National Housing Act

Encouragement of entry into the multiple-dwelling market will have three consequences. First, the commitment to single-family home ownership is being thwarted by legislation rather than choice. The result is that Canada will be going in the direction of a nation of row houses. Second, the filtering down process which has been so integral to price stability and social mobility is being broken down. Traditionally, as houses grew older and their value diminished, they filtered down to families of progressively meagre means. Since the government is placing no legislative premium on occupancy of existing homes, low income earners will be forced into multiple dwellings, risking the possibility of being locked in to an apartment through to the future because of the repayment clauses of AHOP.

Third, emphasis on new home ownership at the expense of existing housing fails totally to take into account that prices on the existing home market set the foundation for prices in the new home market. Because the government is doing nothing to control the prices of existing homes, this program will have little effect on curbing upward price trends in the new home ownership market.

Maximum income restrictions and family size have been removed from the eligibility criteria for AHOP. People with children who are unable to keep their monthly payments under 25 per cent of their income will be eligible for a maximum interest reducing grant of $750. For others, interest-free loans sufficient to cover the difference between market interest rates and interest at 8 per cent will be made to subsidize monthly payments for a five-year period. These subsidies will be recoverable after this period at interest rates parallel to the homeowner's mortgage interest rates.

Furthermore, during this five-year period the subsidies will be reduced each year by one-fifth, or $20 per month—whichever is less—while at the same time ensuring that the borrower never pays more than 25 per cent of his income in PIT payments. These loans will only be made by CMHC when conventional loans are not available. This part of the program has obvious and glaring shortcomings and inequities. First, by floating eligibility irrespective of income or family size, the government is making no allowance for differences in equality of opportunity. In turn, the program does nothing to redress these imbalances. A large family obviously needs a large home, which invariably is more expensive and requires more extensive funding. Under this program, a large family with a fixed income will be treated in exactly the same way as a small family with the same income.

Second, once the five-year interest-free period has expired, families with children will be required to pay back this loan up to a point where their regular PIT payments plus loan payments do not exceed 25 per cet of their income. This means that a family of marginal means who became eligible for home ownership under AHOP will continue to pay 25 per cent of its income for housing even if the income is increasing. This undoubtedly will erode savings and the potential for bettering one's financial position.

For the family without children, the situation is even worse. Each year subsidies will be reduced by up to 20 per cent. If the borrower cannot repay this loan by the end of the five-year period, he is saddled with a totally non-subsidized PIT plus a high-interest debt. Because this measure simply eases credit, it therefore also facilitates debt and causes the erosion of future savings. In short, after five years borrowers may be faced with payments that are totally unreasonable, given their means. Third, private AHOP thus far has not been successful. Only $66 million in mortgage loans has been advanced this year under the program, yet what the government is saying is that it will substitute this failure for public AHOP and use this latter, marginally successful program, only as a last recourse. Fourth, this loan-oriented AHOP will not help those who at present are experiencing the brunt of the government's ineptitude in handling the housing crisis. Current home owners who are faced with an excessive interest rate and mortgage principal will not benefit at all from this program.

Now we come to the subject of interest-reducing loans. Interest-reducing loans under the rental assistance program will be increased from $900 to $1,200 per unit per year. These grants will be recoverable when either the property is sold or refinanced or at the end of the amortization period of the first mortgage. This step could very well increase apartment construction, while a special provision to extend tax exemptions on capital cost allowances could increase the supply of mortgage funds. However, because of the repayment stipulation certain side-effects will undoubtedly occur.

Repayment of loans upon resale or refinancing will undoubtedly keep rents down, in that it will discourage the practice of refinancing a mortgage on the basis of equity in an existing structure. This practice, in turn, has been used to justify rent increases. However, because builders will be reluctant to refinance, the availability of new funds for new structures will likewise be curbed. This will undoubtedly result in decreased construction and vacancy rates, which in themselves will increase rents.

Because the subsidies are repayable upon the termination of the amortization period of the first mortgage, builders will be faced with a massive debt at the end of that period. For example, a builder who owns a 100-unit structure and qualifies for a maximum subsidy will owe $3 million at the end of a 25-year period. Considering the fact that a builder has to keep rental rates very low in order to qualify, thereby minimizing his profits, it is very unlikely that he will be encouraged to build once he finds that in the future he will be faced with a debt that in some instances will be greater than his original mortgage loan. Therefore, while this program may appear to stimulate demand, after investigation it may prove to be very counterproductive and as such inhibit rental construction.

Next we come to the matter of the establishment of the Federal Mortgage Exchange Corporation on an operational basis by the spring of 1976. The enabling legislation for this corporation has been in existence for over three years. The Progressive Conservative party has pressed for this organization to be made operational for almost that long. Its purpose will be to buy and sell mortgages, thereby enabling the smaller investor to enter the mortgage market. This corporation could do much to increase the liquidity of the second mortgage as an investment vehicle, but its credibility at this point is somewhat lacking. The corpora-

[Mr. McKenzie.]