

house fee, for advising how this thing would be set up. But once that advice were given and a form of declaration prepared, that would be the end of it. As Mr. Wilson has said, the mortgage still remains on the registry office books in the name of the original lender, and the original lender would act as agent for a purchaser, whoever that purchaser might be, down the line. I suppose the owner of the mortgage could change many times.

Mr. Wilson: This has been the situation. I would not say that ownership changes frequently, but it certainly can change more than once.

Mr. Hopkins: The beneficial ownership.

Senator Phillips: What is the usual legal fee paid by Central Mortgage and Housing in transferring these?

Mr. Wilson: At the time when we were selling mortgages—we are not selling mortgages now—we paid no legal fees. We did spend some in-house legal man-hours preparing some paper...

Mr. Hopkins: You did your own legal work.

Mr. Wilson: ...but we did our own legal work. That was done in part by lawyers, but mainly by clerical people.

The Acting Chairman: A legal fee would occur only in the event that, on the original transaction, the title had to be searched and certified, and the mortgage prepared, executed and registered. That has nothing to do with transactions that will involve FMEC. That is all prior to that. Those fees would have been absorbed by the original borrower.

Senator Stanbury: It really means that what you are developing is negotiable paper which is backed by a mortgage.

Mr. Wilson: In one sense, that is so.

Senator Buckwold: I wonder if we can get into this question of mortgage investment companies. To me, if this takes off, it is probably one of the most interesting parts of the bill. If we can get more people involved in making funds available, with the changes in what they call the pass-through in the income tax situation, it seems to me that it is really the impact of this bill that is of significant benefit to the country as a whole. Have you had an indication of interest on the part of the financial community in forming these mortgage investment companies? Has there been encouragement given in this regard?

Mr. Humphrys: Yes, Senator Buckwold, there has been very active interest expressed. We know of three or four projects that will start immediately, if Parliament gives its approval to this measure. They have been waiting, ready and organized.

Senator Buckwold: Could it be envisaged that, say, a trading company that had surplus funds could organize itself and utilize these funds, without the double income tax they would have now, if they put money into mortgages as part of their business? Take a wholly owned subsidiary of some kind? Do you envisage this happening?

Mr. A. E. J. Thompson, Director, Corporations and Business Income Division, Tax Policy Branch, Department of Finance: Any existing company can qualify for the conduit treatment if they can comply with the conditions set out on page 19 of the bill.

Senator Buckwold: Would that involve a separate incorporation or the formation of a subsidiary, or could it be done as part of the company's normal activity?

Mr. Thompson: If they change the nature of their operation so that they come within the asset and liability leverage requirements, as well as having the necessary number of shareholders, they could then become eligible for the conduit treatment.

Mr. Humphrys: They might run into difficulty in relation to the federal and provincial legislation applicable to companies in the mortgage lending business. If they borrowed for mortgage investment they would then be subject to the licensing provisions under the provincial legislation as well as to the loan and trust companies acts.

Senator Buckwold: What if they just buy mortgages? Let us say, for example, that Senator Phillips, who is a multimillionaire—that is because he is a dentist!—has a company with either surplus funds or a good line of credit and wants to invest in mortgages through the exchange. If the company has a good line of credit, it can borrow money from the bank at 8 per cent and put it into mortgages at 9½ per cent, so it is not a bad deal. Would his company then qualify for the pass-through as far as income tax is concerned?

Mr. Thompson: Well, another point to bear in mind is that in order to qualify the company has to have at least 20 shareholders. In other words, there is supposed to be participation by a group of people. Part of the idea is that there will be a pooling of the funds of a large number of people.

Senator Buckwold: That would prohibit his company from making such investments, then. I can envisage many medium-sized companies having extra funds which they could pour into the mortgage market on the basis of this guaranteed form of investment and the tax benefits.

Mr. Thompson: I should point out, senator, that under the Income Tax Act you can already have your own private corporation to invest in mortgages. So, even without the passage of this bill, you can effectively get the pass-through treatment. It is a different mechanism, but you can effectively get the pass-through treatment with your own company now. What this bill adds is a method by which a group of people can be involved in a corporation of a more public nature and still benefit from the conduit tax treatment. That is the feature which will be added if this bill is passed.

Senator Phillips: What does the paid-up capitalization of a mortgage investment corporation have to be before it is allowed to commence operation?

Mr. Humphrys: Under federal law, such a company would have to have at least \$500,000 in paid-up capital. If it is a provincially incorporated company, it would