billion in 1981, its share of the market has been reduced by more than half, from about 20 per cent to slightly over 10 per cent. The life insurance companies' share also dwindled from over 23 per cent to approximately 13.5 per cent. The gap has been filled by the chartered banks and the credit unions. High inflation during this period accentuated the traditional attractiveness of relatively higher deposit rates and lower loan rates offered by the credit unions, and as they proliferated, their share of mortgage lending grew from 5 per cent to almost 13 per cent.

As to all other remaining categories of mortgage lenders, their market share has remained remarkably stable. Thus the relative decline of life insurance companies combined with the gradual withdrawal from the mortgage field by the Federal Government has created a vacuum which has been successfully filled by chartered banks and credit unions.

Generally, it can be concluded that the active participation by chartered banks in the mortgage field has intensified competition. This is evidenced by the introduction of more flexible term mortgages and a slower rise in 5 year prime conventional mortgage rate relative to other administered rates throughout much of the early and mid-1970's.[8]

A major public policy concern since 1979 has been the availability of 5 year mortgages. Their virtual disappearance is attributed to the shift of deposit liabilities from long-term deposits (1 year and over) to short-term deposits (under 90 day maturity) as discussed in Chapter 2. The changing term structure on the liabilities side of the financial institutions' balance sheet has caused a mismatch between their deposits and existing loans, thus affecting the general performance. To rectify this mismatch, financial institutions could no longer continue to fund 5 year mortgages during this period of interest rate volatility. However, to fill the void left by the 5 year mortgage market, innovations in mortgage financing were introduced. These include: Graduated Payments Mortgages, Variable Rate Mortgages, etc.[9]

There have been suggestions, from time to time, that the banks be required by law or government directive to reduce their mortgage rates to a level approximating the rate of inflation. The rationale is that the banks could afford to divert substantial amounts of their profits to finance this reduction. There are obvious questions as to whether it is appropriate for the shareholders, borrowers or depositors of the banks, to subsidize mortgage rates in this way, or whether the government do so directly.

In practice this proposal would give rise to numerous problems with regard to its impact on other financial intermediaries in the mortgage market such as trust companies, credit unions and caisses populaires. We specifically asked a trust company witness what effect such a proposal would have on his industry. He replied that it would put trust companies out of the mortgage business, or out of business altogether. The mortgage market is quite competitive. Thus a reduction in mortgage rates by one group of lenders would have to be met by other lenders. As a result, trust companies would thus be forced to reduce their rates to stay competitive. However the cost of savings deposits and term deposits needed to finance their mortgage portfolios would not drop. Since most trust companies must maintain two-thirds of their assets in mortgages and are in a weak profit position, there would be little possibility of shifting to other assets or otherwise subsidizing mortgage rates. For these reasons, among others, the Committee finds no merit in proposals of this sort since they ignore the realities of the market place.