Senator Buckwold: I was going to ask two or three questions. First of all, the major opposition to the bill, as I read the committee reports from the other place, is, I suppose, with regard to two things: first, that it will not necessarily reduce interest rates to the extent that some people think housing interest rates should be reduced; and, secondly, that it might not necessarily make more funds available. Could I have some comment on that?

Mr. Humphrys: Well, I do not think that anyone who worked in the background of preparing this measure, or took part in the studies that went into it, expected that it would have any dramatic effect on interest rates. It is likely, however, that the operation of mortgage investment companies will be of interest to certain pools of investment funds that are not now turning to mortgages for investments. Thus they will serve to tap a new source of mortgage funds to the extent that the flow of mortgage funds can be increased. I think there would be a tendency to lower interest rates, or at least to operate in the opposite direction.

Senator Buckwold: But are the mortgage rates, to a degree, not predicated on bank prime rates? In other words, if the bank prime rate goes up, then mortgage rates will almost certainly go up as part of a relationship...

Mr. Humphrys: Well, I think they are still quite closely related to the supply of funds available, and I suppose this also affects the prime bank rate; but focusing on the mortgage market, I think the increasing supply of funds would certainly temper any drive to raise the rates, if it does not actually reduce them. Perhaps Mr. Wilson could answer that.

The Acting Chairman: I was going to ask if Mr. Wilson would like to comment on this.

Mr. A. D. Wilson, Executive Director, Central Mortgage and Housing Corporation: Over the years, obviously, all interest rates are interrelated to a degree. We have found, over the years, that the interest rate on housing mortgages is perhaps more closely related to the interest rates on long-term government bonds, or on corporate bonds, than it is to the bank prime rate, because the source of funds is somewhat different for long money in mortgages than it is for short money in prime bank lending. We have found that the deviation between the housing mortgage rate—and I am talking about the NHA rate, which generally speaking is fairly consistent in terms of the conventional market as well—the deviation since the rate was decontrolled, several years ago, has been, at the minimum, about 150 basis points above the federal long-term lending rate. At the time that the range reduced to that, mortgage money virtually dried up. The maximum...

The Acting Chairman: I wonder if you would explain that, for the record, to the committee?

Mr. Wilson: You mean the 150 basis points?

The Acting Chairman: Yes.

Mr. Wilson: Well, simply, if the federal long-term rate were eight per cent—and the federal long-term rate, of course, is an average rate of long-term securities issued by the federal government—then you would expect that if the mortgage interest rate fell below nine and a half, the supply of mortgage money would virtually dry up and the rate, therefore, has very seldom fallen below about 150 basis points spread above the federal long-term rate. It has never gone higher than about 225 basis points—that is two and a quarter per cent; and generally, once it rides slightly above two basis points, or two per cent, above the federal long-term rate, the supply of money flowing into mortgages increases fairly rapidly to produce a balance that tends to stabilize roughly right at that level. These variations do occur. They do not generally occur on very short cycles, but they do occur on cycles as short as perhaps six, eight months. It would be very unusual, however, for us to have a swing from the top of the cycle to the bottom in such a short period.

Senator Buckwold: Fine. Now, I have just two more questions that actually involve Central Mortgage. I would guess that the largest portfolio of mortgages in the country is held by Central Mortgage and Housing.

Mr. Wilson: I think that is still true, yes.

Senator Buckwold: Is it the intention, in having this relationship between Central Mortgage and Housing and this exchange corporation, to unload some of CMHC's mortgages, or be active in it? Or will there be any relationship between the two?

Mr. Wilson: Well, I do not like the term "unload". It is obvious that the Federal Mortgage Exchange Corporation should have a stock in trade on the day it starts business, so it can act on both sides of the market from the beginning. We are obviously a source of a portfolio of a stock in trade at the outset, and so it is likely that it will draw its first supply of mortgages from our portfolio. This would be basically not from the point of view of the objectives of the Central Mortgage and Housing Corporation; in fact, it would not be to our corporate advantage to have this happen; it would basically show that the FMEC could really become effective at a perhaps earlier date than if it had to buy on the open market in order to establish a stock in trade.

The nature of the lending that Central Mortgage and Housing Corporation has been doing over the past several years has changed very substantially from that which it did, say, in the late sixties. In the late sixties we were lending large amounts of money on what you might call private sector terms, and we were doing so, of course, to bolster the supply of money because of a short fall from the private sector on normal market terms.

Since about 1970 two things have happened: Firstly, the private sector has enlarged its supply of mortgage money and has been able pretty adequately to meet demand since that time. Secondly, this has permitted us, as a policy agency of the government, if you like, to divert virtually our total lending into what has been loosely called, 'the social housing field." That is where the lending is done at less than market rate to such things as co-operatives, or non-profit agencies, or federal government for public housing, or more recently, even to home owners at less than market interest rates. So the great part of the increase in our portfolio under current conditions would not be marketable through FMEC because it is on terms that are more favourable than market terms.