The government has given such an important step full consideration. It is conscious of the fact that as a result of difficulties in the United States there is a deep rooted prejudice in many people's minds against the banks being in the real estate field. However, if one examines the situation in the United States in the early thirties it will be found that the mortgages in which the banks invested were of a kind very different from what is being proposed in this legislation, and indeed very different from the types of mortgages now being held by the banks in the United States. Experience has shown that the heavy losses during early thirties by the banks in the United States were occasioned by their investment in large commercial loans. Even under the mortgage instrument of those times the banks did not suffer heavy loss in the residential field. But I would point out that even in respect to the difficulties which the United States banks had in residential mortgages the circumstances were entirely different from those we are considering today. The amortized mortgage, with principal, interest and taxes being paid monthly, is a very different type of security from the conventional loan, with the borrower paying his own taxes and principal repayments being made once or twice a year. In addition, the type of mortgages we are suggesting for the banks carries a government guarantee. In many respects these mortgages have the characteristics of a government bond. It is true that the approved lenders bear a small part of any loss, but it is limited to 2 per cent discount on principal outstanding and a lower rate of interest after six months' arrears. It is a reasonable assumption that on the average the loss guarantee payable by Central Mortgage to an approved lender for a defaulted loan will be about 97 per cent of the mortgage account at the date of the transfer of the property to Central Mortgage.

In addition, and as an added protection to the banks as well as to other lenders, there are important liquidity provisions. The banks can use insured mortgages for rediscount with the Bank of Canada. In addition there is provision in clause 11 of this bill for insured mortgages to be purchased by Central Mortgage. Quite definitely, traditional mortgage deficiencies of non-liquidity and lack of security have been removed. If there are any doubts on this score I would commend those having doubts to read the evidence given before the Banking and Commerce Committee of the House of Commons by the Governor of the Bank of Canada and the President of the Canadian Bankers' Association.

During recent weeks we have heard objections to the new arrangement on the ground that assets of the chartered banks are now fully employed and that mortgage loans by the chartered banks would reduce moneys available for the development of the country. Dealing with this subject before the Banking and Commerce Committee, the Governor of the Bank of Canada stated that he thought the over-all credit structure would be large enough to allow these mortgage loans to be made without leaving the banks short of funds to fulfil the requirements of their other customers. In fact, he stated that he could not see any prospect of existing customers of the banks finding life more difficult by reason of the banks lending on mortgages. It was also stated by the Governor that he could see no particular difficulty in the chartered banks making loans up to, say, $100 million a year. He went on to point out that on the safety side the government insurance was an important item. He felt that in the matter of liquidity mortgage loans would represent a relatively small proportion of the total savings deposits and did not think that this proportion would ever be high enough to make liquidity a serious consideration. He was asked the direct question as to whether, in his opinion, the prohibition on mortgage lending by the banks should be lifted. He replied that he felt it should be lifted and had felt that way for many years.

If honourable senators will examine the evidence given by Mr. Atkinson, the President of the Canadian Bankers' Association, they will fail to find any apprehension expressed by the banks on account of the change. Their main concern seems to be about the requirement that in the event of default the banks must take steps to take title to the property. I shall not quote the evidence given by the banks before the committee to support my case, because Mr. Atkinson made it perfectly clear that his answers must all be qualified by the fact that the banks had had no experience in this field.

However, I think we should bear in mind, when considering this legislation, that the mortgage instrument, as well as the arrangements surrounding it, have been designed to meet the needs of the chartered banks as well as the other lending institutions. The bill gives the banks security, liquidity, marketability, and a good outlet for the investment of their funds. All of these provisions make it quite impossible for unfavourable developments in the real estate field to have any injurious effect upon our banking system. Were such possible, the government would never have proposed the change which we are now considering.