

Bank Act

Madam Speaker: Shall the remaining questions stand?

Some hon. Members: Agreed.

GOVERNMENT ORDERS

[English]

BANKS AND BANKING LAW REVISION ACT, 1980

MEASURE RESPECTING BANKING INSTITUTIONS

The House resumed, from Thursday, November 13, consideration of Bill C-6, to revise the Bank Act, to amend the Quebec Savings Banks Act and the Bank of Canada Act, to establish the Canadian Payments Association and to amend other acts in consequence thereof, as reported (with amendments) from the Standing Committee on Finance, Trade and Economic Affairs, and motion No. 25 (Mr. Lambert).

Hon. Marcel Lambert (Edmonton West): Madam Speaker, last night at the adjournment hour we were discussing the amendment which I proposed in motion No. 25. I was engaged at that time in a short historical review as to the origin of the provisions of the Bank Act allowing the banks to engage in mortgage lending on the security of real property. I had indicated that some of the banks had been dragged, kicking and screaming, to the table, because back in 1966 they adhered to the principle that bank liquidity required them to keep out of long-term investments. They were not even going to go into medium-term investments, in other words, anything from four to seven years.

After all, we must remember that in the context of bank financing in North America, or bank history, the American banking crisis in the early thirties had been caused primarily by thousands upon thousands of American banks engaging in that very dangerous practice of borrowing short and lending long. That principle still applies, and there is no question that our banking system will get into deep trouble if there is an over-emphasis on the capabilities of the banks to lend on long-term mortgages while they are borrowing short on the basis of demand deposits and short-term deposit certificates. I say short-term deposit certificates; I refer to those up to five years.

It is ludicrous for a bank to lend the money it gets on five-year term for 25 years beyond certain points. It can do that within certain margins. In order to guarantee that it will repay its deposit certificates of up to five years, it must have a renewable source of funds either by way of a sufficient volume of repayment of the long-term obligations due to it, or an actual inflow of cash by new certificates on terms up to five years. Outside of that the system is into a policy of bankruptcy.

There are safe limits and there are limits beyond which the banking system as such cannot go. It is not like trust companies. Trust companies can lend only those dollars which they

have either in their fiduciary capacity or dollars they get through deposit certificates. Those are the only moneys they can lend on a term basis.

On the other hand, the banks have their one-for-eight formula, and they can expand into loans. We recognize that; that is part of commercial banking, but in so far as mortgages on real estate on a long-term basis—and this is what the Canadian Bankers' Association complained about, in part I would say, back in 1966—Parliament in its wisdom imposed a 10 per cent limit of deposits. It did not talk at that time about deposit certificates. They did not have those as a source of funds. Therefore, in the 1967 act it was strictly an amount equal to 10 per cent of the deposit liabilities of the banks payable in Canadian currencies. The Canadian banks were not very deeply into foreign business at that time.

The act said "the banks", but there was a gap in the act, unfortunately, and we saw the growth of bank mortgage companies. Frankly, the banks have now engaged in an end run. Some of the banks do not even have 1 per cent of their deposit liabilities directly invested in mortgages. But one of a bank's subsidiaries, which is a mortgage company, may have up to 15 per cent of the deposit liabilities and, in addition, the liabilities under the deposit certificates as provided for in the proposed section.

The government is blithely letting this carry on. There is no change. The banks will clean themselves out. They will assign to their mortgage company subsidiaries all of the business under realty mortgages, whether they are residential or commercial, far exceeding, though, the guidelines and the principles insisted on by Parliament.

The minister will have to tell me now that the 10 per cent limit on the banking system is no longer valid, and he will have to take the responsibility for that because there is no difference between a bank and its subsidiary. All that happens, of course, is that a bank pumps funds into its subsidiary and lends them on long-term mortgages. Why does the government countenance the breach of the 10 per cent which was laid down in the former act? The purpose of my three amendments is to bring the banks back to that particular point, but I have brought that 10 per cent up to date.

● (1240)

I do not insist in my amendment, which we are now discussing as the first one, that 10 per cent shall apply to the deposit liabilities unless the government adds the deposit certificate liabilities. I go further than that. I give the banks an additional cushion. I have heard our friends from the banks say, "Oh, you're trying to cut us back. You will cut back on the mortgage lending business." My answer to that, Mr. Speaker, is a plain and unadulterated "horsefeathers", and if they want me to add any other language to that, I will add it. They are talking poppycock. I am giving them an additional cushion but I maintain the 10 per cent.

Banking has evolved in the past 12 years. If you look at the formula which I have proposed, which is 10 per cent of the assets as indicated under schedule Q, you will find many other