interest rates of nearly 22 per cent. So the one-year mortgage or even the six-month term, has prevailed recently. But we are beginning to see the return of five-year mortgages. And the important point to understand is that the prevailing maximum term is five years, not six years or four years, because of the provision in the Interest Act allowing mortgages to be paid off at the end of five years.

In considering this Bill before the House, we must appreciate that it would bring about a fundamental change in the mortgage market. The bottom line is that it would, in all likelihood, result in mortgages which would have a maximum term of no more than one year. Why is this? Well, it takes two to make a mortgage—a borrower and a lender. And under the mortgage structure which this Bill would impose, it is clear that the risks for mortgage lenders would increase. They would be quite unwilling to expose themselves to the dangers of a five-year mortgage if the borrower could, at any time when interest rates dropped, pay off their mortgage.

Mortgage lending institutions place great importance on the need to match the term structure of their mortgage assets with the maturity dates of their deposit liabilities, such as the guaranteed investment certificates, term deposits and debentures through which these institutions raised the funds to lend, in turn, in mortgages. Obviously they would not want to be in a position where their own liabilities are tied in for three or five-year terms at fixed interest rates while their earnings from mortgage interest are liable to decline in the event of a decline in interest rates on the market.

That is why the enactment of this Bill would produce a very quick change in the way mortgage lenders do business. It is clear that they would not want to issue mortgages with terms of more than one year. Because of the need to match that term with their own deposit liabilities, the mortgage lending institutions would no longer be offering the option of three or five-year terms for deposits and other investments. We would end up hurting both homeowners wishing to finance mortgages and also Canadians wishing to place their savings for reasonably long terms at a guaranteed interest return. We would, for example, greatly narrow the investment options open to retired persons. It is important for older Canadians to be able to count on getting a fixed return on their savings for a period of years. Under this system they would, instead, be forced into a situation of having their incomes fluctuate each year with changes in the level of interest rates on the market, and they would also face the problem of having to reinvest their funds every year.

A similar problem would face the homeowner with a mortgage. He would have to renew it each year, with the resulting burden of extra paperwork and legal costs. In effect, he would no longer have the benefit which this Bill seemed to promise: namely, the option of taking advantage of a drop in interest rates. He would, instead, be exposed to whatever the market offered at the end of the one-year term of his mortgage, instead of having the assurance of a five-year loan at a fixed rate.

Therefore, the change proposed by this Bill, rather than achieving the good intentions of its sponsor, would end up being self-defeating; and our position would be worse than when we began. Indeed, it is probable that the harmful results would be felt not only in financial markets. It would lead to increased uncertainties about the availability of mortgage funds to finance the house-building industry. Naturally this uncertainty would translate into problems for the construction industry, and probably a reduced level of housing construction.

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The importance of stability in our mortgage markets—in interest rates and in the flow of savings into mortgages—can be seen in our experience of the last two years. The wild fluctuations of interest rates in recent years have created severe problems for lenders, borrowers, and house builders. It was less than two years ago, in the autumn of 1981, that conventional mortgage rates hit a peak of nearly 22 per cent. The average mortgage rate for the full year was 18.2 per cent. It is not surprising that the rate of housing starts fell off sharply, and would-be home buyers were scared off by the high rates. That situation continued into 1982, compounded by the effects of the recession which created uncertainties and fears for the future among people who might otherwise have been in the market for a house.

Last year the main activity in the mortgage market involved mortgage renewals, which were at the remarkably high level of approximately 650,000, but the flow of new loan funds into mortgages fell off quite sharply. Indeed, many of those who were renewing mortgages did their best to reduce their indebtedness by paying off as much as they could of their mortgages before renewing.

Since the middle of last year, however, there has been a welcome turnaround in the housing and mortgage situation. Three important factors have been at work: lower interest rates, government assistance programs, and lower housing prices in many areas. Since last June, mortgage rates have dropped by more than 7.5 percentage points. The rate on one-year conventional mortgages has dropped below 12 per cent. This means that the average monthly mortgage payment on a typical $50,000 mortgage, amortized over a 25-year period, has dropped by more than $250 since last June.

The lower rates combined with government assistance programs have helped greatly in improving access to homeownership, especially for first-time buyers. All of these factors have helped to restore consumer confidence in housing as a viable investment. Most important, there are growing signs that a recovery in residential construction is imminent. Housing starts have been increasing steadily in recent months, and forecasts indicate that 1983 will be a much stronger year in the homebuilding industry than was 1982.

At the same time we have seen a strengthening in the mortgage market. There are increasing reports from lending institutions that borrowers with expiring one-year mortgages are switching to longer-term loans of three or five years. A few months ago it was hard to find a bank which offered five-year