

Trust Companies Act

should be able to hold land for their shareholders. Let me tell the minister what actually happens. The trust company which is to put up mortgage money says to the builder, "Look here, we will give you mortgage money at 10.5 per cent, 11 per cent or 12 per cent, as the case may be, but before giving you this mortgage money we want you to promise us a 50 per cent equity in your project." You see, Mr. Speaker, insurance companies are doing this all the time. Today, when apartment buildings are erected in Toronto and most other centres in Canada, the lending institution putting up the mortgage money demands 50 per cent of the equity in the building. Consequently, over the next 25 years these companies will pile up millions and millions of dollars. In the case of insurance companies, the money will go to policyholders. Most insurance companies are mutual insurance companies. But in the case of trust companies the profits will not go to the depositors who put up the money, but to the shareholders.

An hon. Member: The hon. member should support the amendment.

Mr. Otto: Consequently, in a very short time such trust companies will wind up with fantastic holdings, all at the expense of those who rent the offices or apartments. I should like to see a clause included in the bill to the effect that the equity in any property acquired in this matter shall be the property of the depositors. In other words, if the competition for mortgage funds is so fierce that builders or owners are willing to give lenders a 50 per cent share in the new building, it is the depositors who put up the necessary money in the first place who ought to benefit and not the shareholders.

Many things about this bill are not perfect though by and large I welcome it because it will open new avenues. Trust companies must be adequately regulated. Competition has been the great regulator of the money market. It is competition that ultimately will determine whether those who deposit money with trust companies or banks shall benefit more; but there must be some sort of sense and order to all this, and that is why I welcome this bill which provides that trust companies will not be incorporated as a result of bills passed by the House of Commons but through letters patent. In time, as a result of competition, I hope the trust companies will be able to play a beneficial role.

Mr. Gordon Ritchie (Dauphin): Mr. Speaker, may I say a few words on this bill which I
[Mr. Otto.]

have found quite complicated. I read the proceedings in the Senate with some interest as well as the explanations given by the Minister without Portfolio (Mr. Gray) and the officials before the committee. This bill is a companion to four bills being brought up to date as a result of changes in our economy that have taken place since those acts were first put into effect a considerable number of years ago. This particular bill seems to be divided into two main areas. The first is to make the act more workable, to make the companies more efficient and to improve control by the government agents on any inclination to fraud or mismanagement within the companies concerned. The second, hopefully, is to provide more mortgage money in the future and more money for housing especially.

• (3:50 p.m.)

The liabilities of trust companies have grown from 4.4 per cent for chartered banks after the war to over 15 per cent now. They have been prevented by the Bank Act from competing directly with the banks in many fields.

The Porter Commission, many of whose recommendations were incorporated in the Bank Act, had recommended that the trust companies be allowed to enter the unsecured personal and business loan field; that they be given direct access to the clearance system, and be required to hold reserves with the Bank of Canada. These recommendations have not been put into effect. If they were, there would seem to be little to differentiate them from the banks. However, some trust companies, even if there were changes to make them more competitive with banks, would still likely specialize in estate and trust management and avoid the highly competitive banking business. The record of reasonable success of trust companies would indicate they have been giving competition to the banks. They have demonstrated that the Bank Act was probably overly restrictive previously, and that banking services were not adequately developed.

With regard to the proposed amendment, the suggestion to incorporate these companies by letters patent seems to be a reasonable one, as is the broadening of investment powers. Permitting companies to make mortgage loans in excess of 75 per cent of the value of the real estate, where the excess is insured, seems to be reasonable. Also the Provision to permit companies to make investments at their own discretion up to a