Mortgage Financing

An hon. Member: They do not know them.

Mr. Hellyer: I understand that mention was made of the fact that I was responsible for taking off the fixed interest rates on NHA mortgages. This is absolutely correct, Mr. Speaker, and there were good reasons for it. Unfortunately, these gentlemen in the far corner, because they are totally unacquainted with the building business, would not understand why that was absolutely necessary.

Previously, Mr. Speaker, the NHA interest rate was set by order in council at 2¼ points above the long term Government of Canada bond yield. If that formula were still in effect today, the interest rate on NHA loans would be just about what it is. As a matter of fact, for most of the period since the fixed rate was taken off, mortgage money was available under the National Housing Act at rates lower than would have been the case if the rate had been set by order in council. Anyone who has had the least bit of experience with the building business knows that for the decades rates were set by order in council, the rate was either too high or too low 90 per cent of the time.

Some hon. Members: Too high.

Mr. Hellyer: The academic know-it-alls in that corner of the House, Mr. Speaker, have all the answers.

Some hon. Members: Hear, hear!

Mr. Hellyer: I thought they would applaud that statement, but the second sentence is: like many of their kind they are unfamiliar with the problems.

Some hon. Members: Hear, hear!

Mr. Hellyer: The reason was obvious to anyone who know anything about the business. When the mortgage rate was higher than the market, too much money flowed into housing and when it was lower than the market, no money flowed in. Consequently, there was this boom and bust cycle that everyone has been objecting to, and even the NDP have been saying that housing should not be used as a countervailing economic force in Canada but should be consistently operated in accordance with the needs of the people.

That is precisely the reason the limit was taken off. Having fixed interest rates under the National Housing Act put dozens of the best builders in this country out of business, just because some other academic know-it-alls in Central Mortgage and Housing thought they knew better than the market at all times what the interest rate should be. It did not work. I can cite chapter and verse where subdivisions were begun, model houses were built and sales were made in advance but no money was available to build the houses people required, even though the houses had been sold in advance, because of the rigidity of a system which did not take market forces into account.

My hon. friends have suggested that the present rate of 10 per cent is ridiculously high and I must say that I agree with them completely.

[Mr. Hellyer.]

Some hon. Members: Hear, hear!

● (1650)

Mr. Hellyer: They also give the impression, and I think this is an impression, that this is the rate in real terms. Mr. Speaker, if we are to learn about our economic situation, we must begin talking in real terms and not in money terms, as has been the case during most of this debate. An interest rate of 10 per cent on mortgages sounds like a great deal. When you consider the inflation rate of 8.3 per cent, which you must deduct from that 10 per cent, and then deduct about three quarters of 1 per cent which is required for administering a mortgage, you will find that the total cost of inflation and of administering the mortgage amounts to about 9 per cent. That leaves an effective, real rate of return of 1 per cent on a 1 per cent mortgage. That is a pretty low rate of interest in real terms.

Some hon. Members: Oh, oh!

Mr. Hellyer: My hon. friends should listen, because there are lots of things about this business that they do not understand. There are lots of things which they do not teach you at school, professor, believe me.

Not only is that one per cent rate of real return minimal, but the whole profit, so to speak, is subject to income tax. If you pay income tax at a rate of 30 per cent or 40 per cent, you will be in the hole from day one. Any person who puts personal investments in NHA mortgages at 10 per cent today will be in a negative position so far as the real rate of return is concerned. In these circumstances, there is not much incentive for ordinary investors to put their money into mortgages.

Would my hon. friends to my left, who try to leave the impression that they believe in fairness and honesty, honestly say to any Canadian today, "It would be a good idea if you put your personal savings into NHA mortgages at 10 per cent. That would be a good investment." Would they say that when there is an 8.3 per cent inflation rate and when the whole profit, so to speak, is subject to income tax at progressive rates? I do not think they would.

The real problem is the economy itself, and here is where hon. members to my left refuse to face facts. You have high interest rates because of inflation. They are a sympton of inflation and, so long as you have inflation at present levels, you will have high interest rates. There is no way under heaven in which you can get away from this fact. When will the NDP wake up to this fact? When will they wake up to the factors that cause inflation?

An hon. Member: What is your solution, 1929 all over again?

Mr. Hellyer: Listen. Then hon. member for Don Valley (Mr. Gillies) and others have tried to tell you, but you have a blind side, because so much of your money comes from a source which refuses to let you listen to the solution. You should keep that in mind.

An hon. Member: Bullshit.

Mr. Hellyer: I hope that is on the record.

An hon. Member: I hope it is, too.