A LOW INCOME HOUSING POLICY FOR 1971.

assisted home ownership

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BACKGROUND PAPER

ASSISTED HOME-OWNERSHIP

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PREFACE

This paper was produced at the request of C.D. Crenna, Policy Planning Group, to serve as background material in the development of future low-income housing policies. To a limited extent it is a compilation of earlier writings on the subject of subsidized home-ownership by C.M.H.C. personnel or outside sources and of other papers more recently prepared as a direct contribution to this document. A list of acknowledgements follows:

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There is no systematic assessment of housing needs in Canada nor any rigorous appraisal of the social requirements and financial circumstances of families and individuals. But even without this the evidence pointing to the requirement of assistance is abundantly clear. However, the low-income housing programme developed thus far has failed to satisfy the needs of more than a small proportion of disadvantaged families; certainly a major part of the failure has been insufficiency. The volume of low-income housing to date bears little relation to need. This need for subsidized housing may be termed non-effective demand and encompasses families and individuals who are unable to pay economic rents for 'standard' accommodation. The threshhold separating those capable of meeting economic rents or mortgage payments from those unable to do so cannot be precisely established because it varies considerably from location to location and is influenced to a large extent by the internal economic relationships that persist within sub-areas of the nation.

In many locations there is a substantial shortage of housing priced within reach of even moderate-income families whose earnings range from perhaps $5,000 to $8,000. Evidently the rental prices that moderate-income families can afford to pay do not provide the economic incentives to generate additional supply. Further, as long as there is an overall shortage in supply and in the absence of subsidies, the middle or upper-middle income population will continue to absorb much of the capacity of the home-building industry. By the same token an increasing proportion of public housing units will be

occupied by families whose income will not qualify them for rental subsidies but who are unable to find equivalent accommodation on the private market either as tenants or home-owners. What is required at this level is a combination of subsidies designed to stimulate the production of housing suitable for and priced within the reach of moderate-income families and the kind of controls that would reserve this supply for these families.

If housing output in general is subsidized, the lower level of rents and prices that ensure would encourage all groups to occupy more space, upper income as well as lower income groups. If distribution only is subsidized, only those directly aided by the subsidies, presumably from among the lower income groups, are able to occupy more space, as rents and prices rise for everyone else. In terms of social policy, this may be acceptable insofar as it affects upper income groups, but questionalbe as it affects the interests of those just above the income levels of those who are being subsidized. When production and distribution subsidies are combined, as they are when new housing is built by the public specifically for low-income groups, a blending of the two results would take place, the overall result depending on the mix of the two devices. When new public housing is built and rented to low-income families, or low-rent home-ownership units are built under a direct lending programme the families directly served of course enjoy a benefit. But since the stock of housing is also increased in the process, there is reduced pressure on the rest of the housing stock, and a tendency for rents and price to fall. Everyone benefits except private landlords. Everyone suffers of course in this strategy, as in all other subsidy policies, since the subsidies themselves have to be paid for out of government revenues.

Meanwhile, Canada's housing goals need to be more precisely defined and the devices for working towards them must be changed on a more permanent basis. It is now widely recognized that, if low and moderate income families are to be satisfactorily sheltered, the pre 1970 low-income housing programme must give way to one that is more comprehensive and varied.

A primary objective is that of providing some element of choice; of investing public subsidy dollars in developing the kinds of environment that people seem to prefer when they have the opportunities for selection. While the most basic choice is that of tenure.

However, choice of tenure is largely relevant to family households only and then only appropriate to families whose income exceeds a selected minimum. Regardless of how far actual dwelling prices are reduced, the cost of taxes, maintenance, and utilities are clearly beyond the reach of very low, as opposed to moderate, income families. Even if such costs are within their means, and discounting irregularity of income, the proportion of earnings spent on shelter must be restricted to an amount that would not discourage or distort self-improvement. In fact,the use of high debt service ratios in determining the ability of low-income families to meet private market rents or mortgages represents a bias toward the understatement of subsidy needs. If choice of tenure is brought within range of low to moderate income families it must be done without significantly decreasing their potential for upward mobility through other expenditures on education and employment.

In the context of housing costs and assistance programmes available now or at least feasible, a realistic income-limit to home-ownership would be $4,500. The present public housing programme should be most applicable to households

with incomes of less than this amount. Amongst them there are three groups: The income mobile, the potentially mobile, and the non-mobile. For the income mobile their low income situation is only temporary as a result of ill-health or unemployment. In these cases the simplest and least expensive solution is a subsidy programme that will enable such families to compete effectively for suitable shelter in the general market - for example, rent supplements. The potentially mobile would include those family heads who over time would be responsive to an improved environment as well as opportunities for education and employment. Here the requirement is for an improved public housing programme including the use of 35E subsidies in L.D. projects or 35A and D funds in the construction of new or rehabilitation of existing single units, such that there is an increase in the opportunity for low-income persons to integrate into the social fabric of the community. The third group, the non-mobile, consists of the elderly, the cronically ill or handicapped; this group clearly remains a permanent public responsibility and whose special needs require a variety of new approaches.

Given the constraints of mortgage financing, but assuming an extension of low-cost building activity, any programme of assisted home-ownership is thus directed at the income groups $4,500 to approximately $8,000. On the basis of largely intangible rewards and benefits the provision of ownership rather than tenancy for those families is considered desirable. As an option open to the moderate-income family it has advantages as a force for social stabilization, as a means of saving and in its long-run economy over renting.

The major satisfaction from home-ownership often

is not pecuniary to the extent that it provides conformity with the majority and property owning ethic as well as full enfranchisement in local affairs. It follows that ownership is conducive to a greater sense of security and provides new incentives towards social and economic advancement. This, together with the fact that ownership accommodation traditionally involves building forms more appropriate to family needs, induces a sense of responsibility and good citizenship thereby increasing the strength and stability of the community. At this level of analysis the only obvious negative consequence for the nations as a whole is a reduction in the mobility of its labour force.

With regard to equity savings, it is apparent that families at the higher end of the present public housing rent/income scale are very often paying rents in the private market almost sufficient to amortize low-cost housing; but with some public assistance could achieve ownership thereby transforming part of their monthly payment in to savings and ultimately an investment. To the low-income home-purchaser the merits are obvious, but it is on this point that the case against subsidized home-ownership rests. A homeowner is ordinarily acquiring two things, shelter and ownership of an asset. One is a necessity the other is not. To subsidize the access of low-income families to decent shelter is considered by most as a reasonable and justifiable use of public funds. To subsidize their acquisition of an asset, as distinct from the use of the asset, is something different. If the asset were in the form of stocks, or bonds, growing in time to a value of several thousand dollars, tax-payers would no doubt express serious objection to the use of their money for the private accumulation of such holdings. In principle they could raise similar objection to accumulation of a private asset in the form of real estate.

It would not seem entirely unreasonable to take the view that if a family requires subsidy aid to obtain access to decent shelter it does not follow that it should also be helped, at public expense, to gain title to a valuable asset.

Cogent as the case may seem against the subsidized acquisition of assets by lot-income families, firstly, it has not prevented the use of public funds, on a vast scale, largely for the benefit of persons who are not of low income. University education, as one example, is provided largely at public expense, mainly for students from economically viable families, and there are few houses in the country that have capital values close to that of a university education. Secondly, aside from the tax-free imputed income, ownership of a dwelling does not become a meaningful asset until the time of resale. Either the subsidy costs can be repaid by the owner as his income increases prior to resale , or this cost can be claimed against the resale value of the dwelling. Further, even with rapid appreciation in the value of the unit such that the owner can capitalize on the original subsidy the gain is not real, because on selling the house this person would have to purchase another at a correspondingly inflated price. At this point the owner will discover that the profit on the first house was largely illusory; yet, it is a matter of common observation that persons with no immediate intention of moving home regard the increase in the paper value of their house as a real gain - far out-weighing the inflation in the economy as a whole.

Usually, the case for publically assisted home-ownership is promoted as being a less expensive alternative to subsidized rental housing. Equally important, from the point of view of the family the total costs of home-ownership, with or without subsidy, are less over the long-run than renting accommodation in the private market.

The first is true to the extent that owner-occupants, with an equity share in the dwelling, would

have an incentive to use it less rudely than tenants would, and they would have a greater incentive than tenants to economize on heat and other services. Again, owner occupants would do a considerable amount of maintenance, repair, and alterations themselves. Thus there is some basis for the belief that owner occupancy would provide savings to the public, in services, repair, maintenance, and alterations. In addition, there should be significant savings in public outlays on administration and overhead required to deal with a given number of owner occupants as compared to the same number of tenants. Several recent studies have provided conclusive evidence that the subsidy costs for a rental unit under Section 35A are as much as 2 to 3 times greater than they would be for an ownership unit of equivalent value. These studies usually assume a G.D.S. ratio for the home-purchaser that is slightly higher than the ratio required of tenants under the present rent/income scale, and, of course, calculations of subsidy costs to the public do not take cognizance of the shift to the home-owner of maintenance and operating costs. Nevertheless, it remains that even if alternative assistance costs are calculated for a subsidy arrangement whereby the monthly housing costs to the home purchaser including maintenance and operating expenditures are identical to the public housing tenant the rental subsidy must still be greater than the ownership subsidy.

The same extra cost items in the public housing situation also occur in the private rental market. Here there are additional costs incurred as a result of higher vacancy rates and advertising expenditures (return on landlord's equity is offset by the opportunity cost of the home owner's investment), each being passed on to the tenant as part of the rent. But the home-owner incurs one cost he would not face if he chose to rent, and this is the cost associated with selling the house if he wants to move - so labelled "transfer cost". This is a one-time cost, and is not offset by capital gains since, as explained

above, inflation of home values cannot be a true economic consideration in choice of tenure. In the final analysis it has been estimated that the annual net saving from home-ownership will, on average, be close to 2 per cent of the dwelling's value; while this has to be matched against a non-recurring transfer cost of about 7 per cent. Thus, from the point of view of the owner, home-ownership is less expensive (in true costs) than renting if the home is occupied for 3.5 years or longer.

The question then arises as to why more families do not gravitate toward home-ownership: Some families do not expect to remain in the same residence for more than a year or two and are wise to occupy rented dwellings. Other families are composed of only two persons and do not need the living space typically associated with home-ownership units. But for purposes here the most important reasons relate to family incomes together with mortgage credit terms and conditions, and the supply of low-cost ownership housing.

II. MEANS OF ASSISTANCE

Home-ownership for low to moderate income families may be effected through programmes that range from a guaranteed annual income to income tax exemption of mortgage interest payments, from the mass production of pre-fabricated units to land lease arrangements. Options may involve a production subsidy, a distribution subsidy or a combination of both; further, the subsidy may be either implicit or explicit in nature.

As reasoned earlier in this paper programmes that fail to stimulate the production of low cost units for those families being subsidized would maximize the cost of the subsidy and will impose indirect costs on all other households. One such programme is that of Income Maintenance whose advocates point to the present problems of income instability amongst the poor and the disadvantages of numerous complex housing assistance schemes. Firstly, any income maintenance programme would be directed at that income group usually dependent on welfare payments; it would succeed in eliminating irregularity of income, but, unless income support was on a massive scale, home-ownership would remain beyond their reach even if it was considered appropriate. If the objective is not necessarily one of providing home-ownership, income maintenance is still not a viable alternative since the income elasticity of demand for housing is low; that is, if the incomes of low income families were substantially raised they would spend a smaller percentage of their income for housing and would not therefore purchase housing services which are as much better in quality as their new higher incomes might suggest. If this occurred it surely would not stimulate private industry to greatly expand the supply of housing for the poor, or, indeed, for anyone else. In the short term, particularily in metropolitan areas, there would be a sharp rise in the price of existing housing stock; and this condition would remain until the housing stock was expanded beyond that necessary to accommodate the normal increase in new house-

holds being formed. In the urban context, an income transfer strategy would not help in changing or improving the larger environment of whole neighborhoods since the response is likely to be an effort towards leaving old neighbourhoods rather than their re-construction under private auspices.

Another form of assistance to home-owners which would generate all of the short comings of income maintenance is that of income tax exemption of mortgage interest payments. In fact, the inequities arising out of this kind of option are even more serious. The most obvious of these is that under a progressive tax system, the higher a persons income, the large the concession will be, and the lower will be his effective rate of interest; while for persons of low income, with a large number of dependents, the concession will be minimal. Besides being of greatest assistance to those who need it least, the situation would far from discourage consumption of high cost units, and, since it is not tied in with the production of new units specifically for low income families, would do little to alleviate pressures within the housing market. As home prices rose and interest payments with them, as the rate at which income tax was levied also rose, so the government would find itself helping owner-occupiers with increasing sums in tax foregone. From the point of view of persons renting accommodation this arrangement represents a fairly explicit redistribution on government revenue in favour of home-owners who already enjoy tax free protection from general price increases as well as tax free imputed rents.

Both the forms of assistance discussed above demonstrate quite clearly that a housing strategy as well as an income strategy is essential. A residential construction programme similar in concept to the 1970 $200 Million programme with financial aids to the low and moderate income families through mortgage credit assistance would achieve most of the objectives implicit in the discussion thus far.

CONSTRUCTION COSTS

Whatever the precise mechanism used to reduce financing costs, it is obvious that out-right reductions in the resource costs of providing additional units is desirable on economic or any other grounds. Savings in the cost of serviced land can be effected directly through the policies and actions of all three levels of government. However, construction costs remain largely a function of industry initiatives. To most observers it seems that there must be room for substantial savings in construction costs, because productivity in the construction industry has improved so slowly. The reasons for this have been frequently discussed - the absence of mass production techniques, restrictive labour practices; and non-innovative management are those most frequently mentioned. Both here and in the United States studies have urged attention to construction cost saving methods, yet little has been accomplished. Perhaps one explanation lies in the small difference that any single cost saving technique can make in the final price. The President's Commission on Urban Housing in 1968 found that on-site labour typically account for 20 per cent of initial development and construction costs. Materials account for another 35 to 40 per cent; the remaining 35 to 40 per cent is accounted for by land costs, overhead and profit, architects fees and the like. The initial capital costs in turn, when reflected in mortgage payments, account for only half of monthly occupancy costs to the consumer, the rest being made up of taxes, utilities, maintenance, repairs and other items. Thus, even if very large construction costs savings were achieved - say, a reduction of one quarter in material costs and one-third in on-site labour costs - monthly housing cost to consumers would decline by less than 10 per cent.

However, when construction costs are reduced together with other cost savings, the aggregate effect can be substantial. Moreover, property tax, builders mark-up, architects fees and numerous other costs including mortgage credit are keyed to the original investment in labour and materials. Hence, any public policy, including that of assisted home-ownership, should be designed so as to generate cost saving initiatives by private industry; initiatives that may well be sustained thereafter in response to market demand amongst low and moderate income families.

LAND

The cost of serviced land in urban centres is second only to the increase of interest rates in its impact on housing costs. To an important extent rising land costs are the consequence of largely irreversable tendencies such as growing urban concentration of population and economic activity, rising quality of municipal services, and changing methods of financing such services. In many cases such cost increases are further aggregated by peculiar practices at the local government level, or by administrative inefficiencies, together with the indeterminate impact of private investment in real estate as a hedge against general inflation.

Obviously, public policy cannot deal with all aspects of rising land costs, and the most effective measures either require the initiative of other federal departments or are within the jurisdiction of provincial governments. These would include changes in taxation policy with regard to real estate investments; the accellerated creation of regional governments embracing all municipalities and adjacent districts in the large urban aglomerations; and the strengthening of municipal finances. However, there remain several policy instruments relating to government intervention in the market for residential land, and the

promotion of municipal co-operation that would help alleviate the cost of serviced land.

Land assembly and the usage of Federal-Provincial land holdings would take priority over all other techniques. The general policy of the government respecting the disposal of FP land, at least where it has been the active partner (i.e. responsible for acquisition, planning, servicing, and disposal) is for the land to be disposed at market value. Where land is being disposed of at substantially below market value special circumstances have prevailed to justify such action - eg. housing for low income persons. There would seem to be ample reason to justify an extension of this philosophy and to make land available below market, where necessary, for low cost housing aimed at low income persons. Federal loan funds are presently being made available by the corporation at about cost to CMHC for lending on projects designated as housing for low income persons; and these loans are not only made to public agencies but to private organizations, under Section 16, for rental accommodation.

It follows that the provision of FP land at cost would appear to be a worth-while and entirely reasonable objective in any home-ownership programme for low income persons. In fact, it would be impossible to avoid considering it in any programme to supplant, or, in some way via home-ownership, reduce the comittment to producing new "public housing" as it is known today. The primary problem will not be in justifying the disposal of land written down to a figure equal to the cost to the state, but holding the line at this figure. In many circumstances a reduction in price to this level will probably not be enough to reach down to the figure which low income families can afford and, therefore, a reduction below cost will be necessary.

Perhaps part of the answer to this dilemma would be to insist on mixed housing developments where families with a good variety of incomes will be found so as to enable higher recoveries from those with higher incomes and a satisfactory averaging out of prices. The higher recoveries from commercial and industrial land in many land assembly projects should also permit a reduction in the price of land for housing.

Land assembly under Section 35C of the NHA poses quite different problems since the corporation acts only as lender whereas under section 35A the corporation and provincial government act as investors and developers of land. At the present time there are only some 42 municipalities across Canada where land is being developed with loans under 35C. This involves 7,000 acres of land with the total of the loans by the corporation amounting to approximately $21.5 million. None of the larger municipalities is involved in this sort of financial arrangement, and traditionally, municipalities had shyed away from the land acquisition and development business preferring to leave this to private enterprise or to other levels of government. The almost total lack of advance planning by municipalities in this regard has contributed significantly to the increase in land cost new incentives are a priority, therefore, to encourage greater participation by municipalities in the process of land acquisition and development.

Land subsidies can take many different forms, and alternatives to the land assembly technique should be explored. Land, for example, which is inaccessible for housing purposes has no immediate value for housing; yet, build a highway to it and provide assurance that jobs, services and other ammenities will be available and immediately an entirely different situation prevails.

The point is that any proposal to make land available on a more favourable basis to prospective home-owners than the prevelant market price is one with possible wide ramifications and should be the subject of an intensive study. This study could, among other things, examine - subsidization in the form of grants for transportation corridors and the servicing of land thereby made assessible; new planning approaches including housing forms and densities for housing developments; economies of size; the effects of short and long term investment, and, in broader terms the relative importance of subsidies on the various components of putting a dwelling in place.

Amongst the new planning devices, the condominium form of home-ownership has gained rapid acceptance. The condominium arrangement requires different site development practices, street layouts, and individual unit design, all of which contribute to achieving a higher density of family housing. Provided the resulting decrease in cost per dwelling lot is not offset by additional servicing or landscaping expenses, the home purchaser may benefit from considerable savings.

Finally, the form of land tenure by the low income property owner is another avenue to be explored. Free hold or out right ownership, at least at the beginning of occupancy, might require a relatively heavy initial cash outlay and consequently, a higher subsidized mark-down from market value. The Ontario housing corporation's HOME plan implemented a few years ago provides three options to prospective purchasers i.e. (a) free-hold (b) lease hold (c) agreement for sale. Suffice to say that a preponderance of the OHC home lots have been sold on a lease-hold basis to purchasers who can revert to free-hold or sale agreement, after five years of occupancy, at the original selling price existing at the out-set of occupancy. By removing the

necessity of buying the land initially, the programme reduces considerably the downpayment required to buy a home. Further, the depreciation in the value of the dollar and the appreciation of family incomes over the years are factors which make this plan a very attractive one to prospective homeowners. Such an arrangement obviates the need, to some extent, for special concessions in order to permit families to occupy and buy a house. In fact, there is no financial subsidy involved, and the scheme is made financially self liquidating through the use of land rents over the short term prior to purchase or over the longer term under a continuing lease-hold arrangement.

ZONING

Any assisted home-ownership programme will also be dependent upon the co-operation of the municipalities concerning amendments to zoning and code requirements. It remains, however, that the creation of large low-income projects results in a very unfavourable municipal tax revenue to tax cost ratio and is potentially disruptive to the social community. The strategy of land use controls that ensures low densities or relatively expensive dwelling units or both pays rich fiscal and political dividends. In this context, without municipal co-operation, projects would be forced to locate in fringe areas. Yet this imposes greater travel costs on low-income households, and there is a practical limit to the commuting area among other imperfections in the persistent outward movement of urban growth. Clearly, short of removing land use powers from local government or relieving local fiscal pressures by providing provincial financing of public services, notably schooling, the impact of low-income projects on local finances can only be lessened through the physical intregration or blending of low - medium - high income housing, or, of course, limiting projects to a fairly small number of units. The social consequences of this are also considered

by most to be highly desirable, and it goes without saying that the resulting variation in dwelling design, height, size and exterior facing is aesthetically preferable. Small developments of a blended nature must therefore be encouraged as a priority over large uniformly low-income projects in those municipalities which are faced with a largely residential tax base together with significant public service costs. For the same considerations, joint commercial/residential projects would be beneficial to local finances, and, at the same time, would assist in alleviating the problem of high land costs.

In locations of significant housing shortages amongst low-income households citizen groups can always be counted upon as a source of pressure on the local government. But more significant is the leverage that can be applied by the construction industry itself. Faced with a soft housing demand situation, industry is naturally receptive to any programme that promises to expand the market into the low income range. The lull throughout 1970 in construction activity can be attributed, in part, to the resistance of borrowers to the historically high level of interest rates; this may be offset through the production of lower priced units for the traditional market or the employment of builders resources under a programme offering preferential mortgage credit arrangements. The favourable response of private industry to the $200 Million programme of 1970 is clearly associated with overall market conditions, and as long as these conditions prevail the construction industry will be motivated to produce low cost housing. Given the expectation that special forms of assistance will be continued for the lower middle income group, converting their needs into effective demand, the industry will almost certainly gear itself to this portion of the market on a permanent basis. Under these circumstances municipalities will face mounting pressure to accommodate the construction

of low-income housing, and, in turn, the other levels of government will eventually be required to restructure the support given to financing of local services.

MORTGAGE CREDIT

The credit elasticity of lower middle income housing demand has been the subject of several recent studies. Based on the response of consumer surveys and the assumptions underlying mortgage credit models, conclusions are that public policy can be a potent force in expanding the effective demand for lower middle income, ownership housing through the liberalization of both credit terms and credit conditions. It is indicated that the most sensitive factor in mortgage credit is the down payment requirement and the least sensitive is the mortgage maturity period. Since public policy has already gone a long way toward eliminating the former and has reduced the latter nearly to the point of impotence the only credit term remaining for public policy use is the interest rate. Fortunately, potential housing demand apparently becomes more sensitive to reductions in the rate of interest as down payment requirements are reduced. The interest rate thus becomes a more powerful credit weapon under lower, rather than higher down payment requirements. It becomes an even more potent force when the down payment is eliminated.

With only one credit term remaining with any real slack for public policy consideration, some reliance could be placed on the conditions of credit to expand the incidence of owner-occupied housing for lower middle income families. Of the credit conditions usually considered, land rent is one that can become a tool for public policy. As discussed earlier in this paper, a municipality can be instrumental in reducing both the down payment and the monthly carrying charges by adopting such a policy. In the meantime, the ratio of monthly income to monthly carrying charges on the mortgage becomes a constraint at the option of lending institutions. By taking into account all available sources of family income and by anticipating in some cases a rapidly

rising income trend among younger families, a portion of the restrictive nature of this condition can be eliminated.

It remains that the use of public policy in the manipulation of interest charges is the most effective means possible towards stablizing shelter costs. By way of illustration - a change in interest rates from 10 per cent to 6 per cent lowers the monthly payments on an average mortgage by an amount equivalent to a $5,000 reduction in the price of the dwelling. The effect being that within the constraints of anticipated dwelling costs and normal mortgage conditions the income range of home-ownership eligibility is extended an additional $450 to $500 for every one point reduction in interest charged.

So long as this type of assistance is complimented by a programme of low cost housing construction, it can be ensured that the accommodation occupied shall not be excessive in relation to the reasonable needs of the household involved. Having established lower dwelling costs the "subsidy" would then amount to the difference between what the family could afford in monthly payments, given an appropriate debt service ratio, and the full carrying charges of principle interest and taxes at the normal lending rate; it is thus ensured that the direct beneficiaries of the subsidy only include those in need of assistance, which takes the form of a monthly payment subsidy rather than an interest subsidy. Such aid is usually referred to as an interest rate subsidy simply because it is limited to an amount that may not exceed the difference between the actual debt service on the loan as registered and what it would be at some fixed preferential rate.

Finally, through periodic income review it can be ensured that those that do directly benefit receive no greater subsidy than is necessary to enable them to meet their reasonable objectives. The subsidy provided is gradually reduced and eventually eliminated as the recipients

income increases and is able to meet a greater proportion of the service charges.

Assuming that the above arrangements are implemented through a direct lending programme the subsidy costs can be minimal when compared with the remaining alternative of capital grants. The latter is also far less efficient in terms of extending the income range eligible for home-ownership. The only advantage that a capital grant has is that it may be used as owner equity and the obstacle of downpayment requirements is thereby overcome. However, this advantage is transferable to the extent that any subsidized interest programme can provide for 100 per cent financing if and when necessary.

The exact impact and implications, including cost, of lending at below market interest rates will be dependent upon numerous variables. The question of equity requirements is one such item. Others include: income range to be served; depth of subsidy; conditions of debt service ratio; mortgage ceilings; recovery of subsidies and resale contingencies; acquisitions and rehabilitation of existing properties; loan and project location; involvement of approved lenders; and the compatibility of any assistence with existing provincial schemes and the $200 million programme of 1970. Decisions with respect to some of these issues are fairly clear cut, others are not so easily resolved. A brief discussion on items of each category will follow a review of subsidized interest programmes in the United Kingdom and United States, and an outline of below market interest rate lending in Canada.

III. ASSISTED HOME-OWNERSHIP IN U.K., U.S.A. & CANADA

A. UNITED KINGDOM

Prior to 1967, the only financial assistance available to home purchasers was a reduction in income tax related to the amount of interest paid on their mortgage - a concession which presently costs the government some 200 million pounds annually and provides an average benefit of 43 pounds ten shillings to an owner occupier. This system had the unavoidable effect that those home purchases with the highest incomes paying most tax and with the most expensive mortgages could gain most in tax relief. Those paying no tax because of low incomes or allowances for children etc. received no benefit. Not only was this position criticized for its regressive nature, but it put home-ownership beyond the means of many households whose annual charges on a mortgage would exceed that proportion of their income which lenders considered proper for the granting of a loan. In 1967, in order to eliminate these inequities, the government introduced the "mortgage option" scheme in the Housing Subsidies Act. As of April 1st, 1968 new purchasers could choose an option mortgage with a reduced rate of interest but no tax relief. Existing borrowers had to make their decision to convert to an option mortgage by December 31st, 1967. Under the scheme borrowers' payments were calculated at 2 per cent below the rate of interest charged by lending institutions subject to a minimum effective rate of 4 per cent. The aim, therefore, was to give a subsidy equivalent to the tax relief on interest payments obtained by the standard rate income tax payer. The option scheme also enabled building societies to advance money to persons whose income was too low to qualify previously (with interest rates at some 8.5 per cent) or to advance larger sums than was possible previously.

The Housing Act of 1969 made two major revisions to the option scheme. Presumably, in response to rising market interest rates the subsidy maximum of 2 per cent was replaced by an amount to be specified at the discretion of the government. More important, the programme as originally introduced must have put some mortgage borrowers into a quandry as to whether they would do better to take the subsidy or to gamble on their future tax paying prospects. The 1969 act solved this matter by giving the mortgagor the right to terminate the subsidy payments after a period of five years and revert to the option of tax relief. Subsequent to 1967, the new scheme was also extended to include a provision by which mortgage loans of up to 100 per cent of the value of a house (not exceeding 5,000 pounds) could be made to those participating in the scheme through an insurance policy agreement. This made home-ownership possible for persons who could afford the repayments on a mortgage but not the capital for the initial deposit as well. Some 4 per cent of new borrowers are now being offered new guarantees by the government and insurance companies under this scheme; while a total of some 9 per cent of new borrowers are taking up the option of a subsidy - the average benefit being approximately 22 pounds a year.

B. UNITED STATES

Since 1934, the United States has established an array of housing programmes of bewildering complexity. In most cases the objectives have been multiple - to create employment, to reduce the stock of substandard dwellings, to improve the tax base of metropolitan centers, and so forth. It was not until 1961, under the Kennedy administration, that Federal housing programmes were redirected to give greater emphasis to housing low income families, and it was not until the Housing and Urban Development Act of 1968 that explicit subsidies were provided under section 235 to bring home-ownership within reach of low income families.

Section 235

Section 235 provides no funds either for the construction or rehabilitation of a home. The money appropriated under this section goes towards reducing the interest an eligble family would normally pay on an FHA insured mortgage loan from a private lending institution. The amount of the interest rate subsidy depends in each case on family income, the size of the mortgage, and the interest rate on FHA insured loans at the time the mortgage is executed. With the subsidy, which is paid by FHA to the lender, a family can pay as little as 1 per cent on its mortgage loan. As family income rises, the subsidy is reduced. It ceases altogether when the family is able to pay the full mortgage interest rate, insurance, and property taxes without exceeding 20 per cent of its income. Maintenance costs, heat, water, and other utilities are not included in determining the size of the interest rate subsidy. Nonetheless, a family could probably purchase a home under Section 235 for about the same monthly outlay as they could rent a home for under the rent supplement or new FHA Section 236 programmes, in which families are required to pay out at least 25 per cent of their income.

The 20 per cent limit is not rigid. FHA officials say they will approve mortgages for some families that might have to pay more than 20 per cent of income even with the maximum interest rate subsidy. For example, if a family has regularily been paying 35 per cent of income for rental housing, FHA might approve a 235 mortgage, especially if their monthly mortgage payments will be less than the family had been paying in rent. FHA has indicated that it would also be willing to stretch the 20 per cent limit to help a family move from substandard housing.

It was intended that this programme would provide assistance to those in the broad range of incomes between

$3,000 and $7,000 a year. To be eligible for subsidy assistance, a family must have an income that does not exceed 135 per cent of the maximum income limits for public housing in their community. In the case of persons displaced by urban renewal or other public programmes, the limit is 90 per cent of the maximum for rental housing financed under the FHA 221 (D) (3) below market interest rate programme for moderate income families. In determining income, a family may deduct $300 for each dependent child under 18 years old.

The mortgagee is responsible for recertifying a family's income at least every two years. A family, however, may apply for recertification any time in the event of a decline in income, an additional child, or an increase in property taxes.

Mortgages are for 100 per cent of the purchase cost and are generally for a duration of 30 years, although some may be carried for up to 40 years. The families are required to make a small payment, usually about $200, to cover closing costs, title insurance etc. They are also required, in most cases, to pay an additional $3.50 per month on their mortgage to cover the extra administration involved in handling this kind of FHA insured loan.

The maximum mortgage that FHA will insure under the programme in most places is $15,000. In high cost areas, the mortgage can go as high as $17,500 or, in the case of large families needing four bedrooms or more, the mortgage can be put up to $20,000.

Despite the limitations on incomes, subsidies, and mortgage amounts, there is more flexibility in Section 235 than in many of the other assistance programmes developed for housing low income families. The types of housing available to families eligible can range from a single family detached home to an apartment unit in an FHA insured co-operative development. It permits interest subsidies on new and existing housing and allows for subsidy assistance on housing purchased and rehabilitated for resale by private

non-profit organizations and public agencies. Although existing housing qualifies for subsidy payments, such housing is restricted to no more than a given percentage of total FHA commitments; the reason for this being that Congress considered the interest subsidy as one of the means for meeting the 1968 Housing Act goal of producing 6 million additional units of government assisted housing in ten years. FHA officials, nonetheless, believe that there will always be an existing housing component in Section 235 to cover such hardship cases as large families and persons displaced by urban renewal and other public activities. There is further flexibility in Section 235 in that there is no requirement that the developer be an non-profit or limited dividend corporation, making it easier thereby to attract investors' interest in this kind of housing. There is no workable programme requirement to keep 235 housing out of the suburbs or racial exclusive neighborhoods. Finally, there is nothing to prevent an eligible family from arranging to buy a home on their own with a 235 mortgage; while FHA has committed the bulk of its available funds to development homes, it has set aside, out of its initial appropriation, 1.5 million dollars for subsidy assistance to individuals and developers of projects of four or less units.

In funding Section 235 initially, Congress failed to anticipate the size of demand for interest subsidies. Because of this heavy demand, FHA has had to set up priorities for approving fund reservations. Top priority goes to projects that could go promptly to completion. This would include, mainly, additions to existing housing subdivisions. The next highest priority is for housing in urban renewal areas, model cities and neighborhoods, and where housing is needed for relocation purposes. Next on the list comes applications from builders and others who

would seek in their project some mix of unassisted housing. Finally, priority is given to projects that would serve families in the lowest practical income brackets - in some cases below $4,000.

The FHA very recently made a survey of Section 235 lending which was based on a sample of 2,000 transactions in the first quarter of 1970: existing homes represented 56 per cent and 44 per cent were new homes. The average income for a four person family was $5,700 with 2/3's of families in the $4,000 to $7,000 range. The typical mortgage insured was $15,200 to $16,100 for a new home and $13,500 for an existing one. The typical monthly payment was $140 at a registered interest rate of 8½ per cent, and the monthly subsidy payment ranged from $40 to $69. The typical purchaser was 31 years old with a wife and two or more children, although 31.6 per cent of the families were headed by a female. Location of the homes were 67 per cent in urban centres of over 100,000, 17 per cent in areas under 10,000, and the remainder in communities between 10,000 and 100,000.

A complementary survey revealed clearly that 235 is not making the penetration it was expected to in the densely populated north-eastern and mid-Atlantic states, where the need for more standard low income housing is considered the most critical. These are also regions of the country where land and construction costs are the highest and where competion for available investment funds are considered greatest. By comparison, in the south-east, probably the lowest cost area, the programme seems to be enjoying its greatest success.

Even prior to the Emergency Home Finance Act of 1970 it was recognized that changes should be made to Section 235 in order that the programme penetrate the higher cost areas. The ceilings on the size of mortgages would have to be lifted to meet the rapid escalation in construction, material, and land costs and the FHA maximum

interest rate would have to go up again to attract new investment. Even with these steps, it was doubted that whether Section 235 or any other programme that relied heavily on new construction could do much under current inflationary conditions to help the low income housing situation in such cities as New York, Chicago, Boston, Philadelphia, and Cleveland, to name a few. Although FHA said it was willing to insure mortgages on new homes in high risk core areas, it was not finding sufficient builders and investors willing to follow its lead.

Like its predecessor FHA programmes, it was felt that 235 would prove, in the long run, to be more geared towards suburban developments than developments in the core areas of the cities. Such an eventuality could have a positive effect, for, in making home-ownership possible outside the areas, this new programme could lead to eventual dispersal of the urban ghettos and integration in the suburbs - both desireable things in eyes of many concerned with urban problems.

The Emergency Home Finance Act of 1970

The recently enacted of Emergency Home Finance Act has been described by President Nixon as "the most significant housing legislation to be enacted by this Congress". The significant aspect of the bill lies in the fact that it is meant to stimulate both the demand for and the supply of funds in the mortgage market. It is also expected that this bill will enable the private market to respond more favourably to the needs of low and middle income families.

Because of the periodic episodes of monetary stringency and the resulting high cost of borrowing, it was extremely difficult for families in the middle income range to obtain mortgage credit at rates they could afford to pay. Consequently, in the recent past, demand for mortgage funds for these families was considerably weakened. One of the important features underlined in

the new act is to provide, during periods of high mortgage interest rates, a source of mortgage credit for the middle income families.

Title V of the act adds a new Section 243 to the National Housing Act whereby the secretary of HUD is authorized to make periodic assistance payments to families of middle income. The assistance shall be accomplished through interest subsidy payments. However, funds must be appropriated and the maximum contract authority for each of the next fiscal years if $105 million. As a temporary measure during a period of high interest rates the programme is due to expire on June 30th, 1973.

In order to qualify for assistance payments, a family may opt for a mortgage insured by FHA, guaranteed by VA or conventional mortgage. The income limitation of the mortgagor is left at the discretion of the secretary of HUD. Section 243 (B) of the act provides that the "secretary may require that the mortgagor have an income ... of not more than the median income for the area in which the property is located". Implicitly, it assumes that the secretary may set the income limit below, at or above median. The act also specifies characteristics of mortgages eligible for this programme. Briefly, they are: (a) new single family dwellings, (b) appraised value not in excess of $20,000 (but up to $30,000 in high cost areas), (c) down-payment of 3 per cent of the first $15,000 of the appraised value, 10 per cent of such value in excess of $15,000 but not in excess of $25,000 and 20 per cent of such value in excess of $25,000. For example, on a house with a $20,000 appraised value, the downpayment would be $950. In addition, to qualify for this programme, a mortgagor must at least be able to afford a mortgage with an effective interest rate of 7 per cent, while it is determined that 20 per cent of family income should apply towards principle,

interest, insurance, and taxes. The higher a families income, the higher will be the interest percentage it will pay under its mortgage. The maximum interest rate that may be specified in the mortgage is unlimited for conventional loans and is limited by the ceiling set by the secretary of HUD and the VA administrator for FHA insured and VA guaranteed loans.

Because title V authorizes interest subsidy payments to be made only to the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (created in title III of the act), title V mortgages would, then, be sold by private lenders to these two organizations only. The interest subsidy payments is to be an amount equivalent to the difference between the interest paid by the assisted mortgagor and the total amount of the interest the investor (FNMA or FHLMC) would have received "if the yield on such mortgages was equal to the sum of (1) the average cost (expressed as an annual percentage rate) to the investor of all borrowed funds outstanding in the immediately preceeding calendar quarter", and (2) such percentage per annum as is necessary to cover administrative and other expenses of the investor and to provide for a reasonable economic return. For example, a mortgagor with a mortgage having an effective rate of 7.5 per cent at a time when FNMA bonds are yielding 8 per cent would be subsidized by HUD for the ½ per cent difference plus a percentage to cover the administrative expenses, etc., and the payment would go from HUD to FNMA.

In effect, new Section 243 supplements old Section 235. It avoids any significant overlap by using shallow subsidies, higher mortgage limits, and more demanding equity requirements. Thus it is aimed at families within the $8,000 to the $10,000 range, whereas Section 235 is directed to households of lower income. Another important factor is that Section 243 is implemented through FNMA, while Section 235 subsidies are paid directly to private lenders.

There are, however, a number of points common to both programmes. Firstly, there is nothing to prevent a family opting for a more expensive unit and collecting a subsidy rather than selecting a cheaper unit which would involve lower subsidies or none at all. This loop hole is being handled administratively and local offices are required to ascertain whether or not a family cannot obtain less expensive adequate housing without subsidy. Again, for both programmes, the only way HUD can attempt to insure that the existence of subsidies does not inflate dwelling prices is through the implementation of fairly rigorous appraisal procedures. Finally, neither 235 or 243 recover the short fall of mortgage interest payments as the home owner income increases; nor in the event of resale is the owner required to repay anything other than the balance of principle outstanding. At this time, of course there have been few, if any, occurances of resale under 235; but it is anticipated that any significant resale activity in the future accompanied by rapid appreciation in the value of units subsidized might well provoke congressional investigation.

Future Programmes

The new Housing and Urban Development Act of 1970, currently befcre Congress, does not introduce any new programmes of subsidized home-ownership, nor is there any radical amendment to Sections 235 or 243.

However, both the President's Task Force on Low Income Housing and the National Housing Conference have advanced certain recommendations towards the expandsion of present programmes of assisted home-ownership.

In general both the Task Force and the NHC strongly urge that the White House announce a policy not only favouring, but giving priority to, federal programmes that lead to home-ownership - including co-operatives and condominiums as well as single family dwellings - and that special emphasis be given to such programmes for low income families. Also, recognizing that not all families are ready

to undertake the responsibilities of home-ownership, the task force recommends that home-ownership programmes should be coupled with social services providing advice, guidance and counselling aimed at bringing the family into the main stream of the community.

In order to combat the effect of rising interest rates the NHC recommends a significant increase in funds authorized for subsidy payments. It further recommends advance authorizations in appropriation acts to cover each succeeding fiscal year, besides the current one, to allow more lead time for the planning and initiation of home-ownership programmes for lower income families.

The NHC makes the following recommendations for other legislative amendments:

(a) Presently the interest subsidy will pay only the excess of the mortgage payment of the amount that represents 20 per cent of the family income. Statistics show that a median of 15.5 per cent of income was spent for such mortgage payments, as distinguished from total housing expense, under the FHA 203 programme. The NHC recommends a requirement of 1/6 of income be spent for mortgage payments under Section 235. As an alternative, NHC recommends that a family be required to spend 20 per cent of its income for all housing expenses under Section 235 which would include mortgage payments, utilities, and maintenance and repairs.

(b) The widely recognized increases in the costs of housing makes it increasingly difficult - and in some areas impossible - to provide housing for the lower income group intended to be served under Section 235. To enable the programme to reach this lower income group, the NHC recommends that interest assistance be increased for those families who need it by reducing the payment of such families to the amount that covers only the principle payments on the mortgage without any interest. On this particular matter

the task force goes even further and recommends that in some cases subsidies should be used to underwrite a portion of the amortization of principle.

(c) Assistance payments under 235 are restricted to home buyers who at the time of purchase have qualifying incomes which do not exceed 135 per cent of the income limits for admission to public housing projects in that locality. NHC recommends that the maximum income limits for federal assistance should be established at the median income in the locality, with adjustments to reflect different sizes of families. As a result of increases in interest rates and housing construction and operating costs, there are more people who are now unable to obtain decent housing without federal assistance. To enable the 235 programme to reach these families, it necessary to establish more realistic income limits which will avoid creating gaps and areas of unmet need in the housing programme.

(d) NHC recommends the amendment adopted by the Senate which would have increased the maximum mortgage limits under Section 235 up to 45 per cent in high cost areas. This Senate amendment was not accepted in conference. NHC urges its adoption in the next housing act, since it feels that the 20 per cent increase in maximum mortgage limits in the 1969 act is not adequate to allow construction of Section 235 housing in high cost urban areas.

C. ASSISTED OR SUBSIDIZED HOME-OWNERSHIP IN CANADA

Federal Home-owner Programmes

In the past here has been slight confusion as to the extent and nature of subsidies under the NHA lending programmes. One good reason for this is that everyone has their own interpretation of the term "subsidy". First, there is the subsidy to the borrower, who may borrow at a preferential interest rate relative to market rates or borrow at the same rate as that prevailing in the market

but on preferential terms and conditions. In the last case the aggregate cost of borrowing will be greater but he is able to obtain a mortgage with either lower equity requirements or lower monthly carrying charges, or both. Preferential terms and conditions are not measurable as a subsidy, yet, it may be deemed as such since the borrower is securing credit under conditions that would have commanded a higher interest charge on the open market had the funds been made available. In both cases of preferential lending, special assistance is made possible through the existence and activities of a publicly sponsored institution without which the borrower would find credit more expensive or more difficult to secure.

The "subsidy" to the lender or government institution, on the other hand, may be equal to the actual cost of lending less its return, or the cost of lending including recognizable opportunity costs less the return on that mortgage investment. Unfortunately, both the return on the investment and profits foregone (opportunity cost) can be indeterminate. If it is acknowledged that the calculation of a subsidy will exclude profits foregone on opportunities outside the scope and present objectives of a publicly created institution, then it can be argued that the return on investment should be measured as to include the non-cash dividends relating to those same objectives. Conversely, the inclusion of profits foregone from opportunities beyond the rationale for an institutions very existence implies a denial of that same rationale. This can be taken further - by the same token, the subsidy under a given programme initiated by the institution should exclude opportunity costs that are not a reflection of the immediate

objectives of that programme. This last is difficult to justify internally where the priorities of the institution are seen as being multi-fold and several programmes might compete for limited funds. However, even on the higher level, all government institutions and bodies compete for a given supply of total government revenue and simultaneously pursue an array of overall objectives. Hence the use (or misuse) of any opportunity costs whatsoever in the identification of subsidies becomes an exercise of dubious value. Far better, that, in the last analysis, the subsidy to the lender or government insitution be simply identified as the accounting cost between cash return on investment and the capital borrowing cost plus administrative expenses. While, the subsidy to the borrower may as well be taken as the cash difference between borrowing cost on the open market and borrowing cost under a government programme whether it be one of loan insurance or direct lending.

On the above basis, both NHA mortgages and normal Section 40 activity involve a subsidy to the borrower, but, at no subsidy cost to CMHC. The introduction of NHA insurance of mortgages along with the standardization of mortgage terms and conditions of course attracted new investors into the mortgage market, thereby increasing the flow of mortgage funds and reducing mortgage interest rates in general. But, a lower rate on NHA mortgages, as opposed to conventional funds, was made possible as a direct result of the federal guarantee and the reduced risk to the lender. The spread between NHA and conventional rates then becomes an interest rate subsidy, while insurance fees are determined on a scale sufficient to cover any costs to the government. NHA mortgages do, of course, offer other advantages to the borrowers, but which do not come under the definition of a subsidy. These include longer periods of amortization, a higher loan to value ratio - both attributable to the insurance scheme - and certain fringe benefits such as periodic inspection

of dwellings under construction.

So long as the interest charged on direct CMHC mortgage loans is set at a rate below that of conventional loans the same type of subsidy as that under the NHA applies to Section 40 borrowers. These subsidy amounts have also been fairly close in magnitude until very recently. The reason for this was that, prior to the NHA rate being set free, the Section 40 lending rate was always fixed at the maximum NHA rate. Immediately after the rate was freed, a policy was adopted whereby the Section 40 rate was set slightly above the prevailing NHA rate as a surcharge feature quite normally associated with residual lending. Only in the last few months has the rate been held at a level below that of the NHA rate and then again the disparity has been minimal. As a measure of assistance to home purchasers, direct CMHC lending in fact relies upon an easing of credit terms and conditions, notably that of the amortization period. Other terms or conditions may be identical to normal NHA regulations, but in times or locations of relatively limited funds, approved lenders will ration loans amongst those individuals whose equity position and income can support mortgage terms and conditions that are more stringent than those imposed under the NHA.

Meanwhile the spread between the CMHC borrowing rate and the Section 40 lending rate has always been sufficient to cover administration costs and a slight operating profits. Even at the present time, when the spread has declined below 2 per cent, there is still no subsidy involved in terms of cost to CMHC since the lending rate is sufficient to cover the administration of these loans.

1970 brought a significant change to CMHC direct lending activity . One of the most important features of the two hundred million dollar Low Cost Housing Program was the provision of Section 40 loans to low income home purchasers interest rates as low as 7 7/8. Employing a monthly payment subsidy technique, the program geared the effective level of interest to qualifying family incomes. The result was that home ownership was brought within reach of families with incomes between $4,500 and $7,000, while the effective interest rate charged ranged between 7 7/8 and 9½ per cent. Preliminary returns indicate that the average selling price of units under the 200 million program is in the order of $13,000, and the qualifying income of home purchases averages at $5,250 after deductions. With standard 95% financing and special regulation 25% G.D.S., the average mortgage is being written at 35 years with an effective interest rate of 8¼%. The average subsidy to the borrower may be said to equal approximately $14.00 per month - being a difference between the cost of borrowing at this preferential rate and the cost of borrowing $12,350 at the current NHA rate. The average subsidy cost to CMHC approximates at $12.00 per month, which is equal to the difference between the effective return at 8¼% and the cost of borrowing these funds at the prevailing CMHC borrowing rate plus administrative costs (since the exact administrative expenses are unknown CMHC borrowing and administrative costs are taken to equal the return on a mortgage written at 9½%).

The 200 million dollar program is expected to produce approximately 10,000 home ownership units which includes both the condominium and the co-operative forms of tenure. Using the above averages, the total subsidy cost to CMHC will be equal to 1.44 million dollars per annum. Income review of home purchases will take place 5 years from the time of the loan approval;hence, the effective interest rates charged will remain constant

over this period, and the total subsidy cost to CMHC at the end of 5 years will stand at 7.2 million dollars. During the 5 year time lapse, it can be expected that the vast majority of home purchasers incomes will have increased beyond any continued need for subsidy assistance.

Provincial Programmes

Provincial assistance to the home purchasers has been available since as early as 1948 when the government of Quebec implemented the Family Housing Act. Since then other provinces have come forward with explicit aid in one form or another directed at all new home purchasors or specifically those of low income. By 1970 only Manitoba and the Atlantic provinces were lacking in special assistance to home owners. Existing programmes are as follows:

(a) British Columbia

With the establishment of the Provincial Home Acquisition Grant Fund of $25 million in the year ended March 31st, 1967, a provincial grant of up to $500 to all qualifying purchasers of living accommodation was introduced effective April 1st, 1966. The maximum grant under this legislation was increased to $525 on April 1st, 1968. This original grant now applies only to eligible residences, the construction which commenced between April 1st, 1966, and February 8th, 1968, and to premises purchased between April 1st, 1966, and June 20th, 1968.

A 1968 legislative amendment provided a grant of up to $1,000 to the first owner-resident of living accommodation, construction of which commenced after February 28th, 1968. As in the case of previous legislation qualification was dependent upon twelve months residence in the province; and in the event of foreclosure the grant takes priority lien over first and second mortgages. Under normal NHA financing the $1,000 grant is not considered as being from the borrowers own resources; hence NHA loans are reduced to the extent necessary to ensure that equity is at least

equivalent to 5 per cent plus the amount of the grant. However, under the 1970 $200 million programme the grant was permitted as part or total of minimum equity requirements.

In 1969 the legislation was amended, offering, as an alternative to the grant, a maximum $5,000 second mortgage loan fully insured free of charge. An annual refund of 10 per cent (up to $50) of the principle and interest payments is allowed for regular repayments, making an effective rate on a $5,000, 25 year loan of 7½ per cent. In 1970, the legislation was further amended to also provide a grant of $500 or an insured $2,500 second mortgage interest loan, at the same low interest rate, for the purchase of an existing home. To qualify, provincial residents must have lived in rented quarters in the province for at least two years immediately preceeding the purchase of an older home. This last provision applies to homes purchased between April 1st, 1970, and March 31st, 1971.

Since introduction of the above legislation in 1967, the B.C. government has provided $85 million in home ownership capital funds, including $25 million in the year ended March 31st, 1970. To date almost 24 million has been approved for approximately 49,000 housing grants, and $28 million for over 6,000 second mortgage loans.

Quite apart from the existence of home acquisition grants, the B.C. government also provides tax rebates to all home owners throughout the province. Termed "home owner grants", over $54 million was paid in the fiscal year ended March 31st, 1970, to reduce 1969 property tax levies by local governments on resident home owners. The individual grant in 1969 was up to $150. An estimated $49 million of the provincial home owner grants awarded was applied to local school taxes as levied. The balance of $5½ million was applied to reduce other local levies. As a result, many provincial home owners paid a minimum property

tax of $1 for local services. In 1970 the full provincial home owner grant was raised to $160.

(b) Alberta

The implementation of a monthly payment subsidy geared to home purchasers' income coincided with the introduction of the 1970 $200 million low cost housing programme in Alberta. The maximum subsidy available equates with an effective reduction of 2 per cent in interest charges. This assistance is being made available only to qualifying purchasers of homes built under the $200 million programme. The arrangement that CMHC has with the Alberta government is that the subsidy cost is shared on a fifty-fifty basis from the registered interest rate of 9½ per cent down to 7 7/8 per cent, and below this rate of interest Alberta accepts an increasing share of the cost. Since CMHC's share cannot exceed the equivalent of a 1 5/8 per cent reduction in interest, the provincial government is totally responsible for subsidy costs from the 6¼ interest rate level down to the minimum of 5 7/8.

(c) Saskatchewan

In 1970 legislation was passed whereby new home purchasers, regardless of income, may apply for and receive a grant to $500. Any form of dwelling unit, with the exception of summer cottages or mobile homes, qualifies for a grant, but as an incentive to winter construction it only applies to units started after the first of July and occupied by March 31st the following year. The grant may be paid to the applicant or his assignee by a lump sum payment, or "as the minister deems advisable". Further, CMHC is allowing the grant to be used as part or total of down payment requirements in the purchase of homes constructed under the $200 million programme. An amendment extending the eligible time period to June 30th of the following year is now before the Saskatchewan cabinet for approval and has already been announced in the press.

(d) Ontario

Since 1967 the OHC has entered into an arrangement with CMHC whereby lots within Federal-Provincial land holdings in the province are made available to individuals or speculative builders under the H.O.M.E. plan. OHC leases these lots at book value (or cost to the corporation) of the land, thus removing the land component from the downpayment and making very low downpayments possible. Lessees have the option at the end of five years of purchasing the land outright or on an agreement of sale at a market price determined at the time of the initial sale. There is no restriction to the incomes of home purchasers under the H.O.M.E. plan, but the maximum construction cost, selling price, or appraised value of the dwelling placed on the lot, exclusive of land and services, shall not exceed $15,000 (for a three bedroom unit) $16,000 (four bedrooms) and $17,000 (five bedrooms).

The arrangement between the federal government and OHC is that FP land assembled prior to 1967 may be utilized under H.O.M.E. on a continuing partnership basis whereby the federal government shares in the profits resulting from a sale of lots over a period of 15 years, after which time the outstanding balance of federal investment is to be paid in full. Lands acquired since 1967 for provision of H.O.M.E. lots are financed under 35A with a 75 per cent loan from CMHC to be repaid over 15 years, or under section 35C. OHC can, of course, also acquire land on their own right without recourse to CMHC financing. At the present time, however, most H.O.M.E. projects involve the use of FP land assembled prior to 1967.

The lessee of H.O.M.E. units may arrange for an NHA mortgage on the dwelling or OHC may act as a lender of last resort offering mortgages of 95 per cent of the lending value at a rate equal to the current NHA direct lending rate under section 40. Where the home buyer exercises his option to purchase the land, a mortgage on the land is

secured with OHC at an interest rate at or slightly below the direct lending section 40 rate. Regardless of the original land development and financing arrangements, the purchase price equates with the market value at the time of initial sale and the interest rate is always sufficient to cover the financing and administrative costs to OHC. Hence there is no subsidy cost to OHC also recognizing that ground rents paid by the home owner prior to the purchase of his lot are structured at a level sufficient to recover the cost to OHC of acquiring and servicing the land or to match any appreciation in the value of land during the interim period.

The most significant non-subsidy benefit to the home buyer is the reduction in downpayment required, while an actual subsidy may be effected through the below market interest charges on both dwelling and land. However, in some cases this may be offset by higher than normal land development and servicing costs incurred by OHC which are reflected in the ground rents paid and the purchase cost of the land to the home owner.

(e) Quebec

In January 1948 the government of Quebec passed the Family Housing Act which was to promote home ownership for families of low income by subsidizing part of the interest rate on mortgages secured to acquire or build a new house. The Quebec Farm Credit Bureau was responsible for the administration of the Act since it was already involved with similar programmes providing assistance in rural areas.

The assistance under this act was limited to urban dwellings. Since 1948 changes in the maximum interest rate, maximum mortgage, maximum dwelling cost and income limit for eligibility have had a definite impact on the evolution of the programme. With the creation of the QHC the government of Quebec also transferred responsibility of administering the programme to the housing corporation. Presently any eligible applicant can benefit from a 3 per

cent interest rate rebate on $7,000 of the total mortgage. The income limit for eligibility is $7,000 per annum plus $500 for every dependent child. The maximum mortgage permitted is $14,000 for a single family dwelling and $20,000 for two-family dwellings. The cost of construction or acquisition price of new dwellings, including the cost of the land and other improvements must not exceed $17,000 for a single family dwelling and $25,000 for a two-family dwelling.

During the period 1948 to 1969, the Quebec government accommodated some 403,000 persons or 196,000 dwellings under the programme. By the end of 1969 the province had committed itself to an expenditure of nearly $218 million; while the actual amount of interest rebate paid had totalled over $98 million. The average commitment per dwelling stands at $2,300 and the median family income of rebate recipients during the period 1968-1969 was $5,500 per annum.

By policy, the above rebates are not included in total family income for purposes of NHA mortgage lending. Hence, this provincial assistance will not be taken into account at the time of income review for borrowers under the 1970 $200 million programme. The rebate then becomes supplementary to any preferential interest rate offered by CMHC.

ASSISTED HOME OWNERSHIP PROGRAMME FOR 1971

As an interim measure toward the development of longer term approaches to low income housing problems, it has been concluded that a monthly payment subsidy geared to the income of new home purchasers remains a preferred option. The assistance programme will be achieved through mortgage interest rate reductions and will be subject to the following conditions and constraints:

LENDER

In the United States special mortgage lending programmes designed to meet the needs of moderate and low income families have, to date, been implemented through private lenders in the mortgage market. As opposed to direct lending activity this approach has the distinct advantage of minimizing the volume of government funds required to provide low income housing. Under such an arrangement whereby mortgage payments subsidies are offered by the federal government, private lenders are given the opportunity to lend to low or moderate income groups without incurring any financial losses. If, in the Canadian context approved lenders are provided this opportunity, they will no longer be able to argue, as they do now, that large scale CMHC direct lending programmes are continuing to draw the established developers, hence weakening demand from such developers for mortgage funds directed at the unsubsidized part of the mortgage market.

However, there are far weightier considerations that point to the overall advantage of a direct lending programme. Firstly, it is obvious that the amount of subsidies paid out by the government will be larger if they are granted by approved lenders loans. NHA rates are inevitably at a higher level than those required under direct loans sufficient to cover costs to CMHC. Currently the latter rate could probably be fixed slightly below the Section 40 level of 9½ per cent; nevertheless, the average NHA rate at the end of October was at 9.89 per cent, while

for non-bank lenders it stood at 9.98 per cent. This means that an interest rate subsidy via the the approved lenders would be at least 3/8 of a per cent to ½ a per cent greater than a subsidy via direct lending.

Secondly, if an interest subsidy paid to an approved lender merely ensures that the lender secures his normal NHA rate, there will be no real incentive built into the scheme for private lenders to make such loans. Lenders would also find these loans more costly to administer since they would be required to reassess borrowers incomes periodically in order to determine the amount of subsidy required. In addition, lenders might consider such loans a higher risk in the sense that low income borrowers are more likely to encounter future financial difficulties leading to a higher level of foreclosure actions. In order to recoup these higher administration costs, lenders might be tempted to increase the interest rate that they charge on such loans; since the rate is subsidized this increase would not create any hardship to borrowers but would merely inflate the cost of the subsidy.

Finally, a direct lending programme enables the government to control the allocation of funds to selected areas on the basis of its own criteria. And, thus, any such programme may be utilized in the attainment of more than one objective. Further, CMHC can make any number of modifications to normal NHA mortgage terms and conditions so as to suit the needs of families being served under the programme, and can retain a tighter control on unforeseeable cirumstances surrounding payment defaults, resale activity and so forth.

DWELLING COSTS

Following the $200 million programme of 1970, a direct lending programme incorporating preferential interest rates would be readily identified by the construction industry as one of low cost housing. As reasoned earlier in this paper, industry must also recognize that low cost housing is rapidly becoming an increasingly important part of the total housing market, and this awareness has been accentuated as a result of soft demand amongst households of relatively high income over the past year. Accordingly, any programme for 1971 is likely to generate a similar response as that encountered by the $200 million programme, and dwelling prices at a similar level, allowing for a normal annual increase, could be achieved dependent upon the technique employed to solicit industry activity.

The $200 million programme of 1970 did not establish any predetermined cost limits to units financed. This is hardly surprising since CMHC had little experience of low cost housing to draw upon and could not anticipate with any real accuracy the level of prices likely to be achieved. To a large extent CMHC relied upon the technique of proposal call even if the "call" was lacking in its degree of specification. However, the experience of the $200 million programme can now provide a number of guidelines - particularly with respect to dwelling costs by form of dwelling, density, and location. The imposition of cost limits to dwellings constructed under a 1971 programme would, in fact, be feasible; but would not necessarily be advisable on several counts.

Price ceilings, as established under the U.S. programme of subsidized home ownership, encourage developers to build to those ceilings and any cost savings not discernable during the process of appraisal would not necessarily be passed on to the home purchaser. This applies as much to the land component; where individual builders need acquire

land from other interests the latter would be encouraged to inflate their prices to the level that would result in dwelling costs at or near the ceiling. A further point is that price ceilings are a disincentive to competitiveness amongst the builders and could possibly forestall any major breakthrough in cost saving devices. Far better that CMHC continue to rely upon the proposal call technique whereby builder initiatives are allowed full play. Further, projects may stand on their own merits without hindrance of any preconceived dwelling standards which are implicit in the establishment of price ceilings. Finally, there are, of course, many locations including most of the smaller urban centres where the likely costs that can be achieved are relatively unknown, and any arbitrary price ceiling could deter efforts to produce units at costs that do exceed the price ceiling but which are, in fact, representative of the minimum that can be accomplished.

For internal purposes dwelling prices forthcoming under a 1971 programme may be anticipated in the light of proposals submitted under the $200 million programme or other sources; although, at this stage, it would be as well to discount a recurrence of cost savings attributable to the provision of land at less than market cost which was the case in at least thirty of the 1970 projects.

The vast majority of 3 bedroom dwellings fell within the price range of $11,000 to $14,500. Highest costs were encouraging in Toronto where units reached an average of approximately $14,500. In the Montreal area, on the other hand, row housing was generally priced at approximately $11,500. In Vancouver and the prairie metropolitan centres, costs centered around $13,000 to $13,500. Row housing in Halifax and Ottawa were marginally less expensive than those in Toronto. It remains to be seen to what extent the prices of similar accommodation will increase in 1971; but, since rock bottom

prices were obtained under the 1971 low cost housing programme, industry will have to pass on most of the increases in costs which are projected for the above metro areas. Local market influences, notably those in areas of soft demand for home ownership units of less modest price are not likely to offset the increases. Therefore, discounting the possibility of land cost subsidies, metropolitan area dwelling prices under a low cost programme for 1971 could fall largely within the $13,000 to $16,500 range assuming projects are predominately row housing or of the condominium variety. Again, higher costs will be incurred in the Toronto area, and lowest in Montreal.

Outside the metro areas, indications are that row units prices could be as low as $10,000 in many of the Quebec urban areas where, in particular, minimal land costs and the local improvement tax system of service financing are of greatest significance. In other centres, primarily in Ontario, minimum prices will range from $17,000 to as much as $22,000 largely as a result of very high land costs which, in some areas such as Sudbury, may be attributed to a shortage of suitable building sites, or in other areas, such as Brampton, can be attributed to a high level of speculative activity.

Elsewhere in the country low cost units will fall predominantly in the price range indicated for the metropolitan areas, depending on the area's distance from major urban centres and the land servicing costs. Regardless, if the 1971 programme is to be directed principally at non-metro areas, the prices of units constructed will vary considerably, and so, therefore, will either the range of subsidies required or the income range of families housed under the programme.

MORTGAGE TERMS AND CONDITIONS

In conjunction with a reduction of interest charges on mortgages for low income home purchasers, CMHC may further assist families through reductions in down payments and the provision of lengthy mortgage maturity periods. This last factor together with the debt service ratio will have a significant impact on the income range of families served and/ or the amount of subsidy required.

Defined as the difference between the value of the property and the amount of the mortgage indebtedness, home owner equity has always been an important matter to the mortgagee. His protection against loss in the event of having to foreclose is related directly to its size. The tendency for initial equities or downpayments to be large continued right up until comparatively recent times. With the introduction in the 1935 Dominion Housing Act of the concept of regular retirement of mortgage principle along with the regular payment of interest it became logical to reduce somewhat the size of intial equities since they would now be subject to continuous growth through the reduction of the debt. As a result, home ownership loan ratios were set at the 80 per cent level. Gradually these ratios were increased during an era of steadily rising property values until they are now, for the most part, at the 95 per cent level. As the intital equities became smaller they became more and more a cause for nervous concern on the part of mortgagees. This concern is to some extent overcome by the provision of NHA insurance. Whether this would be the case if market conditions produced a higher rate of early foreclosures is not known since this has not happened in recent years. Certain it is, however, that the minimum 5 per cent equity is not of itself much of a deterent to early foreclosure

and if the equity were reduced to zero through the advent of the 100 per cent loan, the deterent element would not be very much changed. Under these circumstances, the owners view of his position in the early years would be conditioned then by the importance he places on his ability, real or imagined, to make free choices concerning his use of the property. His decision to stay or give up would relate entirely to such things as the hidden investments he had made in the way of agents commissions, legal fees, unrecoverable improvements, social ties, locational benefits and so forth, and in the early years these would probably be the same whether the loan is 95 per cent or 100 per cent.

To provide 100 per cent loans under the NHA would require changes in regulation 9 and in regulation 28 (3) and (4). In any programme where it is considered necessary to subsidize the cost of home ownership it would seem to be entirely consistent to eliminate the requirement of an initial equity and depend entirely on those other aspects of "ownership" to ensure the responsible attitude that is desired. However, there is a negative factor in the provision of 100 per cent loans, to the extent that provincial home owner grants are being utilized as part of minimum equity requirements under the $200 million programme, and any future programme of 100 per cent financing for low income families might act as a deterent to continuing provincial assistance of this nature.

Before introduction of the NHA, the majority of homeowner mortgages were amortized over 25 years. Under the NHA terms could be extended to 35 years and in 1967 the act was further amended to provide for 40 year amortization periods of either insured loans or direct loans under Section 40. Such extensions in the mortgage term have been made in the interest of the borrower whose monthly carrying charges are reduced as a result; but the amount of reduction progressively declines with each five year extension in the mortgage term. On the average mortgage

there comes a point where a further lengthening of the term allows for very minimal reductions in monthly carrying charges, although aggregate borrowing costs to the home purchaser are increased significantly. It is also recognized that the lender must impose limits to the term that relate to the life expectancy and future value of the dwelling being mortgaged. Under the $200 million programme and in the future a maximum term of 35 years is favoured since the monthly charges and the dependent minimum qualifying income are barely reduced at all for a term any longer than this, and because the average life time of the low cost units is possibly less than the usual of 65 years.

The impact of mortgage term extensions may be illustrated by the example of a $14,000 loan at 7 7/8 per cent interest with the additional assumption of a 25 per cent regulation G.D.S. ratio and property taxes of $30 per month. Under a 20 year mortgage term the monthly carrying charges of principle, interest and taxes amount to $145 and the minimum qualifying income is $6,960 per annum. At 25 years the corresponding figures become $136 and $6,528 per annum; at 30 years, $130 and $6,240 per annum; at 35 years, $127 and $6,097 per annum; and at 40 years, $125 and $6,000 per annum.

Decisions with respect to regulation debt service ratios are some what more arbitrary. The question of what proportion of income should be allotted to housing is complex, and although an analysis of what people in different income groups customarily pay can help, the answer is subjective. Under normal NHA lending 27 per cent is selected as the maximum ratio of principle, interest and taxes to gross income of purchaser plus up to ½ of the wife's earnings. No account is taken of other housing costs that may vary from region to region including utilities, maintenance and repairs, any more than non-housing expenses are reckoned with. A strict adherence to the ratio is also difficult to administer, since the reported source of owner equity

and/or repayment terms of secondary financing are occasionally slightly suspect. However, this ratio is only a maximum imposed at the time the loan is approved and actual present and future ratios may vary at levels below 27 per cent. Under a special lending programme the ratio becomes more than a maximum - it is the norm and the income range served together with the level of subsidy are controlled by it. Using the example once again of a $14,000 loan at 7 7/8 per cent written for a period of 35 years, the minimum qualifying income will be as high as $7,620 per annum if the regulation ratio is fixed at 20 per cent. At 22 per cent it becomes $6,926; at 25 per cent - $6,096; at 27 per cent - $5,638; and at 30 per cent minimum qualifying income is reduced to $5,075.

Differences between families in location, income, composition, age, education and occupation of head, aspirations and social habits could all be taken into consideration when determining the appropriateness of any given ratio. Yet, the implication of any one factor and the weight given to it are often indeterminate. "Ability to pay" is the phrase so often bandied about. But this ability is very much a matter of opinion dependent upon the observers'notions as to what are both legitimate and desired expenditures outside of housing. Hence, implicit in the imposition of any regulation debt service ratio is a concept of acceptable living standards and behavioural patterns. What is acceptable is the average, and if most families owning their home pay close to 20 per cent in mortgage payments and taxes then a maximum ratio of anything between 25 per cent and 30 per cent might seem appropriate for a new purchaser whose age, relative to the average owner, will assure an increase in income sufficient to bring that ratio down to the norm within a reasonable time. Given the above, it may be reasoned that home purchasers of relatively

low income should be restricted to a debt service ratio below that of normal mortgage credit conditions. After housing costs a family of low income has less to spend on necessities including education and other means of income advancement most of which, of course, are of equal price to both low and higher income households. Therefore, a lower level of expenditure on housing would be desirable to compensate for this. A 25 per cent G.D.S. ratio requirement, as under the $200 million programme, is a token gesture to this thesis, simply because a 20 per cent requirement might be equally appropriate. Unfortunately, credit conditions limiting expenditure to lower and lower levels would eliminate assistance to those in greatest need, and the only justification acceptable would be to provide alternative aid and accommodation for those excluded at prices in keeping with rationale of decreasing housing expenditure/income ratios under a home-ownership programme.

Nor is it possible for reasons of administrative difficulties and cost to gear debt service ratios to individual family circumstances aside from their income situation. Equally impractical under a subsidy programme is a series of ratios relating to increasing levels of income , since with the existence of income reviews it would serve as a disincentive to income improvement. Of course, debt service ratios over the life of the loan could be held to that level prescribed at the time of loan application, but this type of arrangement would give rise to obvious inequities to the point where some families were being continued subsidy assistance at income levels where new home purchasers are no longer eligible for subsidies.

The conclusion is that one single, and very arbitrary debt service ratio be incorporated under a 1971 programme. This ratio could be set anywhere between 20 per cent and 25 per cent, but in the interests of continuity and to the extent that any level less than that of 25 per cent might encourage purchasers of dwellings

constructed under the $200 million programme to sell and apply for a mortgage under the 1971 programme, it is suggested that the maximum debt service ratio remain at ¼ of qualifying family income and that the policy be continued of allowing income deductions for each child in excess of two.

MONTHLY PAYMENT SUBSIDY AND INCOME RANGE

Having already determined anticipated dwelling costs for a 1971 programme, together with suitable mortgage credit terms and conditions, the range of incomes served will be a function of the interest rate or subsidy level. It has also been argued that home acquisition by welfare recipients or, in fact, any families with incomes of much less than $4,500 per annum is not a desirable objective. The subsidy will, therefore, be employed to accommodate families with earnings greater than $4,500 but less than the amount required to purchase without assistance, a low cost dwelling unit constructed either within or outside of the 1971 programme. The maximum subsidy or minimum effective interest rate may be selected so as to ensure that households at the lower end of this income range will be able to acquire accommodation in even the highest cost locations, or the minimum interest rate may be held at a level appropriate to "average" dwelling costs such that in high cost areas the subsidy will be insufficient to support home ownership for relatively low income groups, although families of that income would be able to purchase dwellings in low cost areas.

Using the above recommended mortgage terms and conditions, a $14,000 unit would require an effective interest rate of 4 1/2 per cent for families of $4,500 income, and on a $17,000 unit the rate would have to be further reduced to 2 per cent. However, if the minimum interest rate is held at 7 7/8 per cent, a unit priced at $11,000 would be within reach of incomes as low as $4,500, and a preferential rate of between 7 7/8 and

9½ per cent would be required up to the $5,250 income level. With dwelling costs at $14,000, 7 7/8 financing would necessitate a minimum family income of $6,000 and assistance would extend to incomes of approximately $6,750. For a unit of $17,000, families with qualifying incomes of between $7,250 and $8,000 would be eligible for assistance, while the latter income could support a maximum mortgage of $19,000 given financing at 7 7/8 per cent interest.

Suffice to say that a reduction in the minimum effective rate below that of 7 7/8 per cent is hardly warranted and while area variations in dwelling costs might cause disparities in income groups afforded home-ownership, this last is partially offset to the extent that high cost areas are generally associated with relatively higher average incomes. Increases in the amount of subsidies to match area dwelling prices would also serve as a disincentive to construction industry initiatives in the reduction of costs. Lastly, a continuation of the $200 million programme subsidy levels would do little to impare the economic viability of CMHC, whereas monthly payment subsidies on a scale similar to those approved in recent United States legislation would seriously strain the budgetary resources of the corporation and could provoke a somewhat premature criticism of new urban policies and objectives now being developed by the federal government.

RECOVERY OF SUBSIDIES AND RESALE ARRANGEMENTS

It seems to be a clear principle that the subsidy provided should be gradually reduced as the level of assistance needed grows less, and then brought to an end entirely at the point where no help is required. To do so makes necessary a continuous review of the owners' incomes and a decision as to timing and methodology. Since the assistance is provided through the mortgage vehicle, reduction and eventual withdrawal is effected through the same means. To end the help simply requires the interest rate on the mortgage to be fixed at the open market equivalent.

At that point where family income permits a complete withdrawal of assistance it may be possible to say that as further improvement in the income takes place the owner should commence paying back, either in whole or in part, the assistance that he has received. However, such a practice has not generally been followed in other programmes where social assistance of one form or another is provided and it is difficult to believe that it should be made a condition of assistance for home ownership. The policy might well have a disincentive effect upon the owner to improve his income. In any event, to impose a recovery feature within the mortgage payment vehicle would not be practical on at least two counts: under the 1971 programme, as under the $200 million programme, the subsidy assistance is minimal and the administrative costs of recovering it would probably be greater than the amount of subsidy itself. Furthermore, once the interest rate is increased over the market rate, the owner would commence a search for alternative accommodation carrying the market rate.

If a recovery of the subsidy is not to be made from income, in the above way, perhaps it should be made wherever it can, out of any capital appreciation of the property at the time of the realization of profit. To do so would also seem difficult to justify although it would clearly be less painful. Such a policy requires a consideration of equity accumulation and its realization through resale.

As mentioned previously, equity grows through the regular reduction in the mortgage indebtedness and through the increasing market value of the property. The first process takes place, slowly at first but at a constantly accelerating rate. The second process takes place at a variable rate depending on a wide variety of circumstances. The sum total of these two processes after a few years tends to be

a sizeable amount. In the case of a unit carrying a 100 per cent loan of $10,000 at an interest rate of 7 7/8 per cent and a term of 40 years, the equity reaches $225 after five years, and $555 after ten. If real estate values have been appreciating at 4 per cent per annum, the equity would reach $2,375 at the end of five years, and $5,305 after ten.

When equities of the above order become available to the owner in the form of cash at the time of sale, it may not be too painful to confiscate the sum of $716 at the end of five years, or $1,432 at the end of ten--representing the amount of assistance provided over the period; i.e., the difference in monthly payments between a 7 7/8% rate and 9½% interest. The way in which the recovery would be effected would be by having registered against the title, either within the mortgage or additional to it, a charge that becomes due and payable on transfer of the title.

Although easy to administer, and relatively painless to collect, recovery of the subsidy out of capital gains is no more rational than its recovery out of income, capital gains having now come to enjoy the same status as earned income for purposes of judging a person's financial capacity. Just as recovery out of income would be a disincentive to improve earning capacity, so too recovery of the realized capital appreciation of the accommodation would be a disincentive to improve the property or keep it from deteriorating because the owner would have no claim on the property's value beyond his pre-determined equity. Once subsidized home ownership is embarked upon as an alternative to public housing then the elements that constitute ownership should not be emasculated; freedom of choice, pride of possession, and realization of the capital appreciaton are all part of the whole and to eliminate the latter element destroys the concept that has been selected as the solution.

LOCATION OF LOANS

As a programme of section 40 lending, the traditional criteria of fund allocation under this section may be

applied; that is, the programme can, and perhaps should, be directed at areas outside of metropolitan centres where there is less private capital available for financing housing developments. An emphasis on smaller urban centres would also be in line with evolving policies aimed at slowing the growth rate of Canada's largest metropolitan cities. A 1971 programme could make some exceptions to this policy in locations of high unemployment and metropolitan areas that failed to benefit from the $200 million programme but where acute housing shortages are evident. However, under these or any other circumstances, future funding of major projects in metropolitan areas should increasingly involve direct consultation with city authorities.

Given the above qualification, funds would be allocated amongst resource centers where recent and anticipated trends in population and employment growth warrant federal investments. On the other hand, part of the funds available could also be employed to complement DREE efforts amongst locations selected as points of focus for development within areas of economic stagnation and slow growth. In the latter instance, home ownership assistance programmes would help attract settlement and induce the necessary mobility from the rural hinterland.

Finally, the programme would have fairly obvious application in situations where the construction and administration of subsidized rental accommodation is not feasible. This would include housing for native people and individual loans in certain rural areas. In both cases, shell housing and other techniques may be employed to minimize costs and, hence, reduce the income limits to a more appropriate level.

FEDERAL PROVINCIAL ARRANGEMENTS

Presently, new home purchasers are confronted with a bewildering array of assistance plans differing from one province to the next. Ideally, a federal programme of assisted home ownership would be implemented in conjunction with additional aid granted by, and uniform to, all provinces. Under a system of subsidized monthly payments offered by CMHC, provincial home owner grants, for example, might be seen as a desirable cooperative arrangement. Meanwhile, in the absence of a national wide federal provincial programme, it would be inadvisable to reduce subsidy cost to the federal government by taking advantage of provincial schemes, just as it would be inappropriate to discriminate against those provinces that do not provide aid to home purchasers, and, in most cases, are financially unable to do so.

A first consideration is that it would be a difficult task determining exactly what constitutes a provincial programme of assisted home ownership; the forms of aid may vary considerably by degrees of range, depth, cost and explicitness. CMHC could adopt a policy toward those provinces providing grants, whereby loan to value ratios would remain at 95 per cent while the rest of the country was favoured with 100 per cent financing. One possible reaction to this disparity would be for the two provinces concerned to eliminate the grants in order to qualify for 100 per cent financing. A less obvious form of discrimination would be to take the Quebec rebate into account when calculating qualifying income and the effective interest rate charged; but with this kind of approach it follows that the B.C. tax rebate should also be taken into account, or that, strictly speaking, Alberta residents should not be entitled to any assistance beyond that of the 2 per cent interest subsidy offered by the province.

Hence, it is reasonable to conclude that assistance provided by CMHC should not be reduced by an amount equal to the benefits provided by a provincial programme for its residents. The cost of assistance remains on a par with other provinces while there is no impairment of provincial incentives to broaden the impact of such a programme to a level beyond the immediate resources of the federal government.

CONCLUSION

The foregoing has suggested that an assisted home ownership program is a feasible step to be given serious consideratio- in 1971. Even should a resurgence of private market activity greatly improve the housing starts situation, it is clear that a great backlog of low incom e family demand remains to be met. These people cannot be served by private or NHA-insured units. Nor can they find enough suitable accommodation in the fast disappearing older stock; approaches which unit the creation of new stock with upgrading of what exists.