

fully, and in a more convincing manner, their own views and concerns.

Senator Connolly: Honourable senators, I will not detain you for more than a few minutes. As one of the group in the committee who were impressed with the concerns expressed by Senator Cook and other members, I think perhaps I should say something at this point.

If we have this important issue to consider when the bill does come before us, it will be due to the ingenuity of Senator Cook. Perhaps that should not surprise us very much. I am told that anyone who comes from Harbour Grace has to have ingenuity, or he doesn't survive. So, ingenuity is a way of life for Senator Cook.

I do not want to talk particularly about the question of liquidity, for the simple reason that I think Senator Cook has expressed that concern adequately. The question arises about the problems with which the trust companies are faced should the banks have such a wide ranging authority to lend on the security of mortgages. As Senator Cook has pointed out, the banks, before the 1967 revision of the Bank Act, were not able to lend on the security of mortgages. I understand that the rationale for putting that provision into the Bank Act at that time was to provide a more ready availability of mortgage funds in the country, and it was thought that the banks, with their many thousands of branches, could do that.

But the limitation upon the banks to engage in that type of business, as Senator Cook has said, was very strict. They were to be restricted to 10 per cent of their deposit liabilities and debentures. We thought that was the ceiling. Actually, it turned out not to be the ceiling because Ministers of Finance over the years authorized mortgage companies to be established by banks, and in fact this was done for a limited period. But now the specific provision is proposed to be included in the Bank Act whereby, as Senator Cook has said, banks can incorporate, and either wholly own or partially own, mortgage companies, and they can lend on the security of mortgages with the guarantee of banks with utterly no limit to the amount of money that they can put up.

This is not an harangue against the banks. I want to refer to the last report of the committee on the predecessor bill, which is to be found in the *Debates of the Senate* of Thursday, March 15, 1979, specifically Appendix "D" of that report, which shows that the banks do quite well in the mortgage field. The banks did pretty well in the mortgage field between 1967, when they first entered it, and 1977, the last year for which these figures were given.

● (1620)

In the first year the banks and mortgage affiliates loaned to the extent of \$954 million, and in 1977 that amount had grown to more than \$14.896 billion. In 1977, the trust companies and the mortgage companies which originally loaned \$3.832 billion in 1967, were loaning \$18.794 billion. They were a little ahead of the banks.

Another portion of the table shows that in 1967, after one year of operation, the banks occupied 11.6 per cent of the

[Senator Cook.]

mortgage field in Canada, and in 1977 that share had grown to 35.4 per cent. In 1967 the trust companies occupied 46.7 per cent of the field, and in 1977 that share had fallen to 44.6 per cent.

The significant increase in the banks' share of the mortgage field in those 10 years, I think it is proper to report from the committee, is a matter of great concern to the trust companies. I think that they see the competition becoming so overwhelming that their business is going to be seriously affected.

Having said that, honourable senators, I think I should also say that there may be a valid reason for the banks to have unlimited authority to lend in the field of mortgages, but I think the reserves of the banks, to preserve the liquidity of the banks and our banking system, must be adequate, and this may be a new kind of game for the banks. In view of the fact that the banks are into the mortgage business, some new system of reserves for this aspect of their business may have to be defined—may have to be discovered, in fact.

One other thing I want to say is that there may be a great need in Canada for access to the banks' funds for mortgages to supply the housing requirements of the country. This may be a very salutary provision. We do not know, but we will find out when this bill comes before the Senate, and when it is referred to the committee, whether the rationale for allowing the banks to go into the field of mortgage lending to the extent that is now allowed is a necessity for the development of housing in this country. That will be a matter of government policy, and that will have to be explained. I do not think any member of the committee would want to restrict the banks in the mortgage lending field if it was felt that the money was required to provide housing for the people of Canada, but I think every member of the committee would say that if the banks are to be in this mortgage field then it seems ridiculous to have one clause saying that the banks are restricted to 10 per cent of their deposit liabilities and debentures, and then another clause saying that the banks can incorporate loan companies under the provisions of the Loan Companies Act and lend as much as they like, knowing perfectly well that the banks will guarantee the loans and the operations of those subsidiary companies.

So it is a matter of clearing up, first of all, the need for the availability of further mortgage money in the country from bank sources, and, secondly, the question of clearing up in the minds of the public the idea that the banks are restricted to 10 per cent of their deposit liability, because that is not a fact, and you have to be more than a Philadelphia lawyer, which Senator Cook is, to discover this anomaly in the legislation.

Senator Beaubien: Honourable senators, I apologize for rising at this late hour, but there are a couple of things I want to say about the proposed new Bank Act. The first is that since 1967 there has been a tremendous change in the mortgage market. Mortgages were usually sought for 20 to 30 years. Over the period of 12 or 13 years since the present Bank Act was passed, mortgages have been issued on a three-, four- or five-year basis. That caused the life insurance companies to completely back out of the market, and somebody had to fill