

Housing

people, the elderly, the handicapped and others who are not able to meet their needs in the market.

The fact that the Minister of Finance agreed to make the MURB tax provisions available until the end of 1981, as we know, gave rental production a real spurt in the last few months—

Some hon. Members: Oh, oh!

Mr. Cosgrove: —of 1981, and I expect that momentum will carry into the spring months. At that time, the Canada rental supply plan will be taking effect and will provide the steam needed to keep production going.

I would like to add that these 15,000 new units would mean not only affordable homes for 15,000 more families, but also an estimated 35,000 additional jobs for people involved in the construction industry and associated businesses.

An hon. Member: That's performance!

Some hon. Members: Oh, oh!

Mr. Cosgrove: The legislation we are talking about today will give us an additional stimulus to rental construction which is over and above these 15,000 units. It will do this by giving CMHC the flexibility to adjust its mortgage insurance premiums, and the corporation will thus then be in a position to raise its loan value ratio to a much more attractive level without jeopardizing the mortgage insurance fund. In other words, the corporation will be in a position to insure mortgages which represent a substantially higher proportion of the total cost of the project, thus permitting the entrepreneur to launch the project without having to put up a prohibitive amount of his own money.

The amendments as well will permit CMHC to be more helpful to home owners, particularly young families buying their first house. The problem is related, of course, to high mortgage interest rates, and high mortgage interest rates are part of our battle to reduce inflation and, of course, to restore healthy economic growth. But the problem is also in the mortgages themselves. The conventional mortgage, which served us very well over the last 30-odd years, just does not work in a time of high or volatile interest rates.

Mrs. Mitchell: Why don't you keep interest rates under control, then? Do something about that.

Mr. Cosgrove: Lenders are reducing the term to a year or even six months to avoid getting locked in to what may turn out to be an unprofitable rate of interest. Unfortunately, this uncertainty about trends in interest rates falls most heavily on home owners and entrepreneurs who want to borrow money to construct rental accommodation. They have no assurance from year to year, or possibly even month to month, that they will be able to afford the new monthly payments.

Mr. Ittinuar: Tell Allan MacEachen.

Mr. Cosgrove: What we need are new kinds of mortgage instruments, arrangements which will do away with some of the uncertainty. There are a number of them around, such as variable rate mortgages, equity participation mortgages and shared appreciation mortgages.

Mr. Ittinuar: Maybe a new type of government!

Mr. Cosgrove: Some of them may very well help solve the problems of first-time purchasers. We would like these families to have the opportunity to use them, if they wish.

The government would like to help facilitate the introduction of these alternatives. The legislation now before the House will give CMHC more flexibility in premium setting and will allow us to do that.

CMHC has always had an important role, as the agent of the government, in the field of housing. At the same time, as a business corporation it administers the mortgage insurance fund on the government's behalf as a way of ensuring that there is always an adequate supply of mortgage money for people who need it.

When the fund was set up in 1954, it was intended to be self-financing. Premiums were set at a level which would be enough to offset claims which could be reasonably expected. In fact, until the late 1970s it worked pretty much in that way. In recent years, however, claims against the fund sharply increased, mainly because of the high proportion of defaults under the assisted home ownership and assisted rental programs, AHOP and ARP.

Mr. Ittinuar: "No hope", not "AHOP"!

Mr. Cosgrove: This unprecedented rise in claims created a liquidity problem for the fund and a substantial sum had to be borrowed from the government to restore the fund's cash flow.

In addition to the liquidity problem, there was a question about the fund's solvency. The problem lies essentially with the fact that the premium which was set by the corporation and the premium which it, in turn, may charge for mortgage insurance is set out in the National Housing Act and cannot be adjusted except by an act of Parliament. Premiums for insuring mortgages under the two programs I announced were limited by the statute to 1 per cent. Actuaries estimate that, in order to prevent a serious drain on the fund, it would have been necessary to set the premium for these mortgages at more than 8 per cent.

Again, the solution to this situation is in the bill now before us. It would allow the corporation to adjust mortgage insurance premiums and set them at a level which would be appropriate for the risk and sufficient to cover the cost and expense of doing business. In short, CMHC would have the same flexibility with regard to premiums as a private insurer. This arrangement would allow CMHC to insure new, innovative mortgage instruments which it could not cover under the fixed-premium system. It will also permit the corporation to set premiums at a level which will allow it to insure mortgages for rental properties at a loan-to-value ratio that will be more