Royal Commission
on
Banking and Finance

Central Mortgage & Housing Corporation.
Mr. David Mansur.

Hearings
held at

OTTAWA

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ROYAL COMMISSION ON BANKING

AND FINANCE

Hearings held at Ottawa,
Ontario, on Wednesday,
October 17th,1962.

THE COMMISSION

The Honourable Dana Harris Porter
Chief Justice of Ontario
Toronto, Ontario - Chairman

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Montreal, Quebec

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Dr. W.A. Mackintosh
Vice-Chancellor
Queen's University
Kingston, Ontario

Mr. H.A. Hampson - Secretary

Mr. Gilles Mercure - Joint Secretary

Ottawa, Ontario,
Wednesday,
October 17th, 1962.

--- At 9.15 A.M. the hearing resumed.

SUBMISSION OF

CENTRAL MORTGAGE AND HOUSING CORPORATION

APPEARANCES

Mr. Stewart Bates	-	President
P. S. Secord	-	Vice-President
H.W. Hignett	-	Executive Director
R. Adamson	-	Chief Economist
A. D. Wilson	-	General Counsel

THE CHAIRMAN: I call the meeting to order. The brief this morning is from the Central Mortgage and Housing Corporation. Mr. Bates, President of the Corporation, is present to present the brief and deal with questions. I do not know whether you wish to make a general statement, Mr. Bates, or do you wish us to proceed immediately with the questions? We have all read the brief, I may say, and we are familiar with its contents, so that it is not necessary to go over that again. But if you wish to make any preliminary statement, you are welcome to do so. Otherwise we will proceed with the questions.

MR. BATES: No, sir, I have no statement to make. I would hope, Mr. Chairman, that in view of the complexity of the subject, from time to time I might rely on my colleagues who are around me to help answer questions.

THE CHAIRMAN: Yes, by all means. Will you now proceed? Would you mind introducing your colleagues, Mr. Bates.

MR. BATES: Yes, Mr. Chairman. The Vice-President of the Corporation is here, Mr. Secord; my Executive Director, Mr. Hignett, on my right; on my left, the Chief Economist, Mr. Adamson; and on his left the legal counsel of the Corporation, Mr. Wilson.

THE CHAIRMAN: Thank you very much.

COMMISSIONER HARROLD: Perhaps we should start with a question on the organization and procedure of the government agency that we have here. You are responsible to the Minister of Public Works, I believe. Is that the department?

MR. BATES: Yes, sir.

COMMISSIONER HARROLD: Could you give us a little idea of the procedure or the direction under which you work. What is the latitude, and so on, that you are allowed from the Minister of Public Works, or just how is it operated?

MR. BATES: Yes, sir. I think, gentlemen, in the case of Central Mortgage and Housing Corporation we have a Minister and a board. In the case of the Bank of Canada, we have a Governor and a board. I am not going to elaborate on these differences, but they are not subtle; they are real. We have a Minister and a board. If you have had occasion to read the National Housing Act you would see in clause after clause "the Corporation may, with the consent of the Governor in Council, do thus and so", "the Corporation may, with the consent of the Minister, do thus and so". In other words, our operations are tied very, very closely to government. We are not a Crown Corporation, in the sense of being an independent body. We are tied very closely to the Minister and the government. I do not know of any decision I could make without ministerial or governmental consent, except the decision to hire and fire my staff. But everything else relating to housing policy is tied completely to the government, either through the Minister or the Governor in Council.

We really cannot make a loan to a university, for example, or a sewage loan without the consent of the Governor in Council. Our lending policy is determined entirely by the government.

COMMISSIONER HARROLD: You have a board of directors. How are these elected?

MR. BATES: With regard to the board of directors, sir, there are ten members, five of them are public servants and five are drawn from the outside world, architects, and so on; they are drawn from across the country from Vancouver to Halifx. Five are public servants, presumably selected to make sure that the board of directors does not reach decisions which the government could not accept, because there is the Department of Finance representative, one from the Deputy Minister of Public Works, two from Central Mortgage, and one from the Privy Council, Mr. Bryce. So that in the board of directors, out of ten members five are senior public servants who should -- they do not have to, but who should know what government policy is on almost any issue. The other five members are from the outside world.

COMMISSIONER HARROLD: They are more or less an advisory board?

MR. BATES: This is so. I think that is a neat way to put it.

COMMISSIONER HARROLD: You have already told us the basis of the selection, and I presume the members you have mentioned, two of them representing CMHC, one the Department of Finance and the other the Deputy Minister of Public Works ---

MR. BATES: And Mr. Bryce, from the Privy Council.

COMMISSIONER HARROLD: That would give you a co-ordination with other departments of government?

MR. BATES: This is so.

COMMISSIONER HARROLD: That is all I have to ask on the organization, I think.

THE CHAIRMAN: Are there any other questions on this aspect of it? I should like to ask two questions about the objectives of housing policy, particularly the government housing policy. Perhaps you could briefly outline what in your view is the objective and the policy laid out by your Corporation.

MR. BATES: The policy, sir, is not laid out by our Corporation; the policy is laid out by the government and we are the instrument through which it is made effective. The policy is set out in the National Housing Act by parliament. I think it could be simply stated, sir, that there are three things in the National Housing Act. One was, and still is, to increase the quantity of housing in Canada; the second was to make a distribution across the country territorially equitable; and the third was to increase the quality of housing in Canada, if possible. I think if we take the whole National Housing Act you could put it down in those three terms. Maybe I am unduly simplifying, sir, but I think this is pretty close to it.

THE CHAIRMAN: At the present time do you feel that those objectives have been reached? Have you sufficiently increased the quantity of housing, for instance?

MR. BATES: Well, in quantitative terms, since the end of the war there has been added to the housing stock one and a half million houses. This is a substantial quantity, since there were only three million at that time, at the end of the war. We have added one and a half million since the end of the war.

THE CHAIRMAN: Is that entirely under the N.H.A., the one and a half million?

MR. BATES: Not entirely, but substantially. 40 per cent is under N.H.A.

THE CHAIRMAN: How much?

MR. BATES: 40 per cent of that increase would be under N.H.A. I do not think there is any doubt that the quality of housing has improved in the last sixteen years, and since we stand ready to make a loan to anyone anywhere in Canada, I think the territorial distribution can be met and is being met.

Excuse me, sir. Would you re-state your question, and I will give you a different answer. Not a different answer, but a better answer, a more expanded answer. Would you re-state it again, sir.

THE CHAIRMAN: I will try to remember exactly what I said.

MR. BATES: This is my problem exactly.

THE CHAIRMAN: How far have the objectives been achieved as to the increase of quantity of housing? We were dealing with that, I think.

MR. BATES: We are merely dealing with quantity?

THE CHAIRMAN: Yes.

MR. BATES: As I tried to state, sir, the quantity has gone up from three million to four and a half million houses in Canada; not all of it due to us, but a substantial portion of it due to us. And there are no people living in tents, that I know of.

THE CHAIRMAN: That does not indicate very much unless we look at it relatively. There are many houses in existence, houses in various stages of dilapidation , which are still being lived in. Have you any way of assessing the problem as it exists, as it is developing, in the future, the immediate future?

Have you any assessment of the real, what you might call what you consider the real housing needs of the people at the present time, and looking forward perhaps for the next five or ten years?

MR. BATES: Well, We have demographic figures. We know the number of children in high schools. We have a pretty good idea as to the number of these who will start getting married in 1965 onwards, of course. And this would be a very substantial figure, because this will be the post-war baby boom that would move into the housing market from 1965 onwards; and this will be a tremendous figure from 1965 to 1975 in Canada. Of this, there is no question.

You have seen them move through primary school. You have seen them now in high school. I will see them not very long later in the housing market. This is inevitable, and this is a very large figure.

You have asked another question, sir, which is rather difficult for us at Central Mortgage to answer. At least, I think this is the question you are asking. You are saying, how many houses in the metropolitan areas are in need of repair or rehabilitation or destruction. We are not in that business. We know they are there, but we are not in that business. Through the banks we can give home improvement loans, but ---

THE CHAIRMAN: But if you look at the whole housing picture, do not you have to look at the state of existing houses as well as the possible programme of new houses?

COMMISSIONER MACKINTOSH: Have you any

evidence that the proportion of sub-standard houses has been reduced?

MR. BATES: Have we any evidence, sir?

COMMISSIONER MACKINTOSH: Yes.

MR. BATES: What do you mean by"sub-standard houses", sir?

COMMISSIONER MACKINTOSH: You people are always talking about "sub-standard houses". That is where I got the word.

MR. BATES: I am hoist on my own petard here, because Dr. Mackintosh was the director of this Corporation before I came near it.

COMMISSIONER BROWN: You will probably find that he invented that term himself.

MR. BATES: Thank you, sir. Central Mortgage and Housing Corporation, under the National Housing Act, has no instruction to measure anywhere the number of sub-standard houses in Canada. This is essentially a job for the municipalities and the provinces, not C.M.H.C. I think, Dr. Mackintosh, we could give you a pretty good idea, and I think we could dig out a figure from around this table that would be as reasonably close to the truth as we could make it.

I do not think the number of sub-standard houses has decreased very much in the last ten years, because in order to decrease it there are two or three things which must happen. Private enterprise has to go ahead and do clearance, and this it does. Sometimes it is merely a gas station in some street that wipes out three sub-standard houses; sometimes it is a big development like Ville Marie in Montreal which wipes out sub-standard houses.

COMMISSIONER MACKINTOSH: I hope you are not referring to the St. James' Club.

MR. BATES: Sometimes we in the province, through a partnership, will wipe out sub-standard housing, in the terms of urban re-development; but actually the volume of this clearance is not substantial, no.

It is about 20,000 units a year which are wiped out by one means or another: sometimes it is merely fire -- a gift from God.

COMMISSIONER MACKINTOSH: The only relevance to my question was that it has some bearing on whether your objective of increasing the quality of housing is being attained or whether progress is being made?

MR. BATES: I think you would be quite right in implying that the improvement in quality is essentially in new housing and not in the renovation or rehabilitation of the old. Such improvement as has come has been in new housing rather than redevelopment or rehabilitation.

THE CHAIRMAN: Your system of interest rates, really, amounts to subsidized rates; they don't follow the course of interest rates on the market? They are artificial ones?

MR. BATES: We have no artificial rates, sir.

THE CHAIRMAN: Well, what rates do you impose?

MR. BATES: Under the National Housing Act there is the main rate which is set under Section 4, set by the Governor-in-Council, and this is the maximum rate that lenders can lend under. The maximum rate is 2¼ per cent above the long-term bond rate set by parliament and changed from time to time by the Governor-in-Council; 2¼ per cent above the long term bond rate.

THE CHAIRMAN: Why should it be related to the long-term bond rate?

MR. BATES: You had better ask parliament that question, Mr. Porter.

THE CHAIRMAN: Go ahead; I don't want to interrupt you.

MR. BATES: I wanted to say something else, then we will come back to this, if you don't mind.

We have several rates we lend under in the Corporation in terms of direct lending: we lend to universities, we lend on sewage projects in municipalities; we lend to limited dividend companies; and these rates are defined in the act, again. These rates are set normally at one-eighth above what we borrow at from the government. For instance, if we borrow from the government at five , these rates to limited dividends, universities and others would be 5 1/8. Last month the government raised our borrowing rate from 5 to $5\frac{1}{2}$; so, the rate to these corporations and limited dividends, for old people, low income housing, and so on, went from 5 1/8 to 5 5/8. In other words, we lend according to the act at one-eighthth above what we borrow at; that is when we are lending directly.

However, there is that other rate of interest set by the government which determines what the banks, life, trust and other companies can lend at, which today stands at $6\frac{1}{2}$.

THE CHAIRMAN: Your rates, though, are less than the going mortgage rates?

MR. BATES: That is so, on these special things which are defined in the act: limited dividends, universities, municipal sewage projects.

THE CHAIRMAN: What about your ordinary houses?

MR. BATES: $6\frac{1}{2}$; they would go at the same rate as the life and trust companies were lending at. We would lend at the same rate, and that rate is determined by government from time to time. The $6\frac{1}{2}$ rate has been in existence for about a year.

THE CHAIRMAN: The market rate is higher than that, isn't it?

MR. BATES: Well, on what we call conventional mortgages as distinguished from N.H.A., this would be higher than $6\frac{1}{2}$, yes: 7 or $7\frac{1}{4}$, and in some parts of the country $7\frac{1}{2}$ -- conventional mortgages let out by life, trust and loan companies.

THE CHAIRMAN: What is the purpose of providing for an artificially low rate? Because it is as a result of government interference in this case that the rate on N.H.A. mortgages is lower than the going rate on conventional mortgages?

MR. BATES: Well, this, of course, is one of the purposes of the National Housing Act.

THE CHAIRMAN: Yes, but I want to know what the philosophy is behind it. Why are you selecting this particular phase of activity and applying to it, through funds which are really provided, in effect, by government agencies, a lower rate of interest than the market rate?

MR. BATES: Let me get this completely clear: our rate is the rate on insured mortgages, and these are not provided by government. Most of the loans at this price are provided by the life, trust and insurance companies by their own choice, because this is an insured mortgage. We come in as a residual lender if there is nobody else there; but this 6½ rate is taken by the life, trust and other companies, and when it was below 6 also by the banks, because it is an insured rate.

THE CHAIRMAN: Insured by whom?

MR. BATES: By the home owner who pays the insurance fee, and he pays it to us. We carry the insurance on this loan, so if anything goes wrong with it they are guaranteed in the event of foreclosure that they will be repaid. So, the bulk of the lending under N.H.A. is not done by the government even today; it is done by the outside companies.

THE CHAIRMAN: And the insurance is a fund that is made up out of premiums?

MR. BATES: The home owner pays a premium of 2 per cent.

THE CHAIRMAN: So that is on a proper insurance basis?

MR. BATES: Yes, sir -- well, we really don't know; we hope so. We don't know how many foreclosures may come if there is a depression.

THE CHAIRMAN: Well, you may have to raise your premiums?

MR. BATES: No, the government is standing behind it.

THE CHAIRMAN: That is what I am trying to get at: how far is the government standing behind these ventures? How far are they, in a sense, government ventures having a certain advantage in that respect over ventures on the regular market? In other words, to what extent are these houses subsidized in one way or another, if at all?

MR. BATES: All right, this is a good question.

THE CHAIRMAN: I am not suggesting it is wrong. I am trying to find out exactly where you stand on it.

MR. BATES: Well, I will try to tell you. The insurance fund was stared in 1954 when the banks were brought into the mortgage business, and this fund was established and was an N.H.A. operation which would cover approved lenders, banks, life and trust companies, and an approximate 2 per cent fee would be paid by the home owner when he bought the house, and in the event of default the fund would reimburse the approved lender. Since 1954 - I can only tell you my experience- defaults have run around the rate of one-half of one per cent of the mortgages covered by this fund. The assets of the fund today are about $95 million, and since 1954 we have paid out $11 million. Defaults are running at about one-half of one percent, and apart from anything like a major depression we cannot see the fund being in trouble to repay life, trust, the bank, or anyone else, on defaults.

So, there is no subsidy in the fund. I think this is the point you asked me.

THE CHAIRMAN: I wasn't quite sure how that worked, and I very much appreciate having the information.

One of the purposes of the N.H.A. is to improve standards in the construction of houses, isn't it?

MR. BATES: Yes, sir.

THE CHAIRMAN: You lay down certain specifications that must be complied with before money will be advanced on loans, and so on. Could you elaborate on that a little? Just how far do you go in establishing set regulations of that kind?

MR. BATES: Well, at the end of the war the Canadian building industry was not in very good shape. It had had a long period of depression, and during the war itself there wasn't very much building done. At the end of the war, and for a year or two afterwards, there were many new builders coming forward, many of them simply craftsmen, and at that time the Corporation -- and this is before my time -- set up certain standards. Since that time we have changed our position somewhat. The National Research Council worked for some years in setting up a national building code that worked through this on a scientific, technical basis. Actually, today, sir, to answer the question simply, we use the national building code set up by the National Research Council as our basic standards.

THE CHAIRMAN: And those apply to houses of a certain type and size only?

MR. BATES: Anything which we finance or on which we insure. Everything else is beyond our competence; there is nothing we can do about that.

THE CHAIRMAN: How far do you go in insuring and financing houses? Are your activities limited to houses of a certain size?

MR. BATES: Yes. This is defined in the act. The maximum loan is $14,200 for a three bedroom house; $14,900 for a four bedroom house. Anything above that we have nothing to do with whatever, but up to that level, if they want an N.H.A. loan, either directly from us or insured, the national building code set by the National Research Council must be applied.

THE CHAIRMAN: The mortgage is what percentage of the value?

MR. BATES: It can go up to 95 per cent of the first $12,000; 70 per cent afterwards. The maximum loan is $14,200 on a three bedroom house and $14,900 on a four bedroom house. It is 95 per cent of the first $12,000 loaned.

THE CHAIRMAN: So that the down payment is only 5 per cent?

MR. BATES: Indeed.

THE CHAIRMAN: How do you justify that?

MR. BATES: I don't justify it. This was done by parliament. I had nothing to do with it, sir.

THE CHAIRMAN: Well, I thought perhaps you had some ideas. A man buys a house and he puts up 5 per cent in cash?

MR. BATES: On a $12,000 house.

THE CHAIRMAN: All right, a $12,000 house.

MR. BATES: Yes sir, that is right.

THE CHAIRMAN: And the market for houses of that kind might decline and he wants to sell the house, and he loses his down payment and perhaps more.

MR. BATES: Can you tell me anyone who has done this?

THE CHAIRMAN: I think there has been a rising market ever since you started business, hasn't there? Has that aspect of it ever been considered -- the disadvantages of too small a down payment?

MR. BATES: You will recall, Mr. Chairman, that under the earlier parts of the act, before the amendment in 1960, 10 per cent was required, but it was considered then by the government of that day that it was desirable to widen the demand for housing for various reasons, and that the down payment could be reduced. The number of defaults were infinitesimal in this country. It was felt the down payment could be reduced, and parliament saw fit to reduce it to a down payment of 5 per cent on a $12,000 house. I think, sir, our experience in the last two years has not indicated this particular change has made any difference to defaults.

THE CHAIRMAN: And the interest rate on that loan of 95 per cent would be the same as the interest rate on a loan of lesser amount?

MR. BATES: Yes sir, it would be a 6½ per cent loan whether we loaned directly or whether it was done by a life or trust company.

THE CHAIRMAN: Well then, the purchaser of that house is getting more than he could ever get out of the regular mortgage market?

MR. BATES: This is right. This is the purpose of the N.H.A. This is what parliament tells us to do.

THE CHAIRMAN: Yes, but it is the government intervention that makes it possible?

MR. BATES: This is so. It is the act that makes this possible.

THE CHAIRMAN: So that the interest rate paid on that loan of 95 per cent of the value of the property is considerably less than could be supplied through the market?

MR. BATES: Yes, but we have no means of forcing the life company or the trust company or the loan company to make a loan at that rate. They are quite free to make conventional loans at $7\frac{1}{4}$ or $7\frac{1}{2}$.

THE CHAIRMAN: You say they will make loans up to 95 per cent on that basis?

MR. BATES: Yes, because in this particular part of the market they are insured. It is the insurance feature that attracts them. They will do both: any life company will do both; they will make conventional loans at $7\frac{1}{4}$ and N.H.A. insured loans at $6\frac{1}{2}$. This is up to them; we have no means of affecting their choice. It is entirely a matter of the distribution of their assets; entirely up to them.

THE CHAIRMAN: You provide for the building of houses in the way you have described, and for maintaining a sufficiently high standard of building in the way that you have described. Does your Corporation enter at all into the field of marketing houses? Is there any policy adopted of any kind which would facilitate the marketing of houses, when a person finds he has to sell and move to another place to live?

MR. BATES: No, sir.

THE CHAIRMAN: So, unless there is a continuously rising market, or a market that is fairly brisk, naturally, a person may have some difficulty in divesting himself of a house in one town if he has to move to another.

MR. BATES: That is right; he may have difficulty in divesting himself of his car or his washing machine. We are not interested in that.

THE CHAIRMAN: We have found a number of people are interested in that.

MR. BATES: Well, I mean under the act; our instructions from parliament.

THE CHAIRMAN: I am trying to get a view of the limits of your policy and the scope of it.

MR. BATES: Yes.

THE CHAIRMAN: So that your concern apparently has to do with the building of houses, that is, the supply of houses of good standards of construction and on the most convenient possible terms of payment.

MR. BATES: Yes, Mr. Porter, I think so. Maybe I should say this, that indirectly we try to do something about this problem you have mentioned in the sense that we try to prevent a surplus of housing arising in any area so that if someone does have to sell he is not selling in a surplus market. We very consciously try to prevent a surplus of N.H.A. housing in any area. This we prevent very consciously and to that extent indirectly we do help someone who is trying to sell a house.

COMMISSIONER BROWN: You prevent or you avoid creating? Isn't it more an avoidance of creating a surplus? How do you positively prevent?

MR. BATES: Well, today, so far as our lending policy goes we will not lend to any person unless he or she cannot get a loan from a bank or a life or a trust company; in other words, we will not lend indiscriminantly and we will only lend to people who cannot get a loan elsewhere. In other words, there is nothing in our financial policy that will create a surplus.

COMMISSIONER BROWN: You used the word

"prevent"; I don't understand that.

MR. BATES: That is what I mean by "prevent". We are not loaning to speculative builders to go out and build houses.

COMMISSIONER BROWN: It is just a question of the emphasis?

MR. BATES: We are preventing that.

COMMISSIONER BROWN: You are avoiding creating that.

MR. BATES: All right.

COMMISSIONER BROWN: Preventing implies that you can stop other people from doing it.

MR. BATES: No I can't, we can't do this.

COMMISSIONER BROWN: That is what I wanted to get clear.

MR. BATES: Builders can still get speculative loans from life and trust companies but they can't get them from C.M.H.C.; we only loan as the loaner of last resort to a home owner. We don't loan to a builder or for rental accommodation, we only loan to a home owner.

There was a period some years ago when we made builders' loans, but this was limited to economic as distinct from housing problems.

COMMISSIONER MACKINTOSH: You don't restrain a life company ---

MR. BATES: No sir.

COMMISSIONER MACKINTOSH: ---from making N.H.A. loans in an area which you perhaps think is a bit over-built?

MR. BATES: No, we wouldn't refuse but we might say something to them.

COMMISSIONER MACKINTOSH: Express surprise?

MR. BATES: Yes.

THE CHAIRMAN: That is known as moral suasion.

MR. BATES: But really, if they wanted to go ahead and do twenty loans we wouldn't say no.

THE CHAIRMAN: You place considerable emphasis on home ownership, do you not?

MR. BATES: The government does, yes.

THE CHAIRMAN: Well, that apparently is one aspect of the philosophy behind your activities, is it not?

MR. BATES: Yes.

THE CHAIRMAN: Home ownership is considered something of value?

MR. BATES: We will insure rental homes.

THE CHAIRMAN: I was going to come to that, I was going to ask you about the rental policy which you have. Perhaps you will report on that now.

MR. BATES: Well, C.M.H.C. itself doesn't lend to normal rental operations unless they are low income, for low income families.

THE CHAIRMAN: That would be subsidized housing?

MR. BATES: It may be subsidized or it may be that it is a limited dividend operation.

THE CHAIRMAN: I understand that.

MR. BATES: Either of those.

THE CHAIRMAN: That requires some subsidy to carry it generally?

MR. BATES: It is a low rate of interest, yes, but as to other rental housing, we are prepared to insure loans made by life and trust companies but we are not prepared to do this completely indiscriminately. For example, last year -- I have forgotten how many houses there were, but I believe it was 8,000 in Toronto and the life and trust companies were prepared to still pour a substantial volume in this year and we said to them, "No, the market in Toronto is becoming saturated, why don't you let off for a while," and actually we cut the number of loans we would insure down to, I think, this year it was 3,000. However, this didn't stop them, they went ahead on a conventional loan basis, which they are quite prepared to do, but we thought that the Toronto market was becoming a bit saturated the same as the Montreal market.

COMMISSIONER GIBSON: On rental housing?

MR. BATES: Yes.

COMMISSIONER GIBSON: On these units you would take a stronger stand in trying to prevent a surplus than you would on regular single housing units?

MR. BATES: Yes.

COMMISSIONER GIBSON: You said earlier that you wouldn't say no?

MR. BATES: Because this thing gets up into great masses; you know what I mean by high rise masses, and it gets into certain areas and the area gets a bad name and doesn't get let properly and there are 20 per cent and 30 per cent vacancies, and this is merely a caution on our part.

THE CHAIRMAN: Is this rental all apartment type housing?

MR. BATES: Usually, sir.

THE CHAIRMAN: Are there individual houses?

MR. BATES: No, very seldom; row housing and high rise almost entirely. I don't know of any individual housing that is rental.

THE CHAIRMAN: By row housing, they would be independent houses, but ---

MR. BATES: You know, joined together. In the province of Quebec you get duplexes that are rental housing, but it is the only province in Canada that has small houses as rentals. In other places in Canada it is either row housing or high rise.

COMMISSIONER GIBSON: If you only made 2,000 loans this year ---

MR. BATES: It was 3,000 in Toronto.

COMMISSIONER GIBSON: And 8,000 last year, this is more than caution, isn't it?

MR. BATES: Yes, it is more than a caution; it is a real rationing.

COMMISSIONER GIBSON: It is a definite policy?

MR. BATES: But we can't stop it because all that happens is that instead of building N.H.A. houses they are building conventionals.

THE CHAIRMAN: That sort of rental housing, for what income brackets would that be supplied?

MR. BATES: Well, the stuff we are speaking of now would be housing that would rent at $100 to $150.

MR. WILSON: On a two-bedroom apartment, probably in that range.

MR. BATES: And that is for people with incomes of $5,000 and $6,000 a year.

THE CHAIRMAN: Then, when you have to deal with people with incomes of less than that you really get into the subsidized field, don't you?

MR. BATES: Yes.

THE CHAIRMAN: Could you give us some indication as to what extent that field is being looked after?

MR. BATES: Well, in the whole of Canada there are 8,000 subsidized houses -- in the whole of Canada. These are units. In England since the end of the war 70 per cent of the housing has been subsidized and in Sweden 95 per cent is subsidized. Here in Canada since the end of the war we built a million and a half units with 8,000 subsidized.

Now, I don't think this is the fault of the federal government because they took the attitude in every province that it is up to the province and the municipalities to ask them, ask the federal government for assistance in building subsidized housing. The federal government will put up 75 per cent of the capital cost under Section 36 of the National Housing Act, 75 per cent of the capital cost, 75 per cent of the subsidy. Despite this magnificent offer we have 8,000 units in Canada.

THE CHAIRMAN: Who are you blaming for that, do you think more than 8,000 are necessary?

MR. BATES: I have no comment, sir.

THE CHAIRMAN: But there must be a number of persons who are in the less than $5,000 bracket, this must be pretty great, and it seems to me that there may be a great gap in the programme?

MR. BATES: Yes, you are quite right; more than half the population of Canada is in the figure which you have just mentioned.

COMMISSIONER GIBSON: And how far is this group helped by the fact that you are helping to build these houses for people of the income which you have just mentioned?

MR. BATES: Well, of course ---

COMMISSIONER GIBSON: It assists them?

MR. BATES: This is so.

THE CHAIRMAN: It would be if the increase in houses built is greater than the increase in the population; you see what I mean?

MR. BATES: Yes.

THE CHAIRMAN: If you merely are keeping pace with the population, the net result is that there are no old houses that are opened up for the lower income groups?

MR. BATES: There are very few empty houses in Canada and there is very little rent reduction and very little cutting in price. We haven't built enough houses to saturate the market, if that is what you mean, no. But, sir, in this programme of subsidized housing most of it so far has been done in that most sophisticated of all provinces, Ontario, and most of it in Toronto, the wealthiest of all Canadian cities. So that what you see today -- it is only a small portion -- but what you do see is that the poor fisherman of Newfoundland is subsidizing or helping to subsidize the few people in Toronto who live in very nice high rise buildings.

COMMISSIONER HARROLD: Do you include the farmers as well as the fishermen?

MR. BATES: I used to be associated with fishermen, so I automatically think of them.

COMMISSIONER MACKINTOSH: Have you worked out the net value of the subsidy to that Newfoundland fisherman?

MR. BATES: Don't pull my leg, Dr. Mackintosh!

I think, Mr. Porter, in answer to your question, the amount of subsidized housing is very small, but it is likely to increase because in almost all the -- I would say in the fourteen metropolitan areas of Canada -- they have all made studies of their need for urban redevelopment and their need for this kind of thing. It is quite likely to increase very substantially the amount of housing and the amount of subsidy, and this will increase very substantially if the Act remains unchanged, but it has moved faster in Ontario because of the provincial government; the nature of the provincial government and the nature of the municipalities.

THE CHAIRMAN: But it is very slow?

MR. BATES: It is very slow.

THE CHAIRMAN: And it will continue to be very slow as long as it is left to the provinces and the municipalities to take the brunt ---

MR. BATES: They don't take the brunt, they only take 25 per cent.

THE CHAIRMAN: But isn't that the lower 25 per cent?

MR. BATES: They have to negotiate it.

THE CHAIRMAN: They take the equity position?

MR. BATES: No, no.

THE CHAIRMAN: It is all pro rata, is it?

MR. BATES: Yes.

COMMISSIONER LEMAN: I would like to ask some questions about this. The insurance fund, are there ideas preset as to where it should stop; would you contemplate, if you felt the fund became adequate, reducing the premium for future deals?

MR. BATES: I think that is a very good question, and my answer to it is that I don't know. I don't think anyone knows actuarily what the risks on the fund will really be. When the fund gets hit with a situation like Elliot Lake, where we have 700 houses thrown on the fund immediately, this is a tremendous bite right into it and we really don't know. If we had a depression we don't know what would come on the fund, but no home owner has complained to us yet of paying 2 per cent premium into the fund. They seem quite content to do this. I mention that the fund is $93 million despite the bite of Elliot Lake. Elliot Lake was a big bite and you might get this anywhere; Thompson, Kitimat, any of the one industry towns, and we have a lot of them in Canada, the one industry towns, where if that industry gets into trouble the whole town is in trouble. So, we have in C.M.H.C. continued to advise the government that so long as home owners are not complaining, that we will let the fund go until we gain some more experience. That is the situation.

COMMISSIONER MACKINTOSH: But the presumption is that if the fund continues to grow and that experience more and more indicated that 2 per cent was more than you needed, the presumption is that it would be adjusted?

MR. BATES: Exactly.

COMMISSIONER MACKINTOSH: But it will be a long time before you have the experience?

MR. BATES: We have now only eight years of experience.

COMMISSIONER MACKINTOSH: There is no presumption that you or the government want to make revenue out of this?

MR. BATES: We are not making revenue; we are holding the funds, we are the trustees of the funds for the insured lenders. In C.M.H.C. we are the trustees of a fund for the insured lenders. If it ran out the government would come to our aid as it does in the Unemployment Insurance, but we don't want to get into that position if we can help it.

COMMISSIONER LEMAN: Would you just for my information tell me a little bit more about how the payment is paid? Is it paid as a one lump sum payment?

MR. BATES: It gets into the mortgage.

COMMISSIONER LEMAN: It is added to the mortgage?

MR. BATES: Yes, it is added to the mortgage.

COMMISSIONER LEMAN: So therefore it is paid for the life of the mortgage?

MR. BATES: No, it is paid to us directly at the time, but it is in the mortgage, it is part of the mortgage, it is an extra $200 or thereabouts. What would it work out to, about $200? I guess on a normal house it would be that, and the $200, if we are doing a direct loan, we make the direct loan and the $200 comes back to us as trustees. If the bank or an insurance company is making the loan, the $200 comes into the mortgage insurance fund as trustee. There is only one thing we can do with it, we can only buy Canadian government bonds.

COMMISSIONER LEMAN: But the home owner, the fellow that buys this house --

MR. BATES: The cost has gone up to him by $200.

COMMISSIONER LEMAN: Has he paid the $200 at the beginning?

MR. BATES: It is in his mortgage, it is in his loan; he has to pay it over the next 25 years.

COMMISSIONER LEMAN: That is what I was asking, he pays it over the 25 years?

MR. BATES: Yes, he pays it over the 25 years.

COMMISSIONER LEMAN: And the lender pays it to you at the beginning?

MR. BATES: That is right, he pays us immediately.

COMMISSIONER BROWN: Your fund is now \$93 million?

MR. BATES: Yes.

COMMISSIONER BROWN: Have you a figure on your potential liability at the moment?

MR. BATES: Yes, \$4½ billion.

COMMISSIONER BROWN: This is remaining outstanding?

MR. BATES: That is what is outstanding, \$4½ billion.

COMMISSIONER GIBSON: And you said that you put the fund entirely into government Canada bonds?

MR. BATES: That is the instruction in the Act.

COMMISSIONER GIBSON: How do you carry out your investment operations? Do you bear in mind the problems of monetary policy and debt management? Do you buy and trade securities, or do you just buy and keep them?

MR. BATES: We do not trade. We have an agent, the Bank of Canada, that purchases for us, and we do not trade.

COMMISSIONER GIBSON: You are not trading in them?

MR. BATES: No, sir, we are not trading in them. We do not have to.

COMMISSIONER GIBSON: Does the Bank of Canada handle that with advice from you, or is it simply handled by them?

MR. BATES: It handles it for us. It gives us advice.

COMMISSIONER GIBSON: I see.

MR. BATES: It gives us advice, which costs us nothing. The advice is reasonable.

COMMISSIONER HARROLD: Mr. Chairman, perhaps I oould ask a question here on the same subject. The question of fishermen and farmers is raised to some extent. Do you see any insuperable difficulty in extending C.M.H.C. loans to the rural areas?

MR. BATES: Yes.

COMMISSIONER HARROLD: Is it a technical difficulty?

MR. BATES: No, sir. They are not growing; there is no rural area that is growing.

COMMISSIONER HARROLD: You are not suggesting that there is not a demand for housing in the rural areas?

MR. BATES: No. We are willing to lend to them.

COMMISSIONER HARROLD: On rural housing?

MR. BATES: Yes, initially. There is just no demand, or very little demand.

COMMISSIONER HARROLD: And there is nothing that would preclude you from lending on a farmhouse, that type of house?

MR. BATES: No, nothing. We do. There is just no demand. We cannot create one.

MR. ADAMSON: The farmers have access to other sources.

COMMISSIONER HARROLD: As far as housing is concerned?

MR. ADAMSON: Yes, sir, and a lot of other things.

COMMISSIONER HARROLD: How about the Farm Credit Corporation and its lending activities on a farm; does that not preclude C.M.H.C. from making a loan on the same property?

MR. WILSON: Only home improvement loans. If a loan qualifies as a farm improvement loan under the Farm Improvement Loans Act, then it cannot be made under the Home Improvement Loans Act, which is now the National Housing Act. But in terms of new construction, a new farm building, a farmer would be entitled to apply for a straight N.H.A. loan on a farmhouse and would come under our present direct lending policy. If he could not get a loan from anybody else, he could get it from C.M.H.C.

COMMISSIONER GIBSON: But what would the mortgage be based on; would it be based on the farm?

MR. WILSON: The whole farm.

COMMISSIONER HARROLD: With regard to the C.M.H.C. qualifications up to $12,000, he could not borrow $12,000; is that right?

MR. WILSON: No; he could not under the provisions of the National Housing Act, either.

MR. BATES: A farmer can borrow. If he wants to build a house, he can borrow from us.

COMMISSIONER HARROLD: But what would be the limits?

MR. BATES: The same as anybody else, $14,200, $14,900. We would have to have the mortgage on the house, not on the farm. We are not interested in the farm.

THE CHAIRMAN: It is only on the house?

COMMISSIONER MACKINTOSH: This is an important point.

MR. BATES: I am sorry, sir; I made a mistake. My advisers tell me that they would insist on having a mortgage on the whole farm.

THE CHAIRMAN: Then if there is already a mortgage on the farm, a person could not get a loan from you?

MR. BATES: He might be able to. Since I have been in the Corporation I have never had a farm loan come before me.

COMMISSIONER HARROLD: We have had representation from one of the farm organizations that would like to see the same provisions apply as far as farm housing is concerned, under C.M.H.C., or N.H.A., whatever it may be, and there seem to be technical difficulties in the way of lending just on the house rather than on the whole farm. Is that not right?

MR. WILSON: There is, under the N.H.A., a specific provision to deal with loans for farm housing, which is the only provision placed in the Act where an N.H.A. loan can be used in part to re-finance an existing mortgage on a farm. The limits imposed in the Act are considerably less favourable to the farmer than are provided by the Farm Loans Board, and the maximum loans under the N.H.A., and so on, are less than under the Farm Loans Board provisions, with the result that we get no business. This is basically going through the Farm Loans Board, rather than the National Housing Act. Theoretically and in fact -- legislatively -- there are provisions to remove this technicality, but the limitations are technical.

COMMISSIONER HARROLD: In other words, provided a farmer had a mortgage on the farm, he would not be able to borrow even your $12,000 for a house on the farm?

MR. WILSON: No, sir.

COMMISSIONER GIBSON: One of the problems put to us was that when you have hired help on the farm and you would like to build them decent housing accommodation, they cannot do this under N.H.A.; you cannot just take a piece of the land and put a house on it and put that up as security.

MR. BATES: I am sorry, sir, but this question has just never come to me. I have never had to face it.

COMMISSIONER HARROLD: I think representation has been made to the government, but it has not got as far as you yet?

MR. BATES: Would this be true, Mr. Wilson, that we could not help finance housing for hired help?

MR. WILSON: We could only use the disencumbered-portion of the farm as security for the loan. This puts a limit on the amount of loan the farmer can get under the Act.

We have had experience, and we are continuing to have experience of loans which are not identified as farm loans at all. The farmer has a son who marries; he separates and lives on a one, two or five-acre plot alongside the road; he gets an N.H.A. loan on that, but it is not identified in any sense as a farm loan or a loan to a farmer. But there are actually N.H.A. farm loans to farmers or a farmer's son.

COMMISSIONER BROWN: He has to get a piece of land that is not encumbered by a mortgage elsewhere?

MR. WILSON: Yes, sir.

COMMISSIONER BROWN: If that is done, he can get an N.H.A. loan?

MR. WILSON: Yes.

COMMISSIONER BROWN: What would be the limitation? The same as anywhere else?

MR. WILSON: Yes, exactly the same.

THE CHAIRMAN: Would there be any difficulty arising from the construction standards? You have a formula for this. Would you insist upon that and say that it must be appropriate to the needs of the sort of house the farmer might want to build?

MR. BATES: I do not think so, sir. We have what we call minimum houses that were initially designed for fishermen, that are relatively cheap; one big room, with a few little cubicles going off it -- that sort of thing. We are quite prepared to lend on that type of construction. But there is very little of it asked for. I do not know how many we have lent on. But we are quite prepared to lend on what we call the minimum house; in other words, we would not insist on a town house in a rural area.

THE CHAIRMAN: That is what I had in mind. I did not know whether you had special standards.

MR. BATES: No, sir.

THE CHAIRMAN: As to mortgages on existing houses, you do not provide mortgage money on existing houses at all, do you?

MR. BATES: No, sir, the Act does not provide for this.

THE CHAIRMAN: There has been some suggestion that -- well, we will leave that to a little later on. Are there any further question?

COMMISSIONER BROWN: I should like to ask one or two questions on this matter of objectives, Mr. Bates. You mentioned quantity, equitable distribution, and quality.

MR. BATES: Yes, sir.

COMMISSIONER BROWN: You did not mention, except obliquely as a result of questions, the matter of encouragement of home ownership; and you did not mention the extent to which combating unemployment entered into it, if this is an objective.

On the other hand, in your brief you say in paragraph 1.41: "From this brief andimpressionistic account it will be appreciated that objectives having little to do with housing as such, have, from the beginning, played an important part in the formulation of housing policy". Would you like to comment on this generally?

MR. BATES: Yes, sir. I think that really from the very beginning of the National Housing Act in 1935 -- remember that it was a question of creating an instrument -- the implications of housing on employment have never been very far away from the government's mind. It is clearly an important employment-creating instrument, because it uses almost entirely Canadian materials; in other words, cement, or earth-moving, or windows, roofs. It is an industry that uses almost entirely domestic materials, and it has therefore been never very far away from employment considerations.

It is not like some of those industries which use a lot of imported materials. This is entirely an employment-creating industry, and because of its nature, a heavy employer of labour. It is an assembly industry; it is all done by hand; there is practically no machine operation in the final assembly. It requires a very large volume of manpower to build a house, in the assembly as well as in the manufacture of materials. I think, in fact -- to my knowledge, at least, since I have been with the Corporation -- that there has only been really one occasion in which the employment feature has overborne the purely housing feature. That was in the year 1957-58. In 1957-58, in that recession time, the government decided that there was enough potential housing demand to push forward a counter-cyclical, if you like, housing programme; and it did so. The demand at the time was such that it took up the housing.

THE CHAIRMAN: Was that the time when you reduced the down-payment?

MR. BATES: No, sir, this came later. In the 1960 decline of business it was felt that the basic housing demand was not such that housing could be used as a counter-cyclical instrument, and it was not so used. In other words, the demand which has been available in 1957 was not there in 1960, and we might upset the building industry by launching forward with 25 loans per builder, or 50 loans per builder and getting into the speculative building business. So actually in 1960 housing was not used at all as a counter-cyclical measure.

I would think, speaking personally, sir, that I do not see the situation, the conditions of 1957-58 being in front of us for a long time, where we could move ahead with a housing programme far in advance of what we thought the demand could pick up. In other words, it is not available as a counter-cyclical instrument, it seems to us.

COMMISSIONER MACKINTOSH: Because the excess demand is not there?

MR. BATES: This is so, sir.

COMMISSIONER GIBSON: You said earlier, though, that to bring about this filtering down process -- I think that is what it is called --

MR. BATES: Yes, sir.

COMMISSIONER GIBSON: -- whereby there is more housing goes to people in the lower incomes at perhaps more reasonable prices, you need to have a bit of a surplus of housing. From this point of view the over-building of housing is a good thing, I suppose?

MR. BATES: You have to be very brave to face this situation. I think this is true, but you have to be very brave to over-build.

COMMISSIONER GIBSON: If you do not over-build, you do not get this filtering down?

MR. BATES: This is so, sir.

COMMISSIONER GIBSON: So this is a pretty serious part of the policy?

MR. BATES: Yes.

MR. ADAMSON: There is a distinction, though, between over-building in terms of what the demographic requirements will show, and over-building a market.

You may be put in a position where you are not over-building a market, and yet you are adding more houses each year than the normal growth of the population would indicate as a purely physical requirement. In other words, you may be contributing to this filtering down process and not exposing yourself to a market hazard. One is a social and the other a purely economic limit.

COMMISSIONER BROWN: One aspect of this on which I would like to get your opinion is this; the extent to which the policy of encouraging home ownership decreases the mobility of labour in times of economic difficulties.

MR. BATES: I do not really know what that means, sir. If ---

COMMISSIONER BROWN: I will put it this way. Is it a correct assumption, to the extent to which labour, or individuals are renting houses rather than owning them, that there is an increased mobility as between areas?

MR. BATES: There is such a fetish for home ownership. I have not met a Minister yet who was not prepared to rise at any moment in the House of Commons and talk in terms of the virtues of home ownership; what it did for you; it was good for your soul; you could change the storm-windows, tend the garden, look after your children. And apparently this is true. It is true in North America in both the United States and Canada. There is a tremendous fetish for home ownership.

I would think the problem you have mentioned would only arise if the area in which the man was was one in which the market for houses was bad, one industry town that was in trouble, which might reduce the mobility of labour. But I do not think we have any evidence of reduced mobility.

MR. ADAMSON: A lot depends, I suppose, on the conditions in the housing market itself. If it is a very tight housing market, as we had immediately after the war, home ownership is an asset and adds to your mobility.

THE CHAIRMAN: The market is a rising market and the value of the house goes up; it is a good thing in those conditions?

MR. BATES: But if you hit an area like Elliot Lake, I am quite sure this has hurt some people there. And the problem of Sudbury.

MR. ADAMSON: There is the basic fact that the cost of moving from one owned unit to another is much greater than moving from one rented unit to another, for the occupant, because the selling costs of real estate are very considerable. The actual moving of the furniture, the actual physical thing, does not differ very much; but the cost of moving to the home-owner, where he has a very substantial real estate fee to pay, is much greater than with a rented unit.

THE CHAIRMAN: In places like Windsor, which is an automobile centre, if there is slackness in the automobile manufacturing industry it would be almost impossible to dispose of houses quickly and get out and go somewhere else. It would become a drag on the market very quickly.

MR. BATES: We have no experience of this in Windsor. We own a lot of houses and have sold a lot of houses in Windsor.

THE CHAIRMAN: They don't move.

MR. BATES: It has not been a problem.

THE CHAIRMAN: They don't move.

MR. BATES: No. It has not been a problem.

THE CHAIRMAN: On page 8, Section 1.38:

"The Housing Acts of the 1930's therefore and the Act of 1944 reflected a duality of purposes, the stimulation of economic activity, and the improvement of housing conditions. The purposes were complementary, and not contradictory. Until the Korean crises in 1951 the stimulation of housing and general economic policies reinforced one another. In 1949 down-payments under the Housing Act were materially reduced to stimulate demand and to counteract the business recession then being experienced. In 1951, however, with the rise in defence expenditures and the over-all stimulation of aggregate demand thereby entailed, the first major use of housing policy as an anti-inflationary weapon took place and down-payments were increased under the Act in February of 1951."

Could you give any information as to how successful that policy was at that time.

MR. BATES: This was before my time.

MR. ADAMSON: There was a very sharp drop in starts in 1951, partly as the result of the government's cutting off a one-sixth loan they had introduced fourteen months earlier; partly also as the result of the withdrawal of the private lenders under the Act in face of rising interest rates which shortly after 1950 became rather more mobile than in the earlier post-war period.

MR. BATES: Looking at the figures, sir, the National Housing Act dropped from 43,000 in 1950 to 21,000 in 1951.

THE CHAIRMAN: Is that in your brief?

MR. BATES: No, it is not in the brief. I am looking at our annual report.

THE CHAIRMAN: What is the net result of all that as to whether the policy was effective?

MR. ADAMSON: It would indicate the policy was effective in that period.

THE CHAIRMAN: The starts dropped after the down-payments were increased.

MR. ADAMSON: Yes.

MR. BATES: I mentioned earlier, sir, that in my time the only counter-cyclical period in which housing was used was 1957-1958. We don't see any sort of circumstance available to us to advise the government to do it again.

THE CHAIRMAN: Well, in 1960 when you increased ---

MR. BATES: We widened the market.

THE CHAIRMAN: Yes, that definitely did widen the market.

MR. BATES: Yes, that is right. I don't think you can widen the market very much more when you get up to 95 per cent loans.

COMMISSIONER BROWN: Until these teenagers start getting married.

MR. BATES: But in terms of changing the Act to bring in more people.

THE CHAIRMAN: When you get to 95 per cent, there isn't much further you can go.

MR. BATES: There is not much left -- there is 105, Mr. Chairman.

--- Short Recess.

COMMISSIONER BROWN: Mr. Bates, I wonder if you could describe for us what the general policies are with regard to participation by private lenders in N.H.A. financing. In the last few years a number of private lenders have dropped out of the N.H.A. scheme. You have suggested that with respect to some of these it was because of the interest rate situation. Were there any other reasons that have been adduced to you, or have any steps been taken to try to encourage the private sector to re-enter the market?

MR. BATES: Well, sir, in the 1954 Act the most significant change was the permission then given to the chartered banks to enter the mortgage lending under the insured section, and the chartered banks did enter in a very substantial way for several years. They withdrew from the market pretty largely in 1959 and 1960, and when the rate of interest went to $6\frac{3}{4}$ the banks, being limited to a 6 per cent lending rate under the Bank Act, withdrew completely. Naturally, if they had remained in the market the whole volume of demand would have fallen on their shoulders. So, they were through, and there was practically no bank lending since 1960, I think. I think this year there have only been two bank loans made so far. So, the 6 per cent limit on the banks, set up by the Bank Act, was obviously a major factor in this situation.

The other lenders, of course, moved in and out of the housing market, the mortgage market, according to general interest rates -- what they can get here and there -- and in the mortgage market they may be either in the N.H.A. sector or in the conventional sector, whichever suits them better.

So, this is a fairly volatile market in this sense, and it is for this reason that C.M.H.C. has been a residual lender standing behind the mortgage market to make loans if no others were available.

For some years the National Housing Act rate of interest remained unchanged, and the other approved lenders and the banks, who were still in the mortgage market, moved out of the N.H.A. sector into the conventional sector which was more profitable. If the N.H.A. rate had moved a little closer to market rates the proportion between N.H.A. and conventionals would no doubt have remained a little more stable than, in fact, it was. The N.H.A. sector has been more liable to up and down movements partly because it was the rigidity that was in the N.H.A. rate. Actually, the only decrease in the number of lenders has really been in the chartered banks and, in fact, in the last two or three years we, in C.M.H.C., have taken up almost exactly what the chartered banks had been doing from 1954 to 1958 in lending.

COMMISSIONER BROWN: When you did enter and become the residual lender, what was the basis for deciding the areas to which you would confine yourselves? It wasn't based only the inability to get loans elsewhere? You confined it to certain limited borrowers?

MR. BATES: Well, since 1957 we have been in all areas of Canada.

COMMISSIONER BROWN: I am sorry, I used the word "area" not in the geographical sense.

MR. BATES: I am sorry. We have only been a substantial lender since 1957. Before that our direct lending was quite small. We have been a substantial lender since then, and at one part of the time, as I indicated earlier today, we were engaged in trying to extend the winter programme. The one area we entered at that time was twenty-five loans per builder. The next year it was fifteen -- the figures don't really matter -- but we were in builders' loans at one stage, and this had a very strong employment feature behind it, and the demand seemed adequate to take it up. By 1960 the demand did not seem adequate to take it up, and we stood then as a residual lender not on rentals, not to builders, but only to individual home-owners who could not get a loan from any approved lender. We have been in that position since: that is, we will lend to a home-owner anywhere in Canada who can produce evidence from two lenders that he cannot get a loan from them. We will lend anywhere in the country, but in terms of your "area" we are only in the home ownership loans.

COMMISSIONER BROWN: And at stages you have only been within certain limits, and so forth: why is all this?

MR. BATES: In one period in the anti-inflationary drive -- I think it was 1960 -- the government informed us we could not spend any more than $150 million, and we had to enter a rationing system that year. In other words, we said, "We will not lend even to a home-owner unless he has an income less than $5,000." This was an anti-inflationary measure for one year.

THE CHAIRMAN: When was that?

MR. BATES: I think it was 1960, sir -- yes, 1960.

This year, for example, we will not spend very much more than that, not because of any anti-inflationary drive, not because of any austerity, but simply because the demand is not there. We will not spend very much more than the $150 million which we did in 1960. But, we had to ration loans then to get it down to that figure, and we used an income qualification. That was the only year we ever had to do that.

COMMISSIONER BROWN: When the terms are changed as they have been from time to time -- the number of years...

MR. BATES: Amortization, you mean?

COMMISSIONER BROWN: Yes. ... percentages, and so forth, has this had an effect on the lenders at all? They have obviously been affected by changes in interest rates?

MR. BATES: Yes.

COMMISSIONER BROWN: And by the interest rate relative to other interest rates; but have lenders shown any changes in attitude because of changes in the other terms?

MR. BATES: Well, I think this would be true, yes. Although we can extend the loan to 30 years, the lender may not wish to go beyond 25 in his amortization period, but I would think it is true to say that the lenders have been quite adaptable, shall we say, to changing circumstances.

However, they are conservative; life companies are naturally a conservative group, you don't expect them to change overnight, but they do change.

COMMISSIONER BROWN: This is despite the fact these are insured loans.

MR. BATES: Yes.

MR. ADAMSON: I think the last change in amortization was in 1960; the authorized maximum went from 30 to 35 years, but even the 30 year maximum was the one which the lenders did not have to observe. The borrower didn't have any entitlement, as it were, to that 30 years, and characteristically didn't get it. Nor has he got the 35 years. It is the 25 years which the borrower may have if he wants it. For the loan to be insured, if the borrower wants it he has to getit. But this is not true of the 35 year limit which the lender may not wish to offer.

COMMISSIONER BROWN: Can you tell us what proportion is the maximum or what is the average?

MR. BATES: I think we might in just a moment. It is above 25 but there is always a change taking place.

MR. SECORD: The borrower has an entitlement to 25 years and that is in the Act as you know, sir, and I might mention that in our direct lending the loan is made for 25 years or/for whatever additional period the borrower requires to keep his payments at 27 per cent of his income, so we have a scale from 25 years up to 35 years. These are on direct loans only.

COMMISSIONER BROWN: While you are looking that up, mention has been made of this 27 per cent and this has been increased at various stages, as I understand it, over the history of the Housing Acts; how was this figure arrived at?

MR. BATES: Oh, I think it is more or less customary usage; pulled out of the air!

COMMISSIONER GIBSON: Did it not start at 23, or something?

MR. BATES: Yes.

COMMISSIONER BROWN: And then it was 25 and then it was 27?

MR. BATES: Yes. I don't think it will go much higher.

MR. HIGNETT: To answer your question, in 1962,6 per cent of all N.H.A.loans made by both the lenders and the Corporation have had amortization periods for longer than 25 years.

MR. ADAMSON: The bulk of those are by us.

MR. HIGNETT: Virtually all the loans made by the lenders are at the 25 year minimum.

MR. ADAMSON: They have been adaptable where they don't have to adapt.

COMMISSIONER BROWN: You mentioned a moment ago that the number of lenders that are active has not changed materially; can you tell us how many there are?

MR. BATES: I think in a moment we can. There are some approved lenders who don't make any loans.

COMMISSIONER BROWN: I want two figures, one, the number of approved lenders, and the other is the number of active approved lenders.

That is all I have on this, Mr. Chairman.

MR. SECORD: There are 65 lenders who have made loans, and this year there have been 12 lenders -- 12 of the 65 -- who have not made loans this year.

COMMISSIONER BROWN: Thank you very much.

COMMISSIONER LEMAN: Mr. Bates, I would like to go back for one moment to a point you made about the possibilities in the housing field in relation to counter-cyclical action by the government, and I gather that you tell us that as of now and for the foreseeable future there probably wouldn't be a sufficient elasticity of demand for housing to use this as a weapon for activating the economy much. Now, how about in a different sort of circumstances, would it run too much against the objectives of the N.H.A. Act to use it as a restraint instrument in times of ---

MR. BATES: This wasn't done in 1960 when the government instructed us to cut back our lending very substantially and when we had to ration our loans according to income. This was an anti-inflationary measure. Beyond that I don't think the government could go, and what the approved lenders did was their business, but we had been lending at the rate of $350 million and we were cut back to $150 million -- that is a very substantial cut back -- in 1960.

THE CHAIRMAN: That was in the early part of the year?

MR. BATES: Yes, that is right, Mr. Porter.

THE CHAIRMAN: And it was the end of the year, December I think, when you raised the 90 per cent to 95.

MR. BATES: That is right.

COMMISSIONER LEMAN: That was done by cutting down the number of approved loans. What do you think would be the effect of freeing the rate instead of using it in the way it was used then?

MR. BATES: Freeing the interest rate?

COMMISSIONER LEMAN: Yes.

MR. BATES: You mean, just letting it float, just letting the rate float to wherever it would go?

COMMISSIONER LEMAN: Yes. In other words, getting away from this spread of the N.H.A. rate, et cetera; leaving it to the market.

MR. BATES: Well, it might simply float with the conventional rates.

COMMISSIONER LEMAN: That is one thing which I wanted to ask you about. Have you observed that the conventional mortgage rates have tended to set themselves into a rather fixed relationship to the N.H.A. rate?

MR. BATES: Not necessarily, although I think it is true that many approved lenders think of some sort of margin as being right and proper, but the relationship between the two rates has varied quite substantially; they haven't kept in parallel with the one per cent margin, or something of this kind. It hasn't been a fixed margin of difference between the two sets.

COMMISSIONER LEMAN: No, it may not be absolutely rigid, but has it tended to act that way in the past?

MR. ADAMSON: I don't think it has. I think from the period from 1957 to 1960 -- roughly that whole three year period in which interest rates generally were rising -- our rate was held at 6 per cent and the conventional rates during parts of that period were well over 7 and up to 7½ at times.

Now, the conventional rates and the N.H.A. rate, particularly in the more recent past, have been quite close together; there has been conventional money available at 7 per cent for much of the past year, and even in special cases I think at 6 3/4 per cent, and this is at a time when our rate has been at 6½ per cent and our rate, you must remember, has the additional feature of a 2 per cent mortgage insurance fee which would represent the equivalent, possibly, of one-quarter per cent on interest rates, so there has not been a tendency, I would say, for the

N.H.A. rate and conventional mortgage interest rates to conform to a fixed pattern.

COMMISSIONER MACKINTOSH: The fact that the lending institutions move in and out of N.H.A. and conventional mortgages is evidence that the rates do not?

MR. BATES: Yes.

COMMISSIONER GIBSON: Plus the lending by the approved lenders, and this chart which appears on page 36 is a very good indication that there is a close relationship between the amount on loan by the approved lenders and the spread between what you might call private mortgage interest rates and the N.H.A. rates, not just conventional mortgage rates.

MR. ADAMSON: Yes, it is not a very mysterious relationship.

COMMISSIONER GIBSON: Mr. Leman asked you what the effect of freeing the rate would be; surely this chart suggests it would tend to stabilize or level out N.H.A. loans to a greater degree than in the past, wouldn't it?

MR. BATES: But at higher levels of interest.

COMMISSIONER GIBSON: But on the average?

MR. BATES: On the average, yes. In other words, one of the purposes of the N.H.A. would be defeated.

COMMISSIONER GIBSON: But there would still be the insurance feature?

MR. BATES: Yes.

COMMISSIONER GIBSON: Which would have a value?

MR. BATES: Yes.

COMMISSIONER GIBSON: Why would the interest rate be higher on the average; I don't follow that?

MR. BATES: Well, the fact it has always been regulated and that people have been moving in and out indicates that the regulation has from time to time restricted it.

COMMISSIONER GIBSON: Sometimes they don't want the money on those terms?

MR. BATES: Yes.

COMMISSIONER BROWN: For example, the last time you came down from 6 3/4 to 6½, which was in November of 1961, and at the time that you were still at 6 3/4 and before you came down to 6½, were there loans being made at less than 6 3/4 at all?

MR. BATES: Not that we know of.

COMMISSIONER BROWN: They were all at the maximum?

MR. BATES: Yes. There was only one that we know of when the rates were made below the maximum; one brave banker did it.

COMMISSIONER LEMAN: You have explained to us that the business of residential construction must have an influence on economic activity because of the use of Canadian materials, labour, et cetera, and it is nearly 100 per cent Canadian activity, economically speaking. Since you have kept the interest rates, I wouldn't say inflexible, but rather inflexible, could it be that the government felt that as a counter-cyclical measure it could keep better control with an inflexible rate for the purposes of using housing as a counter-cyclical weapon rather than letting the interest rate flow?

MR. BATES: I don't think that was a consideration, a major consideration, Mr. Leman. I think you have to recognize that when it was first contemplated to raise the National Housing Act rate above 6 per cent that this was a major political decision that had to be made to break through that. The rate had always been much lower and to break through this 6 per cent was a difficult political decision and to go any higher was also a difficult political decision. This was as important as anything else in the considerations at the time, and actually the rate lagged in the market because of political problems, rather than anything else. I suppose the same would happen if we had to contemplate breaking through the 7 per cent ceiling.

COMMISSIONER LEMAN: Mr. Bates, we might come back to the subject which the chairman was opening up earlier in the discussion, which was the question of extending N.H.A. loans to existing houses. You explained to us in paragraphs 4.1 to 4.6 that the financing on the existing houses would not call for all new money because a lot of the properties were already encumbered, but nevertheless in 4.6 you make the statement that perhaps 50 per cent of the flow of funds into residential mortgages is for new houses, and the one which you can look at seems to be 38 per cent, but because of this refunding back you say it is probably 50 per cent.

Now, what do you believe would be the effect of extending the N.H.A. in terms of existing housing from the point of view of affecting the availability of funds for new housing? Do you agree that it would make a considerable dent in the amount of funds available for new housing?

MR. BATES: Well, I think if the supply of funds were to remain fixed it would make a tremendous dent for some time, a tremendous dent; for three years or five years, I don't know, but a tremendous dent.

COMMISSIONER LEMAN: Would you say that the reason why it would make such a tremendous dent is because the N.H.A. rate is an administered rate and it might not be so if it was a free rate.

MR. BATES: I don't think the rate is so important as the fact that at present under the N.H.A. there is a substantial flow of funds into new housing. Now, if you made a National Housing Act to cover existing housing, part of that flow would inevitably go into existing housing because it is not nearly so fluid a market, especially if you consider giving 95 per cent loans and the same sort of terms as you give on new housing. This would increase tremendously the mobility of movement in the older housing market; many people would sell out and buy automobiles and go to Florida, and I don't know what else, who find it difficult to move today, so the demand on government funds would certainly increase tremendously, I am sure.

COMMISSIONER LEMAN: It would result in stimulating the durable consumer goods market, perhaps?

MR. BATES: We might just go to Florida, I don't know.

COMMISSIONER LEMAN: One thing which I would like to ask you to make a guess on is this; you have explained to us also that the sources of funds for conventional mortgages are quite different from the sources of funds for new housing because of the N.H.A. Act. In other words, conventional mortgages come from a lot of people who don't even qualify as approved lenders under the N.H.A. Act individually, so is it your thought that opening N.H.A. to existing housing would produce a tremendous shift in the source of funds for the various types of housing?

MR. BATES: I don't know what sort of shift it would mean, but I am quite convinced it would mean a very substantial increase in the demand for funds from the government because ---

COMMISSIONER LEMAN: What I have in mind is this: individuals provide a lot of the conventional mortgage funds?

MR. BATES: Yes.

COMMISSIONER LEMAN: In the market ---

MR. BATES: They might be loaning 60 per cent, but if you are talking of changing the Act to provide 95 per cent, then I don't know whether any individual is actually going to have enough funds to fool around with, so to speak.

COMMISSIONER LEMAN: So the individuals would get out of the market, then?

MR. BATES: I don't know if they would get out, but if they paid in they would be taking 90 and 95 per cent loans instead of 60 per cent loans, and there wouldn't be as much money to go around as there is today, and there would almost inevitably for a period of years be an increased demand on the government to act as a residual lender in that market.

COMMISSIONER LEMAN: Do you visualize that an individual who makes one or two mortgage loans,say,a year would ever become an approved lender under the Act?

MR. BATES: I don't know.

COMMISSIONER LEMAN: Therefore these individuals probably couldn't and wouldn't compete?

MR. BATES: They might not, no.

COMMISSIONER LEMAN: That is what I mean by would you visualize a tremendous shift in really pulling the individuals out of the market, is that your point?

MR. BATES: Well, I think if the N.H.A. applied to the existing housing and borrowers would seek the maximum loans; if they could get them from individuals, all right, but if they couldn't they would expect to get them from us.

COMMISSIONER LEMAN: Some other people have come before the Commission and have suggested that the N.H.A. terms should be extended to existing housing and they made the arguments about it. But they always talked about extending them on exactly the same terms as for new housing, although they admitted that the appraisal system could act as a sort of regulator for this activity. Is there room here for perhaps a middle course? Is it necessary to think of it as extended exactly on the same terms?

MR. BATES: This would be a decision for the government to make, but you are quite right, it could be on quite different terms. Normally most of the people who speak about the extension to existing housing speak in terms of the same sort of legislation as applies to new housing, and inevitably that is where you would get it. You might start off with 80 per cent loans but you would probably get 90 and 95 per cent before too long had passed. I mean, there is the political pressure. The Housing Act is a constant extension of something. It keeps being amended year in and year out. I am quite sure, Mr. Leman, if it started off with an 80 per cent loan it would soon get up to 85 per cent and eventually it would get up to the other level.

COMMISSIONER LEMAN: You see what I am driving at. What I am wondering about is whether the positions taken are so definite that people keep saying if they are extended they should be extended on exactly the same terms, and that may be the reason why the positions are so firm, you see, on either side.

COMMISSIONER MACKINTOSH: If I could interject here, is it not true that it would have to be varied? You go along and say, "On any new house conforming to N.R.C. standards we will approve a loan of 25 years at least." You cannot do that with existing housing.

MR. BATES: No, this would reflect itself in our appraisals and our lending values on old houses. This is what would happen.

COMMISSIONER MACKINTOSH: It would have to reflect itself also on the terms of lending?

MR. BATES: Yes.

THE CHAIRMAN: Have you any knowledge of any great need for extending any loans to existing housing? Are you familiar enough with the housing market to be able to give us any idea as to how urgent the problem might be?

MR. BATES: Well, as an organization, sir, we have to keep ourselves in preparedness in case we have to launch into that at some date, and therefore we try to keep a watch in every major city on what the market is in used housing, its nature, and so on. We are well aware of the fact that the National Housing Act, by confining itself to new housing, twists the market, if you like, in a way that induces young people with $500 to go into a new house rather than an old house. We are well aware of this. We are well aware of the fact that the volume of mortgage lending by the conventional lenders in the used housing market creates problems in secondary mortgages. We keep our eye on this. There is nothing we can do about it but we keep our eye on it. We know that if we were in the used housing market the problem of secondary mortgages could be much diminished for many people, but beyond this we do not go except we just keep watching.

THE CHAIRMAN: Is there any indication that there is a lack of a market, that there are areas in the country where it is almost impossible to sell a house, or is the market fairly active? There are people who want to sell houses and there are people prepared to buy them and they will agree on a price.

MR. BATES: There is a very active market.

THE CHAIRMAN: There is?

MR. BATES: Of this there is no question, but it might be more active.

THE CHAIRMAN: I am just wondering whether there is a real problem there or not?

MR. BATES: We do not think there is a real problem. It would be easier for many people if N.H.A. was in the used housing business, but we do not think it is a national problem.

COMMISSIONER MACKINTOSH: Without implying any final judgment would you agree that the case for extending insurance to existing mortgages is stronger as you get into a buyer's market than it was when you had an acute housing shortage, and the emphasis could well be on new housing rather than existing housing? Do you think the scales are tipped a little as you get into a buyer's market?

MR. BATES: Yes, I think the scales have tipped a little. You have also to consider the other side, what this would mean in terms of government expenditure.

COMMISSIONER MACKINTOSH: I do not mean they are tipped enough, necessarily.

MR. BATES: No.

COMMISSIONER MACKINTOSH: The more you get into that the more consideration might be given to it.

COMMISSIONER GIBSON: It also affects the filtering-down process you were talking about. If you give support to the market for this housing then the accommodation might not be as cheap as it would otherwise have been for people on the lower-income scale. Is that a reasonable statement?

MR. BATES: Yes, I think it would raise the price on new housing; of course it would.

COMMISSIONER BROWN: Has that been the experience with the F.H.A.?

MR. BATES: Well, they were always in it. They were in it right from the beginning.

COMMISSIONER BROWN: Let us put it this way. Do the relative prices of used housing to new housing in the United States differ from the relative prices of used housing to new housing in Canada?

MR. BATES: I cannot answer that question.

COMMISSIONER BROWN: Perhaps Mr. Adamson can answer it.

MR. ADAMSON: I am sorry.

MR. BATES: I do not know what the price of used housing is in Canada, or the price of new housing. You are talking about a mass of things, are you not? The question cannot really be answered. It is too diverse a population you are speaking of.

MR. ADAMSON: I think there are very strong a priori reasons for thinking that it would put an upward pressure on existing real estate prices. But the mortgage money supplies are completely inelastic it is difficult to see how it could have any major over-all effect other than it would put our present N.H.A. lenders in a position where they could choose wherever they would make their loans. There is no reason to think it would increase their supply of money under the Act unless it were contemplated to change the N.H.A. interest rate.

COMMISSIONER BROWN: We have been told that one objective has been to create a better distribution of existing houses. Would this mean a more economic useful use of existing housing?

MR. ADAMSON: I do not know if it would be more economic, but I think without question it would mean a different distribution of existing units. The very existence of down-payment requirements puts asset holders in a position of advantage in seeking dwelling space, and they are in a position of particular advantage in a used housing market because the cash requirements there are so much greater, relatively speaking. They would lose this advantage if you remove this asymmetry from the market. What this means is that the present twist puts people with assets in a position where they get cheaper accommodation than they otherwise would.

COMMISSIONER GIBSON: Probably the price would be raised to some extent.

MR. ADAMSON: Yes, it would raise the cash price. Again the subjective price to the tenant would presumably be lower. He might prefer to buy a $13,000 house with a down-payment of $500 than a $12,000 house with a down-payment of $2,000. To him, when everything is looked at, it is a cheaper price. The capital price really does not mean anything in abstracto. You have to look at the terms: "I have to pay so much cash out of my jeans, and I get so much from this person" and so on. The capital price might be $12,000 in one case and $15,000 in another. This is not the thing. The capital price does not have a consistent meaning between buyers in different positions.

COMMISSIONER BROWN: Have you any opinion about the sociological position of existing housing, whether this would be improved?

MR. ADAMSON: I do not understand.

COMMISSIONER BROWN: Well, from the point of view of retired people living in houses that are larger than they really need, whereas other people with families are occupying accommodation that is not suitable to them -- would this help to get this accommodation redistributed?

MR. ADAMSON: In the sense that generally I think it would increase mobility.

COMMISSIONER BROWN: In other words, would it further the objective of more equitable distribution of existing housing?

MR. ADAMSON: Yes. I think it would in part deprive asset holders of an advantage they now have. Asset holders always have an advantage by virtue of having assets, but they have a special one in this case. I do not know whether sociologically that would be a good or bad thing, for I do not know enough about the sociological structure of people who are long on assets or short on assets.

COMMISSIONER GIBSON: I would like to ask one or two questions about the housing policy in its relation to the general economic policy. In the material that you present here, and in your comments, you have left me with the impression that the government-set N.H.A. interest rate is a very potent weapon in effecting the supply of mortgage funds. It looks as though it had been to some extent used anti-cyclically in the past. Certainly the spread between the N.H.A. rate and corporate bond yields was at a low in the boom of 1959 and at a low in the boom of 1956-57. Did this just happen or is this conscious economic policy? You said yourself it is difficult to change this rate and at times when other interest rates are rising if you do not change you get this result. Do you regard this as a proper instrument of economic policy or is it something that just occurs?

MR. BATES: I think it would be very difficult to say that it was a conscious instrument of policy. It may be that all that was considered as part of the over-all policy.

COMMISSIONER GIBSON: It has shown itself to be very effective as an anti-inflationary measure, if you like, because it does cut off the supply of money in this area and, indeed, apparently the supply of all mortgage money to a degree because better yields on corporate bonds, and so on, divert money out of the mortgage market.

MR. BATES: But I think you have always got to remember that the conventional rate can move irrespective ---

COMMISSIONER GIBSON: And does.

MR. BATES: --- and does move irrespective of the N.H.A. rate, so approved lenders may switch from N.H.A. to conventionals, and their judgment there will be related to corporate yields and other factors. Therefore, the potency of this rate is not very great. It did not determine the conventional rate.

COMMISSIONER GIBSON: No. But you see what I am getting at. If the rate is used in this way it is a factor that can be used in an anti-cyclical way from a business and economic policy point of view, but this means it is a factor of instability so far as housing is concerned. It emphasizes the ups and downs and it seems to me that it suggests a certain conflict between the objectives of what you might call the housing policy and the objectives of the economic policy. Is this a real problem?

MR. BATES: Not a major one. It is inherent.

COMMISSIONER GIBSON: Let me put it another way. Is the high degree of instability in the production of housing, let us say, and in the supply of mortgage funds, a factor in increasing the cost of housing?

MR. BATES: Yes, I would think if the housing industry had a perfectly stable market to which they could adjust themselves, no doubt you would have larger firms emerging, large-scale operations, and constantcy in operations. Many things could happen that could ultimately affect the cost of housing. The housing industry is a very small-scale industry to begin with. People move in and move out. There are not many large builders, and it has always been so. It has been this way in England and in the United States. The costs are dependent to some extent on the amount of productivity that emerges from that sort of industry. Complete stability would no doubt produce larger-scale operators and probably smaller-scale unit costs. I do not know how you can get this in this industry.

COMMISSIONER GIBSON: How about other changes in the terms? You have made it pretty clear here that at times changes in the period of the payment and in the amount of the loan in relation to appraised value have been very important in stimulating the demand for housing and, in 1951 and 1952, in reducing the demand for housing. Do you see these instruments or changes in these terms as significant elements, again in terms of national economic policy in the future? You have made it clear that you think the backlogs have been pretty well made up and that we have gone as far as we can in the amount of loans in relation to the appraised value.

MR. BATES: Yes, you cannot be much more liberal in these terms than you are now.

COMMISSIONER GIBSON: Could they be tightened up?

MR. BATES: They could be tightened up if the occasion required it, just the same as we involved ourselves in rationing in 1960.

COMMISSIONER GIBSON: But the control that was exercised in 1960 was that the government decided to make less money available to C.M.H.C., is that not correct?

MR. BATES: Yes.

COMMISSIONER GIBSON: And we have not used these other instruments for quite a little while in that way?

MR. BATES: This is so but they could be used.

COMMISSIONER GIBSON: Does this make sense?

MR. BATES: Yes.

COMMISSIONER GIBSON: And you do not see any very major problem here in a conflict between housing policy and economic policy?

MR. BATES: Except I do not think you can be much more liberal in housing policy than you are now when you get up to 95 per cent loans.

COMMISSIONER GIBSON: As the person responsible for housing policy do you object to seeing the housing policy used as an anti-cyclical measure?

MR. BATES: Yes.

COMMISSIONER GIBSON: You do?

MR. BATES: Yes, I want to see an adequate volume of housing coming forward each year.

COMMISSIONER GIBSON: And you would rather not see this used for general economic policy to a major degree?

MR. BATES: Not to the point of sacrificing the shelter needs of the Canadian people.

COMMISSIONER GIBSON: Is this one of the arguments in favour of the fixed rate, of a rate that is changed very seldom, that it automatically produces a certain anti-cyclical behaviour in the supply of N.H.A. funds? If it is not changed, and interest rates are rising in a boom, this rate becomes relatively low and funds are more difficult to obtain; and vice versa, when interest rates are going down, this interest rate gets relatively high?

MR. BATES: That is what is happening, yes.

COMMISSIONER GIBSON: Is this a good thing; that is what I am getting at?

MR. BATES: Is this a good thing, sir?

COMMISSIONER GIBSON: Is this a strong argument in favour of a relatively fixed rate?

MR. BATES: It is an argument in favour of a relatively fixed rate, yes.

COMMISSIONER GIBSON: Do you think it is an important argument?

MR. BATES: No, but it is an argument.

COMMISSIONER GIBSON: In other words, you would put housing policy first in your thinking, to get a reasonably good supply of housing?

MR. BATES: This is my job.

MR. ADAMSON: Not just a fixed rate, but also a low rate, because the capacity to control demand on mortgage loans in this field depends on the N.H.A. terms being a bargain, which is not always available. The more of a bargain it is, the more excess demand you have that you can release when you want to release it.

COMMISSIONER GIBSON: But if a market is going up, your rate then becomes low and there is very little interest from the standpoint of attracting mortgage funds?

MR. ADAMSON: Yes; but today conventional rates and N.H.A. rates are reasonably close together so that the N.H.A. does not constitute as much of a bargain. We clearly do not have the excess demand to make N.H.A. money available to any mortgagor who wants to borrow it, as we would if the N.H.A. rate were lower. This was a decisive point in the market in 1957. We had a much greater demand than we have today. I think this is the point. The possibility of doing this is not as great as it was throughout most of the fifties.

COMMISSIONER GIBSON: And if you want to make the rate a factor in the demand, from the standpoint of the person buying the house, this means that the government has to put up the money as the private suppliers leave the market, and if the government cannot put up the money, the low rate restricts housing activity?

MR. BATES: This is so, sir.

COMMISSIONER GIBSON: I was thinking rather the other way, of a low rate restricting housing activity in booms, and because a fixed rate would tend to be / relatively high in a recession, encouraging housing activity in a recession.

MR. ADAMSON: This was basically the rough pattern during the fifties. This tended to happen. Although the anti-cyclical behaviour of housing in total has been something less than perfect, there has been some tendency for starts to start rising rapidly when general money interest rates were declining.

COMMISSIONER LEMAN: Is Mr. Gibson through on that point?

COMMISSIONER GIBSON: On that particular point, yes.

COMMISSIONER LEMAN: I wanted to go into another area, Mr. Chairman.

THE CHAIRMAN: All right.

COMMISSIONER LEMAN: We have heard from other people who came before the Commission, and although I admit that at the time they were making these points about the various provincial laws regarding foreclosure procedures, et cetera, they were then talking mostly in the area of creating a secondary market for mortgages, but just as a preliminary to talking about secondary markets, could you tell us if C.M.H.C. has encountered difficulties related to these legal differences in procedures for the administration of mortgages, including foreclosure.

MR. WILSON: It is a difficult thing to decide in itself, because it depends on degree. We certainly find that we have more administrative troubles in the province of Alberta than we do in Ontario, because much more legislative protection to the borrower is given in Alberta than is given in Ontario. This may account for the rather unusually high proportion of N.H.A. direct lending in Alberta. It may be that other people do not like Alberta because of this. We certainly find in our experience that we have more difficulty there.

We have a bit more trouble in Quebec, not because of the legislative difficulty but because of what you might call the inertia of their court proceedings and the additional time it takes to go through the procedure, although the relative laws are roughly comparable as between Quebec and Ontario.

Apart from these two provinces there does not seem to be any variable degree of difficulty in terms of foreclosure procedures.

COMMISSIONER LEMAN: Has this meant any particular regulations under the Act which you have had to put in?

MR. WILSON: Except for the prohibition of farm loans in Saskatchewan, which were subject to an absolute moratorium at the time, I do not think there has ever been anything like a prohibition or a restriction on willingness to lend anywhere in Canada under the National Housing Act.

COMMISSIONER LEMAN: What I am driving at is this. Does it influence the adequacy of the insurance?

MR. WILSON: No, because the insurance is payable only after foreclosure. It depends whether you are looking at adequacy from our point of view or from the point of view of the lender.

COMMISSIONER LEMAN: From the point of view of the lender.

MR. WILSON: From the point of view of the lender, it might. The insurance provides a lender, for practical purposes, with insurance for a period of about eighteen months after default before he suffers what you might call a decline in effective return. So if a foreclosure can be accomplished within eighteen months, on an average, the insurance is 100 per cent insurance.

I doubt that a lender could demonstrate that, on averages, even in Alberta or Quebec, this does not constitute 100 per cent insurance at the present time.

COMMISSIONER MacKEEN: Mr. Wilson, do you have the personal covenant of the borrower in Alberta?

MR. WILSON: In terms of our direct loans?

COMMISSIONER MacKEEN: On direct loans.

MR. WILSON: We have a covenant of the borrower on any loan, but to the extent that you may have to choose between the covenant of the borrower and the value of the property, we have always chosen the value of the property, to date.

COMMISSIONER MacKEEN: Conventional loans are not covered in Alberta by the personal covenant, are they?

MR. WILSON: I do not know. N.H.A. loans are covered to the extent that you seek to go to the property for your security, so that I would say, in that sense, neither conventional or N.H.A. have that protection.

COMMISSIONER LEMAN: All N.H.A. housing loans are made on what is commonly called the blended payment system, are they?

MR. WILSON: This is a mortgage administration procedural distinction. Most of the lenders do their accounting on what is called the blended system. There are a few lenders, and we ourselves as lenders, who use the flat rate payment system. There are some of the approved lenders who use the same system. If you talk in terms of blended payments of principal and interest, all of them are on that basis.

COMMISSIONER LEMAN: In case of a need for a moratorium fairly early in the curve, a moratorium on the principal, there would be not much change in the monthly payments that have to be made?

MR. WILSON: This would depend on when in the amortization table --

COMMISSIONER LEMAN: I say, early in the curve.

MR. WILSON: Early, they would be comparatively small.

COMMISSIONER LEMAN: So you regard as invalid any claim by lenders that there is some defect in the adequacy of the insurance from their point of view?

MR. WILSON: If their point is that it is not insurance against moratorium legislation, their contention would not be invalid. Mortgage loans insurance is not insurance against provincial moratorium legislation. I do not know whether any government could attempt to take issue with other governmental action. Certainly if any province passed absolute moratorium legislation, lenders would be caught with that.

COMMISSIONER MACKINTOSH: I would like to direct some attention to what you have to say about the secondary market. You indicate in the quotation, I think, from your annual report that there has been slow but sure progress in this over the last eight or ten years, and that the major steps in it have come as a result of your auctions.

Would you tell me, just so I can get a more realistic view of it, on what basis institutions bid and what actually is the auction procedure?

MR. BATES: The auctions began last year and we have no great experience yet. The procedure is to send out lists of mortgages in different parts of the country, giving the streets -- not the names of the people; we felt we could not go quite so far as that, but giving the streets with the particular blocks of mortgages that we put together.

These are put together on a basis that allows a bidder to select from Nova Scotia, Guelph or western Ontario, or somewhere else. These lists are sent to all the approved lenders and the investment dealers in Canada. They are asked to bid on these.

COMMISSIONER MACKINTOSH: May I interject there? As I understand it, if they buy, they buy a package?

MR. BATES: Yes, sir.

COMMISSIONER MACKINTOSH: Do you make the package, or do they make the package?

MR. BATES: We make the package, and we offer these different packages for their consideration. In the package there is a quarter of a million, up to half a million packages. Maybe in the future we will have to cut them down a little bit. Maybe we will make them bigger, wider than they are; but our process here has been really to test the market and see what sort of offers would come forward.

We have had five auctions, including the last one. The last one was a flummox; it came out the day the government announced some problem of austerity. So we have had four auctions. Whether or not the auction technique is the best, we have still to learn, and consideration is being given at the moment to listing offers at posted prices so that an investment dealer may be able to come along and say, "We will buy $1 million at that price and we will go out and sell bonds on the market for $5 million. Hold this for me for the next three months". Under the auction technique this is difficult for that type of firm, because they do not know whether they are going to win the bid or not. So at present the subject is being considered by a committee of three, the Deputy Minister of Finance, the Governor of the

Bank and myself, who are responsible to the Minister of Finance and the Minister of Public Works for advising them on the development, the attempted development of this market. The committee is considering this question of posting bids as well as the method of auction.

COMMISSIONER MACKINTOSH: That is to say, they can bid at any time?

MR. BATES: Yes, we would stand ready, say for a month, to offer up to any amount at 6 3/4 or 6½ at such and such a price.

COMMISSIONER MACKINTOSH: An elementary question. What is the form of their bid? You say you offer this parcel of mortgages for a certain principal sum.

MR. BATES: Each time so far that we have offered parcels, they were all at the same rates; that is, they were either 6 per cent mortgages or they were 6 3/4, so the bids would simply come in at 101 or 101.5; or in the case of 6's they would come in at somewhere in the 90's.

MR. ADAMSON: Bids specific to each parcel.

MR. BATES: Yes. And these bids varied according to the buyers' estimates of whether they wanted to hold mortgages at Sydney, say, distinct from Scarborough, Toronto.

COMMISSIONER MACKINTOSH: Distinct as above and below par?

MR. BATES: Yes.

COMMISSIONER MACKINTOSH: We can assume, I imagine, that you want to get the best price possible. Do you clear the market on these auctions, or do you reject bid as being too low?

MR. BATES: Yes, we do not necessarily take all the bids. We have taken -- when selling high price mortgages you expect a substantial premium. If we are selling 6's you expect some reduction below par.

I will read the figures to you, sir, which have just been given to me. The 6 3/4 stuff, the average price of the first one was 101.17, then 101.35, and then 101.79. When we sold the 6's in March, it was 97.60.

COMMISSIONER LEMAN: What information does the bidder have, again? He has the streets, et cetera. Does he have information on the collection experience, et cetera?

MR. BATES: No, sir. There is nothing in the parcel that is in arrears at the moment the bid is made. In other words, we do not offer any particular house with regard to which the home owner is in arrears. Of course, they are all insured loans.

COMMISSIONER LEMAN: There is no general statement that on this package collection experience has been satisfactory.

MR. BATES: Well, it is an indication that there is nothing in arrears.

COMMISSIONER MACKINTOSH: How satisfied are you with the distribution resulting from these auctions?

MR. BATES: Satisfied of what, sir?

COMMISSIONER MACKINTOSH: The distribution.

MR. BATES: Do you mean, among buyers?

COMMISSIONER MACKINTOSH: Yes.

MR. BATES: Experience is still quite limited. We have had buyers from chartered banks, trust companies and investment dealers. In other words, there is some wide distribution among the institutional buyers.

COMMISSIONER MACKINTOSH: Most of your buyers have been the approved lenders?

MR. BATES: Including investment dealers who are not approved lenders; in other words, we opened the market to the investment dealers of Canada who are not approved lenders, generally.

COMMISSIONER MACKINTOSH: The banks, I take it, might feel they could buy the 6's at a discount and put themselves in a slightly more legal position than if they were making new loans under a 6 per cent ceiling. Is that a factor?

MR. BATES: This is no doubt a factor. They could buy $6\frac{3}{4}$ because this is an investment they were making, and the 6 per cent ceiling on their loans didn't apply.

COMMISSIONER MACKINTOSH: While this may not be comprehensive, I would see approved lenders might by this means shift their portfolios: get more mortgages here and less there, and so on. But the contribution to the increase in the market would, I suppose, depend on these buyers at the auction distributing a certain part of their purchases to institutions or funds or individuals who otherwise would not have access to N.H.A. mortgages? This is what I mean by distribution.

MR. BATES: Well, I think this is so. After all, most of the approved lenders have the machinery for making their own loans. They have got the overhead there and they want to use it. Naturally, in the various auctions most of the banks and trust companies who bought were buying for pension funds, not really for their own portfolios.

COMMISSIONER MACKINTOSH: Here again, to go back over earlier ground, is a place where the demand is greatly affected by the fluctuation of rates in that these mortgages are attractive to pension funds at certain times, and at other times, as against bond rates, are relatively unattractive?

MR. BATES: Yes.

COMMISSIONER MACKINTOSH: There is some presumption that distribution might be more continuous if the mortgage rates fluctuated with the market rates rather than being adjusted only sluggishly; isn't that true?

MR. BATES: I think I might mention too there are at least two, perhaps more, new institutions which have been set up by private enterprise, and their intention is to sell their own debentures -- small pieces -- and to hold in their assets the insured mortgages. This means that a small man, or woman, with $1,000 can buy a debenture in a company that is secured by an insured mortgage. This is really a new type of institution in the Canadian capital market and, of course, it is where in institutions like this that the question of posted prices and the availability of funds becomes most important.

COMMISSIONER MACKINTOSH: But the difference is only in the insured mortgage. There have been for a long time institutions who sold debentures against mortgages.

MR. BATES: Yes, quite.

COMMISSIONER MACKINTOSH: Do you think that is the way in which the small investor, who does not want the bother of looking after mortgages but who would like the mortgage rate, can get in this market?

MR. BATES: And the government guarantee.

COMMISSIONER MACKINTOSH: Yes.

MR. BATES: And the government guarantee, yes.

COMMISSIONER MACKINTOSH: And that that is the better route, and not having the people who buy at auctions getting down into a small retail business of selling the small investor two or three mortgages?

MR. BATES: Yes. This makes the whole thing much more flexible. A widow with $1,000 can enter the insured mortgage market this way.

COMMISSIONER MACKINTOSH: Through the debenture?

MR. BATES: Through the debenture.

COMMISSIONER GIBSON: Does the coupon interest rate on mortgages which you put up for auction make much difference? Are some much more attractive than others, or do they bid prices according to the current market?

MR. BATES: They simply bid according to the current market.

COMMISSIONER GIBSON: So it doesn't matter too much what the coupon rate is?

MR. BATES: No. It matters to me, though.

COMMISSIONER BROWN: Wouldn't it matter in this sense, that the high coupon ones are above par and, therefore, are more subject to call in the sense of being repaid on a change of interest rates than the 6 per cent ones selling below par?

MR. BATES: Yes, this is a danger. This question of call is always there.

MR. ADAMSON: The discount paper is far more attractive to the market.

COMMISSIONER BROWN: Yes.

COMMISSIONER GIBSON: Yes, but the market would take account of these factors?

MR. BATES: Yes, of course.

COMMISSIONER MacKEEN: You suggested that there was a difference in the rate between regions: you mentioned Sydney and Toronto. Why should that make very much difference in an insured mortgage which is virtually a government guarantee?

MR. BATES: That is a very good question. We don't think there should be any difference, but there is. The buyers reflect different judgments. We think they are all the same; they are all 100 per cent guaranteed; but, this is the fact. Maybe the buyers think there is more danger of foreclosure problems in some areas than in others.

COMMISSIONER MacKEEN: How much of a problem is that to the buyer? Don't you handle that?

MR. BATES: Yes.

COMMISSIONER MacKEEN: It doesn't put him under any strain?

MR. BATES: No.

COMMISSIONER GIBSON: But mortgages in certain places in these packages sell for better prices than mortgages in other places; this is true, isn't it?

MR. BATES: This is true, yes.

COMMISSIONER GIBSON: If you had a free N.H.A. rate, would you expect to see important differentials?

MR. BATES: This would make no difference to that.

COMMISSIONER GIBSON: But the rate may be different in one area from another, then?

MR. BATES: You are thinking that if we had a free rate it would be higher in Sydney than in Toronto, anyway?

COMMISSIONER GIBSON: Yes. What sort of differences would you expect in a free rate situation?

MR. BATES: I suppose the same as a conventional mortgage, pretty much -- I don't know.

MR. ADAMSON: There should not be quite that much because of the blanket coverage.

COMMISSIONER BROWN: As the money that is coming from investors in purchasing these mortgages is presumably being diverted from some other potential investment, have you any theories as to what areas are receiving less investment?

MR. BATES: No, we really don't know. We know some of the buyers who are buying for American insurance companies. This may have been an addition to Canadian capital. Some were buying for Canadian pension funds which might otherwise have bought corporate bonds -- I don't know.

COMMISSIONER BROWN: There is no study as to whether this money might otherwise have gone into government bonds or conventional mortgages?

MR. BATES: I don't think some of the buyers would know, themselves, what might have been done with the money in the pension fund for which they are acting as trustee.

COMMISSIONER MACKINTOSH: I would think there is a likelihood that in a fund whose liabilities were very long-term, like a pension fund, that there would be consideration of the two securities which carry the credit of the federal government, and whether the requirements of the pension fund are equally well met by a guaranteed mortgage as against a bond which in recent years has been subject to some rather drastic fluctuations. I take it that you, subject to a variety of problems, think there is probably a considerable future for the debenture-issuing mortgage corporation?

MR. BATES: I think so.

COMMISSIONER MACKINTOSH: That this is an institution that fits into the developing patterns...

MR. BATES: Of the capital market.

COMMISSIONER MACKINTOSH: And ought to be encouraged?

MR. BATES: Yes.

COMMISSIONER MACKINTOSH: You raise a related matter: you have, I think, in the C.M.H.C. Act authority to act as a lender of last resort; I forget whether it is limited to the approved lenders under the Act or not. This power, I understand, has never been used; is that right?

MR. BATES: I think it was used once before my time. It was used once, I believe. You mean lending to an approved lender?

COMMISSIONER MACKINTOSH: Yes.

MR. BATES: Yes, it was used once.

COMMISSIONER MACKINTOSH: The power is there: is the machinery set up? If an approved lender comes forward and wants to borrow, has the Corporation got a procedure and standards under which they would lend if they felt it were desirable?

MR. BATES: I think we would require, really, to get a judgment from government on this because of the fact that the power has really never been used. It is a power of considerable importance. It is not something that you would look at as a kind of automatic thing you would do, anyway, because it happened to be in the Act. I think we would have to get a declaration of government policy to us on this point, because it could conceivably involve us in quite substantial lending.

You can easily see in this secondary market that if one of these new types of institutions bids or offers to buy a substantial quantity of mortgages and then finds they cannot finance them, if we were using this power it would be very nice for them to come to us and say, "Please lend on this". Or, if they were borrowing short during the first period, while they were buying, and something happened to the short-term market, it might be very nice for them to come to the corporation and say, "Could you lend us this -- it may be at a prohibitive rate for a week or two weeks -- until we can get other accommodation?" This power is there, but in order to use it in this sort of way we would really require to get governmental authority.

COMMISSIONER MACKINTOSH: Yes, I recognize that, but there is the other question: suppose this happens, are you in a position to advise the government? Have you thought out the problem? This has been represented to us as being essential to the further broadening of the secondary market.

MR. BATES: I am not quite clear what you mean -- am I in a position to advise the government? I am always in a position to advise the government. I think we could advise them in terms of principle, but certainly not, sir, in terms of details, no. We haven't thought it through to that point, because the question really has not come to us.

COMMISSIONER MACKINTOSH: Well, the presumption presented to us has been that probably such credit would be available only at a penalty rate?

MR. BATES: Yes, of course.

COMMISSIONER MACKINTOSH: If you have some companies in this field and they go ahead and then need this temporary assistance, it is not an entirely satisfactory answer to say that the government will take it under consideration and some time in the next eighteen months will produce an answer, because if they apply it is probably because of an impending need of some urgency.

MR. BATES: Well, all I can say is that the question has not arisen, and quite clearly it is not one that would be determined only by C.M.H.C. The Department of Finance and the Bank of Canada would both feel they had important things to say about it.

COMMISSIONER MACKINTOSH: We even had a suggestion that C.M.H.C. should always have a bid and offer in the secondary mortgage market.

MR. BATES: We should always have a bid and offer?

COMMISSIONER MACKINTOSH: Yes. In effect, be the Bank of Canada for the mortgage market, run an active purchase and sale operation on both sides of the market. Naturally, we haven't formed any views on this. If you have any, I would welcome them.

MR. BATES: If you are asking me, Dr. Mackintosh, as a bureaucrat if I would like to expand my empire, the answer is yes.

COMMISSIONER GIBSON: On the same subject, one of the other things that has been represented to us is that N.H.A. mortgages are somewhat unsatisfactory instruments because nobody knows what the term is. There is the repayment privilege which starts after three years, I think?

MR. BATES: Right.

COMMISSIONER GIBSON: Now, this is thought by many to complicate the matter of marketing, particularly of instruments based on a portfolio of mortgages. Is this important to the persons getting the mortgage money? Is it of much significance?

MR. BATES: This right to repay?

COMMISSIONER GIBSON: Yes, the right to repay: is it regarded as something important by the persons getting the mortgage money?

MR. BATES: Yes. If they die and leave the daughter $5,000, she may want to pay off $5,000 on the mortgage: why should she not do so?

COMMISSIONER GIBSON: There is no penalty, though, or anything?

MR. BATES: No, not after three years.

MR. WILSON: Just the usual three months interest, that is all.

COMMISSIONER GIBSON: Do you think that that is an important enough matter to consider possibly varying to some degree the repayment privileges on these mortgages to make them more marketable instruments?

MR. BATES: I think that the buyer takes this into account when he is buying mortgages; he knows that there is an uncertain period in it.

COMMISSIONER GIBSON: That is one of the problems which anybody thinking of setting up a mortgage company and putting out obligations against first mortgages has to worry about?

MR. BATES: Yes. It is a difficult problem, but we don't think we should force the borrower to hold a mortgage which he or she doesn't want.

COMMISSIONER GIBSON: There could be larger penalties; the right to repay would come after five years instead of three. I am not suggesting it, I am merely saying that there is a lot of ground here that we might explore if it were thought worthwhile.

MR. BATES: If it were a real impediment to the market we might have to look at it, but it doesn't seem to be. Whoever you are, when you buy a mortgage each month you are getting repayment of principal and interest on it and you have this principal problem in front of you for the whole 25 years; some of it coming in every month and it gets bigger and bigger and it has to be reinvested somewhere, and you are up against this problem anyway so the call privilege doesn't apply.

MR. ADAMSON: And it affects the calculation of yield on the basis of which the buyer bids in that it introduces an element of an absolute indeterminary, which is not characteristic in this form of other kinds of investment. Presumably this had some influence and was of some benefit to the borrower.

COMMISSIONER GIBSON: Thinking in terms of investments, insurance companies, for example, are generally interested in rather long-term, whereas banks and loan companies and trust companies are interested in short-term obligations. Is there some way of selling the long end to an insurance company and placing the short end with a loan company? There may be some possible ground for exploration here, but you can't do that and have the repayment privilege on it.

COMMISSIONER LEMAN: To get this in perspective, why don't we ask what has been the experience on accelerated repayment of N.H.A. loans?

MR. ADAMSON: That is a young portfolio ---

MR. BATES: Most of the loans have only been since 1957. It is quite a young portfolio, although it is very large. The repayments, I think, have been very small; I just don't know offhand.

COMMISSIONER MACKINTOSH: Do your approved lenders ever tell you what their experience has been? Some of them have been in quite a while.

MR. WILSON: They report repayments annually;

they report any balances.

COMMISSIONER LEMAN: Have you any figures on this?

THE CHAIRMAN: These can change quite considerably if interest rates change?

MR. WILSON: Yes.

THE CHAIRMAN: And if conventional mortgages went down to, say, 6 per cent or $5\frac{3}{4}$ per cent, you could have some of the present loan repaid.

COMMISSIONER GIBSON: And this would be over the life of the N.H.A. mortgage, over the period of your operations?

MR. BATES: The figure in my mind is fourteen years, somewhere around fourteen years on a 25-year loan; the average is about fourteen years.

COMMISSIONER GIBSON: Mr. Brown said, of course, that it could vary, but this gives some idea.

MR. ADAMSON: Certainly in terms of the contractual requirement of the mortgage this is a very large amount; presumably it is a 25-year amortization, but it almost never happens.

COMMISSIONER LEMAN: In corporate bonds there are two types of restrictions that can take place; the right of repayment with a premium or penalty, and also sometimes you can get, say, a 10-year non-refunding clause, that you can't repay the debt for refunding purposes, would that be impracticable in the residential mortgage field, that no new N.H.A. loan would be granted to a person who had just paid off a loan?

MR. BATES: Why would you do it? Nobody wants it particularly.

COMMISSIONER LEMAN: Perhaps people would want it, those who think that this question of maturity is important to them, that that is a problem to them as lenders.

MR. BATES: As lenders.

COMMISSIONER LEMAN: They might think it is important to have some kind of a system of protection against refunding, you say?

MR. BATES: It is not impossible, no.

COMMISSIONER LEMAN: Do you see any great administrative difficulties in introducing such a non-refunding clause for a longer period than the three years which you have mentioned on the straight right to repay?

MR. BATES: It is our job to overcome these difficulties. They are not administrative; they may be political ones, but never administrative.

THE CHAIRMAN: These are very long-term mortgages in the sense of 25 years. Has there been any consideration to having a higher penalty when it is repaid in the earlier years ?

MR. WILSON: No, because of the provisions of the Interest Act, which permits repayment without penalty beyond an interest bonus, so at the moment under the present legislation you might increase from the present three to a maximum of five with the exception of corporate borrowers. The N.H.A. with corporate borrowers does permit a longer built-in term. This applies only to rental housing loans.

COMMISSIONER MACKINTOSH: What is the usual use there?

MR. WILSON: Ten years.

COMMISSIONER MACKINTOSH: And then what is the penalty?

MR. WILSON: After ten years there is a three months penalty. Actually, without consent the borrower has no right to repay.

MR. ADAMSON: The borrower might become interested in this if the question were asked, "How interested are the lenders? Would they make a loan for a lower interest rate?" Then there would be something in it for the borrower, too, and he could judge whether he wanted to be tied in for 25 years at a rate of 'X' or have considerable freedom at a rate of X plus something. There is no point in replacing one kind of rigidity with another.

COMMISSIONER BROWN: Would you have a conflict with the Interest Act as far as individuals are concerned?

MR. ADAMSON: Yes you would; beyond five years there is nothing we can do.

COMMISSIONER BROWN: This has been brought up because we had had it mentioned by a number of would-be lenders that this is a factor, why they are reluctant to loan under N.H.A.

MR. ADAMSON: There is really not much room there between what the Interest Act requires and what our Act requires.

MR. BATES: It can't make much difference.

COMMISSIONER GIBSON: For the purposes of the record, you said that the average mortgage outstanding ran about 14 years; is that the time on repayment or is that the average period that a 25-year mortgage, being paid out in instalments over the period, would work out too?

MR. ADAMSON: No, that is the number of years which the contract would be outstanding.

COMMISSIONER GIBSON: It would be all cleaned up at the end of 14 years?

MR. ADAMSON: Yes. I think even if it goes for 25 that you get a figure of something like 16 on the average.

COMMISSIONER GIBSON: One other question on this secondary mortgage market. Why go to all this trouble for C.M.H.C. direct lending; why doesn't the government just issue bonds? Why go to all the trouble of establishing this market and selling your special N.H.A. mortgages for the purpose of your lending?

MR. BATES: That is what it does, we are ---

COMMISSIONER GIBSON: You are trying to pay them back, though, by developing this instrument and getting it on the market?

MR. BATES: But the purpose of selling this is not to repay.

COMMISSIONER GIBSON: To limit the amount of government participation?

MR. BATES: No, to see if a fluid market can be set up in mortgages. It is true that when we sell a mortgage we repay the debenture that we already have from the government; we simply repay it.

COMMISSIONER GIBSON: All I am saying is it worth all the effort from your point of view?

MR. BATES: Well, it is not much effort. One man in the corporation issues an auction every two or three months to see if you can get an increased flow of funds, whether it is from the American pension funds or somewhere else; it is not costing us very much.

COMMISSIONER GIBSON: Another way of putting it is would it be more economical simply to talk in terms of the paper being issued as being government bonds, and they sell at higher prices with lower yields?

MR. BATES: I see what you mean.

MR. ADAMSON: It is an expensive way of borrowing money. These mortgages are sold to yield what? Well over 6.

COMMISSIONER GIBSON: That is the point.

MR. ADAMSON: As far as being a device to obtain government funds is concerned it is an expensive way of doing it. It is to develop an appetite or to familiarize pension funds and other people in this so that they might in time have a greater demand.

COMMISSIONER MACKINTOSH: Surely the answer is that if your only purpose in this operation was to recoup your own funds, it wouldn't be worthwhile?

MR. BATES: No, quite.

COMMISSIONER MACKINTOSH: What you pay for is this future benefit that is presumed to develop to the secondary market?

MR. BATES: Yes, and it is not costing us very much.

COMMISSIONER LEMAN: Are you through on that subject, Mr. Gibson? Under what conditions and on what terms can a mortgagor get off the covenant on an N.H.A. loan, or can he at all?

MR. WILSON: For practical purposes, as the soon as the foreclosure takes place and the lender acquires the profit on an N.H.A. loan, if he elects to realize on the insurance he must turn the property over to us as a condition precedent to payment. This makes us a third-party purchaser, and as soon as the lender surrenders the authority to re-convey the property to the original borrower, he loses his ability to exercise any collection on the personal covenant.

COMMISSIONER LEMAN: But are you not subrogated in his rights?

MR. WILSON: It might be possible for the lender to obtain a judgment in debt rather than a foreclosure, and then assign that judgment to us. We have relied on ordinary foreclosure procedures, which basically produces the property as security rather than the personal judgment as security.

COMMISSIONER LEMAN: Well, that doesn't directly answer my question. Are there conditions and terms under which C.M.H.C. would let off the mortgagor, the earlier mortgagor?

MR. WILSON: And release the covenant?

COMMISSIONER LEMAN: Yes?

MR. WILSON: It is permitted by the regulations where the original covenantor was a builder, providing the builder obtained the assumption of liability by the purchaser and the purchaser has a gross debt service ratio that is acceptable and pays the minimum down-payment, and so on. That is the only provision in the regulations for a specific lender, by operation of law, to release a covenant.

COMMISSIONER BROWN: The individual home owner cannot cut off when he sells the house?

MR. WILSON: Except by operation of law, to the extent that that occurs,

COMMISSIONER LEMAN: Automatically he should keep this as a contingent liability?

MR. WILSON: If he keeps that kind of a balance sheet, yes.

COMMISSIONER LEMAN: He might have to make one up to get a loan, for instance.

COMMISSIONER BROWN: What happens if he dies?

MR. WILSON: Presumably this would be an equal contingent liability in terms of his estate; the estate is normally not tied up. I believe -- and I am not sure I am accurate on this -- I believe we have had occasional requests for a release of covenant in terms of our direct lending from an estate of a person who has sold the property for purposes of clearing the estate, and I believe we have on occasion given such a release under the circumstances.

COMMISSIONER BROWN: Do the other lenders holding the mortgages have the power to give such a release?

MR. WILSON: I think they could do so under the regulations only with the approval of the Corporation.

COMMISSIONER BROWN: This hasn't arisen?

MR. WILSON: I can't recall it ever having arisen.

COMMISSIONER LEMAN: Suppose that the lender foresees that he has to go through foreclosure proceedings, but he finds in the title a very good credit, wouldn't it be cheaper for him to go to that very good credit and obtain his money rather than go through either the insurance or the foreclosure himself.

MR. WILSON: Firstly, it would have to be a very good credit indeed and one that was better than a 100 per cent guarantee.

COMMISSIONER BROWN: On home improvement loans, which at the moment, as I understand, are limited to $4,000 and a ten-year term, we have had representations that those should be doubled both as to amount and as to term. Have you any comments to make on this?

MR. BATES: This, of course, would be a matter of government policy which would require a change in the Act. I think that the average runs about $2,500 or less than that, so that this present maximum is not too much of a restraint in the sense that the loans which are made by the banks probably are as high as the banks intend to make them anyways, but certainly a longer period and a bigger loan would probably permit rehabilitation operations in housing that are highly desirable in many instances. Now, whether the banks would grant it, I don't know. Theoretically, $4,000 is not enough to do a job on a duplex or a quadruplex, or what have you; it might be quite desirable to have a larger figure and banks in some instances might be prepared to go ahead with bigger loans, but the average loan is $1,300.

COMMISSIONER BROWN: Is that average tending to increase?

MR. BATES: No.

COMMISSIONER BROWN: That is the average loan when originally made, not the average outstanding?

MR. HIGNETT: When originally made. In 1961 there were 26,900 loans made for a total amount of $39 million.

MR. BATES: It was raised a few years ago and it made very little difference to the actual size of the loan. My recollection is that we changed the Act from two to four, didn't we?

MR. HIGNETT: From $2,500 to four.

MR. BATES: From $2,500 to $4,000, but it made no difference in the size of the loan. This may due to demand factors as distinct from supply factors, I don't know.

COMMISSIONER BROWN: There is one other question which I would like to have your opinion on, and that is what would be the effects on the mortgage market and the availability of mortgage funds if the banks were permitted to go into the conventional mortgage field to some degree? This, of course, would involve other changes as well.

MR. BATES: Yes.

COMMISSIONER BROWN: Let us say that all these changes were made.

MR. BATES: You mean, allowing them to make loans above 6 per cent?

COMMISSIONER BROWN: Yes.

MR. BATES: This would be very significant and highly desirable. I don't see why the banks couldn't go into the mortgage business if others are going into the banking business.

COMMISSIONER BROWN: Presumably, of course, this would mean that the banks would have less money available for other purposes?

MR. BATES: Yes.

COMMISSIONER BROWN: It would have to come from some other sectors of the economy?

MR. BATES: But from where we sit, we don't care whether they can get N.H.A. or conventional loans so long as they get into the mortgage business and stay in it!

COMMISSIONER BROWN: I am afraid that that is probably the answer that I expected.

THE CHAIRMAN: Thank you very much, gentlemen.

MR. BATES: Do you require us again?

THE CHAIRMAN: No, I think that is it for the time being.

MR. BATES: Thank you, sir. I was a pleasure to be before you.

THE CHAIRMAN: It has been a very great pleasure for us to have had you with us and to have taken part in this stimulating discussion.

We shall adjourn now until 2.30 this afternoon when we shall hear the brief of Mr. David Mansur.

--- Luncheon Adjournment.

--- On resuming at 2.30 P.M.

SUBMISSION OF

MR. D.B. MANSUR

THE CHAIRMAN: Mr. Mansur, we welcome you as a witness before us today. We have read your brief with great interest and there are a number of questions we would like to ask. I do not know whether you had intended to make any preliminary statement, or whether you wish us to proceed immediately and pursue our questions.

MR. MANSUR: I think not, Mr. Chairman, except to say one thing. I have read the evidence that has been presented to this Commission and have listened to some of the comments, and read some of the transcripts. It seems to me that the problem before the Commission in this field falls into three main categories and everything ---

THE CHAIRMAN: You may sit down, if you would feel more comfortable.

MR. MANSUR: Thank you very much, Mr. Chairman. It seems to me that the evidence heard by the Commission to date falls into three main categories. The first is -- not necessarily in order of importance -- the difficulties about financing existing housing. The second is the flow of mortgage funds, and the third are the factors relating to effective demand.

I think just about everything that has been said will fall into one of those categories, but having said that, Mr. Chairman, I immediately want to say that in most of the discussion there has been quite an interplay between the economic implications and the social implications. Practically everything that has been discussed has social connotations and financial connotations, and sometimes they do not lead to exactly the same conclusion.

That is all I have to say, Mr. Chairman.

THE CHAIRMAN: I would like to begin by asking a few questions under your heading, "Financing Sale of Existing Houses". I have to leave a little early today, so I am going to take this out of order, if you do not mind. This is at page 9. You begin by saying:

> "Perhaps the most important gap in our mortgage lending pattern is the lack of crisp and identifiable means of financing to facilitate the transfer of an existing house from a willing vendor to a willing purchaser at a mutually satisfactory price."

Do you think it would be possible under any circumstances to design a lending pattern which is a crisp and identifiable means of transferring existing houses?

MR. MANSUR: Perhaps, Mr. Chairman, the phrase would have been better as "crisper and more identifiable means". That would perhaps be a better way to express the thought. But the circumstances vary so greatly that although we talk generally about the financing of existing houses, if we go the full range of the spectrum

I might just mention what I think are the three main categories in it.

First there is the sale of the house in the newer areas. By "newer areas" let us talk post-war sub-divisions, 1945 and on, in which the lending institutions will operate very freely, so that there is no problem really in that area of finding a 66-2/3 per cent mortgage. Just what that 66-2/3 is of, I am not clear, notwithstanding evidence you have heard about the firmness of appraisals.

Then you move into the second sector, which might be the 1920 to 1939 housing. In Toronto it would be, say, south of St. Clair. In Vancouver it might be first Shaughnessey and the better parts of Grandview. In Calgary, the lower part of the North Hill. These are the areas where some of the lending institutions are making first mortgage loans for two-thirds, generally with an interest rate rather higher than the conventional loans in the more preferred areas.

Then you move into the third area, where the lending institutions will not operate, except in the most exceptional cases, even at an increased interest rate. They are just not interested. By this, I mean the core of the cities. I would say that in Toronto almost everything south of Bloor Street fell into this category. In Calgary, probably the east end and Ogden. In Vancouver, everything below 16th; or anything north of 16th/it would be very difficult to get a lending institution to make a loan on at all.

So I suggest there are these three

separate and distinct parts of this financing of existing houses, each one of which carries rather different implications.

As to finding a method of doing this, there have been references before this Commission to the F.H.A. It is perfectly true that the F.H.A. makes twice as many loans on existing houses as they do on new houses, but the F.H.A. operates their existing houses selection with an eye to insurance risks involved. Generally speaking my observation in the United States would lead me to believe that the F.H.A., were it operating in Canada, would operate only in area No. 1, with very few excursions into area No. 2 and no excursions at all into area No. 3. There have been attempts by the subsidized housing group in the United States to get the F.H.A. to use its lending on existing houses to assist the rehabilitation of the older down-town areas. There has been the odd case where this has been done; but generally speaking the F.H.A. selection as to risks is just about as firm in respect to existing houses as it is to new houses. I admit quite frankly, Mr. Chairman, that an F.H.A. type of operation would relieve the problem of area No. 1, but that is not the area in which the problem we now face is most acute. It is most acute in areas 2 and 3.

Therefore one would have to devise something other than bringing the N.H.A. into the existing house field. I think there are ways and means of doing it, but I think they are all pretty complicated; they are all costly. There is one other comment I would make, and it is this. I am not so sure that even if people do want to buy these existing houses, whether they should be encouraged by heavy debt to do so. I think one of the phenomena of post-war housing in Canada, in the price structure of post-war housing in Canada, is the manner in which the existing house has stood up price-wise as against the new house.

Undoubtedly depreciation has taken place, and certainly there is a tremendous amount of built-in obsolescence in the 1926 house. But notwithstanding this depreciation and the built-in obsolescence, the phenomenon is that we find these existing houses selling at about the same price per square foot as the new house, without the depreciation and without the built-in obsolescence, and the only offsetting factor being the extra value of the inside land. So I have some doubts ---

THE CHAIRMAN: Of the inside land?

MR. MANSUR: Yes; the inside land is worth more than the outside land.

THE CHAIRMAN: I see.

MR. MANSUR: I think it is a fair statement.

THE CHAIRMAN: That is, the location?

MR. MANSUR: Yes, Mr. Chairman. The factors that I mention being the phenomena must have as an offset the added value of the inside land.

THE CHAIRMAN: Those various categories that you have mentioned, taking the sale of the house in the newer areas, of course that would not cause any difficulty. In the first place they generally talk of houses as built according to one standard plan, so that each one of them would maintain pretty well an equal value?

MR. MANSUR: Yes.

THE CHAIRMAN: And, of course, they are relatively new.

MR. MANSUR: Yes.

THE CHAIRMAN: And have not depreciated to any extent.

MR. MANSUR: No, Mr. Chairman.

THE CHAIRMAN: Naturally, you would expect them to be more marketable, and with the second group you would expect them to be less marketable.

MR. MANSUR: Yes.

THE CHAIRMAN: And, as you say, the third group, the value of the land is the only explanation of anything more than a nominal value.

MR. MANSUR: Maybe I did not make myself clear, Mr. Chairman. I feel that an F.H.A. type operation in area No. 1 would look after the problem. In area No. 2 ---

THE CHAIRMAN: Do we need it here? Is there a gap here in that class of house?

MR. MANSUR: I think it depends upon your degree of social consciousness.

THE CHAIRMAN: Has there been any difficulty in selling houses in that class?

MR. MANSUR: Oh, yes, tremendous difficulty.

I mean, every employee that moves has to find a buyer for his house.

THE CHAIRMAN: Yes, but there are agencies that bring parties together, and are there many houses that stand for a very long period without being sold, in that class?

MR. MANSUR: Yes, Mr. Chairman; there are, at the moment -- I hate to keep referring to Toronto; it sounds as if I am a Torontonian.

THE CHAIRMAN: You should be proud of that.

MR. MANSUR: In Toronto at the moment, the co-operative listings which are in the hands of these real estate people to whom you refer are some 22,000 in number, and they estimate that they handle about 50% of the take. So that as compared with the sale of new houses, which in Toronto this year will probably be of the order of 6,000 maybe, we have overhanging the market in Toronto houses of all kinds, probably something of the order of 40,000.

THE CHAIRMAN: Then are we not building too many houses in that area?

MR. MANSUR: No, I do not think so.

THE CHAIRMAN: If the houses are on the market, why encourage people to build new houses?

MR. MANSUR: I do not think we are building too many houses, Mr. Chairman, because this is a remarkable industry in that there is never any inventory in the house building field. In Canada the inventory -- I think I mention this in my brief -- is only 2½ weeks' supply. I can see, in spite of general views held to the contrary, neither anything immoral or reprehensible about the house-building industry having an inventory. I do not know whey there should be the stigma which seems to be attached to a completed and unsold house.

THE CHAIRMAN: But your statement a few minutes ago dealt with houses for sale that have not found purchasers.

MR. MANSUR: Yes.

THE CHAIRMAN: And you intimated that there were quite a large numberof houses.

MR. MANSUR: Yes, Mr. Chairman. But I think the criterion is not the number for sale; I think the criterion is the number that are empty. Before I would be particularly concerned about the volume of new housing I would want to see the number of houses that were empty in our communities.

We have some of them. Windsor is a bad place. But generally speaking the vacancy ratio is below any reasonable frictional vacancy ratio.

So that I do not think the fact that houses are for sale is any good reason to stop building the houses. I do not see the reason, any more than if there are a lot of shares for sale on the stock market.

THE CHAIRMAN: Yes, I see your point.

COMMISSIONER LEMAN: May I ask a question related to this, Mr. Mansur. You referred to the problems of areas 2 and 3. Are they indicative of what most conventional lenders have in mind when they lend on real estate? Is it the property, so much the property that the mortgagor is not considered a very important factor in his own credit?

MR. MANSUR: Mr. Leman, the ways of the insitutional mortgage lender are strange. There is a tremendous amount of superstition and folklore connected with it. I have been in the business for a long time and I have never understood the superstition and folklore and I really cannot identify it. I cannot give you a satisfactory answer because, I cannot see, for the life of me, why certain areas should be good and certain areas should not be good. I do not think in a long-term scale or pattern of residential real estate values it is possible for the over-priced 30-year house to maintain its level of value, and I would, if I were a lending institution, be very careful of the older house, not for the reasons they are, but rather because I think there is tremendous over-pricing in the older house sector. This may be their reason, maybe I under-estimate them.

COMMISSIONER LEMAN: Is there any reason to believe that because of this situation the average person who lives in that area is not as good a credit risk?

MR. MANSUR: I do not think there is any evidence. In fact, quite the contrary. Once again, if I may talk about Toronto, and then I will desist, the new Canadian groups, of course, are living essentially in the core or in the older areas.

I notice that when there are mortgages advertised for sale in the newspapers, the people advertising these mortgages never fail to say, "Chinese covenant," "Italian covenant," "Polish covenant," "German covenant" as a sales feature. So I would think that the general view about those covenants is very favourable, otherwise they would not be advertised as such. I suggest that the general covenant, in the core, is probably as good as anywhere else.

THE CHAIRMAN: Of course, a great many of those people believe in investing in real estate.

MR. MANSUR: Yes, Mr. Chairman.

THE CHAIRMAN: That is where they put their savings. For some reason or another, they think it is safe.

MR. MANSUR: Yes.

THE CHAIRMAN: And that values will gradually increase with the growth of the area around them.

MR. MANSUR: Yes, Mr. Chairman.

THE CHAIRMAN: And they generally, in the meantime, fill the house with boarders and gradually pay off the debt. That is the way they live.

MR. MANSUR: Yes, Mr. Chairman.

THE CHAIRMAN: It is very prevelant throughout that whole area today.

MR. MANSUR: With regard to gradually paying off the debt, I would like to suggest that they quickly pay off the debt. I looked at a block of about four million dollars of second mortgages made primarily to new Canadians, with five-year maturity. The actual average maturity turned out to be three years and eight months. The debt is paid off with great rapidity, by reason of the multiple incomes within the kind of household that you referred to.

THE CHAIRMAN: And then they go and buy another house.

MR. MANSUR: Yes, Mr. Chairman. But they will not get stuck as badly on the second one as they did on the first one. The Canadians really gave these people quite a going over when they came into our cities.

COMMISSIONER GIBSON: The land in this area No. 3 to which you refer has in the past tended to become gradually more valuable. Have you any explanation of why this land of increasing value does not attract potential lenders? What you say about the people is true, as far as that is concerned; but you have this underlying factor of quite valuable land.

MR. MANSUR: You usually have an obsolete building -- as a rough rule of thumb, once again, in Toronto no institutional lender will look at a building if it lacks the primary facilities that lenders seem to think should be there. A bathroom is a good idea, and running water is a good idea too. They will not touch the house, generally again, unless it has a driveway or some facilities for an automobile, and in Toronto they will not touch the house unless it is solid brick. That, I cannot quite understand, because in Montreal there is no such thing as a solid brick house, where the lenders lend quite freely. But this is one of the superstitions, customs or mores of the lending institutions. I cannot explain it to you; I just do not know what it is about.

COMMISSIONER GIBSON: You said, for example, that there were some new entries into the second mortgage area.

MR. MANSUR: Yes, sir.

COMMISSIONER GIBSON: Isn't this likely to attract other people?

MR. MANSUR: The term I used, "second mortgage", I used too literally. The second mortgage sector looks after not only second mortgages in each one of these three areas I mentioned, but it also looks after the first mortgage in area No. 3. That is a generality and it can be contested, Mr. Gibson, as altogether too general a statement. But I think essentially it is true.

So that in area number one you find the lending institution in at a conventional rate in first mortgages up to the recent chaos in the interest rate structure at about 6 3/4 to 7, with emphasis on the 6 3/4.

Then, in area number two you find some of the lending institutions that specialize in older houses in making first mortgages, maybe not up to the full 66 2/3 per cent, but at an interest rate of about one per cent more than in area number one.

Moving into area number three, you move quite sharply into the second mortgage interest rate: 10% to 13% I would think, would be a first mortgage rate off Parliament Street in Toronto.

THE CHAIRMAN: Dealing with second mortgages, at the bottom of the page: "In the second mortgage fields effective interest rates are presently in the range of 12 to 15 per cent."

MR. MANSUR: Yes.

THE CHAIRMAN: Of course, it would be difficult to assess just how that fits in with the total cost of the financing unless we knew how much that second mortgage was and how much the first mortgage was.

MR. MANSUR: Right.

THE CHAIRMAN: Then you would average it out to find out exactly what interest they are paying in the total amount; would that be a fair way of doing it?

MR. MANSUR: That would be a fair way of

doing it. In that connection I was really only referring to the second mortgage segment.

THE CHAIRMAN: Yes.

MR. MANSUR: If we got into area three where the second mortgage company made both the first and the second, I would not expect a rate of interest of 13½ per cent. So that, your point is well taken.

THE CHAIRMAN: But would you estimate what sort of interest rate you might expect?

MR. MANSUR: 9% to 10%.

THE CHAIRMAN: You would not consider that unreasonable under the circumstances?

MR. MANSUR: No. As a matter of fact, I don't think the present level of second mortgage interest rates is unreasonable at all. I marvel at how low they are having regard to interest rates charged in certain other sectors of our financial economy. I can think of a lot better risks that bear much higher interest rates than current interest rate on second mortgages.

THE CHAIRMAN: On the other hand, are those properties in those areas you are speaking of such bad risks where the land value is increasing with development?

MR. MANSUR: I don't think they are, but all I can do is report to you what seems to be the judgment of the market in such matters. I don't always agree with the judgment.

THE CHAIRMAN: Every once in a while you have an area of stagnation?

MR. MANSUR: Yes.

THE CHAIRMAN: And for a time in certain areas sales are very difficult to make. For various reasons people are not putting their money in there at the time. You have also mentioned that one of the usual methods of financing old houses is, in part, by giving a second mortgage back.

MR.MANSUR: Yes.

THE CHAIRMAN: And that puts a somewhat different complexion on the transaction compared with the case where you have a second mortgage separately arranged, which is generally expensive, and the interest rate is high?

MR. MANSUR: Yes.

THE CHAIRMAN: The second mortgage back may have quite a moderate interest rate depending upon the bargain between the two parties.

MR. MANSUR: Yes; in respect to second mortgages back in Calgary, Edmonton, Toronto -- and they are the only cities where I had a careful look -- I would think in 99 per cent of the cases the second mortgage arose in the vendor's hands as a balance of purchase price rather than the financing being arranged. Then, the vendor either sells that balance of purchase price or pledges it against a loan. There is quite a substantial change taking place from selling to pledging against a loan.

THE CHAIRMAN: You have on page 11 what you call a hypothetical case, which I found somewhat complicated.

MR. MANSUR: Well, I tried to put the simplest one in there, Mr. Chairman.

THE CHAIRMAN: What I wondered was, a vendor is about to buy another house in another city and is looking for $4,000.

MR. MANSUR: Yes.

THE CHAIRMAN: The vendor is a person who had a house worth $16,000 and an N.H.A. mortgage on it of $12,000, and without any second encumbrance?

MR. MANSUR: Yes.

THE CHAIRMAN: Why should he assume he should be entitled to get $4,000 as a down payment from a purchaser?

MR. MANSUR: My own view is that there is no entitlement at all.

THE CHAIRMAN: He seems to think he should get it because he needs it to buy another house somewhere else.

MR. MANSUR: I don't think he has any more entitlement to it than he has to a certain price for shares.

THE CHAIRMAN: If a purchaser comes along and offers $1,500 in cash and the vendor cannot get a better deal, he either takes it or leaves it?

MR. MANSUR: That is right.

THE CHAIRMAN: But the fact is he is able to dispose of that house on those terms.

MR. MANSUR: Yes, and the terms, Mr. Chairman, in the fringe areas, which is my area number one, are dictated very largely by the going down-payment on new N.H.A. houses. The terms of the sale of existing houses changed very sharply in December 1960 when the terms of the N.H.A. changed.

THE CHAIRMAN: That was when it went from 90 to 95?

MR. MANSUR: Yes, the loan moved up so that the down-payment became about half what it was.

THE CHAIRMAN: What are your views on that move?

MR. MANSUR: Well, Mr. Chairman, I was a public servant for so long I now find myself faced with the enormity of making comment on government policy.

THE CHAIRMAN: You are still in the rut.

MR. MANSUR: Oh, a very bad rut. I can only say government does the darndest things for the darndest reasons. Why in the world they gave away the balance of all that was left in the way of down payment to stimulate demand at that time, I just can't understand. However, this was their judgment, and they run the country and I don't, and I guess we must accept it.

THE CHAIRMAN: For some reason they must have thought it was desirable to have more houses built at that time.

MR. MANSUR: Maybe. I didn't feel at that time that the effective demand had completely disappeared. However, this is a matter of judgment.

THE CHAIRMAN: Isn't a 5 per cent equity a pretty thin equity under any circumstances?

MR. MANSUR: Extremely thin.

THE CHAIRMAN: And a slight down-grading in prices could wipe it out very quickly, and more?

MR. MANSUR: Yes. In my opinion, I think one of the better things that we have done in this country in the post war years was the manner in which a long equity was kept in Housing Act loans. By "long" I mean 20 per cent which was the general pattern in the first ten post-war years, as against the Americans who, under the F.H.A., came down to 5 per cent very early, and then in the case of the V.A. came down to no down payment at all. I felt one of our assets was that we still had some room in which to stimulate effective demand.

COMMISSIONER BROWN: When you get down to 5 per cent, this just covers the real estate agent's commission on selling a house?

MR. MANSUR: Yes.

COMMISSIONER BROWN: So, the owner does not get anything out of it?

MR. MANSUR: No. I would think it is very much like an automobile you buy. There is 20 per cent depreciation when you drive it around the block. I am quite sure a house takes on a 5% depreciation the day after the first owner moves into it. But I think this is some more of the folklore. I don't think the margin of safety of mortgage loan can be measured by the amount of equity in the mortgage loan. Experience during the thirties showed this just was not the case at all. I happened to be with a mortgage company at that time. We had thousands and thousands of good current accounts where there was a minus equity during the years 1930 to 1935.

COMMISSIONER BROWN: I was not suggesting the 5 per cent equity was a bad thing. I was suggesting this sort of a down payment, when somebody is trying to sell an existing house, makes it very difficult.

MR. MANSUR: Extremely difficult.

THE CHAIRMAN: What are your views as to the rental housing situation?

MR. MANSUR: I think we can take great encouragement in the manner in which rental housing is coming into English-speaking Canada. Rental housing in the province of Quebec is old and established. I was rather interested in a remark made here recently when they talked about Ontario being the most sophisticated province. Maybe in fifty years time they will catch the province of Quebec in matters relating to real estate. But I doubt it even at their present rather good rate of progress.

THE CHAIRMAN: You must have come from the west.

MR. MANSUR: In the province of Quebec we came out of war with a housing stock of 90 per cent rental and 10 per cent home ownership. The increments to the housing stock in the post-war has been about 30 per cent home ownership and 70 per cent rental. So, there is a slight swing in the province of Quebec towards home ownership. The swing has been entirely the other way in the English-speaking provinces.

You may notice that in Toronto right at the moment rental housing is running ahead of individual housing by two to one. There is a pretty buoyant attitude towards the building of rental housing in our larger cities outside the province of Quebec. I am referring to Toronto particularly, but it is equally true of Hamilton, Winnipeg, other prairie cities and Vancouver. There have been very important increments to the rental stock. One might say it is not the right kind of increment, but, nevertheless, it is an increment. And I think there has been quite a change in the English-speaking wife towards living in multiple accommodation. I think the change is very healthy.

THE CHAIRMAN: Why do you say it is not the right kind?

MR. MANSUR: I think there has been a great deal of emphasis placed upon the apartment house. Although there is room for an ever-expanding stock of apartment house units, I think our greater need takes the form of row housing. I would dearly love to see in the English-speaking part of Canada the double duplex for four families, such as the pattern in the province of Quebec which, of course, is by far the most efficient form of housing which we have in the country. However, this is not yet particularly acceptable in English-speaking Canada. I can remember when the municipalities in English-speaking Canada would not let you build row housing. We have made a lot of progress, and the new maisonette development in English-speaking Canada is rental housing of a very desirable family type. I think there is quite a change taking place, Mr. Chairman.

THE CHAIRMAN: While we are still on the subject of rental housing, perhaps you can deal with the question of lower income-type housing -- subsidized housing -- and express some views on that subject? We heard something about that this morning.

MR. MANSUR: Yes, I could hardly recognize it as the late Chairman of the Metropolitan Toronto Housing Authority. I believe the amount of subsidized housing will continue to inch up. We undoubtedly have a need in every one of our communities by families whose income is insufficient for them to enter the market place.

The thing I am not clear about is just what responsibility falls on whom for the looking after of these people. I have spent so much time in public housing that I find myself uncertain of even the fundamentals. The people who are certain on public housing matters are people who have never had anything to do with it. It seems to me there is a philosophical judgment to be taken about public housing depending upon one's degree of social consciousness. This is a very difficult premise upon which to base the need for public housing.

In the city of Toronto, where there are some 4,000 units of public housing, we have eligible applicants in the number of about 4,000. The turnover in public housing both here and in the United States is about 10 per cent per annum. I would think that our needs for public housing will for many, many years remain considerably greater than the willingness of the municipality and the province and the federal government to satisfy those needs.

In the meantime, Mr. Chairman, I think there are some very favourable things happening in the rental housing field. The rather generous use by Central Mortgage of the limited dividend provisions has created housing somewhat under the economic rental: it works out to about $80 a month for two bedrooms, if I remember correctly, which is about $20 under the economic market.

That has filled a tremendous need, and there are about three or four thousand of these units in Toronto and this has done a great job and it has taken tremendous pressures off the housing authority for that band. Failing that assistance that band would be leaning on subsidized public housing.

There is one other thing that has happened in Toronto which is very fortunate -- and this is equally true in all other large communities -- and it is the enthusiasm of the apartment house builder, joined by the enthusiasm of the lending institutions, and this is causing great over-building in apartment houses and there are apartment houses which are now being built -- the new ones have no vacancy problems, they are rented like hotcakes as quickly as anything to people that come from two and one-half and three storey walk-ups, vintage 1945 to 1948, and there is where the vacancies are appearing, and I hope that it will not be too long before there is a very substantial break in the market on rentals in these older units. Already it is beginning to make itself felt, so we will then have what I think is quite a suitable spectrum, with the public housing at the bottom, the limited dividend next, the hand-me-downer apartment house next, and then the current supply on top. I think that we are making very real progress towards this.

THE CHAIRMAN: And also aside from that, you have the older houses in the central areas of the city which become accommodation of a similar kind;

sometimes they are rented, but generally I think they are probably well rented today?

MR. MANSUR: In the core of Toronto as at 1960 the free standing individual houses, other than apartment houses, showed 56 per cent home-ownership and 44 per cent rental.

THE CHAIRMAN: 56?

MR. MANSUR: Yes, 56 per cent home-ownership. By the "core" I mean Bloor to the lake and the Don to Bathurst.

THE CHAIRMAN: And in most of these places they keep roomers?

MR. MANSUR: Yes.

THE CHAIRMAN: And they help to pay for family expenses out of that additional income. That is the explanation of many of these?

MR. MANSUR: And there is a fair measure of multiple occupancy in that area. It is not as high as one would have expected; that was one of the surprises in looking at that core. I had expected to see a level of multiple occupancy three times the rest of Toronto and it only runs/about one and and one-half times the rest of Toronto.

THE CHAIRMAN: I don't believe that there are any main points which I wish to cover in addition to these questions I have put to you. However, you do say that you are going right down to the basic problem of the desirability of home-ownership without sufficient financial resources?

MR. MANSUR: Yes.

THE CHAIRMAN: I think perhaps you have covered that already. I don't think I have any further questions.

COMMISSIONER BROWN: I would like to amplify this comment you make that you thought it too difficult to arrange some sort of financing along the lines of F.H.A. for this portion of the housing that came within the areas where conventional mortgages of 66-2/3 per cent were available now. Were you visualizing full insurance or some method whereby under N.H.A. it would be additional to bring it up to 80 per cent, and how practical would this be? Would this reduce some of the administrative costs of doing it directly on a full basis? In other words, if you made the condition the availability of the 66-2/3 per cent conventional mortgage, and then insured something above that?

MR. MANSUR: Mr. Chairman, my remarks about this not being a large problem in financing existing houses in area one, and whether lack of mortgages was decreased in the better part of area two, or all of area two, if you like, is, of course, subject to whether we can find a sufficient flow of mortgage funds to justify such a move. Now, you will recall ---

COMMISSIONER BROWN: You are answering my next question at the same time; that is fine.

MR. MANSUR: You will recall that this is not a new subject, this has been going on as long as I can remember, whether it would be desirable to adopt the F.H.A. technique to finance existing houses.

In my day, the two arguments against it were that if the financing of existing houses were made easier, then this would have a very great inflationary effect on the price of existing houses. This judgment, Mr. Chairman, was taken at the time when our multiple occupancy rate was over twice what it is now and when there just were not any houses for sale at all. Nevertheless it was taken at that time because it was felt that the price of the existing houses was just far too high.

The second reason was that the government of the day didn't like the idea, because we were struggling then as we are struggling now trying to find a sufficient flow of mortgage funds. Historically these are the two reasons and I suggest, Mr. Chairman, that these two reasons are just as pertinent today as they were ten years ago.

Now, I would put different emphasis on the inflationary aspects of the existing houses than I did then for the reasons which I mentioned earlier, but nevertheless I think that these are two good reasons for not doing it.

Now, there are reasons for doing it and this Commission has listened to reasons on and off for quite a while. Somebody must take a judgment as to whether this is a good idea having regard to what does it do to our flow of mortgage funds.

Answering your question more specifically, I don't think it matters much whether you insure the top end or the whole of the mortgage. In the N.H.A. at the moment everybody talks glibly about the whole loan being insured; the whole loan is insured, but if there is insurance on top 25 per cent I can hardly visualize a set of circumstances - unless we have a repeat of the mid 30's -- where the insurance on, say, the top quarter is very different to the insurance of the mortgage account as a whole, so that ---

COMMISSIONER BROWN: For instance, Elliot Lake?

MR. MANSUR: In the Elliot Lake issue were there reasonable selection used by the managers of the insurance fund, they wouldn't insure houses at Elliot Lake.

This is where the social implications start overlapping the financial implications.

In the States the F.H.A., I suggest, takes a strong line; it just will not be pushed around, they are running an insurance fund and they are not running a social agency and they stay very firm about it.

Since the Elliot Lake experience there have been certain other loans made in company towns. I think I mention in my brief that sometimes there is a hiatus or a gap in this area until the company of the company town assumes some responsibility to give some guarantees on mortgages for housing.

Now, if that is done, then I suggest to

you that the insurance of the top 25 per cent is equivalent to the insurance of the whole. I admit your point, Mr. Brown, and the point has to be faced when any scheme is introduced, but I do think that the difference is more of form than of substance between the two.

COMMISSIONER BROWN: I was thinking also, would it simplify the administrative problems in having to have people go around and value houses, and so forth, if it were based on sombody else's evaluation and their willingness to loan the 66-2/3?

MR. MANSUR: Well, I can only answer you that I don't think that it makes any difference because if I had any responsibility for the fund and I was insuring the top 20 or top 25 per cent of it, I certainly would want to have a look at the risk before I started to put any insurance on, whether it was 100 per cent or 25 per cent because, as I mentioned earlier, in most cases I look upon the 25 per cent as being the same thing as the 100 per cent.

COMMISSIONER BROWN: One point about the F.H.A. practice. Do they insure loans on existing houses where no sale is involved?

MR. MANSUR: Yes.

COMMISSIONER BROWN: Thank you, that is all I have.

COMMISSIONER MACKINTOSH: Mr. Mansur, we perhaps now should go back to the beginning of your brief where you list a number of gaps or something which I think you called -- I forget what your term was, but I think it was "areas of sluggishness", and the first one I got was this one you have been talking about, the isolated or company towns, and I took it from what you said that your view is that this is a problem that can be met, but can only be met if the company involved takes its reasonable share of the risk or takes extra risk.

Then you mention the gap in respect of new sub-standard or owner-labour houses, and you suggest, I think, that on the whole this has to be left to local resources and local solution. In what sense are these houses sub-standard? Are they sub-standard as financial risks or are they socially sub-standard?

MR. MANSUR: What I had in mind, Dr. Mackintosh, was that they were sub-standard as a structure and they might be sub-standard as to layout. I was thinking particularly of sub-standardness in relation to the physical qualities of the house including any land qualities that are there such as being smack up against a railroad track.

COMMISSIONER MACKINTOSH: Then the implication is that they are therefore sub-standard as financial risks?

MR. MANSUR: No, I don't think they are sub-standard as financial risks, Dr. Mackintosh, but I mentioned a bit earlier and it was mentioned this morning that the operations of Central Mortgage as a residual lender had pretty well removed the gaps that were existing provided that the house meets their standards.

Now, if the house doesn't meet the standards of Central Mortgage, then this gap exists. The two main categories are those houses that do not meet the structural requirements and houses where equity is very hard to identify. These are the two main categories.

I think there is a remedial system, Dr. Mackintosh. I think we can find a method of doing it if it is felt that the gap was large enough and acute enough; I think there are ways of doing it, and a way was found in Nova Scotia to do it and there is no gap in this field in Nova Scotia.

COMMISSIONER MACKINTOSH: How did they do it there?

MR. MANSUR: The Nova Scotia government is rather more friendly disposed to co-operatives than certain other governments, the Nova Scotia government has sponsored co-operatives for quite a number of years.

To over-simplify it, the arrangement was that the Nova Scotia government borrowed money from Central Mortgage and re-loaned the money to the co-operative and provided the supervision required in that co-operative, and although theoretically the standards of these houses -- the physical standards -- were up to N.H.A. requirements, I don't think that the Nova Scotia government would have their loan called if there happens to be less than 10 per cent glass area in one of the bedrooms. I would guess there was just a bit of latitude in the standards in connection with that operation.

COMMISSIONER MacKEEN: You know that the government of Nova Scotia had to step in because the experience of the ordinary loaning companies was so unsatisfactory they didn't want to make any further loans to these bodies?

MR. MANSUR: Yes. There is the very great difficulty with standard mortgage practice where there is a high content of owner-labour.

COMMISSIONER MacKEEN: You mentioned that that has been the experience, there has been a falling out between the groups; they have become non-co-operative?

MR. MANSUR: But there were one or two projects in Halifax that were highly successful under this arrangement.

COMMISSIONER MacKEEN: A second-class house?

MR. MANSUR: Yes.

COMMISSIONER MacKEEN: Not the owner-labour.

COMMISSIONER MACKINTOSH: The credit unions have done something in this field, haven't they, in nearly all the provinces?

MR. MANSUR: Yes, the credit unions are in this field and, as I mentioned in my memorandum, the Caisse Populaire -- which is really in the same category -- really took this type of housing under their wing within their respective parishes. when I was in Central Mortgage we never used to hear much from the province of Quebec on this problem because it was so well looked after by the Caisse

Populaire. This is equally true on what other things [illegible] in the housing field; we had less trouble in Quebec than the other provinces.

COMMISSIONER MACKINTOSH: Well, in this particular part of the brief you set out some historical periods and characterize our present phase as the one in which we have changed from a seller's to a buyer's market. Do you look on that as a long continuing phase, some place which we have arrived at and will likely continue in, or is it a preliminary to another phase, or do you believe that the teenagers will take us out of it shortly?

MR. MANSUR: No, of course that is nonsense; it is comforting, but nonsense just the same. I hesitate, with you of all people, to make any forecasts about the future.

COMMISSIONER MACKINTOSH: I am not pressing you to go further than you want to; I simply wanted to know how far you did go.

MR. MANSUR: I believe that the backlog of need resulting from both World War II and the depressed years of the thirties has been reasonably made good in absolute quantities, having regard to the cost-income relationship.

Now, if houses cost half what they do at the moment, then obviously the effective demand would be there in very large measure and I imagine we would be right back to where we were, say in the late forties. But having regard to the present cost-income relationship, I think that our housing supply has reached a relatively happy state of balance. By saying this, I do not mean that our housing situation is satisfactory for everybody, but I do think that the more pressing of the shortages have gone, and I think they have gone to a point that we have moved into a buyers' market; and, as I mentioned in my memorandum, I think that the tremendous rush of housing in 1958 may not have caused it, but it certainly showed that the change had taken place.

As to the future, I think that a revival of buoyancy in effective demand for housing depends very largely upon business conditions. After all, 99.5 per cent of all houses are sold to males who are employed. Now, in the first half of the fifties the increment to our male labour force was about at the rate of 75,000 a year. In the last five years it has been about at the rate of 25,000 a year. I think the housing market now shows some relief from the pressures of a substantial increase in the labour force by those people who both can and wish to buy houses.

If economic circumstances change, become buoyant to an extent that we resume an annual increment of 75,000 males in our labour force per annum, then I think there will be a revival of the demand for housing. But I do not think, if we have a continuation of an increment of 25,000 a year, that we are going to see a very buoyant demand in the housing field until the change takes place.

Let me move on to the next question, this explosion of marriages that we are supposed to have about 1955 or 1956. They can explode and marry just about as fast as they like ---

THE CHAIRMAN: You mean, 1965 or 1966?

MR. MANSUR: Yes, 1965 or 1966. They can explode and marry as fast as they like. Unless the male member of this marriage has a job earning, in the Toronto area, something about $2.60 an hour, he is not going to buy a house. That is about the cut-off figure in Toronto. It would be lower elsewhere, but nevertheless, not much under $2 an hour anywhere else.

I have the feeling that much more important than the marriage rate is the employment of married men. For instance, to give you an extreme example, Dr. Mackintosh, in the year 1933 there were 65,000 marriages and there were 14,000 housing starts. Our post-war experience has been that the housing starts have run slightly over the marriage rate. We can have a situation where the marriage rate far exceeds the amount of housing starts. Does that answer your question?

COMMISSIONER MACKINTOSH: Yes.

THE CHAIRMAN: We will adjourn for five minutes.

--- Recess.

COMMISSIONER MACKINTOSH: We will resume. The Chairman is unavoidably absent for a while. I would like to continue with another of the problems which your brief raises, Mr. Mansur, the fluctuating flow of mortgage funds from the institutional lenders in the N.H.A. and conventional fields. To what extent does this arise mainly or entirely from the fixed or spasmodically adjusted rate of N.H.A. lending, and to what extent does it arise from other factors?

MR. MANSUR: By "rate", do you mean interest rate Mr. Chairman?

COMMISSIONER MACKINTOSH: Yes, interest rate.

MR. MANSUR: Mr. Chairman, I think that perhaps the best example is to use the most recent one. In 1959 we had a bit of monetary chaos or a period of restraint in the monetary field, however it is best described, and lending stopped at that time. In December, 1960, the interest rate was moved to 6 3/4 per cent, at which time there were about 100 basic points difference between the five halves of seventy-five and the N.H.A. maximum rate. One hundred basic points is not sufficient to induce lenders into the

N.H.A.

This change in the N.H.A. rate in December, 1960, was accompanied by a fortuitous improvement in the bond market, so that about April or May, when the snow had gone, we had a spread of about 150 basic points between the five halves of seventy-five and the maximum rate of interest under the N.H.A. This spread, which was quite satisfactory, ranged up to almost 175 basic points immediately prior to the change in interest rate from 6 3/4 to 6½ per cent on November 7, 1961.

The reduced maximum interest rate under the N.H.A. still showed about 150 basic points difference, and the lending continued uninterrupted though the interest rate was changed.

We went on from there until about June, 1962 with the number of basic points ranging from 150 down to 130; I think it got down to about 120 without any great change in the rate of N.H.A. lending.

Then the circumstances of June, 1962, occurred when we got down to about 90 basic points, at which time all the lending institutions departed. The situation since then has been an improvement in the bond market, so that presently there are about 130 basic points showing as a differential. There is a kind of nosing around by some of the lending institutions who are not active in the market at the moment, perhaps anticipating that the bond market will improve. I suggest that they will be back in the market when 150, maybe 140 basic points show between five halves of seventy-five and the maximum rate of interest. Does that answer the question?

COMMISSIONER MACKINTOSH: Yes.

COMMISSIONER MacKEEN: May I ask a question?

COMMISSIONER MACKINTOSH: Yes.

COMMISSIONER MacKEEN: Would you attribute that entirely to the spread between Dominion bonds and the C.M.H.C. rate, or would it in part be due to the fact that a lot of the lending institutions were, at least temporarily, tight on money themselves and were not investing in N.H.A. mortgages?

MR. MANSUR: No, I think it was entirely a differential in rates. The life companies seemed stuffed full of money. Immediately they left the N.H.A. sector for reasons of this too narrow spread there was a very marked upturn in conventional lending. I think it was entirely a matter of the N.H.A. rate being unattractive. I could see no evidence at all during this recent unpleasantness of the life companies being short of funds. This was not true of some of the other lending institutions, though.

COMMISSIONER MACKINTOSH: Is there a solution, or at least an accommodation to be found in either a fluctuating rate for N.H.A. or at least a more rapidly changing rate?

MR. MANSUR: Mr. Chairman, I think that in evidence given -- I think, by Central Mortgage this morning, although it may not have been -- there seem to be three courses. One is the present one, of a very fixed rate, and the other is to enter into a system of discounts after the fashion of the N.H.A., and then there is the mid-course --

COMMISSIONER MACKINTOSH: You mean, F.H.A.

MR. MANSUR: F.H.A., I am sorry. Then there is the mid-course of trying to find ways and means of having the N.H.A. maximum rate reflect conditions rather more current than has been the experience to date.

I think a continuation of the present arrangements are quite unsatisfactory unless something could be done to keep government from forgetting all about this at most important times, and I despair of that.

The other extreme is the F.H.A. I suggest to you, Mr. Chairman, that the discounting of mortgages makes the maximum rate of interest as set by government absolutely meaningless, as indeed is the Congressional rate in the United States right at the moment. I mean, when you get all these Congress men sitting around and deliberating long and earnestly as to whether this rate should be $5\frac{1}{4}$ per cent, and in Seattle you see $5\frac{1}{4}$ per cent F.H.A. 203's selling at 93 to 95, you wonder what Congress spends so much time on it for. So I would hate to see the system of discounting introduced in Canada. I may say that the whole discount proposal was looked at very carefully by the government at the time the N.H.A. changes were made to the legislation in 1954. It was felt that the evils that accompanied the discount far outweighed the advantages of the discount, and that was not forgetting that there was the advantage of the flexibility in the discount arrangement. But these things were weighed, and weighed very carefully with as good advice as could be found.

So that I feel a discount system is absolutely unthinkable until after some mid-course has been explored.

I think there are ways and means of finding a mid-course that would meet most of the need. It might not be perfect, but for goodness sakes, we are not looking for perfection as an alternative to what we have at the moment.

COMMISSIONER MACKINTOSH: This Commission has already given that up.

MR. MANSUR: I think there are ways and means of doing this; but, mind you, as I mention in my brief, it is much more comfortable for government not to be mucking around with changes in interest rates at any time; it is much more comfortable for them to sit under a discount arrangement, because they are at real arms' length and do not get into any trouble.

But I think the proper thing to do is for government or its agents to continue to control this rate with some sort of an arrangement which is considerably more flexible than the present one. I have some suggestions, but I rather hesitate to suggest government policy, or anything that might be suitable, because I think there is rather more chance of it coming into effect if I do not suggest it.

COMMISSIONER BROWN: Perhaps you should suggest things that you do not recommend.

MR. MANSUR: I think that would be a more reasonable course. However, at the risk of completely killing it by suggesting it myself --

COMMISSIONER MACKINTOSH: Then we will take it that this is the suggestion of one of your friends.

MR. MANSUR: Yes. I think one might look at a formula something like this. I think that the N.H.A. rate should be set every quarter, and I think that the progress advances which are made under N.H.A. loans should bear the interest at the rate for the quarter in which they are outstanding, and the changed rate for the next quarter would be applicable. I think that at the time of the sale of the house, the long-term mortgage rate should be the rate then current; and further, as the fourth step, the interest rate should be applicable for ten years, and that to the extent that these mortgages are existent ten years after the closing date, then they would bear interest after that ten years at the rate current at the end of the ten year period.

This is not all new. I realize that it sounds radical. My fourth point was exactly what was done under the old Dominion Housing Act. The rate was for only ten years.

COMMISSIONER MACKINTOSH: My information is not enough on this point. Does this contravene the principle that the borrower ought to be able to refinance after five years?

MR. MANSUR: No. I would think that amendments could be made in the Interest Act with good effect, but apart from that, just leave the

Interest Act as it is at the moment. The borrower has the right of repayment at the end of three years, with three months' bonus of interest, which at the present rates is something slightly in excess of 1½ points.

In the case of rental properties there is no right of repayment until the end of ten years. I would suggest that the terms might stay just as they are and that the interest rate on that mortgage should be subject to a recasting at the end of the tenth year in accordance with the interest rate then existing for new N.H.A. loans.

COMMISSIONER MACKINTOSH: But with a right of prepayment maintained?

MR. MANSUR: Oh, yes.

COMMISSIONER MACKINTOSH: I see.

MR. MANSUR: Yes.

COMMISSIONER MACKINTOSH: That is what I did not understand.

MR. MANSUR: Yes, Mr. Chairman. It is much in the way that home ownership becomes operative at the end of the third year.

COMMISSIONER MACKINTOSH: Yes.

MR. MANSUR: Mr. Chairman, I think that a great deal too much has been made of this short-term nature of the N.H.A. loan and the three years redeemable at 101½. This gets into bond parlance. After all, the holders of these mortgages have not just one little bit of paper in their hands about which they are frightened to death that somebody is going to pay off at the end of three years. most of the lenders have thousands and thousands of these mortgages.

Really what we are talking about is not the right of repayment in full at the end of three years, although it would appear that that was what we were talking about, looking at one instrument; what we are talking about is a certain flow of capital repayment in addition to the regular principal repayments to the regular amortization schedule.

I just feel there has been over-emphasis on this "one instrument" as against the thousands of instruments that are in the hands of the lenders.

COMMISSIONER MacKEEN: If there were a marked difference in the interest rates -- let us say, they fell by an appreciable degree -- the loans would be paid off and refinanced somewhere else. Certainly, we have had that experience in conventional mortgages.

MR. MANSUR: There seems to be a tremendous inertia among borrowers. I can remember being in the mortgage business in the late 30's where theoretically this should have happened to every loan in our portfolio because interest rates had reduced. With that company we spent a lot of time and energy trying to get borrowers to come into the office and sign a renewal agreement at a lower rate of interest. I don't think anything has yet been proven as to the manner in which refinancing will take place in a declining interest rate structure.

COMMISSIONER MacKEEN: Perhaps we are more susceptible in Nova Scotia.

MR. MANSUR: Refinancing has certain problems. The borrowers have got to go through the rigmarole of putting on a new mortgage. This is going to cost them, depending on how fortunate they are in the selection of lawyers, somewhere around one and a half per cent. It will cost them one and a half per cent bonus to get rid of the existing mortgages, so there is six months interest the owner is going to have to pay. Then I think it is probably the case that if the interest rate structure got too far out of line the lending institutions, themselves, would offer a reduced interest rate. This has happened before and

I think it will happen again.

COMMISSIONER LEMAN: But that risk of acceleration still makes an N.H.A. loan inappropriate on a retail basis for a small investor holding three or four?

MR. MANSUR: Oh, yes. I don't think one can reasonably anticipate any set of circumstances where these will be owned privately by individuals. I don't think they are a suitable instrument. Unless there are special circumstances, like a large estate, or even a small estate where the trust company arranges a take-out, I don't think we will see very much of this in the hands of the private individuals. They have had this arrangement in the United States for some time where FHA'scan find their way into the hands of private individuals and it has never been very effective.

COMMISSIONER MACKINTOSH: In this area of the intermittent lender, the banks have had an important place, I suppose partly because of the ceiling interest rate for banks: would you think this was an important problem to solve? That is, the banks have an important function in this because of their branch system.

MR. MANSUR: Yes.

COMMISSIONER MACKINTOSH: And the only institutions that really cover the country.

MR. MANSUR: I am very enthusiastic about the banks coming in. As I mentioned in my brief, I think they have firstly the organization, the like of which we don't have in anything else in the country;

and the second thing is, I don't believe that the increments in savings should have the complete insulation thrown around them that they did prior to 1954, and which was re-accomplished in 1960.

COMMISSIONER MACKINTOSH: On the other hand, would you agree that even assuming the rate problem was wiped out that in a period of tight money the banks are likely to give priority to what you might call their working capital customers -- commercial credit?

MR. MANSUR: I think we have had a very good example of that in the various periods of monetary restraint. The banks withdraw, for reasons, I believe, other than interest rates, certainly with the $6\frac{3}{4}$ per cent interest rate established. I can hardly believe interest rate was one of their reasons for wishing to get out of the mortgage business. It was undoubtedly lack of funds that made them want to get out. As I understand the matter, the old legal opinion that was put forward by the bankers in 1954 was kind of dusted off and brought back into being. At this time the opinion happened to suit government, that this dusted off opinion should be applicable, which held that they could not operate under the Housing Act by reason of the Bank Act. This happened to suit government at the time for the wrong reasons, and the banks just departed. In my view I don't think there is any more reason for the banks to be out of the N.H.A. business today than there was when they went into it in 1954. But this is just my opinion.

COMMISSIONER MACKINTOSH: You mean because of their legal position?

MR. MANSUR: Yes, this legal opinion is the same reason why they said they would not come into it in 1954. The legal opinion was looked at by the law officers of the Crown and the law officers of the Crown said "nuts." About two days later the first bank came in and made twenty loans, and then all the other banks rushed in at a tremendous rate, and somewhere in the shuffle the legal opinion got lost.

COMMISSIONER BROWN: But this was all below the legal ceiling, wasn't it?

MR. MANSUR: Yes, but the point is that the Housing Act says, "... notwithstanding anything contained in any other statute, the banks may..." This point was just as valid at the time the banks came into the business in 1954 as it was at the time they departed, because one of the sections of the Bank Act says they cannot lend at over 6 per cent.

COMMISSIONER MACKINTOSH: In the absence of the Chairman I forebear to make any judgment on this.

MR. MANSUR: But, answering your question, I think it would be a great thing when the banks get back into this because I think it provides a coverage. I think it is a great tragedy that Central Mortgage and Housing has to look after all the outlying areas. I think we are building trouble for ourselves, and as soon as we get in a position where lending under the National Housing Act emanates from the private sector, the better for everybody.

COMMISSIONER GIBSON: Leaving aside the legal question, you did say earlier there was a monetary problem.

MR. MANSUR: Yes.

COMMISSIONER GIBSON: And even if there had not been the legal question, there was still a monetary question: you agree with that?

MR. MANSUR: Oh, I agree completely that the banks did the right thing for the wrong reasons.

COMMISSIONER GIBSON: But you know what the problem is?

MR. MANSUR: Yes.

COMMISSIONER GIBSON: They only have so much money, and so many demands on them.

MR. MANSUR: Yes.

COMMISSIONER GIBSON: Have you any suggestion as to how to cope with that problem?

MR. MANSUR: No, Mr. Gibson. I have no quarrel whatsoever with the stand taken by the banks on account of the position they found themselves in at that time. I have no quarrel with that at all. I think they took the only steps that could be taken, but I would have been more satisfied in my mind, at least, if the real reasons had been given at the time rather than a dusted off 1954 opinion.

COMMISSIONER GIBSON: But I wasn't asking you so much if you thought they were right or wrong in any broad sense, but what you thought could be done about the problem.

MR. MANSUR: No. I think, Mr. Gibson, that the capital pie is only so large. I would not go so far as to suggest that there should be a segregation of uses of notice deposits in the chartered banks. I don't think you can remake the system. I think if we were starting all over again we might have a little different set of circumstances, but I don't think you can unscramble the eggs. Nevertheless, I do feel the banks control a large part of personal savings -- I have absolute confidence in these banks doing the proper thing at times when they are able to do it, and the latter part of 1960 was not a time at which they should or could have made N.H.A. loans whether there was a Bank Act or not a Bank Act.

Over the course of the last few days, Mr. Chairman, I have rather gathered the impression from some of the representations made to you that housing, because it is so sacred, should not be subjected to any restraint. I think this is quite wrong. I think housing must be subjected to monetary restraint when all other sectors of our economy are being subjected to monetary restraint. However, that is a far different thing from saying that the most important sector of our personal savings should have this cloak of insulation around it against what I think is a very legitimate use for such long-term savings.

COMMISSIONER MACKINTOSH: But there are ups and downs in monetary policy with some degree of intermittent participation of the banks in this field, quite regardless of the rate.

COMMISSIONER GIBSON: I would like to ask another question in the area you are raising, Dr. Mackintosh. You made clear that you didn't like the idea of N.H.A. mortgages being negotiated at discounts, Mr. Mansur.

MR. MANSUR: Yes.

COMMISSIONER GIBSON: I would very much appreciate it if you would elaborate that. I am not quite clear as to your reason on that.

MR. MANSUR: Well, I believe that one of the greatest accomplishments over recent years in the mortgage business is the elimination of regional interest rate differentials. I admit there are some small regional differentials still existing, such as in the Maritimes, but generally speaking these regional differences which were so pronounced prior to World War II have virtually disappeared, and I don't think this is only in the N.H.A. sector. I think this has been in a pretty broad sector. If the system of discounts was introduced, I have a feeling that we would re-introduce regional interest rate differences and we might find N.H.A. loans which were par in Toronto going for 94, 95 on Vancouver Island and maybe 96 or 97 in Nova Scotia, and I don't think this would be good. I realize you can make a case for it on pure economics, but I think there are some advantages to be gained in a country such as ours, that spreads out the way it does and has the sharp regional distinctions anyway, to eliminate the regional distinction in matters of this kind.

The other thing that I believe is true in a case against discounts is that this gives the lender quite a leverage against the borrower, particularly in times of monetary restraint, and I just don't believe that even the lending institutions should have such a lever to be used against the builder -- and, in the final analysis, it is not against the builder at all ; it is against the home-owner.

My next point is this: there has been a tremendous to-do in the N.H.A. in order to keep the down-payments down to a reasonable level. As soon as you introduce a system of discounts, the whole discount goes on the down-payment, which I don't think is very desirable.

Then, my final point is that I question the propriety of a government-supported insurance fund providing the same insurance for a loan with effective yield, say, one per cent higher than other loans.

I think these are the reasons why I do not favour the introduction of the discount system, and I may say, Mr. Chairman -- and this may be improper -- the government spent a lot of time considering this very point at the time the 1954 amendments were introduced into the Act, and the very best advice that could be obtained by the government at that time strongly suggested to them that even the inflexibility of a maximum interest rate was better than a system of discounts. I do not think, Mr. Chairman, there is any need to introduce a discount system to achieve enough flexibility in the interest rate pattern to serve the purposes that have been suggested before this Commission.

COMMISSIONER GIBSON: Could you have a free rate without a discount system?

MR. MANSUR: No. I think, Mr. Chairman, that gets over the down-payment problem, but I question the propriety under a National Housing Act of having different interest rates. I also think that it places an uncomfortable lever in the hands of the lender as against the borrower. The trouble is this, the lender is dealing in so many cases not with the eventual borrower. He is dealing with the middle-man in the form of a merchant builder, and as long as the merchant builder feels he can pass this on to the home-owner, then he is not too interested in what the interest rate is or what the discount is or anything else.

COMMISSIONER GIBSON: So you think it is an imperfect market, and that the borrower needs to be protected in this case?

MR. MANSUR: That is right, because the borrower, the man who is going to pay the freight for twenty years, is not in the picture at the time this transaction takes place.

COMMISSIONER MACKINTOSH: Any other questions?

COMMISSIONER GIBSON: Yes, I have some questions.

COMMISSIONER MACKINTOSH: I have finished with mine.

COMMISSIONER GIBSON: Going on to the portion in the memo under "Flow of Mortgage Funds" I would like to ask you a few questions running through this section of it.

You open up by saying that the housing sector has been the weakest borrower in the capital market and that it is supported by government, and the reasons which you give seem clear enough. I wonder if you would say a little more about how this developed? For instance, in about the 20's we managed to finance quite a lot of houses and the country wasn't as rich as it is now. Have our institutions changed? Have our ways of doing these things structurally changed so that there is a big gap here? You give us no background on this. You mention, for example, that there is a lack of local institutions in this business, comparing Canada with the States.

Now, my thought on the subject -- at least, I think it is true -- is that a great deal of this mortgage business in the 20's and before the First World War was done through local lawyers and other individuals in the local communities, and in these days this has dried up and this is one of the gaps which you are trying to fill?

MR. MANSUR: Let us go back a little further.

Let us go back to 1914 which is a good place to start from.

In 1914 the income earning investments of the wealthy farmer and the wealthy local man took the form of mortgages. I think I am correct in saying that a bond or debenture was unknown in Canada in 1914 save for the governmental transactions with the British government. Then, the first war came along and the first Victory Loans came in, starting I think in 1917

At that time there started an education of the Canadian people towards our ultimate role of being coupon clippers.

COMMISSIONER BROWN: Are you speaking for all of us?

MR. MANSUR: Those of us with any money. Then we come into the 20's, and although bonds were known they were a pretty restricted sort of thing, Mortgages and being the owner of real estate was still a pretty important sector, But the bond boys found out that they really had an instrument that could be sold. Marketability, the ease of transfer and all the other things that go with bonds and debentures started to come into their own. There is no question at all but that a bond or debenture is a more suitable instrument of investment than a mortgage. I think it was at that time that the swing started to take place from mortgages as being the popular form of investment, into bonds. I think historically, Mr. Gibson, this is the reason for it. I can't vouch for it, but that is what I think. I just think that the bond boys came out with a better mousetrap.

COMMISSIONER GIBSON: In the later 20's there was the stock market, too.

MR. MANSUR: Yes.

COMMISSIONER GIBSON: In other words, new financial institutions of a competitive nature have grown up.

MR. MANSUR: Yes.

COMMISSIONER GIBSON: You talk in this same section about the optimum volume of new starts, and you talk about the years 1949, 1953 and 1959 as being exceptional years and you say that the optimum volume of new starts was limited by the lack of funds. You mean this simply in terms of what you normally regard as effective demand? These are years in which there were few funds?

MR.MANSUR: By "optimum" in that sense I mean a quantity sufficient to satisfy the effective demand, and I think in the final analysis that is the optimum of housing starts at all times.

COMMISSIONER GIBSON: Now, the burden of this whole discussion is that the intermittency of the supply of funds is the central problem; that is correct, is it?

MR. MANSUR: Yes, that is correct.

COMMISSIONER GIBSON: What concerns you so much about the intermittency of the supply of funds? Is it that it raises the cost of housing, that it interrupts the flow; what are the main features in your mind that makes this intermittency objectionable.

MR. MANSUR: Well, I think it is the impossibility of a merchant builder to get forward commitments to balance his activities. That reflects into the cost of the end product for the home owner. I think it is very unhealthy for housing starts to go to 168,000 in one year and drop to, say, 115,000 the next. I just don't think that it lends itself to an efficient housebuilding industry and it seems to me that if there were a smoother curve it would be a lot better for everybody. I think that it adds costs to housing to have intermittency.

I remember on one occasion, Mr. Gibson, when the supply of mortgage funds was particularly tight and the builders had to restrict the production of houses to a much lower level than that to which their organization was geared; they were left with no other alternative but to put a rather larger price on the house if for no other reason than to meet their overhead. This is not good, and I think it would be bad if a motor car manufacturer, for reasons of this kind, had to cut his production away down and all his overhead had to go against half as many motor cars.

COMMISSIONER GIBSON: Isn't this a pretty competitive industry? Can people get away with that sort of thing for long? Can they still do that?

MR. MANSUR: No, I think the time that I refer to is the time when there was still a seller's market; I think it is remarkable that the industry has changed so quickly to where the industry was able a year ago to absorb the whole sales tax imposed upon the Province of Ontario. Far from increasing the prices, they were reduced. I would not have believed that it would be possible.

Mr. Gibson, a lot of hard work was put into building an efficient house-building industry -- which was insufficientat the end of 1945. I think that the house-building industry is probably not as mature as other industries and I think for that reason it can stand some measure of protection in respect to the flow of mortgage funds. But to go back to the point which I made earlier, I don't suggest for a moment that there should be any insulation against periods of monetary restraint in respect to the house-building industry. I think such would be absolutely improper, and there have been traces of a suggestion along these lines to this Commission.

COMMISSIONER GIBSON: I am sorry, but I didn't get your last point; would you mind repeating it?

MR. MANSUR: My last point was that although I make this comment about the desirability of an evenness of flow of mortgage funds to get away from these periods of sluggishness, I just repeated what I said earlier that I don't believe that housing should be exempt from the effects of periods of monetary restraint.

COMMISSIONER MACKINTOSH: Go ahead, Mr. Gibson.

COMMISSIONER GIBSON: On page 17 you mention this point which has been discussed with Dr. Mackintosh, that there is nothing wrong in having a decent inventory of new houses?

MR. MANSUR: Yes.

COMMISSIONER GIBSON: And you say that the present supply is approximately $2\frac{1}{2}$ weeks?

MR. MANSUR: Yes.

COMMISSIONER GIBSON: And you made the point, too, that if you have a fairly adequate stock in houses, that the benefits will have to filter to people who buy cheaper accommodation or rent cheaper accommodation. What would you regard as an adequate or a reasonable stock of houses; would a couple of months' supply be reasonable?

MR. MANSUR: Well, I am afraid that I must answer your question two ways. As one who has been interested in public housing in its social aspects ... I would like to see so many houses completed and unsold that it will force the price down by 15 per cent. But to the extent that I am presently engaged in trying to put together a mortgage account, and therefore have some concern about protection of that mortgage account, then I find myself enjoying this philosophy of the lending institutions who find, that the stability of a mortgage account flourishes best in an economy of scarcity.

Somewhere between these two points of view would be the answer, but I can see nothing wrong with having a housing stock of completed and unsold houses of two or three months.

COMMISSIONER GIBSON: You don't think that that would affect the attitude of the lenders so much?

MR. MANSUR: It would drive the lenders crazy.

COMMISSIONER GIBSON: That would more than offset the benefits which you gain from it?

MR. MANSUR: It depends on whether you are thinking about this socially or financially; financially, I think the lenders would get pretty upset if they saw more than a month's supply. On the other hand, if I was only interested in the social aspects, housing welfare trade, I would like to see a six months' supply.

COMMISSIONER BROWN: How about the builders?

MR. MANSUR: I think that the builders would start to get uneasy if it was anything over a month's supply. I am just guessing on this, but this is my guess.

COMMISSIONER BROWN: If you had a six months' supply you would have the builders uneasy too?

MR. MANSUR: We would have quite a time ourselves.

COMMISSIONER GIBSON: But I am thinking of the future of the economy and in terms of a reasonable flow of housing; there must be some point where you would get concerned even if you were interested only in the social side.

MR. MANSUR: I think about a month, maybe twice our present -- I think a month to six weeks; I think I would be concerned with anything over six weeks.

COMMISSIONER GIBSON: This takes me back to the question of intermittency, as one of the objections to the intermittent supply of mortgage funds, and that is that it may get the private lender fed up with this part of the mortgage market.

MR. MANSUR: Yes, I would say the private lenders may slip back toward the end of this year when there is a wide enough interest spread to entice them back into the market.

I just have the idea we may have some losses but most of the lenders will be back. In the meantime, no builder can plan his operations ahead. He does not know whether the lenders will be back or not.

You are speaking in the light of how does he know what to do about it; he does not know what to tell his sub-contractors and he does not know how to make plans under the present circumstances at all. I do not think it is very helpful.

COMMISSIONER MACKINTOSH: At the very simplest it is the unused resources?

COMMISSIONER GIBSON: Do you see any major changes in the structure of the building industry coming about, if we succeed in doing a major operation to prevent such intermittency?

MR. MANSUR: No, I do not think essentially that is the case. I think the house building industry has entered into a new period where conditions are much more competitive than we have seen in the post-war years.

I think that these competitive conditions from which, incidentally, flow tremendous advantages, will be most competitive if the builders have reasonable assurance of funds and can do some preplanning. So that looking at the nature of the benefits that will flow through to the potential home owner I see tremendous advantage in having an evener flow of funds.

COMMISSIONER GIBSON: That leads to my last point. You have made it reasonably clear that you would like a more even flow of funds, and as a means of achieving this, the N.H.A. interest rate should be more in line with the market conditions. Are there any other elements in the terms of N.H.A. loans which you think would properly be varied to bring about this mortgage flow or, as was suggested this morning, have we used them all up?

MR. MANSUR: No, I think we move from there, Mr. Gibson, to the problem of where are we going to get the additional flow of funds. I cannot believe that anyone would be very satisfied to have government go on on an indefinite basis making good the deficiency in mortgage funds, between that which is required and that which is available. The very fact that government in the lender is an uncertainty in itselt in the flow of funds.

Therefore, in answer to your question I think we get right into where and how do we get a relatively even flow of funds.

In that respect the first problem is to find the funds available and to remove the government to what I think is a more suitable position, that is purely a residual lender rather than an important factor in the mortgage market.

In my memorandum to the Commission I mentioned three or four possible sources of these funds. I believe that these sources of new funds and increased funds become more likely if steps are taken to make the N.H.A. mortgage and, indeed, the conventional mortgage, a more marketable instrument and one which is more competitive with other forms of investment instruments. For that reason I think a very good case can be made for a real effort toward the creation of marketability in the form of a secondary mortgage market.

I think this would do a great deal to increasing the supply of funds into the N.H.A. sector.

Really it does not matter whether funds come into the N.H.A. sector or the conventional sector, because they are two parts of the same thing. Whether they come into the conventional sector or the N.H.A. sector does not make me too excited, particularly in view of my suggestion that there might be additional sources of funds that will move more easily if we have the benefit of an improved instrument through a secondary marketing operation.

Now, Mr. Gibson, there has been suggestions made to this Commission -- I forget who it was that made them -- about the awkwardness of the instrument and unfavourable comparisons made with the F.H.A. instrument. I do not think these remarks are justified. Certainly the views of the people in the United States are very favourably disposed to the N.H.A. instrument as compared to the F.H.A. instrument. I do not think there is anything basically wrong with the N.H.A. instrument, per se, other than that which is wrong with a mortgage in itself. Therefore, I think we are talking about an improved status of mortgages generally and not of N.H.A. mortgages particularly.

I can think of nothing that would improve the status of mortgages quite so fast as to have a secondary market in operation. I believe that mortgages are in an unfavourable competitive position to bonds and debentures. I think anything we can do to eliminate the kind of "me first" attitude of people interested in bonds and debentures would be a very good thing.

COMMISSIONER GIBSON: But your whole philosophy is one of trying to get a smoother flow and more sufficient supply?

MR. MANSUR: Yes.

COMMISSIONER GIBSON: I take it you do not see the housing policy as a major anti-cyclical device.

MR. MANSUR: I do not think that I would like to see housing in the box of tools for anti-cyclical exercises -- that is right.

COMMISSIONER GIBSON: It has tended to work that way in recent years?

MR. MANSUR: By chance.

COMMISSIONER GIBSON: Yes, but it has tended to go in that direction?

MR. MANSUR: There is no doubt about it. What evidence there is strongly suggests that that is the case. I think there are natural causes which make housing contra-cyclical, but the idea that this has taken place as though there was some wise man here sitting using housing in a contra-cyclical way has no basis at all. It just happened that way.

I remember, and I used to be with Central Mortgage and Housing,asking one of our regional supervisors: "What about housing next year?". He said: "I will tell you the amount of housing to the nearest thousand if you will tell me the amount of motor cars to be sold next year". You will notice that motor cars and housing are very counter-cyclical.

COMMISSIONER GIBSON: You told us about your ideas of how this might be varied, but surely you would be inclined to raise it a little less than other rates when times were good and reduce it a little less when times were bad with the anti-cyclical possibilities in mind? In other words, to be a little anti-inflationary when there is a boom and give a little encouragement when there is a recession? Is this one of the things you were thinking?

MR. MANSUR: You are really pinning me down now, Mr. Gibson. If I could be the one to lean against the wind, as you suggest, putting a little teeny weeny bit here and a little teeny weeny bit there I would be in favour of it, but I am not so sure I would trust anybody else to deal in these little bits....

COMMISSIONER GIBSON: In other words you might want to have something a little closer to the formula basis?

MR. MANSUR: Incidentally, Mr. Gibson, there has been quite a lot of talk about that formula this morning, as if it was tied to the 20 year plus $2\frac{1}{4}$ basis. There is no such time at all and there never has been. There needed to be some maximum.

Somebody put out some figures and thought that $2\frac{1}{4}$ plus 20 years would be about right in latitude for the operators, but I gathered the impression this morning that there was a planned correlation.

I think that one of the great troubles in using housing as an instrument for counter-cyclical purposes, if you like, is that there is such a lag in housing. By this I mean anything you do today, really has no effect for nine months. I have never seen any judgment in Ottawa yet that gave me any confidence about what was going to happen nine months from now. So that I think that housing as a counter-cyclical measure is a very dangerous instrument to leave in anybodys hands.

COMMISSIONER MACKINTOSH: Would you say the same about public subsidizing of housing?

MR. MANSUR: Yes, I think so. If there were some obvious vacuums to be filled and you could be reasonably sure of the lead time, I think it would be a proper idea to have public housing in such periods rather than periods in which all our resources were employed.

I do suggest, Mr. Mackintosh, going back to the point I made to Mr. Gibson, that we have not got too many people around who will take these steps, whether they be counter-cyclical or not.

COMMISSIONER MACKINTOSH: Is that primarily because the lead time is too long?

MR. MANSUR: The lead time is beyond the best guessers of those concerned with such matters, in my opinion.

COMMISSIONER MACKINTOSH: We have had the suggestion that the best way to be counter-cyclical is to be pro-cyclical.

MR. MANSUR: Well, I did not quite dare go that far, Mr. Mackintosh.

COMMISSIONER LEMAN: Mr. Mansur, I would like to ask you a couple of questions. Right after talking about the flow of mortgage funds, you go into another matter which is really much the same thing. You have the title: "Sources of More Mortgage Funds". We are talking about the same thing again. You say that there are two ways perhaps for the chartered banks to get back into N.H.A. mortgages, and if they interpret the law properly right now, or if the law were made a little clearer, what you mean is that the banks should be able to lend now at the present N.H.A. mortgage rate, is that so?

MR. MANSUR: Well, I have not looked at the figures for two or three weeks, but had your question been asked two or three weeks earlier I would have had some doubt as to whether the chartered banks were in any position to do much lending.

COMMISSIONER LEMAN: I do not mean that.

MR. MANSUR: I am sorry.

COMMISSIONER LEMAN: I mean, they should be able legally to do it if they wished to do it. I am not talking about the availability of funds just now.

MR. MANSUR: Yes.

COMMISSIONER LEMAN: Then, presumably, you admit at page 18; you say, and you are talking about the pie not being of infinite size, that the answer to this is that there is no more important aim than increasing the housing stock. Without disputing that the fact is that,

it creates a shift in the use of funds. Don't you think a shift under the circumstances could go too far if we enable them to invest funds at 6 3/4 in respect of N.H.A. loans, unless they should be able to have higher interest rates on loans as well?

MR. MANSUR: Oh, yes. If you want my view on that, I think the sooner the limitation is taken out of that Act in respect of the rates the better for everybody. I think it creates very unnatural circumstances. There are too many strictures at this time and the sooner we get rid of them the better.

I reserve from that statement the maximum rate of interest under N.H.A. loans because I think there are other reasons for that maximum rate of interest.

COMMISSIONER LEMAN: The second source you talk about is foreign funds.

MR. MANSUR: Yes.

COMMISSIONER LEMAN: There is something that puzzles me a little bit in the way you comment about this. First of all, you talk about the reported amount of the potential transactions usually in multiples of $100 million although occasionally fractional amounts of $100 million are reported. In what sense do you use the word "reported" there?

MR. MANSUR: Well, I am afraid I was trying to be facetious. You never hear of any of these American reports unless they are in multiples of $100 millions. A man says: "I have $200 million here, or $300 million to invest". They are always in multiples of $100 millions. Very seldom do you hear of the fractional amounts of $50 million when you hear about foreign funds, and in very few instances do you see any folding money.

COMMISSIONER LEMAN: What I am trying to understand a little more clearly in respect of your comment is, are you talking about direct investment here?

MR. MANSUR: Yes.

COMMISSIONER LEMAN: So you make a difference between what you call direct investment and indirect?

MR. MANSUR: Yes, I am talking direct investment, Mr. Leman, yes.

COMMISSIONER LEMAN: So it is possible that some loan companies in Canada could be using funds of United States, but you would not class that as direct investment in Canadian mortgages?

MR. MANSUR: No.

COMMISSIONER LEMAN: Would you think there is some of that money coming in now; that it has found its way into mortgages?

MR. MANSUR: Oh, yes, I think indirectly, Mr. Leman, that is quite true. For instance, I think to the extent that Metropolitan Toronto, or other municipalities are borrowing in New York, this provides relief to lenders in Canada, which in turn provides a leaway to mortgage lending. I think it is difficult to put these various borrowings into arithmetical perspective although they are inter-related. Therefore there is a mortgage component in all New York borrowing that is going on at the moment, even that by the federal government.

COMMISSIONER LEMAN: You mentioned as an obstacle to this the uncertainty as to whether some people would be deemed to be doing business in Canada, if they were in this business.

MR. MANSUR: Yes.

COMMISSIONER LEMAN: Let us assume that it should be resolved somehow. Imagine upon foreclosure a lender would find himself renting premises, for example, would that mean he was doing business in Canada?

MR. MANSUR: This is one of the fears and, of course, the withholding tax, Mr. Leman, makes it onerous for the mortgagee not only on investment income but even more when he gets into the position of an owner of foreclosed property, because, as I understand it, the withholding tax is not upon the net income but upon the gross rentals.

COMMISSIONER LEMAN: Perhaps that could be a matter of treaty?

MR. MANSUR: Yes, except, Mr. Leman, I believe the two other difficulties are much more important than that one. I think the exchange hedge is the really important one.

COMMISSIONER MACKINTOSH: Nobody is selling 20 year swaps.

MR. MANSUR: No, although I may say, Dr. Mackintosh, that I ran into a boy in Winnipeg who must have been all of the age of 25 years. He wanted some advice about attracting United States funds into the Winnipeg N.H.A. market. He needed my advice so he told me what he had done. All the boy had done was to find $\$1\frac{1}{4}$ million of Chicago funds which he passed as N.H.A. loans in the hands of his client builder and had arranged a 15-year forward hedge on a private basis to cover the interest payable to the American owners. He wanted my help because at one time I had one foot in the foreign exchange control board.

COMMISSIONER LEMAN: You do consider that this would be a good use of foreign funds to make for Canadians; that this would be a good area in which to seek and use foreign funds?

MR. MANSUR: If we could find foreign funds, yes. But I have some doubts as to whether there will be a flow of foreign funds for the reason I mentioned. But then I go back to the point I made to you earlier. Although one looks upon this as a possible source because there has been so much talk about it, perhaps it does not make too much difference whether the American buys the debentures of a large corporation sold in the United States or the bonds of a municipality.

After all, the proceeds are part of the capital pie which we must divide partially for housing.

COMMMSSIONER LEMAN: I have heard some argument on this score. Some people here have inhibitions about letting foreigners get control of our industry, and at least if they invested in mortgages they would not come and live in our houses.

As to the foreign funds, later on you go on to discuss what are the conditions under which a good secondary market can be developed.

MR. MANSUR: Yes.

COMMISSIONER LEMAN: A good secondary market would help in this area too, would it not?

MR. MANSUR: Oh, very much, because you might be able, with a good secondary market, to arrange a take-out on some sort of terms.

COMMISSIONER LEMAN: One of the other important new sources you mention are pension funds which are growing and seem destined to grow a great deal more. There again, you say that the development of a good secondary mortgage market would help, would induce pension funds more?

MR. MANSUR: Yes.

COMMISSIONER LEMAN: But is it just lack of sophistication, or are there other obstacles now that explain why pension funds are not more investing in mortgages, N.H.A. or other kinds?

MR. MANSUR: Yes, I think there is a very good reason. In fact, I am rather depending upon it. I think that the knowledge of the treasurers of pension funds about mortgages in general, and N.H.A. mortgages in particular, is not as full as it should be. I think there is opportunity in this field, particularly, Mr. Leman, when you look at the report of the D.B.S. on pension funds as at the end of 1960 and see that the average interest earnings on pension funds for the year 1960 - the last reported figures - is almost exactly 4½ per cent, as compared with interest earnings of the life companies of 5.58 per cent in the same year. It seems there may be some opportunity for some rather higher interest-bearing investments.

COMMISSIONER LEMAN: And yet trust companies know a lot about mortgages, including N.H.A. mortgages, and trust companies do administer a lot of pension funds. Do you find that those administered by trust companies have a higher percentage of their investments in mortgages?

MR. MANSUR: It is almost impossible to get those figures. The trust companies are not too anxious to hand out to people like myself just what funds they do operate and just what the asset distribution is.

There is one point. There is a misleading statement in that paragraph where I talk about 5 per cent of the investment of pension funds in mortgages, both N.H.A. and other. That 5 per cent has reference to the pension funds other than the pension funds of the Crown companies. The Crown companies have 25 per cent in mortgages; other pension funds have 5 per cent in mortgages, which averages about 8 per cent. The figure quoted to you yesterday is the correct figure. That 5 per cent is the non-Crown company sector.

COMMISSIONER LEMAN: Do you suggest there is better administration in Crown company pension funds?

MR. MANSUR: Oh, yes, I could accept that.

COMMISSIONER LEMAN: You do explain quite clearly in your brief, so I do not wish to go over all the remarks you make, about conditions precedent to having a good secondary mortgage market. But one thing I am still not quite sure of is whether you definitely feel that the conditions for having a good secondary mortgage market must take the form of good transferability of mortgages in themselves, or if there is more chance cost-wise of doing it through institutions which would issue their own debt securities, secured or represented by blocks of mortgages, because there is the administration problem, is there not?

MR. MANSUR: Mr. Leman, it has already been mentioned to the Commission that there have been two or three of these companies set up with the general idea of debenturizing mortgages, usually mortgages purchased from Central Mortgage.

The companies which have been set up for that purpose have entered the market place to attempt to get their merchandise. The market place has imposed a price at a level at which there just is not enough margin as against long-term debenturization. The trust companies, with the benefit of borrowed money, which costs them rather less than long-term debenturization rates, are able to get by with it chiefly because the notice deposits in the trust companies tend to pull down their cost of money.

I cannot look into the future, but I will make the guess that unless the debenturization of mortgages by these companies takes the form very largely of short term debentures, there is not going to be enough room between the net yield on N.H.A. loans and the cost of their money to feed many mouths.

COMMISSIONER LEMAN: How about the whole spectrum of maturities?

MR. MANSUR: That is what I think they will be forced to do, the whole spectrum of them, but the concept, I think, as I understood from you when you first introduced the subject, was kind of a matching in the long-term debenture. I think they must take advantage of the money markets - short and long - to make this thing add up and make sense.

COMMISSIONER LEMAN: You mean, a large portfolio of mortgages; that would make sense?

MR. MANSUR: Provided that there is enough leverage. Concerning leverage, representations were made to this Commission that 12½ times was not large enough; it should go to 15 times -- I do not think you need even 12½ times leverage to make money. But there must be some leverage and a big volume and a narrow margin, and dealings must be in wholesale lots. I do not think debentures can be sold to the public. I do not think you can debenturize N.H.A. to the public in small denominations. I think the cost of so doing in retail lots is too great.

COMMISSIONER LEMAN: In the development of the secondary market for mortgages as such, transferability of mortgages as instruments, you mention one obstacle that should be overcome, and that is the appraisal of mortgages. You say that would require a system of classification of mortgages?

MR. MANSUR: Yes.

COMMISSIONER LEMAN: Is that as simple as you make it sound here, the ability of a lender to appraise, say, a package of mortgages through this classification you suggest?

MR. MANSUR: Or his adviser would do it for him. The classification of mortgages is taking place already. In one bid -- I guess it was auction number one by Central Mortgage -- the Calgary mortgages sold at something over 102.50 and the Vancouver Island mortgages were sold at almost par. Every one of the auctions has shown quite a wide range of classification. I cannot tell you what it is, because for some unknown reason Central Mortgage keeps this a dead, dark secret in their effects to develop a secondary market. But the only way you can judge classification is from transactions in which that you have been successful or unsuccessful. If you want to know anything about the secondary market and its classification -- that everybody holds such high hopes for -- you must be a bidder on some of the packages, otherwise you cannot tell what happened. This is a gentle start of a secondary market.

COMMISSIONER MACKINTOSH: You would think there ought to be more market information?

MR. MANSUR: More? I think there ought to be the start of some market information. However, Mr. Chairman, I hasten to say, as one of the practitioners in this field, the more confused they keep it the better it suits me.

COMMISSIONER LEMAN: In your explanation of what you would consider a well developed secondary market you talk about these mortgage banks that should be in the market dealing all the time in mortgages. Do you really visualize a group of mortgage brokers and dealers, much as there are securities dealers?

MR. MANSUR: I visualize mortgage equivalents of Wood-Gundy and Dominion Securities and Ames, who stand in the market on the buying or selling side and have some access to some Central Mortgage bank. I hastened to add in that paragraph of my memorandum that these institutions do not have to be called banks, Mr. Gibson. They could be called something else.

COMMISSIONER GIBSON: What would you suggest?

MR. MANSUR: I think they should stand in the market on the buying and selling side, and that they should receive the same type of accommodation as the 14 bond dealers presently receive from the Bank of Canada.

I do not care whether this is through the Bank of Canada or Central Mortgage, or anyone else. But I also believe this thing can run without that accommodation by a central bank. It will not run as well, but I think this is a much better thing to try even without central facilities than to try to emulate Fannie Mae, for instance, or the Federal Home Bank System. I think those are perfect examples of things we should not do in this country.

COMMISSIONER LEMAN: But in the meantime you still see the administration of all these mortgages fairly concentrated in a restricted number of institutions?

MR. MANSUR: Yes, approved lenders, and approved lenders who have a national organization, because this is one of the problems. It takes a very large organization to buy mortgages on a national basis, and there would have to be ways and means found for the servicing of these things,which will not be difficult to accomplish.

COMMISSIONER BROWN: I would just like to take up one of your remarks which you just made. What are these deficiencies of Fannie Mae that you talk about?

MR. MANSUR: The deficiencies of Fannie Mae are that it has elements of a central mortgage bank directed towards the development of various aspects of government policy. For instance, Fannie Mae has three main operations. There is the secondary market operation, which really consists in very wide swings of them either being a buyer or seller of mortgages, and if they are on the buying side they will stay there for 15 months; they will not sell. Then they become a seller, and become very reluctant to buy. They are an accommodation, however, to the mortgage bankers in the United States; really correspondents. If they get long Fannie Mae will buy them at some price.

The second operation of Fannie Mae is their special assistance, so that if the United States government decided there ought to be some military housing in Cape Canaveral, then Fannie Mae comes into the picture.

The third operation of Fannie Mae is what they call liquidation, which is nothing more than an agency for the United States government to liquidate the remaining assets of the R.F.C. mortgage corporation. Those are their three main operations. The statement was made to this Commission the other day that the F.H.A. did not make mortgages in the same fashion as Central Mortgage . Technically, this is correct; the mortgages made are made for the F.H.A. by Fannie Mae in the form of purchases, and their operations are not far off, in order of relative magnitude, from the operations of Central Mortgage.

I do not think that Fannie Mae is geared to run the type of secondary mortgage operation that I visualize. I do not think that the secondary mortgage operation, either here or in the United States, should be run as primarily a governmental institution, any more than I believe that the Canada bond market should be run by the Bank of Canada as it relates to transactions with the public and institutional holders. I think if we are going to have a secondary market we must have people willing to stand in the market place whose relationship with the central bank is similar to the relationship of the approved list of 14 bond dealers.

I think Fannie Mae is thoroughly deficient for our purposes but I do think that for these deficiencies, if there is a — thing about the selling of mortgages that we can learn from them, we should do so. For instance, if you go to Fannie Mae to buy mortgages there are posted prices and you say you are interested in 2 million on Long Island. They will bring you out a portfolio of 2 million on Long Island. They will give you the details and will show you the payment records and will also put a 15-day reservation against those mortgages for you while you go out and have a look at them. With Fannie Mae you don't have to play, "Button, button; who's got the button", the way we now do in Canada.

But I do not think Fannie Mae itself, nor interested Americans believe that Fannie Mae constitutes a secondary market in the truest sense. The Federal Home Loan Bank System is really a central bank limited practically entirely to the conventional field for the benefit of the savings and loan associations. It is really a central bank operation and is not a secondary market per se.

COMMISSIONER BROWN: When they have posted prices, such as you have suggested, for a group on Long Island, do they have different rates for different parts of the country?

MR. MANSUR: Oh, yes. They differentiate the rate both on the buying side and the selling side.

COMMISSIONER BROWN: Do they establish this rate?

MR. MANSUR: No, they do not completely. The manner in which this is established is that Fannie Mae keeps closely in touch with the going market of mortgages under their system of discounts in various parts of the country. Today F.H.A. $5\frac{1}{4}$ 203's are worth about par in Massachussetts, and are worth about 95 in Seattle. I would guess -- I am guessing at this one -- 93 in Pheonix, Arizona.

In the areas of lack of capital, -- in the United States they have so many boundaries in the movement of capital, that fortunately we do not suffer here -- there is a very wide variation. I would suggest that between New England, that has a surplus of capital, and the south west that has a deficiency of capital, that in today's market you might find six to seven points, and that is reflected in the posted prices of Fannie Mae.

COMMISSIONER BROWN: How would you visualize this happening in Canada, where there is no difference in the N.H.A. rates but there are differences in the bid prices on the tenders that have taken place?

MR. MANSUR: Well, we will have to have some practitioners in the market. The first should be Central Mortgage, if this is the way it is going to be done. They have had the experience of a number of bids; they know perfectly well that loans in Prince George will not bring as large a price as loans in Calgary. If we are going to have a secondary market, this is going to be some of the fun in it, to see whether the private practitioners are smarter than the people who are selling them.

COMMISSIONER BROWN: In this connection, in your brief you talk about the establishment of private mortgage banks, or whatever else you want to call them, and you refer to facilitating charters under the Loans Companies Act. Could you go into this in a little more detail, please?

MR. MANSUR: It seems to me that the most convenient vehicle for the mortgage banks -- which are not to be called banks -- to operate on is a loan companies charter. Obviously such companies should have supervision.

They probably should have federal supervision. It seems to me that if a group wish to operate in the secondary market that there is lots of room for them to do so within the terms of a loan company charter under the federal Act. They are subject to certain necessary restrictions, but it is very clear as to the amount which they can leverage their capital. It provides a central source of information for all operations in this field, and generally I think it just so happens that we have a vehicle that fits the corporate structure of anybody who wants to be engaged in the secondary mortgage market. It is more by chance than anything else, Mr. Brown.

COMMISSIONER BROWN: Reference has been made to C.M.H.C.'s auctions.

MR. MANSUR: Yes.

COMMISSIONER BROWN: It has been suggested that in the development of a secondary mortgage market they might conduct auctions more frequently; not quite as frequently as treasury bills are auctioned, but at fairly regular periods; have you any comments on this?

MR. MANSUR: Yes, I think it is true. I think in all fairness, Central Mortgage and Housing were feeling their way to start with. But I would think, if you are going to run a secondary market, there certainly should be auctions more often than once a quarter. I think if we could get over the abortive ones it would also be very helpful. I would suggest, perhaps for lack of a better figure, once a month; I think that would about do the trick. I think the important thing is. If they want a secondary market they should let the practitioners know what is going on, rather than being kept as a state secret.

COMMISSIONER BROWN: They should publish a list of all the bids they get?

MR. MANSUR: Certainly. It is public business: why should not the public know about it?

COMMISSIONER BROWN: So, this would be another improvement you would recommend?

MR. MANSUR: Yes, I think there ought to be full information. After all, we listen to a lot of lip service in the House of Commons and elsewhere about the development of a secondary market. How in the world could you develop a secondary bond market if the Bank of Canada would not indicate their transactions, if the whole market in Canada was a deep, dark secret, and you had to guess on an average price of 98½ what the price was of the four quarters of 72 and the four halves of 83 and the five halves of 75, and treasury bills, and we just had to guess what the market was in each of those. This sounds ridiculous, Mr. Brown, but this is exactly what goes on in the marketing of mortgages.

COMMISSIONER BROWN: Have you any other suggestions, such as changing the size of the bundles?

MR. MANSUR: No, I think the bundles are all right. They come in $250,000 bundles, and in the giant economy size of $500,000. I think they are packaged all right. I can think of a lot of things I would complain about long before the packaging.

Another thing I complain about is that you really have to be quite a detective when you bid one of these packages. You get about 47 or 48 loans in a half a million dollar package. There is absolutely no record of what the borrower looks like or his income. You are given the size of the loan. You are given the street -- not the street address, on which the house is located. It is pretty difficult if you get into Saskatoon and it is 33rd Street, and 33rd Street happens to be four miles long. You look at either end of the street for 2-year old houses because you know the loan was made in 1960. Then the list shows 1163 feet. Well, if you have been in the business you know that nobody but Mike Boychuk builds a house that has 1163 feet in it. So, you start reducing it to a house which is a Mike Boychuk type K. If you are lucky there is only one type K, but if there are four type K's you have to do a little more snooping. You can find out if you work hard enough. If you get a nice little crescent, as a street address, such as those in Regina, they are easy to find because there will only be one house of that type on the crescent. You know the number of feet, and the builders build that number of feet and you can find this house quite easily. However, this game of hide and seek -- fun though it is -- really doesn't seem to me to lend itself very much to rapid development of a secondary market. This is my main complaint, but from my point of view I repeat what I said to Dr.

Mackintosh, that from my own personal point of view I hope they do not change it.

Mr. Chairman, I wonder if I could say one thing?

COMMISSIONER MACKINTOSH: Surely.

MR. MANSUR: There have been a number of matters brought before the Commission some of which perhaps I could throw some light on. First, there is the matter of the insurance premium; there was some question on that. The present insurance premium, after you equate the different manners of collecting it -- and I think this was Commissioner Leman's question -- runs about 60 per cent of the corresponding F.H.A. premium.

The second thing I would like to say is that I missed one point -- and one of my colleagues reminded me of it -- in the discussion particularly with the Chairman: He asked me about the difficulties and the reasons for the attitude of the lending institutions about making loans in the older areas that I described as in area 3. I made some not too complimentary remarks about lending institutions on that occasion, and I withdraw them at this time for this reason: it was pointed to me that in the 30's, when there were heavy foreclosures, the incidence of foreclosure was much greater in the older properties than in the newer properties. There was the experience of the such heavy foreclosures to indicate that the older properties are more vulnerable.

There was a question asked during the course of discussion, Mr. Chairman, about the volume of the second mortgage market. I can't remember which Commissioner asked that question. I think he was given the appropriate answer, that the volume is indeterminate. But as as a feel, and nothing more than a feel, I would guess that it probably is of the order of 200 million a year. I can't substantiate this. I just have a feel it is of that order as compared to the institutional and C.M.H.C. lending, N.H.A. and conventional, of about 1000 million.

A statement was made to the Commission there were no seconds behind N.H.A. firsts. I wish that were true. There are plenty of seconds around there. It may be an oil company second, reference to which was made in the brief from C.M.H.C. There may be a loan from Aunt Minnie; but, there are plenty of seconds.

Reference was made to the Commission to a letter from Dr. Weaver. Dr. Weaver said it was incomprehensible to him and his associates how anybody could go ahead with a programme of new housing unless there were N.H.A. in the existing house market. I can only say that when F.H.A. and V.A. between them get to a point that they cover as large a proportion of the new house market as does the N.H.A., then I will find the remarks from Dr. Weaver a little more convincing.

The term of the N.H.A. loans was mentioned, and this is a matter of judgment. There is no experience upon which to base judgment. We have had an increasing real estate market since about 1935. The war years intervened. We have had a general upward trend in interest rates. I suggest, Mr. Chairman, that any figures that were gathered in that 27-year period would be thoroughly suspect. However, for the guidance of the Commission I can say this. One of the two largest lenders in the United States considers an F.H.A. loan to be the equivalent of a loan amortized over a period of ten years. The other largest lender in the United States uses twelve years. The New York Savings Banks, the Dime and Bowery, who are very large lenders, use fifteen years. I think I agree with Mr. Bates. I have always been thinking in terms of fourteen years -- I suppose because it is not like one of these American numbers, and thirteen is an unlucky number, and eleven is too short. That is the rationalization of my 14 years.

I think, Mr. Chairman, those are all the supplementary remarks that I wished to make.

COMMISSIONER MACKINTOSH: Well, we are very grateful to you, Mr. Mansur. This has been illuminating to the Commission and extremely helpful, and we are particularly grateful for your frankness and concreteness in your answers.

MR. MANSUR: Thank you very much, sir.

COMMISSIONER MAKCINTOSH: We will adjourn this hearing and the Commission will convene again on Friday morning at 8.45 A.M. when we hope to hear Professor Paul Samuelson.

--- Adjournment.

Supplementary Remarks by Mr. Mansur

In reading the transcript of my evidence before the Commission, I notice two inconsistencies upon which the Commission may wish to have my comment.

In the latter part of my submission I suggest that a secondary market might stimulate the flow of mortgage funds. It would be reasonable for the Commission to expect that my evidence on other matters would be consistent with my view that there should be a secondary mortgage market.

The first inconsistency is this. The Commission asked for my views about a change in technique to avoid the inflexibility of the maximum N.H.A. interest rate in relation to other interest rates. In my testimony I suggested:

(a) The maximum N.H.A. interest rate -- appropriate to other interest rates -- be set on regular quarter days.

(b) Interest payable by a builder on progress advances on houses for sale be at the interest rates current for the periods that these advances are outstanding.

(c) The N.H.A. interest rate -- for the home-owner and not for the owners of rental property -- would be reset at the end of ten years from the assumption date at the N.H.A. interest rate then current.

This suggestion is but one of a number of possible variations, the purpose of which is:

(a) To keep the N.H.A. interest rate more current with other interest rates.

(b) To relieve the house builder of the awkwardness of his having like houses for sale subject to N.H.A. mortgages at different interest rates.

(c) To lessen the "lending long" and the "borrowing short" difficulty of the trust and loan companies.

The advantages of this suggestion should be weighed against:

(a) The recasting of the N.H.A. interest rate at the end of ten years would cause some extra administrative work.

(b) Homeowners with N.H.A. loans would welcome a reduction and would dislike an increase in interest rate. On balance Government is likely to hear more about increases than decreases in interest rate.

(c) The lending institutions might not like the changed arrangements with the resulting effect of a lesser flow of N.H.A. mortgage funds.

(d) The inconsistency is that the present arrangement is better suited for N.H.A. originations to be traded in a secondary market.

The other inconsistency is this. I expressed the view that a variation in N.H.A. interest rates by region and community was undesirable and that real progress towards national mortgage interest rates had been made. During the testimony it was pointed out that for reasons of classification the price bid for N.H.A. loans being auctioned by Central Mortgage showed considerable variation in various parts of the country. The conflict is between the desirability of a national mortgage interest rate and a variation in interest rates by community to fit secondary market operations.

These comments in no way modify the testimony which I have given, but rather they bring to the attention of the Commission the advantages and disadvantages of various courses of action.
