commercial banks and insurance companies, to compete for borrowers in the agricultural loan market.

The advantages to farmers of such a scheme are thought to include: increased availability of credit funds for agricultural lending, particularly for long-term, fixed-rate mortgages; less risk for the institution that originally made the loan; a generally improved flow of funds from lenders to farmers; lower transaction costs as a result of pooling numerous small loans; and an increased number of lenders in the agricultural loan market.

Mortgage-backed securities (MBSs) give investors an interest in pooled mortgages assembled by lenders, including banks, insurance and trust companies, caisses populaires and credit unions. Since January 1987, the Canada Mortgage and Housing Corporation (CMHC) has guaranteed residential mortgages, which have then been pooled and issued as MBSs known as "Cannie Maes"; these mortgages are insured, for a fee, by the government under the *National Housing Act* through the CMHC, which guarantees timely interest and principal payments to investors. Financial institutions, through MBSs, should be able to attract more money to the mortgage market and offer longer-term mortgages at lower rates.

In the future, as the agricultural industry recovers, the demand for agricultural credit will likely expand and long-term, fixed-rate credit will be essential for the sustained health of the industry. A secondary market for agricultural mortgages which functions in a manner similar to that of MBSs would encourage the private sector to participate in agricultural lending.

The Committee believes that the FCC in the agricultural mortgage market should play an analogous role to that of the CMHC in the residential mortgage market; that is, the FCC should function as the insurer of agricultural mortgages. However, the Committee also feels that such guarantees should only be given on the mortgages of lenders who can satisfy the FCC that they have responsible lending practices, including properly-staffed agricultural lending departments. Mortgages associated with the intergenerational transfer of farm assets would be eligible for such insurance, but different criteria would have to be met. A secondary market for agricultural mortgages would provide lenders with an explicit guarantee which would lower and diversify their risk. Finally, because credit is an increasingly important input, the development of a national secondary market that would provide long-term credit at low interest rates would facilitate the establishment of a national agricultural policy.