under the Loan Companies Act. The significance is that such mortgages cannot be for more than 75 per cent of the value of the real estate unless the excess is insured by CMHC or through a private mortgage insurance company registered under federal legislation.

The Acting Chairman: Do you mind if I ask a question at this point? When you say residential mortgages, is that only for single unit dwellings or is it multiple unit dwellings as well?

Mr. Humphrys: It would include multiple unit dwellings. It is any residential property that is within the definition in the National Housing Act, and that includes housing projects, which would include apartments and apartment development.

Shares owned by the government could be sold to the private sector, subject to the approval of the Governor in Council; but, until Parliament otherwise approves, the government would have to keep more than 50 per cent of the shares.

The Acting Chairman: Until Parliament approves?

Mr. Humphrys: That is right.

The Acting Chairman: In other words, the act has to be changed?

Mr. Humphrys: Parliamentary approval would have to be given. The clause in the bill indicates that parliamentary approval is needed. It would be by way of amendment.

Mr. E. Russell Hopkins, Law Clerk and Parliamentary Counsel: It would have to be.

The Acting Chairman: It would not be by way of a resolution, or something?

Mr. Humphrys: It could be, I think.

Mr. Hopkins: Technically, it would have to be an act of Parliament; otherwise it would be approval of the Houses of Parliament, not Parliament.

The Acting Chairman: In any event, we do not have to cross that bridge at this time. If they do it wrongly, we will have it back here.

Senator Phillips: I will object to it and you will support it.

The Acting Chairman: That is right.

Mr. Humphrys: The general idea of attempting to encourage the formation of an active secondary market is based on the consideration that if such a market could be created a number of investors and investing institutions that are not now very active in the residential mortgage field would be encouraged to put a greater proportion of their assets in that direction. A secondary market not only makes mortgages available, but it permits the institution to adjust its portfolio if it feels it has got too heavily loaded.

The other general purpose would be, perhaps, to bring the interest rates on mortgages more into line with interest rates on corporate bonds of a similar maturity risk. It does not seem likely that even a successful secondary market woul doperate to the same degree of efficiency as the stock market or the bond market does, but much can be done to give a focus to the market as a central source of information and a reasonable opportunity to adjust mortgage inventories.

The second part of the bill deals with mortgage investment companies. They are really a special type of mortgage loan company. They would be incorporated pursuant to the provisions of the Loan Companies Act and would generally have the same powers. The main difference would be that a mortgage investment company would raise a much greater proportion of its funds by the sale of shares and a much lower proportion by debt instruments than does the traditional type of mortgage loan company.

A mortgage investment company would really be a special type of mortgage pool in corporate form. Under the bill a mortgage loan company of a traditional type could lever up to 20 times its capital and surplus. A mortgage investment company, on the other hand, would have limited borrowing powers, three times capital and surplus as a basic power, but going up to five times if it had at least two-thirds of its assets in the form of residential mortgages or cash. The whole emphasis is really on financing from the shares rather than debt instruments. It would have all the investing powers of a loan company, but it is not expected that a mortgage investment company would find it very advantageous to invest in any fields other than mortgages.

The Acting Chairman: Are there any mortgage investment companies in being at the moment?

Mr. Humphrys: Not at the moment.

The Acting Chairman: We have mortgage loan companies incorporated with the powers provided by the Loan Companies Act. Is that the story?

Mr. Humphrys: That is correct. It is possible that an existing mortgage loan company, if it mets the criteria in this part, could convert and be designated as a mortgage investment company. I think the likely course is that new companies will be incorporated if they want to operate.

The Acting Chairman: And they can be incorporated either provincially or federally?

Mr. Humphrys: Yes. That is relevant for the tax part of this bill, which I will mention. The part we are dealing with here, the second part of the bill, deals with the formation of mortgage investment companies under federal legislation.

The shares and debt instruments of a mortgage investment company would be eligible investments for regulated financial institutions, and it is expected that they would also be made eligible for pension funds. That would require a change in regulation under the Pension Benefits Standards Act.

The Acting Chairman: Just the regulation?

Mr. Humphrys: Yes.

The Acting Chairman: Would they qualify as trustee investments?