

**Mr. Wilson:** Well, I would not expect that FMEC would deliberately sell at a loss on a consistent basis. Obviously, the market price will have to be able to absorb the cost of the marketing process, as is the case now in terms of bonds or any other securities. Basically, the stock exchange will only operate if there are buyers and sellers who are prepared to accept brokerage charges for the process of buying and selling.

**Senator Buckwold:** Do you consider this a good time to get into the business, or would it be better at a lower interest rate period?

**Mr. Wilson:** That is a dreadful question to ask a public servant! The market on mortgages seems to be fairly stable at this time, but whether it will continue to be so, I do not know any more than anybody else. We have a reasonably balanced market in terms of supply and demand in mortgages, and here I am talking of residential mortgages, and a fair stability of mortgage rate. There was a fairly rapid increase in the mortgage rate early in 1973 but that seems to have stabilized, and while there is a small fluctuation as between lenders under current conditions, that stability seems likely to continue for some little time.

Now, with a degree of stability in the market, I think it would be the best time to attempt to establish a secondary market, so that you are not attempting to speculate on what the market is going to be next week or the week after. You are, in fact, looking at the investment as an investment.

**The Acting Chairman:** It is a highly sophisticated field in which you are going to operate, and you are going to require expert knowledge of market conditions, and the buying and selling will depend a good deal on what those conditions are, isn't that right?

**Mr. Wilson:** Yes, and on expectations.

**Senator Stanbury:** If I understand the concept correctly, the intention is for the corporation to act more as a conduit than a trader, so it is a facilitating vehicle to allow pension funds, and people who do not have the expertise and the normal facilities, to participate in the mortgage field, and to do so more easily. I would have thought that the function of the corporation, once it gets going, would be very largely this job of making it possible for the smaller sources of funds to get into the field with the least possible effort. I appreciate that there are costs involved in that, but I would think that in some cases the question of profit or loss would be one which would balance out over a period of time, because sometimes there would be some small change in interest rates in your favour, and at other times there would be some small change in interest rates against you. That would balance out over a period of time, as long as you are just acting as a conduit and facilitating the easier exchange of mortgages in the market.

**Mr. Wilson:** I do not want to get into any controversy here. Basically the federal mortgage corporation is to be a service agency; it will in some sense be a conduit, as you suggest. If you have buyers and sellers lined up in equal numbers on each side of the table, it would be purely a conduit, simply a place to identify each other.

In fact, all transactions will not go through this. There is also a secondary market, to a small extent, where they accidentally run into each other, or where brokers bring them together. This will provide a stabilized place. It would be a conduit when they were balanced off. It would be a trader, in a sense, if, over a long period, there were more sellers than there were buyers. It would presumably build its portfolio up within the limited capacity it has. In that sense it could be a trader. But obviously, as you say, there will be times when they will make money on its trading transactions—hopefully that would be most of the time—but there will obviously be times when they will lose money.

**The Acting Chairman:** It is a broker, but it is a little more than a broker, in the sense that it could be buying for its own accounting.

**Mr. Wilson:** That is correct.

**The Acting Chairman:** What in fact happens in the registry office when the mortgages change? As these mortgages are traded in, is there a registration of assignment? What happens? Because, basically, a mortgage is a security on the basis of real estate.

**Mr. Wilson:** What has been happening in the market for some years—I am talking now about mortgages that are traded basically in blocks rather than as an individual mortgage sold from one person to another—has been that most of these mortgages are registered, likely in the name of the lending institution or agency that made the loan in the first place, that initiated the mortgage. That agency will probably—not necessarily but most likely—continue to administer that mortgage. It takes a computer to run a mortgage portfolio now. So that original lender is probably still servicing the mortgage. It may sell a couple of million dollars worth of mortgages in a block to a pension fund. The mortgages themselves are not, under normal circumstances, assigned with a registered assignment to the pension fund, where there is a declaration by the vendor that he holds these mortgages in trust for the pension fund, for the purpose of administering them, and for the purpose of distributing the interest earned on them. So there is very little legal work and very little registry office activity created.

**The Acting Chairman:** There would be none in that case.

**Mr. Wilson:** That is correct. That is the way that most of these transactions take place now, and I would expect that practice to continue.

**Senator Phillips:** Mr. Wilson, what is the usual percentage of legal fees paid in these cases? I want to make sure that my legal friends are looking after themselves well enough. Secondly, are there any real estate commissions paid in these real estate transactions?

**Mr. Wilson:** As the chairman has just suggested to me, on transactions done in the way I have suggested, under common practice there would be no legal fees paid.

**Senator Phillips:** He said there would be little legal work; he did not say that there would be no legal fees paid.

**The Acting Chairman:** I doubt very much if there would be any legal fee. There might be some overhead,