While the market shares commanded by chartered banks in this field may give rise to some concern in certain quarters, the fact that their consumer loan rates have always been much more competitive than those of finance companies indicates that increased competition among financial institutions has benefitted the consumer.

The mortgage loan market in Canada increased enormously from $34.1 billion in 1971 to $135.9 billion in 1981, an equivalent of 14.8 per cent compounded annual rate. This growth can be explained by considering two 5-year intervals, 1971 to 1976 and 1977 to 1981.

In the first half of the decade, two new sources of pressure were added to the demand for housing. The number of potential first-time home buyers began to rise steadily as the post-war baby-boom generation reached the labour market and the age of household formation. And spectacular rises in property values, plus the fact that capital gains on housing are not taxable, reinforced the benefit of home ownership as an investment and as a hedge against inflation. The result was a growth of 16.8 per cent in mortgage lending on a compounded average annual basis from 1971 to 1976.

While the second half of the decade can be generally characterized by uncertain economic conditions and a sluggish housing market, the demand for mortgages did not subside correspondingly (the compound average annual growth rate was 13.3 per cent) because the government intervened in housing and in developments in the financial market.

Concern about the availability of "reasonably-priced" housing to first-time buyers amidst inflationary house prices, led the Federal Government and provincial governments to implement programs aimed at boosting housing supply. Interest-free loans, income tax provisions and other forms of assistance combined to maintain the demand for housing and thus mortgage funds.

Another development that buoyed the otherwise sluggish demand for housing and mortgage loans was the substitution of mortgage debt for consumer debt. The escalation of house prices in the early 1970s inflated owners' equity in their houses, and this allowed them to increase their mortgages to raise capital for other types of consumer expenditures.(7)

The market share occupied by the various financial institutions active in mortgage lending from 1971 to 1981 is shown in Table 5.4. Chartered banks, which are prohibited from holding more than 10 per cent of their assets in mortgage loans, have expanded their share of the market from 6.85 per cent in 1971 to 22.84 per cent in 1981. This is made possible by their use of subsidiary mortgage loan companies and mortgage investment companies which are not bound by the same restriction. The compound average annual growth rate based on actual dollar amounts of loan for the entire period was 29.5 per cent. This growth took place at the expense of the life insurance industry and direct government lending. Trust companies whose primary lending activity has traditionally been mortgages, saw their share of the mortgage market grow modestly from 22.38 per cent to 24.31 per cent. The compound average annual growth rate of mortgage lending by trust companies based on actual dollar amounts for the period, was 15.8 per cent.

Another important development of the last ten years, as was alluded to above, has been the Federal Government's gradual withdrawal from mortgage lending. Although the actual mortgage loans held by the Federal Government grew from $8.1 billion in 1971 to $13.8