The Standing Senate Committee on Banking, Trade and Commerce

Evidence

Ottawa, Wednesday, December 19, 1973

The Standing Senate Committee on Banking, Trade and Commerce, to which was referred Bill C-135, to provide additional financing mechanisms and institutions for the residential mortgage market in Canada, met this day at 10 a.m. to give consideration to the bill.

Senator John J. Connolly (*Acting Chairman*) in the Chair.

The Acting Chairman: Honourable senators, appearing before us this morning is Mr. R. Humphrys, Superintendent, Department of Insurance, and Mr. A. E. J. Thompson from the Department of Finance. I think the best approach would be to have Mr. Humphrys give us a general overview of the bill, following which we can take it clause by clause, if that is the wish of the committee. If our decision is to consider the bill clause by clause, I would suggest we keep Mr. Humphrys available. Perhaps he could take us through the bill in that way.

Is it your wish to hear Mr. Humphrys?

Senator Phillips: Mr. Chairman, I would point out that Mr. Humphrys has already given an extensive statement on this bill in the House of Commons committee. I think the committee should be concerned with clarification rather than a re-explanation. I find that in these committee meetings, regardless of who the witness may be, we can consume half of the committee meeting time listening to the witness instead of questioning him, as we should be doing. I suggest that we should perhaps at least limit the amount of time for any statements, following which we could get to our questioning.

The Acting Chairman: Thank you, Senator Phillips. I would think Mr. Humphrys' idea would be to give a brief explanation, with an overview of the bill. Once that has been done, we can get right down to the detail.

Mr. R. Humphrys, Superintendent, Department of Insurance: Mr. Chairman, I should like to mention that Mr. Arnold Wilson, from the Central Mortgage and Housing Corporation, is here this morning. Mr. Wilson was active in the preparation of this bill and was one of the principal witnesses before the House of Commons committee.

The Acting Chairman: I did not realize you were appearing before us this morning, Mr. Wilson. I apologize for not having introduced you.

Mr. Humphrys: Also appearing this morning, Mr. Chairman, is Mr. B. Champion of the Capital Markets Division, Department of Finance.

By way of a brief explanation of the bill, it is, as the chairman has said, in three parts. The first part deals with the formation and operation of a corporation called the Federal Mortgage Exchange Corporation. The principal purpose of this new corporation would be to buy and sell mortgages and make loans on mortgages with a view to enhancing the marketability of mortgages on residential property in Canada. The purpose is spelled out in clause 3 of the bill.

It should be emphasized that the intention is to have this corporation act as a catalyst in the financial market, having as its main purpose the encouragement and development of an active secondary market for mortgage loans.

It would not act as a general mortgage bank ready to buy mortgages from anyone or any institution who found himself overloaded. Instead it would be mortgage trader and would carry only such inventories as necessary to permit it to match, in a reasonable way, the mortgages that come on the market for sale and the demands of those who want to buy mortgages. The operating rules, of course, would be fixed by the management itself, but it is thought that generally it would deal with financial institutions and investment dealers who are interested in forming a secondary market.

It would be established originally as a crown corporation. The authorized capital is $100 million; it has a borrowing capacity of $300 million. The government would be authorized to subscribe and to pay up to half the authorized capital, $50 million, and to lend the institution up to $225 million. However, any lending by the government in excess of $150 million would have to be matched dollar for dollar by borrowing from the private sector. It could increase its borrowing capacity with approval of the Governor in Council.

The corporation would be confined to buying and selling residential mortgages that qualify as investments