine art. These people have refused to take responsibility for anything in their lives – indeed, for their lives themselves.

When we founded Delancey Street 20 years ago, we realized that we would be dealing with very troubled people. Rather than provide them with typical programs for people in trouble, we decided to take a different approach and devote our efforts instead to changing their lives. This would entail taking people who were essentially on the outside of society and moving them into the mainstream. To do this, we knew that our residents would have to have a stake in whatever "desirable" things the mainstream had to offer.

Thus we created Delancey Street as a "self-help" organization. To change our residents and integrate them into the mainstream of society, we would have to instill in them a sense of responsibility. This meant we would have to start developing in our residents the attitudes, values, morals and skills of mainstream society.

Today, we are almost one thousand residents strong. We have no staff. We receive no outside funding. All Delancey Street residents must receive a high school equivalency. They must learn three marketable skills. In short, they must make a commitment to change their lives. There are many ways in which our residents are enabled to live up to their commitment, but every one of them is achieved through the efforts of the residents themselves.

Delancey Street operates on a each-one-teach-one ladder system. In the education process, for example, if a resident is reading at the 12th grade level, he or she is tutoring another resident who reads at the 10th grade level, who is tutoring another reading at the 8th grade level. If a resident has been with us for two years – which is our required minimum stay – then he or she is helping another resident who has been with us for 18 months, who is helping another who has been with us for 15 months, and so on all the way down. In this way, although we have no recognized, paid staff positions, everyone at Delancey Street is essentially a staff person, with the exception, of course, of the last person through the door, whom everyone is helping.

Our idea is that people learn more by teaching others; that they grow more by helping others grow; that, in fact, people develop their strengths by doing things rather than having others do things for them.

Having initially said we would take anyone in trouble who was prepared to follow our stringent rules, we became so popular that by our 70th year, we found we were turning away 90 percent of the people who were coming to us for help simply because we did not have the space to accommodate them. The reason for this overwhelming demand was our incredible success rate. For 17 years, we had been managing to turn around a group of people who, without Delancey Street, rarely ever had the opportunity to get their lives back on track. Remarkably, our graduates were living successful, meaningful, legitimate mainstream lives and having a positive impact on society.

At this time, we were serving 350 residents at six locations in the San Francisco area, and it became clear that if we were to continue as an organization dependent on a sense of community, cohesiveness and interdependence, we would need to establish one large, centralized housing facility somewhere in the city. At the same time, we wanted to double our capacity. Obviously, there were not a lot of places available in such a highly developed city that could house 700 large, snarling ex-felons and be happy about it. There was simply nothing that large available. And it was not just a matter of housing. We needed space for our groups to meet and for recreational purposes. And we needed space to facilitate our schooling efforts.

To teach our residents marketable skills while at the same time earning money for the group, Delancey Street runs 11 different vocational training schools. We pool the monies earned by residents in the course of their skills training, and this central fund pays for the needs of both the residents and the organization itself. This has allowed us to achieve and maintain our status as a self-supporting organization. In this way, Delancey Street operates essentially on a kibbutz model: we live like a family, working as hard as we can, earning as much as we can, and we spend as little as we can get away with.

When we began, the organization used my salary to get by – I was the only one making any money! But we doubled our earnings every year. And without ever being leveraged up, we soon owned most of our properties outright. Today, we run a moving company, a number of sales companies and an automotive service centre.

Our construction company – although we could not really have called it that at the time – was established in 1972. One of our residents at that time was an inner-city teenage prostitute. Her mother had been a prostitute; her sisters were all prostitutes. We desperately wanted this girl to return to school but knew the public school system would not be appropriate for her. So we approached all the private schools in San Francisco and offered them a trade. We were a small group then. We had no money, but we had 40 able-bodied individuals who were willing to work. One of these schools responded positively to our offer: our services in exchange for their acceptance of this young girl on full scholarship. Our end of the deal was to paint both the inside and outside of the facility and to build a "kindergym" for the younger children.

As a group, we had no experience in construction whatsoever. Undaunted, I went to a local library and found a "how-to" magazine that described the steps involved in making this kind of structure. I read the article to our residents, emphasizing the important words, and our people built that kindergym. Such were the humble beginnings of our construction company.

In the years since, we have purchased and renovated a number of "white elephant" properties – places that are so run down no one else will touch them – and we progressed in this way. Despite our success in this area, however, we were by no means ready for the "impossible" project that we undertook three years ago and the focus of my address today – "the underground up" construction of our own 380 000-square-foot facility.

When we realized that there was no built facility in the city that would contain us, I searched San Francisco for suitable land on which one could be erected and found several acres of waterfront property slated for redevelopment.

Having found a suitable location, we were now faced with a number of what seemed to be impossibilities.

In the first place, we were and still are a non-profit organization – and we take that very literally. In its 17 years of operation, Delancey Street had never even opened a savings account. There had never been any need to do so – we had never managed to save a nickel. Whatever monies we earned we used to support the organization.

Disregarding our impossible financial situation, however, I came up with a basic design of the facility we wanted built and found an architect who was willing to donate some of his time to turning the design into a workable reality. We then approached a general contractor for a building estimate. He costed it out at $30 million. Thirty million dollars! We did not even have 30 dollars!

Obviously, that option was completely out of the question. If we wanted our facility, we had only one choice: we would simply have to be our own developer and our own general contractor and build it ourselves. We would love to have had an established partnership for this project. It would have been wonderful had the government, a major corporation, a bank or a redevelopment agency come to us and said, "We are really anxious to try something new with you and undertake this sweat-equity project, particularly because you are working with completely unskilled and inexperienced people." Unfortunately, it did not happen that way.

In all the cities in which we are located, we are a much-loved organization. We do not ask for government funding. We teach responsibility. We make these unaccountable people accountable. We are strict. We are tough. We have never had an incidence of violence. We have never had an arrest. We are just firm and good. We are giving. We are open. We are communal. And we are caring for people who no one else wants to care about.

Then, after 17 years of decorated self-sufficiency, we had to ask for something. And no one came forward. At least, not initially. As the project progressed, however, everyone rallied around us, and we could not have seen construction through to completion without this support. When we began, however, the redevelopment agency informed us that we could lease the property at market value provided we got the unanimous support of the other developers who were going to build on that parcel of land.

Well, you know the phrase by now: NIMBY – Not In My Backyard. We have had to face it in every area we have located. Initially, people are very reluctant to have us in their neighbourhoods. In the final analysis, however, they are always happy because we work hard to ensure that the two things NIMBYs worry about most – that crime will go up and property values will go down – are reversed. We take great care of our properties, and the surrounding property values increase. We patrol the neighbourhood, and the incidence of crime decreases.

In this case, however, we were dealing with a new neighbourhood; one that was just being developed. One in which developers were going to have to attract new people who were willing to buy and rent at market rate. Understandably, the uninformed developers were afraid that with our project in the neighbourhood, their lenders would refuse to lend, and their buyers and renters would refuse to buy and rent. This was the first round of opposition we encountered.

Because I spend my days teaching people morals and values and how to be decent and live their lives with dignity, I tried the "Mr. Nice Guy" angle. This has always been my approach: be nice first and for as long as you can be. So I showed the developers our drawings, and I explained how we operated and all that we had accomplished and how badly we wanted to be good neighbours. It did not work.

Then, one day, I approached them with some statistics. I showed them the number of young upwardly mobile professional people with drug and alcohol addition problems and the increasing incidence of white-collar crime. I told them that Delancey Street had been a drug-free, alcohol-free, crime-free organization for 17 years. And then I told them we were outraged that they were proposing to bring cocaine, alcohol and crime to this new neighbourhood. This did work. The developers changed their tune, and we suddenly found ourselves with their unanimous support.

They eventually gave us much more than this. They gave us their ideas and input. They visited the site regularly and offered us free and valuable advice, but they did something for us that was even more critical. They believed in us. And, in our struggle against the impossible, that belief became central to our success, as I believe it does in all such partnerships.

Having gained the developers' unanimous approval, the redevelopment agency agreed to lease us the land. And then we ran headlong into another hurdle. As it turned out, our property was considered "port land" by the City of San Francisco and, under the city's new growth control initiatives (which flew at the face of a terrible housing shortage and homelessness problem), we could not build housing on it.

We eventually surmounted this obstacle using the argument of compelling state interest – we had saved the state millions of dollars by taking, free-of-charge, responsibility for all their ex-prisoners and turning them into valuable citizens – and ended up orchestrating the passage of a piece of special legislation that allowed us to put housing on the property. We then solicited the free help of countless lawyers who found a legal means to exempt our organization from the city's disallowance while not opening the door for others – namely, movie-producers – to obtain similar, but destructive, exemptions.

We spent months negotiating with the Building Trades Union to build our own home without the use of a unionized labour force before finally gaining their support. And then we came to the biggest obstacle of all – building the structure.

Prior to start-up, I sent one of our residents (who had worked in construction for five heroine-deluded years) to school to obtain his general contractor's licence. He received it one week before we broke ground and that is how we became our own general contractor. We had six people who had worked in construction before, and they became the supervisors of various aspects of the project.

Although we had no money and little skill, we had something that was more important than both of these things: we had an overwhelming and incredible sense of cohesiveness, of discipline and of motivation. We knew that we had to reach beyond ourselves. We were not just building a place for us to live, but we were making a statement. We were showing the world that this kind of project is not an impossible dream, that you can build very low-income – or no-income – housing with sweat equity.

The project was to cost $30 million to complete. We saved $16 million by fulfilling the labour component ourselves. We sold our other properties for capital and ended up with roughly $5 million. In addition, we received one-time corporate and foundation contributions totalling $2 million. After all this, we were still left with a $7 million deficit and an unfinished facility.

I approached our bank of 17 years for financing. After keeping us waiting for six months, the bank turned us down at the highest level. They did not want to assume the risk for a structure that was built by unskilled labourers. What if it fell down? This bank had watched us grow from an organization that did not have a dollar to the point where we were a successful, growing, self-funded group. We were turned down, not because we were a bad financial risk but rather because the activity that we were undertaking was considered to be an extremely risky one. Who wants to be the bank that has to take a building back from struggling former felon drug addicts who have put everything they are and own into it?

We were turned down by seven more banks. Six months into the project, we had spent every cent that we had. I could not tell our people this, however. We were already dealing with a tremendous amount of fear. We had charged boldly forward, having convinced ourselves that we were ready to meet the challenge, yet in our hearts we were terrified that we would fail.

We had one real advantage that I have since come to understand and appreciate. The craftsmanship in our building is superb. We had 300 unskilled people working on that building. They had no experience in construction and therefore had no idea that people "in the know" often cut corners. They did not know that they could do things sloppily. And we did not tell them. Instead, our approach was that we all make mistakes; we all fail. What defines the winners from the losers is that the winners pick themselves back up after a fall. They correct their mistakes. If they hammer a nail in crooked, then they take it out and hammer it in again. If it takes 10 tries to hammer that nail in straight, then they try 10 times. No one told these people that the nail would be covered up with gypsum board anyway and that no one would ever see it. As a result, our building was built to perfection.

So there they were, 300 people, struggling, doing a good, honest, wonderful job, and I just did not have the heart to tell them that we had no money to continue.

I had approached the small, "community-minded" banks for a loan thinking that this was our only bet. But then, just when I was sure the game was over, the Bank of America paid us an unsolicited visit. Ultimately, the bank gave us an absolutely critical $10 million line of credit to cover ourselves in case we could not do everything we thought we could do. The bank also gave us a loan unsecured against the property, a financing option that was very important to us in a philosophical sense. We really believed that once our people had put their sweat and their love into this project, then they deserved to own it. Because we were unable to answer the questions that typically appear on the official forms, our loan was not processed through the bank's real estate division.

The CEO of the Bank of America held a press conference in conjunction with the institution's financial support. Oddly enough, one of the things he suggested we do to raise money to repay the loan was to sell Christmas trees each year on lots throughout the city. He also suggested we sell our tree-decorating services to major corporations and businesses. At the press conference, he noted that it was rather unusual to give ex-drug addicts a $10 million unsecured loan that would be paid back essentially from seasonal Christmas tree sales, but stated that the bank had decided to make a stand and support its community.

In backing us, the Bank of America took a substantial belief and image risk, if not a financial one. As a result, however, the bank made every newspaper in San Francisco, and what began as a motion of support turned out to be a wonderful and desperately needed public relations coup. We both benefited.

Thus, our project, which began under protest and denial, became the object of a tremendous rally of community spirit. Today, everyone involved feels they are responsible for the creation of our facility: the Bank of America, the developers, the union, the corporations and foundations who donated funds, and the citizens of San Francisco who buy our Christmas trees, who use our moving company and who scraped together that "under $50" contribution. Best of all, however, the people of Delancey Street know that they are the ones who really built their own building.

Looking back, I realize now that money is not the only issue. There are other ways of showing support for this kind of project, other ways of assuming risk. I am thinking specifically of the kind of support that can be offered by one group – government or the private sector – or ideally when all the different groups and interests come together in recognition of the fact that there is more than one way to make a project happen and that perhaps some of these other options are worthy of their faith and trust.

If these groups could look beyond what is current and standard practice in the field and listen instead to people who have different ideas; if we could only work together to break down the myths and prejudices that each side holds against the other, then the number of possible solutions to the affordable housing problem would increase. Sweat equity is one of those ideas that bears serious consideration.

In many instances, it is advantageous for people, the poor and hard-to-house in particular, to have the opportunity to be involved in the construction of their own homes. By giving them a stake in what they are doing, we are giving them an incentive and a reason to throw themselves into their work. Our experience has shown that a little bit of skill at the top goes a long, long way toward training those who are at the bottom, those who might not have the knowledge but certainly have the will to learn. And in situations where their own home is involved, it is amazing how quickly these people can learn.

By listening to and believing in one another, we really can make the impossible dream come true.

Panel Discussion and Question Period

By Dan Burns
Commissioner of Housing
City of Toronto

Most discussion about the local government role in the development of housing focusses on its responsibility for regulating development or providing infrastructure. Both of these have a big impact on the housing market in terms of what needs to be financed and how long you have to finance it.

However, in Canadian cities, the large ones in particular, another less talked-about but equally important role is the provision of land to support housing development. In many cases, this is, in effect, a financial contribution. One way or another, it is provided on very favourable terms to help the housing market meet the housing needs of those who are not being served by the private market.

As a specific example, approximately six percent of all post-WWI dwelling units in the City of Toronto occupy land originally provided by the city. Seventeen percent of all housing built in Toronto since the Second World War sits on city land, as does 45 percent of all social housing in the city. Our ambition for the 1990s is to provide even more city land for housing development. Indeed, it is anticipated that we will have to provide the land for at least one-half of the social housing production projected by the city and the province.

Since the 1940s, the way in which municipalities have brought land to the market in support of housing development has changed many times. In the urban renewal era, we tried subsidies, but these projects always ended up in the red.

At other times, local governments have tried to provide land on a below market-value cost-recovery basis. City land has, on occasion, been provided in the expectation of a below market-value return or at below-market rates in order to support housing development for those households not being served by the private market.

For Cityhome to function effectively in Toronto, the city had to provide more than $25 million in land cost write-downs – a form of equity investment – beyond the original provision of $40 000 in share capital. This kind of city support has not, however, been restricted to non-profit or public housing efforts. It has also been used to support ownership and rental housing at various times over the last 40 years.

There is great potential for the cities themselves, the public sector and the provincial and federal governments to use their land creatively to solve the housing finance problem. Specifically, we should look at ways in which we lease and sell land, at the people who purchase it and at the vehicles we use to see that the land is built on.

In the most recent generation of housing activity in Toronto, and I believe in Vancouver and Montreal as well, real interest has been shown in the idea of broadening our land activities beyond social housing and finding ways of working directly with people interested in building private housing. For example, the Vancouver Land Development Corporation (VLDC) model is, in effect, a joint venture between the municipality and investment fund contributors. The city's contribution, or investment, is land. It is an equity contribution, which means that the city opts for a low, and in many ways differing, return on its land in exchange for the creation of much-needed rental housing.

In Toronto, beyond providing land directly to non-profit and co-operative organizations, we are currently negotiating our fifth and sixth joint development arrangements with private-sector developers. Under these agreements, our land represents all of our equity contribution. The end result will be a spectrum of housing, not just non-profit and co-operative, but low-end market ownership and market ownership in city developments that would otherwise have been inaccessible.

The City of Toronto has also entered into another type of partnership, in this case with the provincial government. Ataratiri is a partnership between the two levels of government to provide land to a spectrum of housing builders. It is our objective that these builders will provide rental and ownership housing in parts of the market, particularly in the downtown area, that they would otherwise not have been able to access.

Canada's local governments, especially the larger ones, have generally been willing to use their land resources to meet these kinds of public objectives. The provincial and federal governments, however, have been much more ambiguous in this regard and have vacillated between supporting this kind of use of city land, writing down land costs and treating public land resources as private market resources by selling land at market rates. Currently, the province has virtually split itself in half over this issue. For a portion of its land, it has agreed to do as we do in Toronto. For the rest, however, it is to be used strictly on a market basis.

With the exception of those instances in which CMHC and the current Federal Minister of Housing have been able to exempt land resources from prevailing regulations, the federal government has followed Treasury Board rules, which treat land on a market basis only, with all revenue being returned to the government. If other levels of government could look at land in the same way as local governments do, and were willing to use this resource to achieve public objectives, they could greatly change the financing needs and requirements of builders and developers – third sector or private – in their efforts to reach the entire spectrum of the housing market.

The missing ingredient in the range of issues affecting the housing market, as we have heard at this conference thus far, is the use of public land to support joint ventures and public/private partnerships in their efforts to reach otherwise inaccessible parts of the marketplace.

Martha O'Connor
Manager of Finance
The Trillium Foundation

The subject of private support for public housing is both timely and urgent. Despite overlapping interests and interdependency among the private, voluntary and government organizations that produce this housing, there has yet to emerge a framework to increase much-needed private-sector support. To date, the philanthropic community has adopted a laissez-faire attitude in this regard. There has been little interest in collaboration or co-ordination. Giving funding has been on an ad hoc basis and is closely related to corporate or foundation objectives, with the broader picture being largely ignored.

For its part, the community-based social housing sector has established a dependency on government funding, but, as these monies increasingly fail to meet its needs, the sector is compelled to explore new avenues to fulfill its mandates.

There is a clear need for the delineation of the underlying demands within government, the philanthropic community and the organizations providing housing. The roles and comparative advantages of all those involved must be defined and understood. To facilitate this process, we must have a framework for the exchange and implementation of plans and ideas. This vehicle must allow for flexibility, innovation and quick responses to community needs. In the U.S., the Enterprise Foundation and other organizations such as Delancey Street rely on a bottom-up approach for their success, working primarily at the grass-roots level with non-profit groups. While their formulas vary and their solutions are tailored to fit local circumstances, in every case, community involvement is a prerequisite for success.

In his working paper, Mr. Fallis states that the creation of a local forum or partnership to develop understanding and trust is probably a precondition for private contributions to social housing. He suggests that community-type foundations might be appropriate institutions for organizing this kind of broad-based partnership. Unfortunately, there are very few well-established foundations of this type in Canada today. Those that do exist require substantial funding specified for low-income housing in order to succeed.

The Trillium Foundation model is another alternative that could be adjusted to fit the particular needs of the social housing context. Trillium is Canada's largest foundation and has generated considerable interest in a number of provinces across the country, in the United States and in the U.K. The foundation is an excellent model of a working tripartite partnership between government and both the voluntary and private sectors. The purpose of the Trillium Foundation is to use lottery funds to support and strengthen social services in Ontario.

Originally a grass-roots initiative, the foundation developed as a result of a series of meetings in 1982 between volunteers from nine charitable organizations and the Ontario Ministry of Tourism and Recreation. Although Trillium is funded through government lotteries, it is managed and directed by volunteers who remain at arm's length from the government. At that time, both the government and the charitable organizations involved recognized that, in co-operation, they could achieve something unique in Canada that would service the public interest. As a result of these meetings, it was agreed that a voluntary model, operating in partnership with the government and the private sector, should be developed to address some of the province's very real social service needs. Accordingly, the foundation operates under a board of 25 committed and experienced volunteer directors from across the province. Serving without honorariums or per diems, the directors are aided in their work by an additional 120 volunteers, who are responsible for reviewing requests from their local communities.

As a result of its image within the community as a voluntary organization and because it operates like a traditional community foundation, Trillium is the only government grants body in Canada to be included in the Canadian Directory of Foundations, an annual publication put out by the Canadian Centre for Philanthropy. This directory is a complete and comprehensive index of all private and community foundations and is the access point to Canadian foundations for those seeking grants. With the exception of Trillium, this directory represents community-specific foundations, all of which are listed and operate as registered charities.

The inclusion of Trillium in such a publication indicates that the foundation has gained the recognition and acceptance of the voluntary sector. This acceptance is independent from government and is key to Trillium's ability to wean voluntary organizations of their dependency on government funding and attract monies from the private sector for programs initiated through the foundation's grants. Because the board of directors is autonomous, the foundation meets the needs of both the government and those charitable organizations receiving grants. As well, the arm's length relationship between the board and the government has a positive impact on the image of the foundation and its ability to establish a high level of trust within the community. Neither conflicts of interest nor accusations of patronage have ever been an issue.

Because volunteer decision-making is a major factor in all aspects of the organization, Trillium is regarded as a unique and interesting model by the voluntary sector. In addition, Trillium's grantees remain accountable to the foundation because of its ability to maintain a personal relationship with each one. When necessary, the foundation offers management and technical support to its applicants, who are secure in the knowledge that every attempt will be made to assist them. As well, communication is sufficiently open that grantees generally feel comfortable enough to discuss their organization of funded programs frankly and honestly.

How then does the private sector fit into this partnership?

Trillium criteria have been carefully designed to stimulate private-sector involvement. To ensure they do not become dependent on either the government or the foundation, applicants must make a commitment to direct new fund-raising efforts toward the private sector after completion of a grant. Each grantee must agree to develop its own private-sector fund-raising campaign throughout the duration of the grant in order that the group's ongoing activities – funded by Trillium – become self-sufficient. New fund-raising targets are clearly defined for each grant, and results are monitored on an annual basis. This fund-raising policy has received approval from most of the grantees, and the majority have been very successful in meeting their new fund-raising goals.

Of the organizations funded to date that have completed their grants, more than 93 percent will carry on their programs with private-sector support. The real beauty of this design is that it is the local voluntary organizations themselves, stimulated by Trillium criteria and by a keen desire for service provision, who approach the private sector within their communities.

Concern was initially expressed by government that organizations who had received Trillium grants would turn to the government once the Trillium grants had ended. This has not happened. The investment of Trillium dollars in communities across Ontario to this point has levered more than $40 million from the private sector in support of social services during the grant period. This figure does not include the funds currently being raised to carry on those programs already initiated. Clearly, the Trillium Foundation is a model that should not be overlooked in the exploration of alternate funding solutions for social housing in Canada.

Surely, a similar framework could be created for this sector. Funded by government but functioning independently, the organization would be designed and operated by volunteers selected for their knowledge of social housing and their commitment to their communities. They could give grants with the proviso that programs be designed to finance ongoing costs through private-sector funding. It would be up to the applicants themselves to devise the necessary fund-raising mechanisms that would ensure the continuation of their programs. It has worked for Trillium in Ontario, and I believe it is worthy of consideration with regard to the financing of social housing in this country.

Robert Read
Director-General
Rulings Directorate
Revenue Canada Taxation

I would like to give you a few pointers on the ways incentives within the federal tax system can be used to help bridge the gap between the true economic costs of providing housing and the amount of rent that low-income tenants are capable of paying. These incentives range from deductions for depreciation, credits, and exemption of income tax to the treatment of grants, subsidies and other forms of government assistance.

In terms of the tax-exempt legal entities that can be used for building, running or maintaining low-cost housing, the first is a familiar one to you: the non-profit organization. According to the Income Tax Act, the following are exempt from tax: a club, society or association that, in the opinion of the Minister, is not a charity but is organized and operated exclusively for social welfare, civic improvement, pleasure or recreation, or for any other purpose except profit. There is one restriction however: no part of its income can be available for the personal benefit of any proprietor, member or shareholder. These entities are easy to set up. Unlike a charity, they do not have to register and need only file an annual return if they are a corporation. Revenue Canada's Interpretation Bulletin 496 gives guidance on how these organizations can maintain their exempt status. Very popular typical examples of such an organization would be the non-profit housing corporations.

Another organization that can quality for tax-exempt status under very specific provisions of the Income Tax Act is the limited dividend housing corporation. These are defined in the National Housing Act as groups whose business is the construction, holding or management of low-rental housing projects. In that same Act, low-rental housing projects are defined as those housing projects that are undertaken to provide decent, safe and sanitary housing and are to be leased to families of low income. There are no restrictions on who can incorporate these companies or hold their shares. However, their charter or instrument of incorporation must restrict any dividends they pay to five percent or less. This is probably an inhibiting factor for any would-be private-sector partners. To the best of my knowledge, very few of these have been incorporated in recent years due to the withdrawal of several CMHC grants.

The next group of tax-exempt entities include registered charitable organizations or foundations. Any gifts or donations to these entities are either deductible or creditable in whole or in part. To qualify for registration, a charitable organization or foundation must first meet the requirements of a non-profit organization. In addition, however, its resources must be devoted to charitable activities carried on by the organization itself, and no part of its income may be payable, or otherwise made available for the personal benefit of any of its proprietors, members, shareholders, trustees or settlers.

While an activity such as running a rental property for the underprivileged would normally qualify as a charitable activity, it is important to remember that, because all its activities must be charitable, all of its tenants would have to be underprivileged. Thus, because they operate in a manner that benefits those who are not poor, mixed-income, non-profit housing corporations are not eligible for charitable status. With regard to homes for the elderly, to qualify as registered charities, non-profit seniors' housing corporations must be established and operated in order to relieve some condition of need that is associated with old age: frailty, ill health or low income. Need is not demonstrated by virtue of reaching a certain age.

Corporations may deduct gifts made to registered charities from their income. However, these may not exceed 20 percent of their income. Donations by individuals are subject to the same limitation and are eligible for a tax credit equal to 17 percent of the first $250 worth of gifts and 29 percent on amounts beyond that.

Under the Income Tax Act, municipally or provincially owned housing corporations are exempt from tax, and gifts to these are subject to the same limitations as registered charities. Thus, municipalities may accept donations for programs administered on behalf of the municipality by a municipally owned non-profit housing corporation. Gifts made directly to a municipally owned non-profit housing corporation will also be accepted as deductible or creditable, provided the corporation is being created as a statutory agent of the municipality. A municipality can also enter into a joint venture or partnership arrangement with other parties. The department's administrative position is to accept donations toward such projects as valued, where there is no benefit to the donor. Civic foundations of registered charities could also enter into this type of arrangement but would have to ensure that their funds are only used to provide housing for those in need of charitable relief.

The Income Tax Act also recognizes another type of corporation: the low-cost housing corporation. The relevant provisions refer to a corporation that was constituted exclusively for the purpose of providing low-cost housing accommodation to the aged and that no part of the income is payable to or otherwise available for the benefit of any proprietor, member or shareholder thereof. Gifts to these corporations are deductible or creditable by corporations and individuals in the same manner as those to a registered charity. They are also exempt from tax, but as these corporations do not have to be registered, they are not subject to many of the restrictions.

Last but not least, gifts to Her Majesty the Queen, at both the federal and provincial levels, are fully deductible by corporations, and credits are available to individuals as described earlier. There is no 20 percent limitation in either case. For example, since CMHC is an agent of the Crown for all program purposes, gifts (which qualify for the deduction of credit) could be made to CMHC to augment its social housing programs (which provides financial assistance to public and private non-profit organizations, including housing co-operatives, to build or buy affordable housing units).

I would like to make two observations with regard to the topic of exempt organizations. First, where capital property rather than cash is gifted to a registered charity, a low-cost housing corporation, a municipality or Her Majesty, the donor can elect to deem the amount of the gift and proceeds of disposition as any amount between the adjusted cost base (or the cost of the donated property) and its fair market value. This way, a capital gain is avoided. Second, a corporation that loans personnel to a charity to, for example, assist in planning and managing the construction or ongoing administration of a social housing project would not be able to treat the salary paid to its employee as a deduction. However, an arrangement can be made to get around this. The corporation can make a deductible gift to the charity to cover the employee's salary, which the charity would then pay.

Finally, I would like to mention sponsorships. Depending on the situation, sponsorships might be deductible as a business expense (for example, if it is promotional) and therefore would not be subject to the 20 percent limitation on gifts to charities. If it can be shown that the expenditures have been incurred for business purposes, we would look at such factors as whether the expenditures are reasonable and whether they are motivated primarily by business reasons (for example, to impress or attract customers).

With regard to limited partnerships, until recently, these were a favourite vehicle for raising capital to finance research and development films, MURBs and many other apparently worthy projects. In all cases, however, their viability was dependent on the availability of rich tax incentives that could be passed on to the limited partners – that is, the private-sector investors – and the ability of the promoters to limit the partners' exposure to risk. The elimination of these rich incentives and the introduction of the statutory at-risk rules, the latter of which ensure that loss is allocated to limited partners to the extent that they are at risk for the investment, have largely curtailed the use of these partnerships as an attractive tax shelter.

For a number of reasons, limited partnerships have never been popular in Canada for the development or management of low-cost housing projects. The capital cost allowance on buildings is only four percent on a declining basis. In addition, rental property restriction rules may apply so that the capital cost allowance on buildings may not be claimed to create or increase a loss from the renting or leasing of such property. The leasing rules also restrict the capital cost allowance in certain transactions where a financing arrangement has been set up as a lease. The government's concern for the transfer of available capital cost allowances from tax exempt entities to taxable entities in sale lease-back arrangements led to the introduction of these restrictions.

Investment tax credits are calculated as a percentage of the capital cost of property. Today, they range from 0 to 15 percent, depending on where the property is acquired, the expenditure made, where it is to be used, the type of property and the type of taxpayer. However, investment tax credits for buildings are fairly restrictive. In addition, federal, provincial or municipal grants, subsidies or other assistance in respect of property can reduce the cost of the property for capital cost allowance and investment tax purposes. In other cases, these grants or other forms of assistance must be brought into income.

A number of other provisions in the Act prohibit the deduction of various expenditures incurred during construction, renovation or alteration of buildings. These are often referred to as soft costs. Because of the complexity of the law, it is not possible to adequately cover limited partnerships or all of the related real estate development provisions in a short presentation of this sort. Therefore, for those people thinking of embarking on such a venture, I would suggest they write in for an advance ruling.

Any questions regarding the Income Tax Act should be directed to the Rulings Directorate of the Department of National Revenue at 875 Heron Road, Ottawa; (613) 957-8953. We can also send you our information circular, which describes this service, or you can obtain information from your professional advisors.

Joe Lebovic
President, Urban Development Institute of Canada

Although the government might have a role to play with regard to the provision of housing in Moosonee or Killaloe, it should not be involved in the larger cities where the provision of housing is and should be the responsibility of a very competent, world-renowned private industry. I agree with Allan Gregg of Decima Research and his statistic that 30 percent of Canadians believe that private industry is in a better position than the government to know how to run things efficiently.

The government assures us that it has learned from its mistakes and that the public wants its involvement in this area, yet it insists on bringing in rent control, knowing that it does not work. I think it is safe to say the government does not understand the public interest, and therefore the public does not want the government to be involved in our industry even to the extent that they already are.

As far as learning goes, I would like to mention that the Ataratiri project in Toronto mentioned by Mr. Burns is not a success but a fiasco. This project is to be located on a piece of property where, according to our figures, the land component alone is going to cost twice as much as purchasing already-furnished units.

One-and-a-half years ago, at approximately the same time as the government began assembling the land, my company sold 1 100 apartment units, some in Scarborough and some in Oshawa, for $38 000 a unit. The government had an option to buy these units, as it has an option to buy all rent-controlled apartments that are being traded on a daily basis, for anywhere between $35 000 and $60 000. All they would have had to do was buy the units, allow the modest-income tenants to remain and either remove the wealthy tenants, who are used to living in a rent-controlled apartment or charge them market-rate rents. This did not happen and is still not happening. Consequently, in a few more years, all the remaining rent-controlled apartments will be occupied by middle- and upper-income people because the difference between the market rate and what people are paying, especially in the downtown areas, can be as much as $15 000 to $20 000.

Giving these tenants a lump sum of, say, $30 000 to move out simply is not going to work. The low-rental tenant moves out, and the millionaire moves in. Meanwhile, the ex-tenant takes the $30 000, has a nice skiing holiday in Switzerland and yells at the government when he comes back because he or she now has nowhere to live. The same thing will happen with the co-ops. I should add that the federal government is not in favour of rent control. It is strictly a provincial disaster. The hands of the federal government are tied, however, because housing is a provincial matter.

I am very thankful for CMHC. They are the ones who in the late '40s and early '50s taught us this business when there was a just need for housing. They were running the housing industry then, and they were the ones who sent out their inspectors and told us how to build and what to do.

They gave us correction sheets for our mistakes, and mine took up both sides of the page. Eventually, we did learn. Today, CMHC must be happy that they spent that time with us and that we progressed this far because, as a group, we have produced thousands of homes since then.

It is unfortunate that CMHC does not play an even greater role in the provision of housing today. Many years ago, CMHC came up with a shelter solution for the needy, and it worked. These shelters were given a low interest rate mortgage on the condition that the needy and not the greedy be allowed to live in those units. The system was administered such that when a family wanted to moved into one of these units, the breadwinner had to produce a T-4 slip to show exactly what he or she was making and to see if his or her family was qualified to live there. The following year, the breadwinner had to produce a T-4 slip again. If he or she was making more money and no longer qualified, the family moved out and another family moved in. The whole thing was administered by one janitor and based on a limited dividend profit. If he or she made more than the set limit, he had to reduce rents to that point. The program was phased out because some people thought we were creating ghettoes.

We need that kind of incentive system. Why not give a developer-builder a grant for 30 of 120 units so he can designate them as low-rent housing? Or offer him a lower interest rate on his mortgage provided the accommodations are reserved for the needy. Perhaps we could implement shelter allowances.

In the case of the Ontario Ministry of Housing, ironically the subsidy to one of these units is higher than what the private sector can charge for rent-controlled apartments. Situations now exist in which rental subsidies often exceed $1 000 a month. Governments could buy units and save money or implement shelter allowances instead in order to cut down on administrative costs. We cannot assume that non-profits are a good thing because they cut out the developer and his profit. Developer-builders pay more than 50 percent of their income in taxes! And, when they go to Heaven, their estates pay another 25 percent. By the time everything is divvied up, I doubt my estate will be left with even 20 percent. That is cheap management compared to what it costs to have "do-gooders" creating housing at a large cost.

Many years ago, CMHC commissioned Woods Gordon to see which type of housing – private or public – was more cost effective. Although the exact figures were never released, it was determined that private market housing was roughly 15 to 20 percent more efficient.

There are effective ways, then, of creating shelter allowances for the needy. Society does not have an obligation to offer affordable housing to people who can afford it. There are people who cannot move into rental accommodation because it is being occupied by middle- and upper-income people taking advantage of the difference between the market-rate and subsidized rent.

I think that our industry has done a fantastic job. Mark Boléat acknowledged that Canadians are well-housed people and our system is functioning well. The Minister of State (Housing) has organized this conference to deal specifically with the financing aspects of housing because the government does not want to spend any more money on housing. I would suggest to the Minister, however, that he adopt the golden rule: those who have the gold, rule. The private housing market should have more influence in determining how much provincial intervention is necessary in Canada's housing market.

Question Period

Martin Wexler of the Canadian Housing and Renewal Association recalled the words of Michael Geller, who noted that as most social housing budgets service existing social units, very little is left over with which to build or to create new social housing. "We are now in a situation where there is very little money to respond to an obvious need," said Wexler. "Homelessness, the shortage of rental housing and the problems of ownership are considered issues of importance in many municipalities."

Wexler noted that the Delancey Street project and another San Francisco project he visited, which provides housing and a continuum of care for Chinese seniors, are small-scale projects in response to the overall need. Although they provide non-market housing, Wexler observed that both projects serve a particular niche. As well, both rely heavily on volunteer help; both were developed by a social entrepreneur who had previously worked on another housing project for 20 years; and both require less money to operate successfully than the amount of money Canadian and U.S. federal governments are spending to resolve similar problems.

Wexler also noted that in San Francisco and Los Angeles, there are 30 000 homeless people. Wexler expressed concern that despite the success of such projects, the energy expended by the volunteers that run them and the financial contributions of the private sector that go into them, the need for solutions in cities such as San Francisco cannot be met by the voluntary sector.

"If there is no money to respond to new need in Canada," said Wexler, "the implication is that we must depend on the voluntary sector and the goodwill and devotion of those who run non-profit housing projects to solve our problems." Wexler pointed out, however, that the U.S. experience has shown that the voluntary sector alone cannot solve the housing problems, particularly where demand is excessive. "If we depend only on the voluntary sector, then," said Wexler, "we cannot adequately respond to the growing need for rental accommodation or of access to homeownership. This means that non-profit projects and the voluntary sector are not the solution. At best, they are only partial solutions, and they cannot be expected to deal with core problems."

In response, Geller noted that it had never been suggested that the government cut funding altogether. It should and must still provide money to help those who are in greatest need. "But," cautioned Geller, "what we are trying to do is to make sure that available monies are not spent in situations where co-operation between the public, private and non-profit sectors would potentially deliver housing without subsidy."

With regard to the homelessness problem in Los Angeles, Geller told the audience that to try and solve all 30 000 problems at once would be totally unrealistic; not to mention impossible. "We would end up walking away. But if we start off by trying to house 30 of those 30 000 people, then there is a chance, at least, that we might ultimately make a larger dent in the problem." Geller emphasized that the solution must be applied in increments. "The housing problems that we are facing today developed incrementally, and they can be solved incrementally. Just because we are only addressing a small part of the problem, we should not just throw up our hands and stop trying."

Luncheon Speaker

William Perkins
Executive Director
Wisconsin Partnership for Housing Development

I am sobered by the daunting challenge of trying to describe in 20 minutes what I believe is the single most important development in U.S. housing policy in the last 10 years – that is, the emergence, as a dominant force, of partnerships between the private sector and the public and non-profit sectors. As Professor Fallis pointed out in his paper, partnerships in an institutional form (the form you find them in the United States) are uniquely an American creation. As important as it is to understand what they are, it is important to understand why partnerships happen and how they happen.

In the time allotted to me today, I am going to scrutinize one specific type of partnership, one that is representative of the 30-odd others in the United States. Although the Wisconsin Partnership for Housing Development is the only one operating at a state level, there are many similarities between it and the Baltimore Housing Partnership, the Chicago Housing Partnership, the New York Housing Partnership, the Boston Housing Partnership, and so on.

Historically, these types of partnerships occurred for various reasons, one of which is the massive withdrawal of the U.S. government, beginning in 1980, from what had been a major presence in the financing of low-income housing. In tandem, for-profit developers, by and large, also withdrew. When the for-profit developers were involved in building low- and moderate-income housing, there never was a place for major non-profit organizations.

The government was not comfortable with non-profit organizations as developers and managers of housing, but neither were the non-profits particularly comfortable with the government. After the federal government withdrew, however, non-profit organizations and local public agencies tried to continue to produce housing without federal resources. The reality is that they are still producing the type of housing that the development sector never tried to produce.

Instead, the development industry favoured new construction geared mostly for senior citizens and built mostly in suburban locations. They were not interested in inner-city revitalization, in projects for harder-to-serve people and in projects that carried any significant degree of risk.

The Wisconsin Housing Finance Agency was not a leader in meeting the rental housing needs, in conducting neighbourhood revitalization projects or in working with non-profits. Our housing finance agency had become as addicted to the federal programs as the for-profit developers.

Although the federal government had withdrawn from funding housing projects, the State of Wisconsin housing group believed there was potential for private-sector participation. We needed to create a vehicle to make that happen, something that could serve as an intermediary among all three of those sectors: the public sector, the private sector and the private non-profit sector. The Governor of Wisconsin was instrumental in helping to create the Wisconsin Partnership, an institutional corporation that works state-wide as an intermediary or broker among actors in those three sectors. The role of the partnership is to help make housing partnerships at the community level work.

In some cases, partnerships can be, and are, built around a single project; in other situations, they can be more formally set up, with the sole purpose of making a larger number of projects happen over a longer period of time.

Four elements are critical to the creation of partnerships. First of all, there has to be a clear understanding of the problem. Then, there has to be consensus on the strategy that will be employed. Housing that is affordable to low-income people hinges on special-purpose financing. It is important to have on your team an individual who can put that money to work.

Understanding the problem and arriving at consensus about strategy most often happens through task forces, or groups, brought together for that purpose. At this stage, the Wisconsin Partnership provides the technical expertise so the task force can analyze the different approaches to meeting the needs and ascertain the cost of the undertaking. We are not policy-makers; the policy-makers are those professionals working in the private, public and non-profit sectors.

Financing is one of the most critical areas in these types of ventures. If you are going to put money into housing, there are only three ways you can do it: you can lend it, you can invest it and you can give it away. This goes for every program – no matter how it works, how it is designed or what its features are.

Other decisions also have to be made when financing a program: to whom are you providing money to produce housing, what kind of housing are you producing, are you putting money in the hands of individuals or developers, do you want to work with non-profit or for-profit sponsors, are you in for the short or long term? Although the answers vary between different sets of people, we have arrived at some magic answers concerning the appropriate roles for the private sector, public sector and non-profit sector.

Of course, one always starts from the premise that there is a certain amount of money people can afford to have for housing. Part of the money has to be used for other things besides the cost of producing the house, with a certain amount left over to make payments on the loan. The difference between that amount of money and what it really costs to produce the housing is what we call the "gap;" as far as lower-income housing is involved, all one is trying to do is find ways to fill that gap.

One way is to provide lower-cost financing – that is, financing with a lower interest rate, set at a longer term or deferred. At this point in the process, we negotiate commitments; we try to talk people into participating in their programs.

We have also found it important to stress to the people whom we have asked to commit money that we manage the programs. One has to remain accountable for the results.

The largest financing program that the Wisconsin Partnership put together was a revolving loan fund in the City of Milwaukee, which involved 10 private lending institutions, major banks and thrift institutions and Wisconsin Electric, the largest utility in Milwaukee. (We are now in the process of raising additional capital for the fund because initial funds have been used up – in the case of private lenders, $11.5 million in capital.) A separate corporation, the Housing Partnership Corporation, was created to insulate it from the rest of our business. The funds provided by those actors, at different rates of interest, is blended through the corporation, whose job it is to underwrite and service the loans for the various projects. An investment committee representing all the participants makes the actual decision on the loans. Their money is used for loans to individual projects, which have non-profit sponsors.

The corporation also provides technical assistance to the projects, which has proven critical to the projects' success and to the credibility of the financing sources. The sponsors understand and recognize that they have a better product if we are able to go beyond normal underwriting procedures, to say that, "If it doesn't work, how can we make it work?"

To date, we have realized close to $6 million in loans, almost 400 units of housing and about 85 individual projects. These projects, for the most part, involve the rehabilitation of existing single-and two-family dwellings by neighbourhood-based non-profit corporations.

Wisconsin Partnership also has been able to use "real" equity capital to fill a part of the gap. By this, I mean capital that expects to earn a rate of return on the investment. We are able to do this in the United States because of certain federal tax incentives offered to investors in affordable housing, such as low-income housing tax credits. These are direct credits against liability for taxes – dollar for dollar – not deductions. If you put money into a low-income housing project, you are allowed to take a percentage of the cost of the project as a tax credit every year for 10 years. In the case of construction or rehabilitation expenses, the credit is nine percent. Essentially, what this means is that you are selling to an investor a tax credit worth about 90 percent of the original cost of the project. This is a fairly handsome incentive.

You get less than the total cost of rehabilitating or building the housing in federal tax credits because you only get a percentage; your investors put only a percentage into the project because they want a rate of return. The extra credits, over and above what they are buying for cash, is their rate of return. The investors also put in their money over time. We have found that corporate investors want to put in their money on an annual basis. Of course, the developers need the money up-front because it is part of the budget. So, the money has to be turned into up-front capital via a bridge loan, which is a loan secured by notes from the investors. Once again, a portion of the subsidy is lost because these loans bear interest; there is a cost to securing the investors' money.

There is a potential benefit for using equity capital from corporate investors because U.S. tax law favours corporations. Corporations can use an unlimited amount of credits to offset income from any source, not just other real estate activities. But we also knew corporations were not going to create credits by themselves. Thus, we put together a corporation called the Housing Equity Fund, which in its first round involved 12 major corporations in the city who had agreed, as a pool, to invest in projects that qualified for credits. Besides the rate of return, the big attraction to them was that the risk was shared among themselves and spread over a diversified portfolio of projects.

Next, we created – really, they created with our help – a separate non-profit corporation, which, in turn because of the peculiarities of U.S. tax law (tax benefits can only flow to corporations through a partnership, not through a corporation), had to create an investing partnership. That partnership makes investments in individual projects, which are in themselves limited partnerships. The general partner in those projects is the non-profit organization. The investing corporations are the sole limited partners and use all of the tax benefits because the non-profits cannot.

As with the revolving loan fund, the Housing Equity Fund is used to manage the program, evaluate proposals, make recommendations, service the investments and provide technical assistance to the projects.

Although the Housing Equity Fund fills a portion of the gap, we are constantly trying to reduce our reliance on very scarce public subsidies. One of the ways we have been able to do this is through the Energy Conservation Incentive Fund. As a background note, someone sued some oil companies for selling old oil at new oil prices. The oil companies lost and had to give the federal government a lot of money; the federal government turned the money over to the individual states to do something with it. We showed up, saying it is important that low-income housing be energy-efficient, especially those buildings that we are rehabilitating. We suggested that the state put this money into making the housing energy-efficient. Because they were prepared to give the money away, we were able to make no-interest, deferred payment loans and grants as long as the housing stays affordable. Again, this money filled a portion of the gap.

The final mechanism involved placing more money into the hands of the residents to absorb some of the costs. We were able to do that by putting together state legislation that created the first actual state money used for housing in Wisconsin in 10 years. This money came in the form of grants or loans to home buyers and renters to increase their purchasing power.

Our role as an advocate: we saw a need for it and, because of the alliances we had formed in the private, public and non-profit sectors, we were able to get that program off the ground. Those in the state legislature had been used to hearing from representatives of homeless shelters, neighbourhood organizations and social service agencies, so they were somewhat taken aback to hear testimonies from the CEOs of major corporations and lending institutions, who were saying that this was, for them, a priority.

We have put together a variety of special purpose programs to play different financing roles. All of the partnerships like ourselves have been dubbed opportunists; I like and I embrace this word. We do seize any opportunity we see. If someone wants to put money into affordable housing, and they want to have the program named after them or they want to have funny rules, we will find a way to accommodate them. We figure out a way to put the pieces together to make projects work.

To date, we have raised $17 million, as well as the $6.5 million in state funds that were appropriated; all this has gone into about 500 units of affordable housing. Because we do not provide basic long-term mortgage financing, this money has leveraged three to four times that amount of money for the production of affordable housing. This would not have happened without the special purpose money.

Securing financing is only one obstacle to overcome. One also has to locate someone who is able and willing to use the money. This is where what I call the third leg of the partnership comes in. Community-based non-profit organizations, often the only organizations willing to take on the job of producing certain kinds of housing, have tremendous commitment to the cause, a great deal of gumption and a lot of stamina. However, they are often short on technical skills; they are not experienced in the business of housing development. This is another role we play – providing that need for technical assistance.

With funding that has been built into our financing programs as part of the overall budget, we have been able to provide technical assistance in a number of ways: helping to find sites; doing market and feasibility analyses; raising the rest of the money they need – all project-specific tasks; or helping them to figure out how to turn themselves from community-based, issue-oriented organizations or service agencies into housing developers – an organizational task.

Because community-based non-profit organizations are not supported by any kind of institutional federal program in the United States – they have not been seen as major players in the production of low-income housing – they need a stable source of money for their operating budgets. It is essential to make them "acceptable" customers for loans and investments.

As a separate part of the state legislation, we advocated for state grants to go to these organizations to cover their operating and predevelopment costs.

At times, we can find no one willing to take on the job of producing the type of housing that is needed. In these types of situations, we have been involved in creating a number of local corporations to fill the void.

I would like to emphasize that we always work toward creating local partnerships. We are a statewide corporation, but our primary function is to plant the seeds of these relationships in local communities.

I take some issue with Professor Fallis' comments about whether the United States experience with public/private partnerships is applicable to the Canadian situation. We have learned that relationships among the people involved in partnerships are more important than the money being committed. While relationships between the government and the private sector are nothing new, we have engaged lenders and corporations in different ways to what they have been accustomed. In doing so, we have been able to remake the housing production system for lower-income people in the United States.

This partnership process has created three kinds of benefits. One benefit has been a greater awareness of the needs, and the commitment to help solve them, in the business community at the local, state and national levels. In the United States, this has proven essential to creating the political dialogue that will eventually lead to increased governmental commitment to social housing. In the United States, the private sector has extraordinary influence on the political process. Essentially, what is important to them becomes important to the national government; so, if social housing becomes important to them, it will become important to the national government.

The new federal housing bill is a product of a nationwide housing task force that was built around public/private partnerships.

The second benefit has been the relationship between the private sector and the non-profit organizations. Generally speaking, as housing producers in the United States, non-profits are still in their infancy in terms of the scale of their efforts. But they are going to play a much larger role in the future. Corporate support that is built from face-to-face, intimate, personalized partnerships is critical to building political support for the non-profit organizations and their ability to access financing programs that are not necessarily designed for them, to target programs specifically for non-profits and to direct funding support for non-profits.

The private/public relationship is also important to increasing the sophistication, competence and capacity of non-profits. Unfortunately, it took a long time for public/private partnerships to develop in the United States because, in many cases, they were a part of governmental programs. That meant there was no attempt for non-profits to exert discipline, to attend to the bottom line. No attention was paid to productivity and efficiency because often what was important to the government was the political act of giving the money.

The third benefit is the awareness that the private sector has to share the collective responsibility for solving housing problems. And they are becoming committed to doing their share, but in a healthy way.

In the United States, partnerships have become the dominant force in the 1980s; they will continue to be so in the 1990s. The core of the new federal housing legislation has shifted from a focus on categorical funding to housing block grants that have been put in the hands of state and local governments. I predict that, in a vast majority of the cases, these grants will be used for projects that are the creatures of local partnerships, projects that have been created out of necessity because the old system has collapsed. That the federal government is now coming back into the picture simply means it is going to have to learn to play a new game.

Plenary Session

Rapporteur's Remarks
By George Fallis
Associate Professor
Department of Economics
York University

The Minister and our other co-chair, Tom Alton, opened the conference by inviting us to take up the challenge of influencing Canadian housing policy. In some ways, I believe the final hour of any conference is the most valuable, for the chance is there to distill the important ideas. I want to do three main things in my summary. First, I would like to recall the task that was set before us today. Second, I would like to digress somewhat and speak briefly about yesterday's sessions. Finally, I would like to examine comments made by the various workshop facilitators.

Our task for the second day was to explore new financing ideas and funding sources for the housing of low-income Canadians. In his opening remarks, if you recall, the Minister challenged us to be both creative and compassionate.

Our most important task was to look at the notion of public/private partnerships in supplying us with new housing finance instruments in the area of low-income housing. A speaker discussed the role of government; another speaker described the role of corporate and personal philanthropy; a speaker dealt with the role of self-help; and the luncheon speaker delivered a clear exposition of the model that is evolving in the United States. From this exposition, we were to ask ourselves whether this innovation has some merit in and applicability to Canada. By no means, however, were we to limit ourselves to this particular form of public/private partnership.

Having said this, let me violate the terms of reference of the rapporteur and speak about yesterday's sessions. Much of what went on yesterday is germaine to the idea of housing assistance.

As with university financing, social housing, finding money for children's choirs or hospitals, or whatever, the macro-economic framework must structure any debate about social policy. In the case of housing, forecasts of volatile interest rates will not only cause problems for middle-income people trying to buy houses but also will cause problems for those seeking various forms of housing assistance. An accumulated national debt suggests the unlikelihood of new major federal spending programs – regardless of what party is in power. For example, many of the restraint packages embarked on by Prime Minister Margaret Thatcher were begun by the Labour Government when it was in power. In Canada, the federal government is spending $1.8 billion annually to maintain current social housing levels. Yet, total subsidy payments have been growing in real terms by 25 percent over the last five years.

Before long-term solutions can be developed, we have to put our macro-economic house in order. In terms of the social housing problem, in the long run, it will be solved once people secure stable employment. Mr. Beigie spoke of capital investment, referring, I believe, to machinery and equipment. In our case, it is human capital investment.

With respect to mortgage finance, mortgage-backed securities and index-linked mortgages may be useful innovations for the assisted housing sector. I remind you that the co-operative housing sector is using index-linked mortgages. And many complex U.S. financial arrangements are really the result of having piggy-backed different forms of assistance or structured leases, thereby generating different time paths of payment streams. The point I am trying to make is that whether mortgage market innovations or piggy-backing schemes are used, many of the issues that are problematic for the sector that has traditionally gone unassisted are equally problematic for the assisted sector. Some of the solutions are the same, as well.

Having said all this, let me return to summing up a main point made yesterday – one that was reinforced by Mr. Boléat – and that is that Canada has been served well by its housing finance system. A very sophisticated system, it has been integrated into the national and international capital markets. Moreover, particularly since the amendments of 1978 when the non-profit sector began to go to the private market for its mortgage financing needs, our housing finance system has served our housing assistance sector well.

This, then, has been my little detour into yesterday's events. However, much of what transpired yesterday is relevant to any discussions about financing mechanisms for assisted housing.

The task set before the workshop participants was to explore public/private partnerships as a way of helping to finance additional assistance in the area of social or assisted housing. There was a consensus among participants that there are no new federal subsidy programs on the horizon. However, the premise of a continuing need for assistance was also accepted by participants.

The next point raised was whether public/private partnerships are the way of the future. And will they be a minor or a major vehicle for exploring new alternatives?

In this area, there was less consensus. One view was that this is one option among many, including municipal deregulation. The financial community, which traditionally lends mortgages, appeared quite willing to entertain the idea of lending to public/private ventures.

Another view was that public/private partnerships will help to reduce the cost of delivering housing services and stock throughout the country. Granted, some reservations were initially expressed; but when a workshop facilitator pointed out that this approach is an avenue for bringing more actors into the process, the workshop participants became more accepting of the concept.

Indeed, housing policy as a process in Canada has evolved to the point where it has become accepted practice to bring in many actors. The government and the private sector were involved in the 1950s and 1960s, then the non-profit sector became an important part of the process. The private sector was somewhat less involved in social housing, particularly with the cessation of the Limited Dividend Program. Today, even more actors are being more formally introduced into the process. This point was, quite dramatically I might add, brought home to me by a remark made by a member of the audience during Ms. Silbert's presentation: "Only a woman could have done this." Ms. Silbert had made the comment that, if a man had been looking at these problems, he would have been thinking about underwriting criteria and the rational evaluation of all the elements, whereas a woman would merely get on with it.

The whole notion of bringing in different actors to the process, whether women or self-help groups or whatever, suggests to me that a tremendous amount of untapped energy is out there.

Let us now explore the role of public/private partnerships. My understanding is that the United States experience is unique, with many of the partnerships being driven by low-income housing tax credits. Although there was not a sense of moving in this direction in Canada, some debate ensued about the most appropriate and efficient way to keep the federal government involved in dealing with core need people.

Another point emphasized was that public/private partnerships are not new to Canada. As Mr. Geller pointed out, these types of partnerships have been going on for years. There is a tremendous amount of innovation at the local level – all the way from the Vancouver Land Development Corporation to the Cape Breton Labourer's Development Company – that tends to get lost in any national discussion. There was a sense that local conditions should shape any response, that public/private partnerships are not a national concept but are rooted in local conditions. In a discussion of corporate philanthropy, the sentiment was expressed that corporate philanthropy – where large corporations give large amounts of money – is really only pursued in the larger cities. Corporate donations are an unlikely scenario in the smaller towns. A lot of the ways we think about things presuppose a wealthy and sophisticated municipality; many poorer municipalities would have difficulty developing the kinds of local initiatives about which we have heard so much these last two days.

With respect to the role of government, most of the discussion focussed on CMHC's role. One recommendation was that CMHC could play an important role as a clearinghouse of ideas and information, both in terms of gathering together local experience in Canada and in terms of working further on those aspects of the American model having applicability to Canada.

A strong sense was given that lenders would be more willing to participate in local initiatives if CMHC were more creative in applying its underwriting criteria under the public mortgage insurance scheme. Although this would involve implicit or explicit public subsidy, it ought to be explored – at least to ascertain whether underwriting the risk is the most efficient way to use public funds. Some people were convinced that these projects are not nearly as risky as one might suppose.

A sense was also conveyed that existing programs could be creatively reworked. Ideas ranged from doing something with existing public housing sites and existing Limited Dividend projects or developing some form of subsidy recovery.

Corporate sponsorships as a topic did not engage a lot of discussion. And so there was not a sense of whether major corporations would be willing to enter into this type of activity.

The one idea that did attract attention was firms building housing for their workers, establishing the link between a capable and available labour force and housing, much as was the case in San Francisco with the Bridge Corporation. The notion there was that housing problems cause problems for firms attracting workers to their locations.

Self-help is another area that can be exploited and where a partnership between the private and public sector is perhaps most complementary. Indeed, partnerships around self-help projects can be productive in terms of dealing with lenders' worries about the quality of the product or using building code inspectors to teach people who are building their own housing. In fact, building inspectors in the City of Toronto see their role as instructing people about their work. Although we often do not believe it possible, self-help activities could lend themselves to renovation projects in the larger cities; more likely, however, self-help activities will have more success in ownership housing in the western provinces and in the Maritimes, where, in fact, much is already going on.

Several workshops turned to a discussion about the gap between the cost of providing affordable housing and what is deemed appropriate for people to pay. For low-income people, this gap is extraordinarily large. The workshop participants expressed the opinion that the federal government will still be required to deal with this issue, as it does currently. An example was drawn from the City of Vancouver, where a local partnership produces a mixed-income project for development but becomes bogged down by the rent supplement units. If those get held up after the new project has come on stream, then the NIMBY (Not In My

Backyard) problem arises. NIMBY can be overcome best by having all of the mixed units built at the outset, not waiting until later to put the assisted rental units in place.

A number of workshop participants pointed out that we must keep an eye on this gap; in the end, someone has to pay, whether through a zoning change or a below-market interest rate.

There was some debate, but no consensus, about the most effective way the different levels of government can provide that part of the gap for very low-income people. Some were leaning toward direct expenditures rather than tax credits as tax credits cause problems with targetting, capping the amounts and proper program evaluation. As we all know, the private market is extraordinarily inventive at moving previously unsubsidized activity under the bailiwick of subsidized activity when such a program becomes available.

Although it was not clearly expressed, I believe there was a feeling that the public/private partnership is probably most productive if the partnership focusses on the group of people not now being adequately serviced in the market because of the way our current housing finance system has evolved. Much interest was given to seniors' housing, with some private lenders saying they would be much more comfortable with beginning in public/private partnerships in this direction.

I would like to close on a personal note. Although public/private partnerships imply a dual relationship, it seems to me at least four parties are involved in the partnership: the public sector, private sector, third or not-for-profit sector and the individuals themselves. The term public/private partnership really acts as a barrier; I prefer to use the simple word "partnership." Whether we think philosophically it is the way to go, it seems to me we still come down to the idea that we need social housing, and that the public/private partnership is one vehicle worth exploring.

Question Period

Perplexed by the term "public-private partnership," Alexandra Wilson applauded George Fallis' suggestion that the terminology be changed to the word "partnership." In listening to the American examples of housing partnerships, Wilson noted that in the case of San Francisco's Delancey Street project, although corporations and foundations donated several million presumably tax deductible dollars, the unremunerated labour of the group itself accounted for $16 million.

In the case of the Wisconsin example, said Wilson, "I thought I was listening to a description of our non-profit or co-operative housing programs. With the exception of the Wisconsin Electric Company, which was providing some money to essentially a seed capital fund without interest, the only thing the private sector seemed to be doing was lending money at their usual rate of return. The other funds they were contributing were being refunded by way of tax credits. Thus it was the government – or the public – that was financing the cost. They were contributing the funds necessary to bridge the gap between the 'economic rent' of the housing and what the occupants could pay."

Wilson questioned the difference between the Canadian and American experience. "The Americans appear to have to cobble together something that works and that is economically viable from a whole range of sources," said Wilson. "Knowing what kind of effort it takes to do that, they must spend a great deal of time putting these things together. Somehow that time must be remunerated, and it was not stated that volunteers were providing technical assistance. Rather, there was a discussion regarding fees for service, and I wondered whether, in economic terms, this system is as efficient as the one we have."

Wilson was surprised that only 500 units were produced across the State of Wisconsin in a considerable period of time and noted that the American system appeared to be "as remarkable for its lack of volume of production as it is for its ingenuity, variety and local participation." In summary, Wilson wondered to what extent the American experience serves as a practical model for Canadians.

In response, Joe Lebovic attempted to clarify the term "charitable donations." He noted that the idea that you are getting your donation back in tax credits is a misconception. While some of the money is recovered by the donor through tax credits or tax deductions, giving to charities does involve a substantial out-of-pocket cash outlay on the part of the donor.

Yves Lord of the Co-operative Housing Stabilization Fund observed that the ILM mortgage package is considerably less risky than originally anticipated. Lord noted that this observation did not meet with any objections in the workshop, although it was discussed that, no matter what repayment instrument is instituted, ILMs are ultimately a type of variable interest rate mortgage that initially saves you three percent. In the context of discussions that call savings of one-quarter of one percent phenomenal, said Lord, this is a significant tool. Lord pointed to the great need for education regarding housing finance.

Lord also called for a framework that would encourage and facilitate small-scale neighbourhood redevelopment or renovation of projects that use equity. Although this would not lead to the creation of a vast number of units or a rapid solution to our housing problems, he noted that it was an interesting long-term option that is worthy of consideration.

CONCLUSION

CLOSING REMARKS

BY TOM ALTON
CO-CHAIR

Yesterday morning, I suggested that this conference represented a rare opportunity for many of us to influence the direction of public housing policy. Our task was simple, perhaps deceptively simple: to apply our creativity and experience to making housing more affordable and more accessible. At the same time, I noted the government also had a responsibility to take our suggestions and concerns seriously.

As this conference comes to a close, it is timely to review the progress made. But this conference can only offer an initial glimpse or understanding of the subject. Much investigation and exploration of the ideas raised remain to be done. It is too early to see if the seeds we have planted will bear fruit.

Notwithstanding, the keynote speakers, panelists, rapporteurs and workshop participants have generated stimulating and often passionate discussion. The common perception is that, together, we can and must do more. Clearly, there are chances for the public, non-profit and private sectors to work in partnership more closely.

This morning, Michael Geller said that if such partnerships are to work, we must dispel the myths we hold about each other. Michael and Mimi Silbert went on to describe the positive things that can ensue when these myths are broken down.

We also know there are no magic solutions and no fairy godmothers who are going to make our housing problems go away. We must improve the accessibility and affordability of housing step by step – a new project here, more creative financing there.

Let us now turn to some of the specific proposals raised at this conference. One proposal is the potential use of RRSPs to help people buy homes. Questions as to the actual level of demand, the impact on the mortgage insurance fund and the implications for tax and pension policy were raised. However, RRSP-funded mortgages and downpayments, as suggested by the Canadian Real Estate Association, deserve consideration.

Index-linked mortgages have been a notable part of the co-operative housing program. We should make them permanent, either in their current form or with less payment graduation, especially for financing co-operatives and other rental units.

The mortgage-backed security market has got off to what James Nelson of the U.S. Mortgage Bankers' Association described as a "flying start" compared with the American experience. This market will grow over the next decade and will become an important part of the capital markets in Canada.

Several participants reminded us of the need to consider forms of tenure other than homeownership. For each of these, including rental and co-ops, we must find the right combination, as Don Axford put it, of price, choice and security.

Many Canadians, including prospective first-time buyers who feel they may never be able to afford a home, renters and co-operative housing residents have a real stake in more affordable and more accessible housing. The residential construction industry, including construction workers and skilled tradesmen, also have a stake. It is important to Canada that the results of our discussions not be pigeon-holed or studied to death.

Closing Remarks

By the Honourable Alan Redway
Minister of State (Housing)

Personally, I have found this conference to be not only a stimulating one but also one that has taught me a great deal. I will leave here with many good ideas and messages. I want to express my personal thanks to each and every one of you for participating, directly or indirectly, in this conference. Your involvement is truly appreciated.

The writer Thomas Mann once wrote that it is impossible for ideas to compete in the marketplace if no forum for their presentation is provided or available. This is what we have been trying to do here the last two days: provide a forum and a marketplace for our ideas, not only so they can be brought out and looked at but also so that we can have an opportunity to learn about and understand them. When I travelled across the country before this conference – something of a boardroom tour – I discovered a great deal of expertise and knowledge. But I also found a lack of knowledge in some areas.

If nothing else, this conference has elucidated a cross-fertilization of ideas and concepts to familiarize us with the fact that, although we are all involved in the housing business in one way or another, we do not have all the answers and we are not even aware of all the thoughts and ideas out there.

Michael Geller said that, "Going it alone is no longer an option." It would be nice if there was a bottomless pool of taxpayers' money into which we could continue to dip.

Unfortunately, from the standpoint of the federal government, there is a major deficit problem. No matter what painful efforts have been made over the last few years to restrain that deficit, it continues to grow. About 35 cents of every dollar of revenue that we take in federally goes toward the payment of interest on the national debt. Therefore, one cannot expect that there will suddenly be a great influx of taxpayers' money into the pool.

I also believe we must bear in mind that everyone in this country has a different priority and believes that their priority should be first, regardless of the importance we place on ours.

I ran headlong into this over the closing of a military base. Most people felt that with the apparent co-operation of the East and the West, we could safely reprofile our spending and take funding away from our military bases. As soon as we make a move in that direction, however, we are met with criticism. Our changes might be responsible for destroying the economy of an entire province. This is not to suggest there is nothing we can do, but the reality is that every one of our actions means a painful experience for someone.

The third message I have received, and one that has come across loud and clear in the last couple of years with the debate over the GST, is that no one wants to pay more taxes. Although I am not suggesting that the government cut back on our housing expenditures, realistically we have got to look for other financial avenues. That is what this conference has been all about. We have been trying to come up with methods – both on the market and government side – that will facilitate access to homeownership. We have been looking for other ways. Some of these entail the establishment of partnerships because we now know that going it alone is no longer an option.

What I have heard at this conference, and as well at seniors' housing conferences across Canada, is that we have got to look at a variety of choices. We cannot reasonably expect that one model or one method is going to solve all of our housing problems. There are a variety of methods and models, and we have got to take advantage of this, whether we are looking at homeownership or assisted housing.

In terms of market housing or trying to help people to buy houses, we have discussed a number of options: the possible use of RRSPs for homeownership; the possibility of 95 percent mortgage financing; shared equity programs; the extended use of mortgage-backed securities; and perhaps the Alberta proposal regarding a contract savings plan.

I can assure you that CMHC and I, as Minister of Housing, will be looking very carefully at each and every one of these suggestions. In fact, we have already started to examine them. It would be misleading to say that these ideas are new ideas to us. However, your input is critical and should help us turn these ideas into reality.

Something else that came across very strongly at this conference is that the needs of seniors cannot be ignored. We have been talking about housing for seniors all year long in forums across the country. One thing that has come up again and again is that, although many seniors are low-income earners, a great number have large chunks of capital locked up in homes that are already paid for.

One of the ways we might be able to help house these people, and others like them, is to unlock their capital through the use of private home equity conversion schemes. Some of these are already in operation on a modest scale. Apparently, however, the provision of a form of NHA insurance for the reverse mortgage concept is one area our help would really make a difference. We are already pursuing this and hope that in 1991 we will be introducing legislation that will authorize us to offer insurance for reverse mortgages.

Although, federally, we tend to concentrate on homeownership and helping those who cannot afford to pay full price or market rent for their accommodation, the index-linked mortgage is something we intend to pursue vigorously. I believe there is a great deal of merit in this option, not only for co-operative, non-profit and rental housing but also in the private market for homeownership housing.

If nothing else, this option gives those looking for longer-term mortgages or lower mortgage payments at the outset another choice and another means of getting into homeownership.

Today, we have concentrated on the area of public/private partnerships. We had our knuckles rapped by George Fallis, who suggested that we should be considering at least four partners in any joint effort, not just two – and I agree with him. Although many of you understandably see this as a government *cop out*, I do not look at it that way. Instead, I see it as another option, another possibility, another vehicle that we can use in conjunction with government and in conjunction with federal money.

There are a lot of possibilities. Mimi Silbert gave us one, but there are many others. I have seen it happen: families who are dependent on welfare can, through their own self-help efforts and the help of a group of partners, such as a bank, a non-profit, a city and the federal government, become home-owners. While the same partnerships will neither work in every instance nor in every part of the country, there is a role for this kind of co-ordinated effort.

Accordingly, I have asked CMHC to put together some ideas for a centre that would promote and bring together housing partnerships in Canada. It would serve as an information centre, pulling together examples of what has been done by others in other parts of the country. There are lots of Mimi Silberts in Canada; we just have to make sure people know about them.

What we have to do is bring everyone concerned together, not just this one time, but time after time. The centre should have an advisory committee to do this: to bring all of the players together and give us the opportunity to pursue these partnerships on an ongoing basis.

Finally, in addition to its informational and advisory roles, the centre should act as a catalyst for, as the private sector says, "putting together deals," for putting together partnerships between the different players.

It is my hope that this conference is only a beginning and that from here, we will move on, together, to much bigger and better things. Our goal, as initially set out at this conference, should be to ensure that all Canadians – those who want to own a home but cannot quite make it on their own and those who just want a decent and affordable place in which to live – have access to a certain quality of housing. This is our challenge and our responsibility. Together, we can make it happen.