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INSTITUTIONAL MORTGAGE LENDING
IN
CANADIAN PROVINCES

by

Joan Michel, B.A.

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A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfilment of
the requirements for the degree of
Master of Arts
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The undersigned recommend to the Faculty of Graduate
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ABSTRACT

The location of the residential mortgage lender's investment or, conversely, lack of investment, is critical to the supply of available and affordable housing. This paper examines Canada's institutional mortgage lenders and the location of their residential investment. Institutional lenders have come to dominate Canadian mortgage lending and, as structural agents for the national mortgage market, have gained additional decision-making control over the location of residential investment in the country. Each type of institutional lender displays a distinct approach to the location of the residential investment. As a result, the supply of institutional mortgage finance varies across Canada not only in quantity but in quality. In several provinces a marked dependency upon one or two types of institutional mortgage lender exists. In view of declining demand for mortgage funds expected in the years ahead, and anticipated coalescing of financial intermediary functions, the structure of Canada's institutional mortgage supply will likely change. Regional and urban mortgage markets must be monitored so that vulnerable areas do not experience shortfalls in mortgage credit and consequent reductions in the quality of their housing stock. It is recommended that a mortgage data collection system be implemented which would permit sustained study of local market conditions in Canada.

PREFACE

I have been concerned with the subject of housing since my early years in university. At the outset, housing was presented to me as a problem issue. No matter the standard of housing generally available in Canada, adequate shelter for many remained unattainable because of cost. During the 1970s, governments of all jurisdictions sought ways to solve this dilemma. Rent controls were imposed in many Canadian cities; public land development and planning groups were given the mandate to control and direct new housing construction; subsidized, non-profit and co-operative housing programs were implemented on a large scale; grants and indirect subsidies were made available to offset the high cost of housing-related expenditures; shelter allowances were studied in depth.

It became clear to me after some time that the popular approach to studying the 'housing problem' in Canada and abroad was foundering because of a woeful lack of substantive, descriptive information on the workings of the housing and mortgage markets. While the housing problem may have been identified as a lack of affordable housing, little was being done to study how housing was priced in the market and why there was a chronic under-supply of low-cost housing. In particular, it became clear that there was a substantial gulf separating those who studied the housing problem and those who actually pursued the business of housing in the property markets. Curiously, real estate and housing were being dealt with, by and large, as unrelated fields.

My own path of enquiry has led me to the conclusion that any meaningful attempt to deal with the housing problem must be founded on a better

understanding of the structure and operation of land and housing markets. A greater focus on the supply side of housing is required in order to identify the pricing mechanism at work in the market and the dynamics of the housing stock. Central to this pursuit would be the study of mortgage lenders, for mortgage lenders are primarily responsible for setting market cost levels through their influence on the pace and location of land and housing market activity.

Mortgage finance is a scarce resource and it will not be allocated equally across space. Some areas of housing will experience relative under-financing. As a geographer, I am interested in the differential spatial effects of mortgage lending behaviour. As a housing researcher I am concerned with the relationship between geographical variation in the terms and cost of housing finance, the quality of the housing stock, and the adequacy of the shelter supply.

This paper is best seen as a prelude to more rigorous analytical work aimed at an understanding, and ultimately a definition, of the differential spatial effects of mortgage lending. The findings presented here are largely exploratory in nature and are meant to expand the current scope of housing finance research. I hope that this paper will prove stimulating to others already concerned with the location of housing finance, and informative for those with more general housing interest.

I would like to thank those who assisted me in the preparation of this paper: Professor David Bennett, my supervisor, for his long-standing support; Cate Kempton, my chief editor, for her sense of humour and style; Norma Rankin, my typist, for her ability and good humour; and Colleen Murphy who prepared the graphics on such short notice.

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CHAPTER ONE

INTRODUCTION

Canadians have been grappling with a housing crisis, in one form or another, for the better part of the last century. Like so many Western countries, Canada boasts of high standards of shelter in aggregate but fails, miserably, in the distribution of this basic and scarce resource to a large segment of its population. In recent years the focus of housing research has turned to a hitherto much ignored component of the housing distribution system: housing finance. It is the aim of this paper to pursue this new direction in housing research by studying the role of mortgage lenders, specifically large institutional mortgage lenders, in the allocation of housing finance.

1.1 The Residential Mortgage

Housing represents a major capital expenditure to produce and in most cases to procure. In Canada and, similarly, in the United States, the United Kingdom and Australia, it is usually necessary to finance this expenditure through borrowing in the credit markets. From 1975 to 1981 Canadians borrowed on average approximately \$12 billion each year from the country's major financial institutions to procure housing.¹

The residential mortgage is the debt instrument negotiated between credit lender and credit borrower to finance the housing expenditure. The security of the mortgage loan is the residential property itself. Since real estate is immobile, the residential mortgage investment made by the credit lender represents not only an investment in a particular house and

property but also an investment in a location. The security of the residential mortgage, that is the value of the real estate, ultimately depends on the value of that location.

As an investment the residential mortgage is characterized by risk and return features. The relationship between these two features determines whether the mortgage investment is actually placed and, if so, on what terms. Traditionally, investment in residential property has been considered riskier than investment in other fixed-income, long-term instruments such as bonds - traditionally, the return on the residential mortgage investment has been higher than for bonds. Underlying the long-standing market position of residential mortgages - a profitable though risky investment - is the basic uncertainty which surrounds the security of the residential mortgage investment, that is, the value of location.

1.2 The Value of the Housing Investment: Location

Unlike most commodities, housing is fixed in space: it is real property. Housing derives its value therefore, not only from the absolute qualities of the residential property such as buildings, services and size of lot, but also from the characteristics of the property's contingent existence, its relative location in the property markets. Locational characteristics which will affect the value of a residential property include:

- a) positive externalities such as nearby educational facilities, nearby and adequate municipal services (road clearance, fire, police), stable or appreciating property values. These externalities are positive or rather affect the value of property in

a positive way, because they make the residential land use best and highest and thus inhibit the threat of land use change; because they are desirable and marketable qualities from the consumer perspective; and because they conform to the prevailing ideal of housing as interpreted by the market;

- b) negative externalities such as diverse land use (commercial, industrial, institutional), depreciating property values, rising tax rates. These externalities have a negative effect on property value because they threaten the supremacy of the residential land use and hence the residential value of property; because they are undesirable or unmarketable qualities which affect resale value; and because they limit market appeal by contradicting the ideal of housing.

Properties which are contiguous, in close proximity, and as is often the case, linked together by common development history, infrastructure, services and amenities, have similar locational characteristics. (This commonality is recognized and formalized by zoning by-laws.) The effect of externalities on residential property is thus usually shared by an area of housing, and not limited to an individual property. The greater the homogeneity within a group of housing with respect to locational characteristics, the more ubiquitous is the impact of an externality. It is not necessary for this impact to be felt immediately or directly by all housing within a given area. The inter-dependence of property values arising from shared location guarantees that the effect of externalities on one or more properties will be transmitted eventually, if to varying degrees, to other related properties.

While housing is fixed in space its locational characteristics are

not. Externalities which determine the relative location of an area are continually changing as development, redevelopment and redeployment of resources takes place internally and in the outside land markets. Since externalities are largely unpredictable and uncontrollable for the individual property owner, many market interventions exist to control the location and pace of change in the land market. Zoning by-laws and the activities of municipal and provincial land development and planning bodies reflect the generally held view that property values require considerable protection from the external forces which create location and determine property values. Protectionist measures notwithstanding, change is central to land market dynamics and all property is exposed to a steady stream of externalities which continually redefine property values.

1.3 Assigning a Value to Location: the Role of the Mortgage Lender

The value of housing is dependent upon the value of its location; location is, in turn, an evolutionary product of externalities. Externalities are however "...non-priced..." and in some instances "...non-monetary...."² That is, externalities do not come into the market with value attached and in some cases, it is impossible or impractical to attach a value to them. Examples of non-priced externalities are the construction of a nearby arterial road, shopping centre or firehall. Non-monetary externalities pertain to those effects on property to which no value could be attached: e.g., the development of new employment centres in a region, changes to industrial pollution regulations affecting regional industry, and changes in political systems and parties.

It is left to the market interplay of supply and demand to implicitly assign a value to spill-over effects when residential property is exchanged.

An examination of the participants in the market exchange process -- the buyer and the seller of a house, the intermediaries who arrange for the housing exchange (lawyers, appraisers, real estate agents, insurers) and the functionary who usually makes it possible, the mortgage lender -- reveals that it is the mortgage lender who plays the crucial role in the assignment of value to location. While a property owner may set the price for a house (with or without the assistance of intermediaries such as real estate agents) a successful sale requires a price which is consistent with the mortgage investor's assessment of property and locational value. Unlike the buyers and sellers of housing, the mortgage lender's interests are not proprietary; a house has no use value for the mortgage lender, just exchange value. If the price assigned to a house does not conform to the mortgage investor's appraisal of surrounding values, the supply of mortgage money will be jeopardized. It will either not be forthcoming or the perception of additional risk associated with the mis-priced property will be reflected in the cost of mortgage capital used to finance the housing exchange. In the long-term, under a housing exchange system which relies on major capital investment by a third party, property and locational values are determined most by those who control the supply of housing finance.

In assigning a value to property and location mortgage lenders must assess the risk of long-term investment in a particular location. Without the assistance of a given pricing mechanism for externalities lenders must keep appraised of property values in their areas of operation, of externalities in effect, of projected and potential development, and of general land market activities which influence property values. This results in the establishment of spatial risk classes which vary from areas considered

excessive in risk to areas perceived as ripe for investment.

Each lender's appraisal of market activity will vary depending upon access to market information. Perhaps the primary and basic source of market information in the property markets is derived from a lender's previous experience. Through experience in the property markets lenders establish areas which best "...allow that particular combination of yield and risk which is optimal..." to each lender concerned.³ Their investments tend to be concentrated in these preferred locations. Perception of locational risk and value will also depend upon a number of factors related to the mortgage lender's approach to housing investments. For example, some lenders operate large lending departments employing well-established and detailed assessment techniques, while other lenders are involved in mortgage lending as a side line activity and are less aggressive in the market. The extent of financial commitment to mortgage investment varies from lender to lender. Consequently, some mortgage lenders will range widely and others, perhaps specializing in a certain housing type, will limit themselves to well-defined areas.

Competition for the supply of mortgage credit in a given area will vary with competition being greatest in those areas in which risk is perceived to be lowest by the most lenders (return being equal). A low incidence of mortgage lenders may be taken as a market indicator of high risk.⁴ The level of risk associated with a given area for the purposes of mortgage investment is reflected, therefore, by the degree of competition among mortgage lenders in that area. It follows that spatial risk classes can be distinguished by the mix of mortgage lenders operating in each class, that is, there is a relationship between location and type of mortgage lender based on investment risk.

1.4 The Spatial Structure of Mortgage Lending: Barriers to Mortgage
Flows Between Risk Classes

The nature of the supply of mortgage finance in any given area will be a function of the lenders active there. The extent of that relationship will depend in turn upon the spatial competitiveness of the larger body of mortgage lenders and, specifically, their willingness to compete in response to market changes in demand and supply outside of their normal fields of operation. For example: a supplier of mortgage money in a certain area decreases its flow of mortgage capital for reasons unrelated to change in the mortgage risk of that area; disequilibrium in the area's mortgage market results with demand exceeding supply. If none of the other lenders normally active in that area are willing or able to take up the slack, market disequilibrium will continue. Only if the excess demand is met by outside lenders will the dependent relationship between an area and its usual suppliers of mortgage money be weakened.

The degree to which mortgage lenders compete spatially has major implications for the quality of the housing stock. Without active competition by lenders across spatial risk classes some areas of housing must rely upon a fixed or diminishing set of lenders. The housing in those areas is thus vulnerable to periodic instability of mortgage flows when lenders typically adjust their investment levels according to circumstances within the greater credit markets and their own organizations. With instability of credit supply, comes rationing of scarce mortgage dollars and increased mortgage money costs. The increased cost of housing finance leaves affected households with less disposable income to spend on maintenance and upkeep of property values: the value of housing in that area is consequently lowered.

Over the long-term, continued instability in the supply of mortgage money to an area combined with a lack of new sources of mortgage investment will lead to a general deterioration in the quality of area housing stock. Demand for long-term investment and owner occupancy is diverted to other more stable areas.⁵ Pressures for land use change are often exerted. That disinvestment by resident mortgage lenders hurries the land use change process along is "...undoubtedly understood by (lenders) since there are good profits to be reaped by redevelopment....Given the desire to maximize profits this decision cannot be regarded as unethical".⁶ The sorry effects of long-term disinvestment in whole areas of housing can be seen in the cores of a great many North American cities.⁷

The lending practices of the suppliers of housing credit have been criticized for many years in Canada. The stark results of disinvestment, of the absence of mortgage lenders in certain neighbourhoods, and of the high cost of available residential mortgage finance on the quality of housing have become clear in most urban areas. Conspicuous disinvestment in areas normally housing low-income households raises not only ethical and moral questions of public concern but also questions concerning the state of the mortgage market. In particular, it raises questions about the role of mortgage lenders as sole allocators of mortgage finance.

1.5 Canadian Mortgage Lenders

Canadian mortgage lenders are a diverse group ranging from the federal government to local ethnic societies, from the country's largest financial intermediaries to individual entrepreneurs willing to invest their personal savings in a residential mortgage. The lenders may be divided into three general groups: public sector, institutional sector, and personal sector

lenders. The last group, comprised of personal or individual mortgage lenders, is an irregular amalgam of investors, many of whom through their direct or indirect involvement with real estate (e.g., lawyers, building contractors and insurance brokers), are called upon to supply residential mortgage credit. Also found in this group are the many vendors who 'take back' mortgages to facilitate the sale of their house, and thus become mortgage lenders.⁸

Information on personal sector lending is scarce and the private sector share of the Canadian mortgage market is largely indeterminate. The mortgage contract remains a private, unmonitored agreement between lender and borrower. It is unconnected to disclosure regulations affecting regulated bodies such as financial institutions or even benevolent societies. A survey of Ontario Registry and Land Titles Offices conducted from 1970 to 1975⁹ revealed that, although steadily declining in both numbers and value, personal sector mortgages accounted on average for approximately 45 percent of all conventional mortgages valued under \$500,000 in Ontario over the six year period 1970-75, and approximately 36 percent of the total value of all such mortgages.¹⁰ While these figures pertain to one province only they do provide a valuable window on what some housing researchers consider to be the 'safety valve' in the spatial supply of mortgage credit.¹¹ The steadily declining incidence of personal sector lending in Ontario, however, signals the current need to examine the more highly organized and dominant lenders in the mortgage market.

Figure 1.1 outlines the mortgage lending activity of the two remaining sources of mortgage finance -- the public and institutional sectors. Historically, the Canadian public sector has been a major supplier of mortgage funds; it is clear from Figure 1.1, though, that, at least from 1970, the

Figure 1.1 MORTGAGE LOANS OUTSTANDING BY LENDING INSTITUTIONS, GOVERNMENTS AND PART OF PERSONAL SECTOR, CANADA, 1960 - 1981 (BILLIONS OF DOLLARS).

Notes: ¹ From 1975 on, figures have been revised to exclude Mortgage Investment Corporations.

² Includes Quebec Savings Banks, mutual benefit and fraternal societies. From 1975 on, figures have been revised to include Mortgage Investment Corporations. From 1978 on, figures exclude mutual benefit and fraternal societies.

³ Includes funds administered for trustees pension plans.

Source: Canadian Housing Statistics, 1982, table 74.

majority of the growth in mortgage investment has occurred in the institutional sector. While governments remain an important source of housing finance in the Canadian market, the social objectives which underlie their investment behaviour disqualify them from a study of competitive spatial lending practices. The focus of this study, then, is on the large financial institutions which originate the largest portion of Canadian mortgages — that is, the banks, the life insurance companies (LICs), the trust and loan companies, and the credit unions and caisses populaires.¹²

1.6 Institutional Mortgage Lenders and the Regional Allocation of Mortgage Capital

The five major types of institutional mortgage lender operating in Canada are distinguished by virtue of their role in the financial market place. The banks, the near-banks (trust and loan companies and credit unions) and the savings institutions (the LICs) are each allotted specific investment avenues by the level of government responsible for their regulation.¹³ Mortgages are one investment vehicle available to all of these institutions and according to their particular line of business, it may be a major interest.¹⁴ The commitment to mortgage investment by each of the institutional types has varied with time (see Figure 1.1). For example, LICs' interest in mortgage lending has recently waned, while bank interests have grown. The differences between the five types of institutional mortgage lenders are numerous and are dealt with in greater detail in Chapter 3. However, all five institutional types have some important common features as mortgage lenders: they are all very large financial intermediaries, and most operate on a multi-provincial if not national or inter-national basis.¹⁵ Together, these intermediaries are responsible for

the allocation of that part of the nation's savings destined for residential mortgages.

The regional allocation of mortgage capital undertaken by the large financial institutions in Canada involves much the same sort of spatial risk assessment process as exists at the intra-urban scale. The criteria used to assess the relative locational risk of a regional or urban area address the primary concern of all mortgage lenders: that is, that their investment is secured by stable or rising property values. Factors which are considered include those relative to positive demand for housing (e.g., population levels, household formation), to income and ability to pay mortgage costs (e.g., various income measures, unemployment and personal debt levels, incidence of strikes), and to economic growth within a region (e.g., employment opportunities, economic diversification).

As is the case at the intra-urban level, the risk rating process which establishes the cost of a region's mortgage credit and the level of investment a lender is willing to make in the area is not founded on any commonly accepted or conclusive formula. Attempts by researchers in the United States to devise a rating formula to explain observed regional variations in mortgage costs have so far been unsuccessful.¹⁶ Spatial risk at the regional scale therefore, also depends heavily on lender perception of risk and of each lender's particular interest with respect to mortgage lending.

The way in which the large financial institutions approach regional risk rating and the manner in which they choose to allocate their residential mortgage investment dollars is critical to the value of institutional mortgages supplied to each region or urban area, to the degree of competition which results between lenders in the region, and ultimately to the cost of

mortgage funds available there. It is postulated that since geographical imbalances in risk occur within the country as a whole as within any urban area, the large financial institutions will vary the location of their investments according to their own business interests and their own perceptions of regional risk within the country. It is further postulated that the degree of competition or lender mix found in any region of the country will provide an implicit measure of geographical risk as seen from the lenders' standpoint. Finally, the resultant lender mix which structures the supply of mortgage finance in a given region will, it is argued, establish important supply-side factors with respect to the cost and availability of mortgage credit in regional markets.

This study has three objectives: viz.,

- a) to characterize the five types of financial institutions as residential mortgage lenders according to their history and development as mortgage lenders in the national market place, their portfolio behaviour with respect to mortgages, their organizational structure as it pertains to the spatial allocation of institutional mortgage capital, and their areas of specialization in mortgage lending;
- b) to record and compare the regional lending patterns of the financial institutions in gross terms and by category of residential mortgage, that is, National Housing Act (NHA) insured and conventional loans, new residential construction loans and those on existing properties, single-detached and multiple-unit dwellings;
- c) to examine and compare the lender structure or lender mix in regional mortgage markets in order to ascertain the level of competition among the major suppliers of mortgage finance in

Canada's regional housing markets;

- d) in ~~light~~ of the above findings, to evaluate the nature of the spatial supply of mortgage money in Canada and its implications for inter-regional mortgage capital flows and housing quality in the future.

1.7 Data Constraints

In Canada scant attention has been paid to the activities of mortgage lenders and their role in the operation of the nation's residential mortgage market. A mere three or four major studies of the Canadian market and its participants have been published over the last quarter century. In 1959, H. Woodward wrote Canadian Mortgages,¹⁷ still the basic introduction to mortgages and the business of mortgage lending and administration in Canada today. Fifteen years later, L.B. Smith produced The Postwar Canadian Housing and Residential Mortgage Markets and the Role of Government,¹⁸ an econometric analysis of public intervention in the supply of housing. In 1975, the Poapst report, Developing the Residential Mortgage Market,¹⁹ was released.²⁰ This three volume report considered fundamental structural changes to the Canadian mortgage market which would improve its operation and scope, and ultimately increase the private supply of mortgage capital in Canada. As a result of the Poapst report, major new housing legislation was passed in early 1973.²¹ Last, James Hatch produced The Canadian Residential Mortgage Market in 1975.²² The purpose of this book was relatively straightforward: "...to describe and analyze the market for residential mortgages emphasizing the market participants, the decision rules they employed and the major issues confronting the market."²³ An underlying objective of this paper is to add to the little research which

is available on the Canadian mortgage market and, in particular, on the major institutional mortgage lenders.

Current analysis of residential mortgage lending in Canada is generally hindered by the overall lack of hard data on mortgage market transactions in this country. Analysis of the mortgage lending activities of the large financial institutions by area of loan is doubly difficult. Census data regarding residential mortgage loans, while geographically comprehensive, do not distinguish between type of financial institution. Only since 1975 has the primary repository of housing and mortgage information in Canada -- and the major source of data for this study -- Canadian Housing Statistics (CHS),²⁴ begun to publish spatially disaggregated mortgage loan data on the major institutional lenders. What was previously available only in terms of national figures is now reported on a by-province basis. The Bank of Canada Review,²⁵ a vital source of information on the financial market activity of not only the banks but all of the major financial intermediaries operating in Canada, began publishing provincial breakdowns of institutional assets (e.g., mortgages) and liabilities in 1974.²⁶ The paucity of geographically disaggregated mortgage lending information published in Canada is only highlighted when one glances at the data resources available in the United States. In 1963 the American Federal Home Loan Board began compilation of institutional mortgage data on loans in 18 Standard Metropolitan Statistical Areas (SMSAs).²⁷

The disaggregation of mortgage data to the provincial level as presented by CHS is a mixed blessing. While it is vital to obtain some measure of mortgage flows occurring across the country, the provincial unit is not altogether revealing. Canada is a highly urbanized country; institutional mortgage lending is also chiefly an urban phenomenon. Ideally,

one would seek the geographical breakdown of institutional mortgage lending data by Census Metropolitan Areas (CMAs). Compiled in this fashion, mortgage data would be more compatible with the pattern of Canadian settlement and hence housing markets which compete for mortgage dollars in Canada. On the positive side, the provincial breakdown of mortgage information does recognize the jurisdictional and regulatory differences concerning financial institutions which do fall along provincial lines.²⁸ In the balance, the provincial breakdown at best simplifies geographical flows of mortgage credit; at worst, if the structure of mortgage flows between urban centres is independent or contrary to regional divisions, it is distorting. In view of the strength of regionalism in Canada, particularly economically, the provincial data will be viewed in this study as a rough estimate representative of the set of urban centres within a given province.

The second major data constraint of this study concerns the credit unions and caisses populaires. Information on the mortgage lending activities of these institutions is not available in a form compatible with that set out for the four other major institutional lenders. The size of the credit union share of the national mortgage market (see Figure 1.1) demands that they somehow be addressed. Where possible, therefore, credit unions have been included in the analysis on the same terms as used for other institutional lenders. With respect to mortgage lending data however, credit unions and caisses populaires are dealt with separately in Appendix 1.

1.8 Organization of Chapters

In the following chapters, the residential mortgage lending activities of Canada's large financial institutions are explored with particular

emphasis placed on the geographical pattern of their mortgage investments. Chapter Two describes the rise of the large institutions to their current status of predominant Canadian mortgage lenders. The consequences of this development for the geographical allocation of mortgage funds in the country are highlighted.

In Chapter Three, a brief overview of the nature, investment goals and organizational structure of each type of mortgage lending institution is set forth. The bulk of the chapter is given to an examination of institutional lending patterns in the provinces. The lenders are first characterized in terms of the type of dwelling loan they favor for investment purposes. The geographical or provincial lending patterns of each institutional type are then established within the framework of loan types.

Chapter Four is concerned with the issue of market concentration within the set of institutional lenders. Each provincial mortgage market is dissected for the purpose of characterizing institutional mix and identifying provincial markets which face relatively limited sets of institutional lenders.

The final chapter summarizes the findings of Chapters II through IV as regards the geographical pattern of institutional mortgage loans in Canada, and the degree and type of institutional participation in individual provincial loan markets. A discussion follows on structural changes to the mortgage market which would help reduce institutional domination of the location of mortgage capital in Canada. The role of the large institutions in the Canadian mortgage market of the next twenty years is then considered in light of the restructuring or more precisely the redefinition of Canada's large financial intermediaries currently in progress. Last, some thought is given to the direction of research

government securities are issued and traded in national markets at nationally quoted yields, residential mortgages are originated and traded in numerous local sub-markets at varying yields.¹⁸ Within the confines of a given mortgage sub-market investors face a limited number of potential buyers for their mortgages, who may not want to buy when the investor wishes to sell. Conversely, investors wishing to buy mortgages must contend with a shortage of market quotes and the added uncertainty that mortgages will not be available when desired.¹⁹ The option to increase the yield of an investment portfolio through shrewd trading, an option available to investors in bonds, is not possible with the less liquid mortgage. Mortgages have come to be considered a "...buy and hold investment..."²⁰

The mortgage liquidity problem is inherently structural; a structural remedy is therefore required. An often repeated prescription has been the development of a permanent secondary mortgage market with a central, federally administered, facility like the United States' Federal National Mortgage Association (FNMA).²¹ Binnhammer outlines the characteristics such a secondary mortgage market displays.

1. A sufficiently large number of participants so that it is impossible for any one to have an undue influence on the terms of mortgages originating in the primary market or the going price of existing mortgages trading in secondary markets.
2. A mortgage instrument that is standardized so that it is not identified with a particular lender in a manner that enables him/her to influence price or terms. Although individual mortgages are differentiated, there is much scope for processing them into relatively homogeneous packages to meet the requirements of a developed market.
3. Market participants who have adequate knowledge of market conditions to make rational choices based on the prices generated in the market.

Footnotes - Chapter I

1. Canada Mortgage and Housing Corporation, Canadian Housing Statistics (Ottawa: CMHC), various issues.
2. David Harvey, Social Justice in the City (Baltimore: John Hopkins University Press, 1973), pp. 57-8.
3. Philip Morrison, "Mortgage Lending in Canadian Cities", draft (Toronto: Centre for Urban and Community Studies, University of Toronto, 1978), p. 54.
4. The assumption is made here that market information is sufficiently free that areas of relatively low risk could not be concealed from competing lenders, and that it is impossible for one or more lenders to 'stake out' or monopolize an area's housing finance supply.
5. William G. Grisby and Louis Rosenberg, Urban Housing Policy (New York: APS Publications Inc. (Centre for Urban Policy Research - Rutgers University), 1975), p. 251.
6. Harvey, Social Justice in the City, p. 140.
7. For a discussion of disinvestment in inner-city housing see 1) United States: Leo Grebler, Housing Market Behaviour in a Declining Area (New York: Columbia University Press, 1952); Robert Schafer and Helen F. Ladd, Discrimination in Mortgage Lending (Cambridge, Ma.: MIT Press, 1981); David Listokin and Stephen Casey, Money Lending and Race (New Brunswick, N.J.: Centre for Urban Policy Research (Rutgers University), 1980); 2) United Kingdom: M.J. Boddy, "The Structure of Mortgage Finance: Building Societies and the British Social Formation", Transactions of the British Institute of Geographers I (1976), pp. 58-71; P.R. Williams, "The Role of Institutions in the Inner London Housing Market: the Case of Islington", Transactions of the Institute of British Geographers I (1976), pp. 72-82; Peter Williams, "Building Societies and the Inner City", Transactions of the Institute of British Geographers III (1978), pp. 23-34; Michael E. Stone, "The Housing Crisis, Mortgage Lending, and Class Struggle", Antipode VII (1975), pp. 22-37; 3) Australia: Michael Berry, "Posing the Housing Question in Australia: Elements of a Theoretical Framework for a Marxist Analysis of Housing", Antipode XIII (1981), pp. 3-14; and 4) general: Clare Ungerson and Valerie Kern (eds.), The Consumer Experience of Housing - Cross-national Perspectives (Farnborough, England: Gower Publishing Co., 1980).
8. See Chapter II for a discussion of 'take back' mortgages.
9. Ontario Ministry of Treasury, Economics and Intergovernmental Affairs, Realty Mortgage Loans Registered in Ontario, various years (1970-1975).
10. The loans survey is of all realty loans, so commercial and industrial as well as residential mortgages are included. The cut-off of \$500000 is an attempt to minimize the inclusion of commercial and industrial loans.

11. See Morrison, "Mortgage Lending in Canadian Cities".
12. The estate, trust and agency (ETA) funds, shown in Figure 1.1 as major investors in residential mortgages, are trustee funds administered by trust companies. The ETA funds do not originate mortgages themselves and are not therefore, concerned with the initial location or placement of residential investments. For further discussion of ETA and other trustee funds, see Chapter III.
13. See Chapter III.
14. Mortgage loan companies are big investors in residential mortgages whereas banks hold only a small percentage of their total assets in mortgages. See Chapters II and III.
15. Most Canadian banks and many Canadian life companies operate internationally.
16. See George W. Gau, "A Taxonomic Model for the Risk-rating of Residential Mortgages", Journal of Business LI (1978), pp. 687-706.
17. H. Woodward, Canadian Mortgages (Don Mills: Collins, 1959).
18. L.B. Smith, The Postwar Canadian Housing and Residential Mortgage Markets and the Role of Government (Toronto: University of Toronto Press, 1974).
19. J.V. Poapst (ed.), Developing the Residential Mortgage Market (Ottawa: Central Mortgage and Housing Corporation, 1975).
20. Although completed in 1973, CMHC (who commissioned the report) did not publish it until 1975.
21. See Chapter II.
22. James Hatch, The Canadian Mortgage Market (Toronto: Ontario Ministry of Treasury, Economics and Intergovernmental Affairs, 1975).
23. Ibid., p. iii.
24. Canada Mortgage and Housing Corporation, Canadian Housing Statistics (Ottawa), various issues.
25. Bank of Canada, Bank of Canada Review (Ottawa), various issues.
26. J.N. Benson, Provincial Government Banks: A Case Study of Regional Response to National Institutions (Vancouver: Fraser Institute, 1978), p. 26.
27. A.H. Schaaf, "Regional Differences in Mortgage Financing Costs", Journal of Finance XXI (1966), p. 85.
28. Provincial governments have primary responsibility for trust and loan companies as well as credit unions, while banks and life insurance companies are all federally chartered and monitored. For further discussion, see Chapter III.

CHAPTER II

THE CANADIAN RESIDENTIAL MORTGAGE MARKET

The purpose of this chapter is to provide a context for the mortgage lending activities of Canada's large financial institutions. Section 2.1 deals with the essential investment characteristics of the residential mortgage which influence its marketability and ultimately determine the supply of investor funds made available to the market. Section 2.2 provides a retrospect of the Canadian residential mortgage market (1954-81), the focus of which is the effect of privatization of market activities on institutional participation in mortgage lending. Section 2.3 discusses the evolution of a structural role for the large institutions in the nation's mortgage market which resulted from market privatization. Section 2.4 outlines the consequences of this structural role for the process by which mortgage capital is channelled from mortgage investors to specific regional and urban housing markets.

2.1 Residential Mortgage Investment

The mortgage capital required to fund housing expenditure is supplied from two main sources. The first source is the mortgagor who commits personal savings towards the total cost of a property in the form of a downpayment. The second, usually larger, source flows from a range of investors willing to provide housing finance in return for a fee: viz., the interest charged on the capital provided plus the cost of servicing and administering the mortgage agreement.¹ The supply of capital arising from this second external or market source² will vary according to the

total amount of funds made available by savers in a country³ and the strength of competing demands for credit by personal, business and government sectors of the economy.⁴

The supply of investor capital destined for the mortgage market ultimately depends upon the competitiveness of mortgages in relation to other potential investments.⁵ The mortgage, broadly defined, is a long-term investment instrument displaying high risk and return features when contrasted with the other leading long-term financial instruments, corporate and government bonds. In the Canadian investment markets, Hatch observes "...a number of institutions have rules of thumb regarding the yield spread that should exist between bonds and mortgages before the latter become attractive investments. Generally, the preferred spread is from one-half to three-quarters of one percent after allowing for servicing charges".⁶

There are several reasons for the existence of a spread of one to one and a half percent between bond and mortgage portfolios. Essentially, the difference arises from the general lack of familiarity with, and confidence in, real estate as an investment. Bonds are more easily managed than mortgages because there is no additional expense of servicing and administering.⁷

Bonds are also more easily marketed than mortgages. The marketability problem of mortgages is many-faceted. A number of investment characteristics which underlie the poor marketability and which gives rise to the relatively high cost and unstable supply of mortgage money are discussed below.

2.1.1 Mortgage Liquidity

The decision to invest in mortgages will be tempered by the risk of not being able to disinvest or liquidate in response to changing financial circumstances. The investment options presented by liquidity ("...the ability to realize value in money..."⁸) are "...desired by financial asset holders even if they do not in fact dispose of their financial assets".⁹ Residential mortgages are generally considered relatively illiquid when contrasted with other investment instruments;¹⁰ that is, the value of a package of mortgages is not as easily translated into cash as, for example, a package of bonds.¹¹

The exchange of mortgages is costly and time-consuming to transact, and the likelihood that the value of the mortgage investment will be recovered is uncertain.¹² Whereas bonds or other securities are originated in bundles of equal investment characteristics, each residential mortgage is unique. "Mortgages range from small single-family residential mortgages which in many ways approximate consumer loans to large multiple dwelling mortgages which in many ways approximate corporate direct placement bonds or debentures".¹³ The time and cost involved with packaging mortgages for sale becomes significant.¹⁴ The inevitable result of the high transaction cost of mortgages is "...a certain level of conservatism in the market".¹⁵ The difficulty of packaging a marketable bundle of mortgages is increased for those investors, particularly the smaller ones, who do not have a sufficiently diversified portfolio of their own to draw upon.¹⁶

Mortgage liquidity suffers most perhaps from the dispersed and fractured nature of the national mortgage market, which is in reality "...a series of overlapping submarkets characterized by "one of a kind" deals, special considerations and local orientation".¹⁷ Whereas corporate and

government securities are issued and traded in national markets at nationally quoted yields, residential mortgages are originated and traded in numerous local sub-markets at varying yields.¹⁸ Within the confines of a given mortgage sub-market investors face a limited number of potential buyers for their mortgages, who may not want to buy when the investor wishes to sell. Conversely, investors wishing to buy mortgages must contend with a shortage of market quotes and the added uncertainty that mortgages will not be available when desired.¹⁹ The option to increase the yield of an investment portfolio through shrewd trading, an option available to investors in bonds, is not possible with the less liquid mortgage. Mortgages have come to be considered a "...buy and hold investment..."²⁰

The mortgage liquidity problem is inherently structural; a structural remedy is therefore required. An often repeated prescription has been the development of a permanent secondary mortgage market with a central, federally administered, facility like the United States' Federal National Mortgage Association (FNMA).²¹ Binnhammer outlines the characteristics such a secondary mortgage market displays.

1. A sufficiently large number of participants so that it is impossible for any one to have an undue influence on the terms of mortgages originating in the primary market or the going price of existing mortgages trading in secondary markets.
2. A mortgage instrument that is standardized so that it is not identified with a particular lender in a manner that enables him/her to influence price or terms. Although individual mortgages are differentiated, there is much scope for processing them into relatively homogeneous packages to meet the requirements of a developed market.
3. Market participants who have adequate knowledge of market conditions to make rational choices based on the prices generated in the market.

4. Continuous trading in the market, or at least the possibility for mortgage lenders to turn to the market whenever they desire to adjust their mortgage portfolios. This implies that there is a sufficiently large variety of "packaged mortgages" to meet the diverse preferences of lenders.
5. Relatively close integration of the various sub-markets, and a total residential mortgage market related closely to other financial markets. The mortgage market would also show some homogeneity geographically.²²

Binnhammer's final point bears further emphasis for it describes a vital function of a developed national mortgage market: the integration of mortgage sub-markets within the country. Such integration would increase the level of market information on different areas of the country and, in effect, reduce the risk for investors trading in new territory. Mortgage illiquidity may be seen as not only a disincentive to investment and re-investment in mortgages, but also as a barrier to the geographical switching of mortgage flows.²³

2.1.2 Default Risk

A second investment characteristic of the residential mortgage which directly affects the instrument's marketability is default risk. Factors related to mortgage default include borrowing for refinancing, the presence of secondary financing, loan-to-value ratio, the borrower's occupation, the borrower's number of dependents,²⁴ the characteristics of the property²⁵ and its geographical location.²⁶ The real cost of mortgage default is not the dollar loss (in the last 25 years in Canada, the dollar loss for most financial institutions has been negligible) but the additional administrative effort and costs required to manage a foreclosure and the subsequent sale of a property.²⁷ Mortgage default can occur at any time, and the risk of a lender having to reinvest recovered money when interest rates are

low is an additional and undesirable cost of administering a mortgage default.²⁸

The marketability of mortgages and hence the flow of investment capital into mortgages will always suffer from an unusually complex and largely unpredictable default risk. The need to address this problem was particularly acute in Canada during the early 1950s when it became clear that the then current supply of mortgage capital would be inadequate to meet the housing finance needs of the postwar reconstruction years. At that time the federal government instituted a mortgage insurance program designed to reduce the risk associated with mortgage investment and, it followed, to increase the supply of mortgage money.²⁹ The central feature of the program was the development of the National Housing Act (NHA) insured mortgage, a financial instrument guaranteed against loss by the federal government.³⁰ The extent to which mortgage insurance has successfully neutralized the financial, demographic or geographical factors which contribute to default risk is moot: see Section 2.2 below for a discussion of the subject. In general, it is important to emphasize, as Hatch points out, that "...the lender does not rely exclusively on mortgage insurance to protect against excessive risk. In fact, most mortgage lenders are quite risk averse and try to avoid the difficult and lengthy procedures of foreclosures. As a result, the lender tends to avoid what is perceived as a risky loan even if mortgage insurance should happen to be available".³¹

Aside from the specific aspect of insurance the NHA mortgage also differs from the conventional residential loan in several other ways.³² Whereas the terms of the conventional loan -- that is, amount, interest rate, amortization period, mortgage term, and loan-to-value ratio -- are "...established solely by the lender..."³³ and therefore vary, most terms of the

NHA mortgage are set by the federal government under the National Housing Act. As well, in order to qualify for an NHA mortgage a property must meet specified building standards.³⁴

The interest rate spread between NHA and conventional mortgages is usually around one-half of one percentage point, but varies with the availability of funds in the credit markets. When funds are plentiful the spread narrows.³⁵ The lower yield on NHA mortgages than on conventional loans reflects the lower risk associated with the NHA insured mortgage. It also reflects the generally superior marketability of the NHA mortgage. Because of greater standardization of mortgage terms and property characteristics, NHA mortgages are relatively homogeneous as an investment instrument when contrasted with conventional loans. NHA mortgages are consequently more liquid, which improves their marketability relative to conventional loans.³⁶ Data on secondary market activity in Canada is both scarce and sketchy³⁷ and only available for NHA mortgage loans, so it is not possible to compare trading activity in NHA and conventional mortgages and to measure the difference in marketability between the two loan types.

2.1.3 Prepayment

Under the Interest Act³⁸ if the original term of a mortgage is over five years the mortgagor is permitted to repay the full amount of the outstanding principal in return for payment of three months interest to the lender.³⁹ With respect to NHA mortgages, the mortgagor may, regardless of the term of the loan, "...prepay up to 10 percent of the original amount of the loan at the time of the 12th monthly payment, another 10 percent at the time of the 24th monthly payment, and all or part of the outstanding balance on any monthly anniversary after the 36th monthly payment..."⁴⁰

in return for a three months interest bonus paid to the lender.⁴¹

The prepayment feature of the residential mortgage loan establishes a somewhat unilateral contract between mortgagor and lender:⁴² the lender is committed to the full term of the loan while the borrower is not. The risk of prepayment is most strongly felt when interest rates are high (and the political pressures to maintain the flow of mortgage funds the greatest). A lender faced at such times with the choice of investing in a mortgage or a bond while interest rates are peaking will be understandably reluctant to commit funds to mortgages which can be prepaid as rates fall, when the yield on an investment in bonds is assured for the full term of the loan.⁴³ The prepayment feature of the mortgage loan introduces another level of uncertainty into mortgage investment and consequently reduces mortgage marketability.

2.1.4 Mortgage Commitment: New Residential Construction

The final investment characteristic affecting the marketability of the residential mortgage concerns the timing requirements of mortgage loans on new residential construction. Prior to the commencement of construction the house builder must seek from the mortgage lender a commitment to supply funds once construction is completed.⁴⁴ Because of the time lags existing between the point of mortgage commitment and that of mortgage 'take-down' or 'take-out'⁴⁵ the lender must make the investment decision to lend on new construction on the basis of "...anticipated savings inflows..."⁴⁶ The risk of lending on new housing is thus heightened beyond that already associated with housing in general. Binnhammer explains: "Because of inevitable uncertainties in estimating the flow of funds available for investment, and the timing and volume of loan disbursements

resulting from earlier commitment, primary mortgage lenders expose themselves to risk of over-committed positions".⁴⁷ Lender reaction to the particular risk of financing new residential construction loans is to reduce or refrain from investment in new construction mortgages. The inability of lenders to manage the mortgage commitment process is a cause of "...wide fluctuations in the availability of mortgage funds".⁴⁸

2.1.4 Summary

Because mortgages are a financial market instrument, the rate of investment in mortgages will depend upon the mortgage's performance as an investment vehicle. It has been shown that, particularly contrasted with competing long-term instruments such as bonds, mortgages suffer from poor marketability. This failure is reflected, not only in the higher cost of mortgage money, but in the instability of its supply. The lack of a functional national marketplace for trade in mortgages causes further instability in mortgage flows to local housing markets by artificially reducing the total supply of funds available to those markets.

The undeveloped state of Canada's national mortgage market has triggered various responses from the federal government in the postwar era. Attempts have been made to improve mortgage marketability and the supply of mortgage capital by addressing the concerns of mortgage lenders and investors, most notably the country's large financial institutions. Recurrent crises in Canadian housing markets as a result of the sustained high cost of procuring shelter have also played a key role in determining the direction of federal initiatives. In the following section the role carved out for the major institutional lenders in Canada's postwar housing finance system will be discussed.

2.2 The Privatization of Housing Finance: 1954-1981

Widespread homeownership has long been the fundamental goal of federal housing policy in Canada. Equally longstanding has been the problem of securing the housing finance required to support such a goal. It was recognized at the outset of the postwar period that the public sector could not hope to sustain the capital requirements of projected housing growth. The primary objective of federal planners was then (and remains today) to improve the institutionally-based private sector supply of residential mortgage capital in such a fashion that a self-supporting nationally-based housing finance system is established.

The private suppliers of residential mortgage capital can be affected by manipulation of the regulators of the flow of funds in the capital market. Poapst lists three types of regulators:

- 1) the expected after-tax rewards (profitability), and the risk of the investor;
- 2) legal constraints of a protective or regulatory kind upon the terms and conditions of financial contracts, upon their primary and secondary marketing, and upon the activity of the investors; and
- 3) monetary and fiscal policies.⁴⁹

The use made of these three types of regulators by the federal government to increase the private, specifically institutional, supply of mortgage capital is examined in this section by way of a brief review of postwar developments in the Canadian residential mortgage market. The impact of these developments is interpreted within an institutional context in recognition of the variable impact housing and economic policy changes exert on different types of financial institutions.⁵⁰

Since even a brief review of a quarter century of monetary and fiscal policy effects on mortgage and housing market participants would tax the

scope of this paper, the federal deployment of the third type of regulator, monetary and fiscal policies, has not been explored in any great depth.

It may be noted that monetary policy has, in general, a greater and certainly more visible impact on mortgage flows than fiscal policy.⁵¹ In the short run, changes to the tax system are not thought to be effective in the regulation of mortgage flows,⁵² although in the long run the balance struck by the fiscal system "...can severely affect the competitive advantages of one housing submarket over another", for example the homeownership market over the rental market.⁵³

2.2.1 The 1954 National Housing Act

While some inroads have been made into the backlog of housing resulting from the wartime hiatus in residential construction, Canada's population was growing apace....New sources of mortgage funds had to be found and towards this end a new National Housing Act was passed in 1954....⁵⁴

At the outset of the postwar period the federal government had come to appreciate that it could not go on directly supplying mortgage credit to Canadian homeowners as it had been under the public-private joint loan system then in place.⁵⁵ Projected demand for housing was expected to require far greater sums of investment capital than the public sector could be counted on to provide. In 1954, the groundwork was set for fundamental change to the nature of residential mortgage lending in Canada. The NHA revisions of that year firmly established the private sector as the primary source of residential mortgage finance in the country, and the institutional sector as the main channel of that private capital.

A new debt instrument was created under the 1954 NHA aimed directly at serving the housing finance needs of Canada's growing middle-class. The NHA mortgage (as it came to be called) was designed and marketed as a

riskless investment -- a clear response to investor perception of high risk in the mortgage investment field. Lenders approved under the NHA⁵⁶ were enabled to originate high-ratio NHA mortgage loans, the balance over 75 percent to be insured against loss by a central fund paid for by the mortgagor. In the event of default, the NHA lender had "...the statutory right to retain profitable real estate and offer marginal or doubtful properties to the fund..." in exchange for cash.⁵⁷

As a means of extending the investment opportunity presented by the NHA mortgage, provision was made in the NHA revisions for the free sale of NHA mortgage assets to non-approved mortgage lenders and private investors. The only stipulation made was that the originating lender must continue to service and administer the actual mortgage agreement after the sale of the mortgage paper. This trading provision in the 1954 NHA was aimed particularly at the growing pools of savings collecting in newly conceived public and private pension and trustee funds.⁵⁸

Several terms and conditions of mortgage lending were redefined under the Act of 1954 in an attempt to free both the demand and supply sides of the mortgage business. For the consumer, a statutory right to a 25 year loan term and amortization period was established, thus paving the way for larger loan amounts supported by affordable monthly payments.⁵⁹ For the mortgage lenders and investors, a first step was made towards opening up the interest rate on government sponsored mortgages for competition among lenders when the old statutory anchor was replaced by a prescribed maximum interest rate.⁶⁰

Of the many changes incorporated in the 1954 NHA perhaps the most prescient was the admission of the chartered banks to the mortgage lending field. Through the banks' participation in the mortgage business, the market

gained access to the largest pool of private capital in the country. Most crucial to the realization of the federal goal of a nationally-based mortgage finance system was the network of over 4000 branch outlets the banks brought with them. For the first time, countrywide mortgage coverage was available from the private sector.⁶¹

The 1954 NHA revisions were the first in a series of stepped withdrawals by the federal government from mainstream mortgage lending. Responsibility for the provision of housing finance was being turned over to the private sector, with a major role assigned to the large financial intermediaries. This course allowed the government and the public sector in general to free funds for selective use in the housing and mortgage markets. It was not for several years, however, that a clear demarcation could be discerned between the lending spheres of the private and public sectors.

2.2.2 1955-1969

The 1954 NHA revisions were immediately successful. Within five years over \$2 billion worth of NHA loans had been originated by approved lenders. "(S)howing no signs of the reluctance which had featured the Committee hearings..." on the NHA revisions,⁶² and "...believing that a substantial operation was necessary to spread the administrative overhead",⁶³ the banks alone approached the \$600 million mark in NHA loan originations by the end of 1957. The response by non-approved lenders and investors was equally positive: under the trading provisions set out in the new Act, approximately \$130 million worth of mortgage assets were exchanged in secondary market transactions from 1954 to 1957.⁶⁴

Despite the initial enthusiasm of private sector investors with NHA mortgage lending, the inherent instability of the mortgage capital supply

soon resurfaced as a problem for the federal government. In 1956 the economy was expanding quickly and capital demands by government and business sectors were drawing private savings away from the mortgage and housing markets. The mildly contractionary monetary policy pursued by the Governor of the Bank of Canada during 1957 only exacerbated the shortage of mortgage credit.

With the hope of easing some of the downward pressure on housing starts caused by the scarcity of mortgage funds, the Bank of Canada persuaded the banks in March of 1957 to originate a minimum of \$150 million in new residential mortgage loans.⁶⁵ In August of the same year, the federal government established an agency program with approved lenders as an additional counter to the credit shortage in housing and mortgage markets. Through its mortgage administration arm, Central Mortgage and Housing Corporation (CMHC),⁶⁶ the federal government placed \$150 million of public funds with the approved lenders for origination and servicing of new mortgages. By May of the following year \$500 million more had been injected into the NHA market under the agency program.⁶⁷

The direct lending policy underlying the agency program of the late 1950s revealed the federal government's decision to adopt the role of stabilizer in the mortgage markets in the years to come.⁶⁸ CMHC, which "...had been used basically as a lender of last resort in areas where no loans were available through lending institutions",⁶⁹ was now given a mandate to enter the mortgage market with direct loans when the private supply of mortgage capital was inadequate and to withdraw during better times.⁷⁰ To a large extent then, the public-private mortgage finance system continued on in the aftermath of the NHA revisions of 1954. Better incentives were needed to attract and hold private investment dollars.

Dwelling starts rose substantially during the 1957-58 period in response

to the capital infusion engendered by the agency program (see Table 2A.1). Interest rates continued to rise through 1959 however, and housing starts once again began to slide. In December of 1959 the NHA mortgage rate passed the 6 percent mark and settled at 6 3/4 percent; the banks withdrew from the mortgage market. Under the Bank Act, all bank loans including NHA mortgages were subject to a 6 percent interest ceiling.⁷¹ Although legally able to continue lending at 6 percent, the banks were unwilling to invest at such uncompetitive yields. They consequently foresook mortgage lending. This hiatus in bank mortgage lending was to last seven years.

During the years of the banks' absence from the mortgage market,⁷² CMHC concentrated on expanding the field of potential NHA investors to both reduce market dependency on the activities of the large financial institutions and to increase the total supply of private sector mortgage capital. Private investors were courted at a series of NHA loan auctions sponsored by the Corporation. Between January of 1961 and May of 1965 approximately \$300 million of federally held NHA mortgage assets were sold to pension funds, "...unseasoned....." investors⁷³ and other groups.

The influx of new mortgage money from private investors did not compensate for the gap in housing finance left by the retreat of the banks. Despite greater lending by trust and loan companies, CMHC was called upon to dramatically increase its own funding levels in the early 1960s.⁷⁴ By 1963 the urgent need for a recovery in the housing market prompted the federal government to initiate a massive Winter Housing Building Program in 1963-64.⁷⁵ As a means of broadening the scope of federal activity in housing and mortgage markets, NHA loan provisions were extended to the existing housing market.

By 1965 desired economic growth had been achieved but it was soon to

be followed by another severe shortfall in the credit markets.⁷⁶ Tight money that year led to the failure of the Atlantic Acceptance Corporation. This failure reverberated within the trust and loan company community and resulted in a drastic reduction in mortgage originations by this group of lenders in 1966.⁷⁷ The mortgage market was dealt a second blow with the untimely introduction of the Canada/Quebec Pension Plan in 1966. This vehicle for forced long-term savings proved stiff competition for the life companies: asset growth was curtailed sharply and a considerable reduction in the volume of LIC mortgage loans followed.

The Bank Act revisions of 1967 signalled a major reversal in the decline of the institutional supply of mortgage capital which had begun at the turn of the decade. The interest ceilings on bank loans were removed and banks were permitted the same price leverage accorded to competing financial intermediaries. The Bank Act also opened up the conventional mortgage lending field to the chartered banks, again placing them on a more equal footing with other mortgage lenders. One of the banks' responses to their newfound freedom under the Bank Act was to re-invest quickly in residential mortgages, both NHA and conventional.

Although the changes to the Bank Act greatly expanded the mortgage lending scope of the banks, the Act was not without its limiting features. In order to maintain a clear separation between banking and other intermediary business such as trustee activity, the 1967 Act prohibited interlocking directorships between banks and near-banks.⁷⁸ The integrity of the trust company was thus reaffirmed by the Bank Act, and the leading role to be played by both banks and trust companies in the mortgage market of the 1970s was established. Credit unions, like LICs at this time, were experiencing a decline in mortgage lending activity; they could not compete against banks,

trust companies and restrictive provincial usury laws.⁷⁹

Prior to 1970, a series of major regulatory changes were made to the NHA which complemented the thrust of the liberal bank legislation of 1967. A number of structural constraints to high volume mortgage lending (required of the institutional sector as housing development burgeoned in the late 1960s) had developed, and federal action was required to ensure continued participation by the institutional lenders. The first major regulatory change implemented by the federal government was to free the NHA mortgage rate to fluctuate with other market rates.⁸⁰ CMHC's quarterly adjustment process, the established NHA rate-setting method since 1954, had proven insufficient in the face of volatile interest rates characteristic of the 1960s. The "...adjustments had a tendency to produce cyclical fluctuations in the flow of funds into mortgages as the rate changed from a competitive one to a non-competitive one and back again".⁸¹

The second major regulatory change to the business of mortgage lending came in a package of federal housing legislation passed in July of 1969. The 25 year mortgage term for all NHA loans, fixed since 1954, was revised to give the lender the option of issuing five year renewable mortgages.⁸² The five year mortgage term was created to provide a better asset and liability match for mid-term lenders such as trust and loan companies,⁸³ the bulk of whose funds are derived from five year deposits and certificates.⁸⁴

The 1969 legislation also contained two modernizing measures intended to improve mortgage market operations in an inflationary economy. First, the NHA provisions with respect to rental housing were altered to permit equity participation loans by long-term lenders like the LICs.⁸⁵ The value of mortgage investments held by these lenders was being steadily

eroded by rising prices in the economy. Equity participation would allow the LICs a share in property value and consequently a share in any increase in that value arising from inflation. The second measure saw the maximum NHA loan amount on single-family dwellings raised as a means of preventing "...undue increases in downpayment requirements as the price of houses increased",⁸⁶

The last of the major changes to the NHA enacted in the summer of 1969 dealt with the terms and conditions of conventional lending as carried out by LICs, trust and loan companies. In the case of federally registered companies, the maximum loan-to-value ratio on conventional loans was raised to 75 percent, placing it on par with NHA loans,⁸⁷ and further extended to 90 percent as long as the amount in excess of 75 percent was privately insured. Although provision for private insurance of conventional mortgages had been made as early as 1964 (the year the Mortgage Insurance Company of Canada (MICC) began business) it was the introduction of the high-ratio loan in 1969 which triggered the development of a private mortgage insurance industry in Canada.

The NHA changes passed in 1969 brought to a close what may be viewed as the first period in the development of Canada's self-supporting nationally-based housing finance system. The period began with the 1954 NHA which set out a regulatory base for institutions and other private sector investors interested in mortgage investment. The major incentive in this regulatory package, that meant to attract and hold investor interest, was the NHA guaranteed mortgage. It became apparent, however, that a great deal more in the way of incentive would be required to maintain the supply of institutional mortgage capital, let alone to excite the interest of non-traditional and non-institutional investors. Up to 1969 the federal government continued

to inject much needed and hefty sums of public capital into the mortgage market.

The partial and, in the case of the banks, the full withdrawal from mortgage lending by major institutional lenders prior to the Bank Act revisions in 1967 and the NHA revisions in 1967-69, had in many ways little to do with the business of mortgage lending. In each case, the mortgage activities of the institutions had been curtailed because of general investment constraints affecting the institutions as a whole. Insufficient flexibility existed for institutional investors to avoid sharp reductions in mortgage investment. The legislation of 1967-69 which redefined the terms of mortgage lending for the institutional lenders addressed this shortcoming. The mortgage market was greatly deregulated; the most important feature of this deregulation was the freeing of the NHA interest rate. In addition, a direct attempt was made to accommodate the institutional lenders' needs as mortgage investors (e.g., the establishment of the five year mortgage term, the allowance for equity participation) and to encourage market competition in all aspects of mortgage lending (e.g., the greater role given to the private mortgage insurers). By the end of the decade then, the task of supporting the nation's mortgage finance system had been made easier for the large financial institutions in Canada.

2.2.3 1970-1981

Monetary restraint imposed by the federal government in 1969 to slow inflationary growth was relaxed by late 1970.⁸⁸ Demand for mortgage funds at this time was heavy as the children of the postwar baby-boom began entering the family housing market and growth in real incomes made demand effective.⁸⁹ The pace of mortgage lending accelerated quickly. Table 2.1

^a TABLE 2.1: All Residential Mortgage Loans Approved by Lending Institutions,¹ Canada 1954-1981 (Billions of Dollars)

1954	0.9	1968	2.4
1955	1.2	1969	2.4
1956	1.0	1970	2.1
1957	0.8	1971	3.8
1958	1.2	1972	4.9
1959	1.1	1973	6.9
1960	1.0	1974	5.9
1961	1.4	1975	9.0
1962	1.5	1976	10.2
1963	1.8	1977	14.6
1964	2.3	1978	13.9
1965	2.0	1979	14.0
1966	1.2	1980	12.0
1967	1.8	1981	9.3

¹ Includes banks, life insurance companies, trust companies, loan companies, and other lenders.

Source: Canadian Housing Statistics, various issues.

illustrates the growth in the dollar volume of institutional mortgage loans from 1970 to 1973. Although partially attributable to inflationary pressures on loan and building costs, the growth in loan values over these four years was nonetheless substantial.

The source of much of the increase in mortgage lending after the turn of the decade lay in the strong asset growth of the financial institutions (see Table 2.). They were both willing and able to provide the mortgage market with considerable amounts of funds.⁹⁰ The supply of five-year money in particular⁹⁰ was plentiful, making possible the swift adoption of the new five year term mortgages. (By 1974 over 95 percent of all NHA mortgages were of this type.⁹¹) The increase in dollar volumes also undoubtedly reflected the greater use of the high-ratio mortgage loan.⁹²

Although institutions were increasing their mortgage investments in both actual dollars and as a proportion of total investments (see Table 2.2) in the early 1970s, the security of this supply remained an ongoing concern for federal planners. Institutional lenders had by this time "...developed the capacity to originate and service a far greater volume of mortgage loans than they were willing to hold in their own investment portfolios".⁹³ If the institutional machine was to continue working in favour of the mortgage market, new outlets would be required for institutionally originated loans. Without these outlets, institutional lenders would continue to adjust their mortgage holdings in the primary market, "...thereby creating wide fluctuations in the availability of mortgage funds".⁹⁴

The federal government first responded to the marketing requirements of the major financial intermediaries in 1971 with income tax legislation that paved the way for Real Estate Investment Trusts (REITs) in Canadian financial markets. These unincorporated trusts, very popular in the United

TABLE 2.2: Assets of Lending Institutions, by Type of Lender, Showing All Mortgage Loans Outstanding as Percent Total Assets, Canada 1957-1981 (Millions of Dollars)

	Banks	Life Insurance Companies	Trust Companies	Loan ¹ Companies	Credit Unions	Other ² Lenders	All Lenders
1957	14244 (4.1)	6544 (40.6)	772 (35.6)	694 (75.1)		430 (16.3)	22684
1958	15840 (5.0)	7066 (40.7)	954 (36.0)	771 (73.8)		463 (17.3)	25094
1959	15784 (6.1)	7491 (42.0)	1058 (38.7)	844 (74.5)		464 (19.0)	25641
1960	16917 (5.7)	8040 (42.4)	1302 (36.3)	914 (76.4)		495 (19.6)	27668
1961	19153 (5.0)	8660 (42.8)	1585 (39.2)	1090 (74.8)	1506 (28.3)	526 (22.6)	32520
1962	20272 (4.5)	9381 (44.2)	1894 (44.6)	1300 (76.1)	1674 (28.6)	548 (26.3)	35069
1963	22094 (4.0)	10188 (44.8)	2321 (47.5)	1544 (76.9)	1920 (28.6)	583 (30.0)	38650
1964	23872 (3.5)	10893 (46.8)	2860 (50.7)	1936 (77.1)	2213 (28.1)	626 (33.6)	42400
1965	25875 (3.1)	11699 (48.4)	3439 (56.6)	2426 (75.4)	2542 (27.3)	676 (40.8)	46657
1966	27773 (2.8)	12358 (50.6)	3923 (55.3)	2570 (75.8)	2926 (30.2)	701 (44.2)	50251
1967	31649 (2.7)	13121 (50.6)	4353 (55.5)	2772 (74.8)	3382 (31.3)	757 (42.1)	56034
1968	36699 (2.9)	13841 (51.3)	4980 (54.8)	2978 (75.1)	3758 (29.4)	839 (39.9)	63095
1969	42578 (3.1)	14461 (51.8)	5771 (56.6)	3292 (76.2)	4103 (29.3)	787 (43.6)	70992
1970	47307 (3.1)	15264 (50.6)	6564 (58.3)	3778 (75.9)	5228 (25.9)	831 (46.0)	78972
1971	54428 (4.3)	16435 (47.9)	7470 (60.0)	4159 (75.8)	6381 (26.0)	936 (42.7)	89809
1972	63222 (5.5)	18037 (45.2)	8601 (63.5)	4778 (78.5)	8364 (28.6)	935 (41.4)	103937
1973	79754 (5.9)	19681 (44.6)	10509 (68.5)	5913 (80.4)	10425 (32.2)	1044 (42.0)	127326
1974	97015 (6.5)	21038 (45.5)	12443 (71.1)	6743 (81.7)	12235 (34.1)	1155 (43.8)	150629

Table 2.2 cont'd.

	Banks	Life Insurance Companies	Trust Companies	Loan ¹ Companies	Credit Unions	Other ² Lenders	All Lenders
1975	108378 (7.4)	23531 (44.0)	14604 (72.2)	8017 (81.8)	15393 (33.8)	1232 (47.2)	171155
1976	126403 (7.4)	26462 (43.4)	18335 (71.8)	9226 (80.8)	18847 (36.2)	1516 (52.2)	200789
1977	150477 (8.0)	29776 (43.4)	23203 (73.0)	9274 (83.1)	23856 (38.4)	1763 (51.6)	238349
1978	189100 (8.2)	33485 (39.4)	27906 (73.4)	10285 (80.7)	28892 (40.3)	1706 (58.4)	291374
1979	229151 (8.1)	37864 (39.1)	33373 (73.1)	12330 (80.9)	32567 (42.9)	1972 (57.3)	347257
1980	281244 (6.8)	43172 (37.8)	38968 (68.8)	16075 (80.6)	37010 (42.2)	2104 (56.7)	408573
1981	336473 (5.4)	55673 (32.0)	43641 (64.2)	21017 (82.8)	39374 (41.0)	4652 (64.8)	500830

¹From 1976, figures have been revised to exclude Mortgage Investment Corporations.

²Includes Quebec savings banks, mutual benefit and fraternal societies. From 1976 on, figures have been revised to include Mortgage Investment Corporations, and from 1978 on figures include Quebec savings banks and Mortgage Investment Corporations only.

Source: Canadian Housing Statistics, various issues.

States at the time, were created to permit investment by individual, corporate or institutional investors in "...portfolios of mortgages and other real estate related investments".⁹⁵

In the following year the federal parliament gave first reading to the Residential Mortgage Financing Act. This Act created a second mortgage investment vehicle, the Mortgage Investment Company (MIC). These new companies (similar to mutual funds⁹⁶) were intended to further reduce barriers to mortgage investment by small lenders. Ideally they would address (1) the difficulty of dividing mortgages into shares so that smaller investors could participate, (2) the requirement of large sums of money in order to achieve diversification in a mortgage portfolio and (3) the lack of familiarity by potential investors with the mortgage market.⁹⁷

REITs and MICs which have come into existence usually depend upon the mortgage origination services of sponsor organizations. In most cases; these sponsors are the large financial institutions.⁹⁸ Through REITs and MICs the federal government was thus able to both open up the mortgage market to new sources of capital and to satisfy the economies of scale requirements of the major lenders.

The revised Residential Mortgage Financing Act of 1973 included a third provision for the sale of mortgage assets (in this case directed at large-scale rather than individual investors). Under the Revised Act the federal government was empowered to establish a permanent processing and trading house for mortgage transactions in the secondary market, to be called the Federal Mortgage Exchange Corporation (FMEC). The mortgage exchange facility, like the American mortgage monolith FNMA or Fannie Mae, would purchase mortgages from primary lenders and package them for sale to institutional investors in the secondary market. The new Corporation would

("...standing ready to buy and sell mortgages...") provide the liquidity which investors such as pension funds and credit unions found lacking in mortgages.⁹⁹ The Corporation would also be charged with buying "...loans in one region or locality while simultaneously selling comparable loans in others".¹⁰⁰ In this way capital would be responsive to shifts in demand for mortgage funds from one part of the country to another. Through the FMEC then, a wide range of investors would be able to share in the yields of geographical switching operations. The greater competition in inter-regional lending could help to reduce any yield differentials resulting from inefficient primary market capital allocation.¹⁰¹

While REITs and MICs did come about as a minor market force, the legislation creating the FMEC was never used.¹⁰² The federal government's attempt to broaden investor access to the mortgage market, while at the same time, establishing an independent mechanism for the recycling of institutionally originated mortgages, was therefore only partially achieved. If outlets for the growing supply of institutional mortgages were to be found, it remained with the institutions themselves to develop them.

During the early 1970s government attention to structural changes in the residential mortgage market soon gave way to more practical concerns of supply. Inflation began pushing up interest rates and housing prices. As a means of offsetting escalating housing costs experienced by low and middle income Canadians, the federal government introduced the Assisted Home Ownership Program and the Assisted Rental Program (AHOP and ARP) in 1973.¹⁰³ AHOP featured a system of deferred loans and direct cash grants¹⁰⁴ to help borrowers reduce their monthly mortgage payments. As interest rates continued to rise that year, the federal government once again resorted to moral suasion: the Minister of Finance concluded an agreement with the banks

to limit their mortgage rate to 10 percent.¹⁰⁵

In 1974 the worldwide recession took hold in Canada and inflationary price increases, most salient in the housing and land markets, continued unabated. Investors, uncertain about the state of the economy, withdrew from the mid- and long-term money markets, causing a reduction in the supply of available mortgage credit (see Table 2.1) and further upward pressure on mortgage interest rates. Investor preference for short-term deposits was particularly injurious to the mortgage lending activities of trust and loan companies who rely heavily on five-year money to support their mortgage investments.

The federal government once again appealed to the lending institutions. They were asked to restrain the terms and conditions of their conventional high-ratio loans along NHA guidelines -- that is, to follow the maximum loan amount limits applicable to NHA mortgages. While it was hoped that this action would discourage further entrenchment of high housing costs and heavy mortgage burdens, the result was a reduction in conventional mortgage lending. Although the NHA maximum loan amount had been increased in 1974, it still did not adequately reflect the extent of price increases in housing, particularly in the larger urban centres.

To meet the demand for affordable housing finance, the federal government dramatically increased public funding of AHOP and its sister program ARP in 1975, and tied it to approved lender mortgage loans. As mortgage rates began to fall in 1976, loan originations started to climb. In 1977 the assistance of AHOP in conjunction with lower rates and pent-up demand for mortgage funds precipitated a surge of mortgage lending by all major institutions (see Table 2.1).¹⁰⁶

The federal government phased out AHOP and ARP in 1978, withdrawing the

large capital supply which had supported mortgage market activity during the previous five years. To assist homeowners in affording mortgage credit, the cost of which remained relatively high, and consequently to maintain an adequate level of activity in the mortgage market, the federal government followed AHOP with a new program centered on the Graduated Payment Mortgage (GPM). This new type of mortgage extended the concept of graduated payments used under AHOP.¹⁰⁷ It was hoped that with the co-operation of the lending institutions the GPM would unblock ineffective demand for housing loans as AHOP had helped to do.¹⁰⁸

Interest rates and the inflation rate continued to remain high throughout 1978 and 1979. Buoyed by strong institutional asset growth (see Table 2.2) the supply of mortgage credit was nonetheless plentiful. Demand for mortgage funds on the other hand was very sluggish as the cost of housing kept escalating. By the fall of 1979 mortgage rates leapt despite soft demand for mortgage credit. The decision by the Bank of Canada in 1980 to re-establish the floating bank rate led to extreme volatility in the money markets and further eroded mortgage demand. Housing starts fell to mid-1960s levels and the mortgage market stagnated (see Table 2A-1).¹⁰⁹

The widespread economic uncertainty which characterized the 1980-81 period led to the virtual abandonment of the five year term mortgage after just a decade of use.¹¹⁰ Institutional lenders were restructuring their loan terms to accommodate depositor preference for short-term investments. Few lenders were willing to gamble on the future course of interest rates. By 1981 the floating rate mortgage¹¹¹ had come into use, epitomizing the cautious stance adopted by both lenders and borrowers in the uncertain economic climate.¹¹²

Mortgage rates moderated in the late summer of 1981. The supply of

mortgage capital remained scarce, however, since lenders preferred to hold back investment until the market stabilized with some certainty.¹¹³ Despite somewhat lower rates, the real cost of mortgage credit was maintained at high levels by increases in the non-price terms of mortgage money.¹¹⁴ By this point housing finance had become the focus of a major political controversy. The newly returned federal government was forced to respond to the problem and in a November budget, the Canadian Mortgage Renewal Plan (CMRP) was unveiled. The new program was aimed at reducing the immediate effects of high interest rates through a system of deferred interest charges and cash grants.¹¹⁵ Since the program's success depended upon the willing participation of the institutional lenders, they were allowed their much sought guarantee that the amount of deferred interest would be federally insured against loss in the event of default. Lenders in the 1980s were no more confident about the security of the residential mortgage investment than their predecessors in the 1950s.

At the close of 1981 and, for this study, the second period in the development of the postwar Canadian residential mortgage market, the federal government found itself once again preoccupied with the stability of the private supply of mortgage credit. Despite dramatic growth in this private supply throughout much of the previous decade, particularly that arising from the large financial institutions, severe contractions in mortgage credit flows persisted. Federal attempts to establish a self-supporting mortgage finance system were repeatedly undermined by the necessity to supplement costly institutional mortgage funds with public capital (viz., AHOP and CMRP). The federal intent at the outset of the 1970s had been to concentrate public monies on "...the direct funding of housing for persons with low income", a shift away from the funding of "...persons normally qualifying

for insured loans..." which had been the practice in the 1954-69 period.¹¹⁶ Reference to Figure 1.1 confirms that the public share of outstanding mortgage loans declined substantially relative to private shares over the 1970s. While some might argue that AHOP was aimed at low income households, it is clear from CMRP that public subsidies would once again be required for the broad range of income levels.

Relatively few progressive changes were made to the regulations governing the terms and conditions of mortgage lending during the 1970s.¹¹⁷ The incentive to invest in residential mortgages throughout a good part of the decade was provided by sustained high demand for funds and, especially in the latter half of the decade, by the surplus of uncommitted funds in institutional coffers. The marketability of the residential mortgage was not significantly altered except insofar as a somewhat broader cross-section of investors had gained exposure to mortgage investment through REITs and MICs. Without a permanent secondary mortgage market to provide mortgage liquidity, to integrate the various regional and local housing markets and to establish an impartial market place for trade in mortgage assets, the relatively poor investment characteristics of residential mortgages and the inadequacies of the national market remained.

2.3 Large Financial Institutions and the Structure of Canada's National Mortgage Market

The development of the private sector supply of mortgage funds in Canada has primarily involved the federal recruitment of the major financial institutions into the business of large scale mortgage lending. Participation incentives for the non-institutional investor have been pursued and marketed as well but they have met with limited success. A continuing

willingness to rely primarily upon the major financial institutions for the bulk of mortgage finance undoubtedly has its roots in the usefulness of these institutions for the development and administration of the national mortgage market. The consequence of this convenient and prolonged relationship between the large financial institutions and the federal government has, however, been the evolution of a fundamental structural role for the institutions in the functioning of Canada's national residential mortgage market.

Binnhammer lists three major functions of a financial market such as the residential mortgage market. They are:

- 1) to facilitate the transfer of funds from surplus spending units,
- 2) to provide a financial infrastructure which allows an efficient allocation of resources, and
- 3) to provide for the liquidity of non-monetary assets.¹¹⁸

This section examines the institutional performance of these functions in their role as fundamental structural agent in the Canadian residential mortgage market.

2.3.1 Institutional Intermediaries in the Mortgage Market

An effective way to facilitate the flow of investment funds into a particular financial asset is to reduce commodity differentiation.¹¹⁹ This was partially achieved in the Canadian mortgage market through the development of the NHA insured mortgage. The secondary trading provisions for NHA mortgages was an additional measure intended to ease the entry of potential investors into the mortgage market. The NHA mortgage remains today the single most important investment vehicle in the Canadian mortgage market. Its production and subsequent sale in the secondary market are,

however, at the discretion of the approved lenders, who are in the main, the large financial institutions.

It has been pointed out that Canada's secondary mortgage market suffers from a lack of development. It appears that the major lending institutions are either unwilling or unable to further the transfer of mortgage investment funds by developing the secondary market. The major lenders have chosen to encourage mortgage investment through the client markets. These markets deal in mortgages originated for investors by prior arrangement. Financial institutions employ their excess originating capacity to furnish loan orders for captive affiliates (e.g., the Royal Bank's Roymor Ltd. and the various REITs and MICs affiliated with the large lending institutions), or for arm's length clients such as pension funds and financial institutions operating in Canada but prohibited from originating residential mortgages themselves.¹²⁰ Since the early 1970s the client market has proven a useful outlet for institutional mortgage assets at the same time as it has become a reliable if not a speedy¹²¹ vehicle for the transfer of investment funds into mortgages.¹²²

2.3.2 Market Use of Institutional Infrastructure

The absence of a permanent secondary mortgage market in Canada effectively precludes the existence of a cohesive mortgage market infrastructure. The infrastructure which does exist is mainly comprised of the institutional networks of branch outlets. These networks provide Canada with a countrywide base for mortgage market operations through their capacity to link together the many spatially dispersed buyers and sellers of mortgage credit and assets. The institutional branch networks perform the role of circulatory agent for the national mortgage market: they collect money for

investment in primary and secondary markets, and they channel or allocate funds to specific local mortgage markets.

The branch networks of banks and other financial institutions operating under the NHA have proven useful for the management of the national mortgage finance system. Canada's large financial intermediaries are characterized by strong centralized control; their branch outlets exhibit a high degree of operating homogeneity. Consequently, the branch networks act as relatively even transmitters of institutional as well as federal mortgage policy. Federal manipulation of the regulators of mortgage capital flows, if directed through the large institutions, reverberates across the country with much the same force.¹²³

Since the 1954 NHA the significance of the branch networks for the allocation of mortgage market resources has increased. In part this has been a result of the dramatic growth in the size of the branch system itself.¹²⁴ The greater visibility of the branch system in the Canadian financial marketplace has underscored the direct connection between the large institutions and mortgage lending. The institutional branch networks have also gained in stature through their capacity and willingness to directly serve new investment sources (e.g., REITs and MICs) as they were introduced into the mortgage market.¹²⁵

2.3.3 Institutional Mortgage Lenders and the Provision of Mortgage Liquidity

The third function of a mortgage market is to provide liquidity for mortgage assets so that investment capital may easily flow in and out of the market. In Canada, there exists no facility (public or private) specifically charged with that function and all that it entails. Although

the sale of mortgage assets by the large financial institutions to investors, either through the client, or through the periodic secondary markets, has become an integral part of Canadian mortgage lending, few investors or institutions have seriously explored the other end of the trade, that is, the purchase of mortgages for eventual resale.¹²⁶ This, of course, would be one of the main functions of a secondary market facility. It is through this purchasing function that all market investors are ensured liquidity for their mortgage portfolios; the mortgage asset need no longer be simply a 'buy and hold investment'.

In many ways it could be expected that the country's major financial institutions would undertake the development of a secondary market facility within the private sector. Their lack of enthusiasm for the job has, however, been unrelenting. Most institutions continue to represent themselves as "...either originators or investors but not mortgage traders".¹²⁷ Binnhammer suggests that the resources required to develop a secondary market facility or the inherent risk involved in such an undertaking may have discouraged even the largest of the financial institutions from taking on the task.¹²⁸ He goes on to note that as originating capacity outpaces existing secondary market outlets for mortgage paper, the need for additional mortgage liquidity may make the role of 'market maker' more attractive to the large institutions.¹²⁹ At this time it appears that they have developed adequate means of liquidating their own mortgage holdings and have no interest in facilitating (and profiting from) the liquidation of the mortgage assets of others.

2.3.4 Summary

The course of development characterizing Canada's residential mortgage

market since the 1954 NHA has included as a main feature the integration of the large financial institutions into the structure of market activities. The mining of new sources of investment capital for the residential market has taken place through the intermediation of the large institutions. The market infrastructure which supports residential mortgage activities and directs the allocation of mortgage funds to regional and local housing markets has been adopted from the institutions. It is in effect the same infrastructure which is used by the institutions to allocate their own financial resources. And it is through this infrastructure and the investment activities of these institutions that the mortgage market is able to continue as a bona fide financial market, for the institutions are the main purveyors of liquidity to this market. The marriage between the financial institutions and the developing Canadian mortgage market has, without a doubt, benefited both institutions and market. The major financial intermediaries gained access to a vast new field of investment as attested by the postwar growth in institutional mortgage assets (see Table 2.2). The residential mortgage market gained substance the like of which could only have alternatively been provided by the federal government at great public expense.

The structural link between the institutions and the mortgage market has not, however, been without profound consequences for the autonomy of the market. Although the pattern of national savings in Canada has shifted away from traditional deposit-seeking institutions towards specialized investment funds (e.g., REITs, MICs, Registered Retirement Savings Plans, Registered Home Ownership Savings Plans)¹³⁰ the mortgage market function of origination has remained with the traditional institutional lenders. Few of the new investment funds have the capacity to originate, and without

considerable economies of scale these funds could not compete with the large institutions as mortgage originators. As these new funds develop their mortgage portfolios then, the separation between origination and investment functions in the mortgage market will grow even further.¹³¹ The result of this turn of events is that the large intermediaries are assuming an even more dominant role as allocators of mortgage credit than they have had or will have as suppliers of mortgage credit.

2.4 The Geographical Allocation of Housing Finance and the Large Financial Institutions

The trend towards concentration of mortgage originating activities with a relatively few large institutions in Canada may be part of a market structure that is best suited to the development of the mortgage capital supply in this country. The consequence of relying on the institutional lenders for the allocation of mortgage money within the national market is, however, to stress institutional predispositions towards the location of mortgage investment. In both client and secondary markets the geographical location of mortgage loans is usually the choice of the institutional lender.¹³² Regarding the location of loans held by the then newly formed REITs, Hatch observes, "...although it may be premature to draw firm conclusions about individual REIT asset and liability structures, some patterns are emerging. In most cases, the geographical distribution of initial and subsequent loans have mirrored the geographical strengths of the (institutional) advisors".¹³³

What are the geographical strengths of the institutional mortgage lenders? What areas of the country do they favour for mortgage investment? How do the institutions vary in terms of their geographical strengths?

Why do they vary?

It was argued at the outset of this paper that because of geographical imbalances in mortgage risk, mortgage investment will neither flow equally nor at the same cost to all areas of a country. It was also argued that institutional assessments of geographical imbalances in mortgage risk were partially a function of imperfect market information and organization or business concerns which may have little or nothing to do with mortgage lending and the actual variation of mortgage risk in space. Since each lender brings to bear diverse criteria in the risk rating process the result is a variety of preferred locations for mortgage investment which vary by type of lender. Section 3.1 and 3.2 below contain an examination of the major institutional lenders with respect to the variety in the nature, scope and purpose of their organizations; Section 3.3 compares their geographical lending patterns.

If the major lending institutions dominate the spatial allocation of mortgage investment in the national mortgage market and yet each type of lender is predisposed to different locations for mortgage investment, what are the consequences of this lending structure for the flow of mortgage capital to regional markets, and between regional markets? Simply this: the main consequence is that regional markets become highly dependent upon adequate institutional coverage for their supply of mortgage credit. To the extent that lenders may adjust their mortgage investment in any given area for reasons unrelated to change in the area's mortgage risk factors, a broadly competitive lending structure is desirable in order to avoid disruption of the flow of mortgage credit to that area. The risks of dependency upon one or more institutional lender for the mortgage capital supply will, of course, vary according to the lender and

to the degree of lender commitment to an area. The nature of the institutional coverage with respect to residential mortgage lending is the subject of Chapter IV.

Footnotes - Chapter II

1. The service and administration fee charged runs one-tenth of one percent for rental properties and between three-eighths and one-half of one percent for single-family properties. J. Hatch, The Canadian Mortgage Market (Toronto: Ontario Ministry of Treasury, Economics and Intergovernmental Affairs, 1975), p. 29.
2. L. Bourne, The Geography of Housing (London: Edward Arnold (Publishers) Ltd., 1981), p. 116.
3. Capital is highly mobile geographically within the nation state, because the single most important constraint to the free flow of commodities (including capital) is national boundaries. D.E. Keeble, "Models of Economic Development", in R.J. Chorley and P. Haggett (eds.), Socio-Economic Models in Geography (London: Methuen, 1968), p. 247.
4. Hatch, The Canadian Mortgage Market, p. 7.
5. Ibid., p. 14.
6. Ibid., p. 40.
7. E.D.L. Miller, G.A. Golden, J.A. Galbraith, "The Potential Impact of a Residential Mortgage Market Corporation on Major Lending Institutions", in J.V. Poapst (ed.), Developing the Residential Mortgage Market, Vol. I (Ottawa: Central Mortgage and Housing Corporation, 1975), p. 46.
8. J.C. Van Horne, The Function and Analysis of Capital Market Rates (Englewood Cliffs, New Jersey: Prentice Hall Inc., 1970), p. 12.
9. H.H. Binnhammer, "The Mortgage Market: The Nature of the Problem", in Poapst, Developing the Residential Mortgage Market, Vol. I, p. 23.
10. Hatch, The Canadian Mortgage Market, p. 47.
11. Packages rather than single units of financial instruments such as bonds, stocks or mortgages are traded in the financial markets. The individual mortgage, bond or stock is virtually illiquid. See L.B. Smith, The Postwar Canadian Housing and Residential Mortgage Markets and the Role of Government (Toronto: University of Toronto Press, 1974), p. 78; P. Halpern, "An Economic Analysis of a Residential Mortgage Market Corporation", in Poapst, Developing the Residential Mortgage Market, Vol. I, p. 97.
12. Van Horne, The Function and Analysis of Capital Market Rates, p. 12.
13. Smith, The Postwar Canadian Housing and Residential Mortgage Markets and the Role of Government, p. 73.

14. The cost of trading mortgages is often exacerbated by the buyers' perception of a need to carefully evaluate each mortgage in the package. Hatch, The Canadian Mortgage Market, p. 38.
15. P.F. McNamara, "Property Development, Financial Institutions and the State", Antipode XI (1979), p. 57.
16. Aged or geographically diversified portfolios have increased liquidity value. Halpern, "An Economic Analysis of a Residential Mortgage Market Corporation", p. 97.
- 17.¹ Smith, The Postwar Canadian Housing and Residential Mortgage Markets and the Role of Government, p. 73.
18. S.B. Klamman, The Postwar Residential Mortgage Market (Princeton: Princeton University Press, 1961), pp. 95-96.
19. Hatch, The Canadian Mortgage Market, p. 246.
20. Ibid., p. 38.
21. In 1973 the prescribed facility was called the Federal Mortgage Exchange Corporation. For a discussion of the Federal National Mortgage Association, see A Guide to Fannie Mae (Washington, D.C.: Federal National Mortgage Association, 1979).
22. Binnhammer, "The Mortgage Market: The Nature of the Problem", p. 24.
23. J.V. Poapst, "Postscript", in Poapst, Developing the Residential Mortgage Market, Vol. I, p. 121.
24. Hatch, The Canadian Mortgage Market, p. 46.
25. G.W. Gau, "A Taxonomic Model for the Risk-rating of Residential Mortgages", Journal of Business LI (1978), p. 690.
26. Hatch, The Canadian Mortgage Market, p. 46.
27. H.H. Binnhammer, "Organizational and Operations of a Proposed Residential Mortgage Corporation -- A General Description", in Poapst, Developing the Residential Mortgage Market, Vol. I, p. 35.
28. J.V. Poapst, "Introduction", in Poapst, Developing the Residential Mortgage Market, Vol. I, p. 7.
29. See Chapter 2.2 for further discussion of the NHA insured mortgage program.
30. Mortgage insurance premiums are paid by the mortgagor to a central fund administered by the federal government.
31. Hatch, The Canadian Mortgage Market, p. 73.

32. Since the mid-1960s the provision of private mortgage insurance on conventional loans has been made possible through the licensing of private mortgage insurers -- e.g., Mortgage Insurance Corporation of Canada and Sovereign Mortgage Insurance Company. The market for private insurance did not really take off, however, until the 1970s. As of 1977, privately insured mortgages constituted about 40 percent of the insured loan market. Central Mortgage and Housing Corporation, NHA-Insured Mortgages as an Investment (Ottawa: CMHC, 1978), p. 15.
33. H. Woodward, Canadian Mortgages (Don Mills, Collins, 1959), p. 29.
34. Binnhammer, "The Mortgage Market: The Nature of the Problem", p. 20.
35. Hatch, The Canadian Mortgage Market, pp. 36-38.
36. J.T. D'Andrea, The Mortgage, Housing and Deposit Sectors of the Canadian Economy (Ann Arbor, University Microfilms International, 1978), p. 15. NHA mortgages also gain greater liquidity and hence marketability over conventional loans because of "...the absence of required reserves for losses on NHA mortgage holdings of regulated financial intermediaries". D.R. Lessard, "Roll-over Mortgages in Canada", in F. Modigliani and D.R. Lessard (eds.), New Mortgage Designs for Stable Housing in an Inflationary Environment (Cambridge, Mass.: Proceedings of a Conference sponsored by the Federal Reserve Bank of Boston, U.S. Department of Housing and Urban Development, and the Federal Home Loan Bank Board, January 1975), p. 132.
37. Hatch, The Canadian Mortgage Market, p. 242.
38. (1970) R.S.C. 1970, c. 156, s. 10(1).
39. Hatch, The Canadian Mortgage Market, p. 26.
40. Ibid., p. 27.
41. For loans on rental projects under NHA financing, the mortgage is closed for the first five years after which prepayment may be made at any time. In the case of corporate borrowers the lender may lock the borrower in up to within ten years of the expiration of the amortization period. For example, on a 40 year loan, the borrower may be locked in for 30 years. Central Mortgage and Housing Corporation, NHA-Insured Mortgages as an Investment, p. 24.
42. Woodward, Canadian Mortgages, p. 32.
43. Poapst, "Introduction", p. 7.
44. In the case of a 'construction advance' commitment, the mortgage funds are released following completion of individual construction stages. Hatch, The Canadian Mortgage Market, p. 4.
45. Ibid., p. 4.

46. Binnhammer, "Organization and Operations of a Proposed Residential Mortgage Corporation -- A General Description", pp. 33-34.
47. Binnhammer, "The Mortgage Market: The Nature of the Problem", p. 24.
48. Ibid., p. 24.
49. Poapst, "Introduction", p. 8.
50. Hatch, The Canadian Mortgage Market, pp. 13-14.
51. Poapst, "Introduction", p. 8.
52. Ibid., p. 10.
53. D.V. Donnison, The Government of Housing (London: Penguin, 1967), p. 230.
54. Woodward, Canadian Mortgages, p. 20.
55. See Woodward, Canadian Mortgages.
56. Initially the list of approved lenders included Canada's large financial institutions. The list has since expanded to include credit unions and caisses populaires and some of the large pension funds such as the Quebec Pension Plan. Hatch, The Canadian Mortgage Market, p. 64.
57. Woodward, Canadian Mortgages, p. 25.
58. Ibid., p. 20.
59. Ibid., p. 27.
60. Ibid., pp. 25-26.
61. Ibid., p. 28.
62. Ibid., p. 28.
63. Hatch, The Canadian Mortgage Market, p. 135.
64. Woodward, Canadian Mortgages, p. 28.
65. Hatch, The Canadian Mortgage Market, p. 16.
66. In 1979, Central Mortgage and Housing Corporation became Canada Mortgage and Housing Corporation.
67. Hatch, The Canadian Mortgage Market, p. 135.
68. Ibid., p. 16.
69. Ibid., p. 16.

70. Ibid., pp. 16, 19.
71. Poapst, "Introduction", p. 3.
72. The banks withdrawal was not quite absolute; a limited amount of origination activities for clients and affiliates took place.
73. Binnhammer, "The Mortgage Market: The Nature of the Problem", p. 22.
74. A new lending ceiling for CMHC was required in 1960 so the Corporation could accommodate the shortfall in mortgage capital supply. Hatch, The Canadian Mortgage Market, p. 124.
75. Ibid., p. 19.
76. The year's poor credit conditions resulted in the termination of CMHC's NHA auctions; there was little investor interest in mortgages.
77. Hatch, The Canadian Mortgage Market, p. 19.
78. E.H. Neave, Canada's Financial System (Toronto: John Wiley and Sons, 1981), p. 87.
79. Hatch, The Canadian Mortgage Market, p. 19.
80. The NHA rate was freed gradually over the two year period prior to June 1969, when it became completely free of federal regulation.
81. Hatch, The Canadian Mortgage Market, p. 31.
82. The fixed 25 year amortization period became a minimum 25 year period.
83. Poapst, "Introduction", p. 3.
84. Lessard, "Roll-over Mortgages in Canada", p. 132.
85. Poapst, "Introduction", p. 3.
86. Ibid., p. 3.
87. That is, 75 percent of "...either the selling price or the appraised value of the property, whichever is less". Hatch, The Canadian Mortgage Market, p. 5.
88. Ibid., p. 19.
89. Ibid., p. 257.
90. Ibid., p. 257.
91. Ibid., p. 28.
92. Two new private mortgage insurance companies began to serve the high-ratio conventional loan market in 1972.

93. CMHC, NHA-Insured Mortgages as an Investment, p. 7.
94. Binnhammer, "The Mortgage Market: The Nature of the Problem", pp. 24-25.
95. REITs issue trust units for sale in much the same way as corporations issue common shares, and like shares, the trust units are listed on the stock exchange. Hatch, The Canadian Mortgage Market, p. 213.
96. CMHC, NHA-Insured Mortgages as an Investment, p. 49.
97. Hatch, The Canadian Mortgage Market, p. 228.
98. Ibid., p. 234.
99. Ibid., p. 251.
100. Poapst, "Postscript", p. 121.
101. Poapst suggests that there is some evidence that such geographical switching operations by an FMEC could be profitable, implying that the variation in inter-regional and inter-urban mortgage yields is significant in Canada, and that it would remain so even after the development of a facility like the FMEC. Poapst, "Postscript", p. 121.
102. For further discussion, see Chapter V.
103. Neave, Canada's Financial System, p. 262.
104. The cash grants were brought in later in the life of the Program.
105. Canadian Housing Statistics (Ottawa: CMHC, 1973), p. xiv.
106. While AHOP was responsible for substantial volumes of mortgage loans in the new residential construction market, lower rates were responsible for triggering a large turn-over of mortgage contracts in the existing housing market.
107. CMHC, Annual Report (Ottawa, 1978), p. 32.
108. The GPM was conceived as the affordable mortgage option in an inflationary economy. Higher mortgage payments would be deferred for a few years at which time either the homeowner's income would have risen sufficiently to meet the increased payments, or property values would have risen enough to permit a profit on resale of the house. The risk of lending on a GPM is, of course, increased if these assumptions do not hold. Financial Post 29/05/82, "GPM falls victim to higher rates".
109. What activity existed in the mortgage market was dominated by the vendor take-back mortgage. Offered at below market rates, this mortgage option was a frequently used last resort for homeowners trying to sell in a tight market. Financial Post 05/12/81, "Takeback mortgage means new incentives for purchasing a home".

110. In July of 1981, the largest of the institutional mortgage lenders, the Royal Bank, discontinued its five year mortgage altogether. Financial Post 13/02/82, "Mortgages: short term and scarce". With the demise of the 5 year term also went the usefulness of the GPM.
111. The floating rate mortgage capitalizes any increase in the cost of housing finance resulting from rising rates (unlike its American counterpart, the variable rate mortgage, which amortizes increased costs) so as to maintain a constant monthly payment schedule. The borrower on a floating rate mortgage therefore runs the risk of reducing his or her equity in a property to nothing in the event of continually rising rates. Globe and Mail 14/08/81, "Lender wants mortgages made flexible".
112. Few homeowners were willing to lock themselves into a commitment at the prevailing high rates. Globe and Mail 22/08/81, "Floating rate mortgages felt likely to stay".
113. Globe and Mail 24/07/81, "Supply of funds".
114. Financial Post 05/06/82, "Builders and lenders more careful with presell deals".
115. CMRP expanded upon schemes tentatively marketed by some banks in 1980 under pressure from the public and federal government. CMRP allowed selected borrowers faced with monthly mortgage payments in excess of 30 percent of their gross income to reduce their monthly carrying cost by having excessive interest charges capitalized into the total cost of the mortgage. In those cases in which mortgage lenders considered the borrower's equity in a property to be insufficient, CMRP included provisions for a direct cash grant to the mortgagor to help cover interest charges. Financial Post 21/11/81, "Real estate plan remains murky".
116. Hatch, The Canadian Mortgage Market, p. 122.
117. One possible exception would be the periodic revision of mortgage terms.
118. Binnhammer, "The Mortgage Market: the Nature of the Problem", p. 23.
119. Ibid., p. 26.
120. Hatch, The Canadian Mortgage Market, pp. 233-4.
121. ~~Made-to-order~~ mortgage packages take much longer to prepare and to transact than similar bundles offered for sale in the secondary market.
122. Trust companies have a much longer history of originating mortgages for clients -- in their case, estate, trust and agency (ETA) accounts.

123. In contrast, the United States has myriad independent and disassociated mortgage brokers and bankers, and a well-developed national secondary mortgage market facility.
124. During the 1960s and 1970s banks, trust companies and credit unions rapidly increased the number of their branch outlets in an effort to boost their deposit-taking business. See Section 3.1 for further discussion.
125. Servicing and administering mortgages is a profitable line of business and the large institutions have a vested interest in maintaining their originating function. Hatch, The Canadian Mortgage Market, p. 236.
126. The purchasing role involves a number of related activities, viz., classifying, packaging, holding, transporting, as well as the service and administration of mortgages. Binnhammer, "The Mortgage Market: the Nature of the Problem", p. 24.
127. Hatch; The Canadian Mortgage Market, 235.
128. Binnhammer, "The Mortgage Market: the Nature of the Problem", p. 24.
129. Ibid., p. 24.
130. Hatch, The Canadian Mortgage Market, p. 233.
131. CMHC, "NHA-insured Mortgages as an Investment", p. 7.
132. Hatch, The Canadian Mortgage Market, p. 237.
133. Ibid., p. 223.

investment capital for the residential mortgage market (see Figure 1.1) and a useful client for trust companies in their capacity as mortgage originators.⁴⁷

Trust and loan companies have come to have quite similar liability and asset structures. Trust companies issue term deposits in the form of guaranteed investment certificates while mortgage loan companies issue debentures which are in essence continually offered term deposits.⁴⁸ Like banks, both trust and loan companies offer savings and chequing accounts. Mortgage loan companies in the tradition of building societies and savings and loan organization, are "...speciality shops..." dealing in mortgage investment.⁴⁹ Although traditionally more diversified, trust companies have developed a similar focus on mortgage lending over the last 25 years (see Table 2.2). Slow growth in trust company ETA accounts led to a re-evaluation of the potential profits to be made in a "...mortgage-oriented intermediary function".⁵⁰ Additional reasons for the change in direction towards mortgages include:

...the increased demand for mortgage funds; the higher yield associated with mortgages; improvements in the insured lending provisions of the NHA, such as the eligibility of five year term mortgages for insurance and the removal of the interest rate ceiling; and the introduction of private mortgage insurance.⁵¹

The move by trust companies into mortgage lending sparked a rapid expansion in trust company branch networks as a means of fuelling, through deposit generation, their growing residential mortgage portfolios.⁵²

The similarity between trust and loan companies extends to their corporate identities. "In many instances trust and mortgage companies operate as closely affiliated entities, and frequently have inter-locking equity ownership positions and directorship ties".⁵³ Both trust and loan companies are often in affiliation with banks as well;⁵⁴ some

levels.

3.1 Financial Institutions and the Business of Mortgage Lending

3.1.1 Banks

The banks dominate Canada's financial markets. Traditionally, they are responsible for more than half of all financial intermediary assets (see Table 2.2). These institutions favour strong centralized processing and control, and feature an extensive branch system. In relation to other types of financial intermediaries the banks exhibit a high degree of concentration of ownership.² Prices within the banking sector tend to fluctuate in unison although explicit price agreements per se were prohibited in the 1967 Bank Act revisions. Neave observes that "...the banking market may best be described as an oligopoly characterized by emulation".³

Simply put, banks seek to earn as high a rate of return on shareholder's equity as possible.⁴ In pursuing lucrative forms of business, banks commit their funds to a wide range of clients and thus differ from most other financial institutions by not specializing in a particular type of investment. Bank customers include governments, the business sector and individuals seeking personal and mortgage loans. The staple of the banking industry, however, is the business loan.⁵

Profitable banking ultimately depends upon the volume of deposit business a bank is able to generate.⁶ It has been suggested that the banker's interest in mortgage lending is coloured by the desire to attract and hold deposits.⁷ Through the provision of services like mortgage loans, banks can foster goodwill with existing deposit customers as well as develop new sources of deposits.⁸

Insofar as mortgage investment is concerned, banks are most concerned

with basic risk and return features. Bank financial management approximates that described by modern portfolio theory, that is, in order to manage risk exposure, a trade-off between risk and return is made.⁹ Of greatest concern to banks is the risk of excessive mortgage loan write-offs or defaults.¹⁰ Banks have an advantage in assessing default risk in that they have immediate access to credit information on potential mortgage customers.¹¹ The risk associated with mortgage investment is balanced, however, by the reasonably high returns available from mortgages. Banks receive their funds from relatively low (although adjustable) yield deposits, creating a substantial spread between the price they pay for money and the price they charge for money on, for example, mortgage loans.¹² The illiquidity of mortgages is not of major concern to the banks.¹³ Aside from the liquidity provided by the mortgage principal and interest payments from massive mortgage portfolios, banks are able to rely on a number of other investments and required reserves such as treasury bills and bonds for liquidity.¹⁴

The size of bank mortgage portfolios is partially determined by government regulation. The 1967 Bank Act revision opened the field of conventional mortgage lending to the banks; however, it also placed a limit on the extent of bank involvement in this market.¹⁵ A ceiling of ten percent was created for the proportion of bank deposits and debenture liabilities held as conventional residential mortgages.¹⁶ The banks have yet to approach the ten percent maximum ratio, and it is thought unlikely that they will do so in the near future since the rise of unconstrained mortgage affiliates following the 1967 Act. In the event that a bank were to come up against the conventional loan ceilings, its conventional mortgage holdings could easily be adjusted through sale of conventional mortgage assets to captive affiliates.¹⁷

Bank mortgage affiliates¹⁸ serve a number of functions for their parent banks. The affiliates are able to tap funds in the financial markets which are not readily accessible to the banks, funds which can be used for, among other purposes, the purchase of mortgages from the parent bank. Through the affiliates banks are able to compete directly with trust and loan companies in the mid-term money market for notes and investment certificates. As captive or guaranteed purchasers of excess mortgage paper in bank portfolios, the affiliates permit the banks to maintain a profitable and competitive mortgage origination and servicing facility for their own customers without the usual associated risk of over-commitment on mortgage loans. In general then, the mortgage affiliates provide banks with greater flexibility in the management of their own funds.¹⁹

The spatial allocation of bank mortgage capital is centrally controlled. Since most banks are national in the scope of their domestic operations²⁰ the allocation process begins at the national head office.²¹ Once the pool of funds available for investment in mortgages has been decided at the head office, it is then allocated to regional markets across the country. Hatch explains:

(a)s a rule banks ask their division managers to estimate the demand for mortgage funds in their region for the coming year. The total request for funds by regional managers normally exceeds the supply of funds that the bank is willing to allocate. Typically funds are allocated in proportion to the demand from all regions.²²

In responding to the competing demand estimates provided by regional managers, bank headquarters stress a number of factors concerning the allocation of mortgage funds. These may include the following requirements:

- 1) that the allocation of mortgage money is spread fairly evenly across the country;

- 2) that lending is spread evenly throughout the year without periodic gaps in demand;
- 3) that a large proportion of funds is directed towards new construction;
- 4) that good individual applications for mortgage loans can be serviced;
- 5) that effective and potential demand for housing in areas concerned is good, especially in the case of units built for speculative sale; and
- 6) that bank customers are given priority.²³

Regional district bank managers are responsible for distributing available mortgage funds to the branches and for approving all subsequent mortgage loans originated at the branches.²⁴ Branch managers may request an annual allocation of mortgage funds²⁵ or they may request funds as required.²⁶ "The demand for funds by various branch managers appears to depend on the willingness and ability of the managers to originate mortgages and on the pressure from customers".²⁷ Some branches employ a full-time mortgage manager while others rely on manuals of rigid mortgage loan procedures set down by head office for assistance.²⁸ The process by which mortgage funds are allocated to local markets will thus vary not only between different banks, but between different branches of the same bank.²⁹

3.1.2 Life Insurance Companies

Life insurance companies are the traditional "...backbone"³⁰ of the private sector residential mortgage industry in Canada. This institutional group constitutes the second largest financial intermediary after the banks in terms of asset size (see Table 2.2). LICs "...act primarily as recipients of individuals' long-term, contractual, financial investments".³¹ Historically, Canadians have favoured investment in life insurance policies

and have provided life companies with large inflows of regular premiums. Since policy outlays, in aggregate relatively predictable, have amounted to less than incoming premiums, LICs have had substantial sums of long-term capital to invest in other sectors of the economy.³² The development of large trustee pension funds over the last couple of decades (e.g., the Canada Pension Plan/Quebec Pension Plan) have eroded LIC asset growth and diminished this intermediary's share of the country's long-term forced savings.

LIC investment strategies are strongly oriented toward maximizing the income received from discretionary assets such as mortgages. A sound financial and competitive position with a low net cost premium schedule depends upon the generation of income beyond that guaranteed for the build-up of policy reserves.³³ The liquidity of discretionary assets has not been a major concern for LICs because of the ongoing returns flowing from their maturing bond and mortgage portfolios, in addition to their regular premium inflows.³⁴

Residential mortgages have in the past proven to be a useful and manageable form of investment for LICs.³⁵ By the 1970s, however, economic and regulatory circumstances had effected a change in the LICs' approach to residential mortgage investment. In 1970, LIC assets became subject to federal income tax. One result of this new tax was a restructuring of the effective yield on LIC investments in favour of directly-owned real estate, particularly non-residential properties. The opportunity to deduct capital cost allowances on directly-owned real estate reduced the cost of income tax on these investments relative to other assets such as mortgages.³⁶ The bias against fixed-income assets was further aggravated by the sustained inflationary economy which characterized the 1970s. Mortgages, bonds and

the like provided no hedge against inflation whereas directly-owned real estate -- mainly non-residential commercial complexes³⁷ and, to a lesser extent, multiple-unit residential buildings -- promised LICs a chance to capitalize on the inflationary growth in the economy.³⁸ The result of these changes for the mortgage market was a gradual withdrawal of LIC investments from the single-detached housing loan market.³⁹

Many decades of experience in all types of mortgage lending has given the LICs considerable expertise in mortgage origination.⁴⁰ Unlike the other major lenders, LICs rely on a relatively sparse mortgage office network -- in 1973 less than five percent of LIC branch offices in Canada were used for the purpose of originating mortgages.⁴¹ LICs have preferred to establish solid working relationships with builders, developers and local mortgage brokers to supply them with business.⁴² A typical LIC mortgage branch would contain both an origination and administration department⁴³ with the degree of branch manager lending authority varying among companies.⁴⁴ The allocation of LIC mortgage money to regional markets appears to be based roughly on regional liability distributions.⁴⁵

3.1.3 Trust and Loan Companies

Trust and mortgage loan companies may be said to operate, with one important exception, as a "...single kind..." of financial intermediary.⁴⁶ Trust companies differ from loan companies -- and from banks, LICs or any other financial institution -- in that they embrace fiduciary responsibilities. The fiduciary role involves the administration of estate, trust and agency (ETA) funds. This side of the trust company business is in fact larger in terms of asset size than the intermediary activities of trust companies (see Table 2A-2). ETA accounts have long been a major source of

investment capital for the residential mortgage market (see Figure 1.1) and a useful client for trust companies in their capacity as mortgage originators.⁴⁷

Trust and loan companies have come to have quite similar liability and asset structures. Trust companies issue term deposits in the form of guaranteed investment certificates while mortgage loan companies issue debentures which are in essence continually offered term deposits.⁴⁸ Like banks, both trust and loan companies offer savings and chequing accounts. Mortgage loan companies in the tradition of building societies and savings and loan organization, are "...speciality shops..." dealing in mortgage investment.⁴⁹ Although traditionally more diversified, trust companies have developed a similar focus on mortgage lending over the last 25 years (see Table 2.2). Slow growth in trust company ETA accounts led to a re-evaluation of the potential profits to be made in a "...mortgage-oriented intermediary function".⁵⁰ Additional reasons for the change in direction towards mortgages include:

...the increased demand for mortgage funds; the higher yield associated with mortgages; improvements in the insured lending provisions of the NHA, such as the eligibility of five year term mortgages for insurance and the removal of the interest rate ceiling; and the introduction of private mortgage insurance.⁵¹

The move by trust companies into mortgage lending sparked a rapid expansion in trust company branch networks as a means of fuelling, through deposit generation, their growing residential mortgage portfolios.⁵²

The similarity between trust and loan companies extends to their corporate identities. "In many instances trust and mortgage companies operate as closely affiliated entities, and frequently have inter-locking equity ownership positions and directorship ties".⁵³ Both trust and loan companies are often in affiliation with banks as well,⁵⁴ some

mortgage loan companies purchase all their mortgages from banks, foregoing the origination function of their business.⁵⁵ One area of differentiation between trust and loan companies is with respect to size: there are more large trust companies than loan companies. Although the trust business does not exhibit concentration to the extent of the banking industry, nine publicly traded firms (as of 1980) controlled more than 70 percent of trust company business.⁵⁶ Concentration is not an issue in the loan company industry.

The investment activities of trust and loan companies are governed at the federal level by the Trust Companies Act and the Loan Companies Act. Each province has passed related legislation for provincially incorporated firms. The majority of trusts and loan companies are provincially incorporated;⁵⁷ however, many trust companies in particular, operate on a national or multi-provincial basis.⁵⁸ The jurisdictional differences in legislation relating to the affairs of these wider-ranging companies complicate the "...implementation of company-wide investment strategy".⁵⁹

Trust and loan company investment strategy consists of managing a profitable spread between assets and liabilities with due allowance made for risk.⁶⁰ Assets in the form of high-yield mortgages are matched with term deposits or debenture liabilities. The yield from trust and loan company mortgage portfolios allows them to pay a higher return on their liabilities than banks are capable of and thus allows these institutions to compete for deposit business against the banks.⁶¹ The investment scope of trust and loan companies is, however, more constrained than that of banks. Statutory liquidity requirements cannot be met through the large mortgage holdings of the trust and loan companies -- the result of the mortgage instrument's poor marketability and indeterminate value in the secondary markets. Trust

and loan companies rely largely on bonds for portfolio liquidity.⁶² Trust and loan companies also operate in a more restricted leverage position than banks: opportunities to borrow to increase the rate of return on profit for the firm's equity holders are less than is the case for banks.⁶³ During periods of rising interest rates these limitations on borrowing powers and statutory liquidity requirements constrain the possible spread between trust and loan company assets and liabilities.⁶⁴ The relative illiquidity of their mortgage portfolios has yet to surface as a major concern for these institutions; they continue to view the mortgage as a long-term investment and not as a trading security.⁶⁵ The institutional response to a poor spread as interest rates rise, then, is to either shorten the term of the mortgages they approve, or lengthen the term of their deposit liabilities.⁶⁶

Trust companies have three kinds of branches: savings, mortgage and full service. Although the mortgage branches are uncommon, the full service branch of a trust company (unlike that of a bank) "...tends to have all the in-house expertise necessary to originate mortgage applications".⁶⁷ This expertise in combination with relatively high dollar approval ceilings at the branch level allows trust companies to generate approved mortgages at a faster rate than banks and other lending institutions.⁶⁸ Trust companies also have an advantage over their competitors because they are legally permitted to operate real estate sales divisions. This business allows trust companies direct and continuous access to information on housing conditions in local markets⁶⁹ and provides exposure to potential customers with a frequency which allows the trust companies to compete with the multi-branch banks.

Trust companies begin the process of allocating mortgage funds early in the fall of each year. The amount of investment capital required is.

determined by estimating, among other factors, the next year's guaranteed deposit inflows and mortgage investment demand from ETA clients.⁷⁰ Since prediction of deposit inflows is complicated by the incidence of peak purchase periods (e.g., at income tax time), trust companies employ a number of rationing methods in the distribution of their mortgage funds. Aside from manipulating the terms and conditions of their mortgage loans, some trust companies place quotas on each branch while others give preference to mortgage applications developed by affiliated real estate divisions.⁷¹ When allocating mortgage funds to regional markets, the large trust companies will consider population levels, the state of local economies, the quality of the building taking place in the local markets as well as the level of savings inflows generated by individual lending areas. An attempt is made to maintain a mortgage portfolio which is diversified both in mortgage and geographical terms.⁷²

3.1.4 Summary

The four principal types of financial intermediary are distinguished in terms of portfolio behaviour, investment constraints, and organizational structure. The diversity of the intermediaries can be seen in their development as mortgage lenders. Each type has evolved according to particular investment considerations and as a result each has developed into a different kind of residential mortgage lender.

The banks are principally concerned with overall profit levels and employ a variety of investment vehicles -- e.g., the residential mortgage -- to ensure a diverse and flexible profit base. Government regulations concerning the operations of banks are comprehensive;⁷³ however, the banks nonetheless enjoy considerable leeway in the management of their funds

relative to other intermediaries. The primary concern of banks then, is simply to maintain a good level of profit and to avoid loan defaults. This approach does tend to inject a bias towards conservative lending strategies into overall bank investment policy. This is exemplified in the banks' organizational structure: a wide net of branch outlets designed to maximize deposit inflows and customer service, and highly centralized decision-making. With regard to mortgage lending a relatively low level of mortgage investment expertise is demanded of the many branch managers compared to that manifested by other institutional lenders. The banks are to a certain extent able to compensate for this lack of lending expertise through their direct access to credit information on potential borrowers in most communities across the country. Partly as a result of their relative inexperience in housing contrasted with other more traditional lenders, their desire for a broad consumer base, and the government legislation which for many years (i.e., until 1967) denied the banks the opportunity to invest in the large existing housing market and to use conventional financing, these institutions have been most active as lenders of NHA-financed, single-detached new construction loans.

Mortgages are a discretionary investment in the portfolio of the LICs and as such are desirable only insofar as they earn a good rate of return or income for the life companies. Mortgages have traditionally been a good investment choice for LICs not only because they do provide a solid rate of return but also because of the good term match between LIC premium inflows and mortgages. The earnable rate of return on residential mortgages was considerably altered though for LICs by federal income tax revisions in 1970 and the decade of inflationary economic growth which followed. To remain competitive LICs were forced to restructure their mortgage portfolios

so they could capture a greater share of investment income from their discretionary assets. As a result, a new emphasis was placed on direct ownership in the multiple-unit sector and, more particularly, in the non-residential mortgage field. Table 3.1 shows that of the group of financial intermediaries LICs place the greatest focus on non-residential mortgage loans. A long tradition of mortgage lending expertise in new construction and an organizational structure unencumbered by a costly and extensive originating network no doubt made the transfer from the single-detached field to the multiple and non-residential sectors feasible.

Because trust and loan companies pay out a relatively high rate on their liabilities compared to their major institutional competitors (the banks), and because (again relative to the banks) trust and loan companies operate with restrained investment flexibility, these companies are primarily concerned that the high rate of return they earn on mortgages is maintained above the rate which they must pay out to depositors. Trust and loan companies find the investment flexibility they require to manage this spread and remain solvent by engaging in volume mortgage lending and eschewing specialization in any particular type of mortgage. Trust companies combine their extensive branch systems and broad mortgage investment expertise with their one significant source of competitive advantage, their real estate sales divisions, to attract large numbers of mortgage customers. Loan companies have local orientation and notoriety in their favour. The real source of continued loan company growth as high volume mortgage lenders however, has become their affiliation with the larger banks and trust companies which regularly turn over volume business to the smaller loan companies. Insofar as loan companies are guaranteed their survival by banks and trust companies they may become more specialized in some areas of

TABLE 3.1: Residential Mortgage Loans Outstanding as Percent All Mortgage Loans Outstanding for Lending Institutions, by Type of Lender, Canada, 1978-1981 (Dollars)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	All Lenders
1978 ¹	97%	58%	90%	93%	86%
1979	97	56	86	88	84
1980	97	54	85	89	83
1981	97	54	85	89	83

¹Preliminary.

Source: Compiled by author from data in Canadian Housing Statistics, various issues.

residential mortgage lending -- perhaps by geographical area -- in order to better complement the investment portfolios of their parent institutions.

3.2 Institutional Mortgage Lending: Overview

A broad pattern of the residential mortgage lending carried out by the institutional lenders from 1967 to 1981 is presented in Table 3.2. The results of the fundamental changes made to the competitive structure of mortgage lending at the outset of this period are clear. Following the 1967 Bank Act revisions, the banks re-entered the residential mortgage market and pursued an aggressive policy of residential mortgage investment. "While the banks were approving mortgage loans only from May first (of 1967), they nevertheless made mortgage commitments totalling \$253 million in the remaining eight months of the year".⁷⁴ By 1971 the banks had surpassed the traditional mortgage lenders (the LICs and loan companies) to become the second most active institutional lender group after the trust companies.⁷⁵

As bank fortunes in the mortgage market were on the rise in the late 1960s, LIC mortgage activity was declining precipitously. In 1967, the LICs had approved more residential mortgages than any other institutional lender; by 1970, the LICs were trailing the third-placed banks by more than 10000 unit loans (see Table 3.2). The persistence of inflationary expectations in the economy and slow asset growth left LICs with no choice but to diversify their investment portfolios at the expense of residential mortgages.

Within four years of the banks' return to mortgage lending, institutional shares of the residential mortgage market had fallen into a pattern which was to stand (more or less) throughout the 1970s and into the 1980s.

TABLE 3.2: All Residential Mortgage Loans Approved by Lending Institutions, by Type of Lender, Canada, 1967-1981 (Thousands of Dwelling Units)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	All Lenders
1967	15.7	55.5	49.9	32.3	8.3	161.8
1968	28.0	59.8	65.0	35.1	15.7	203.7
1969	23.7	34.7	77.5	37.4	18.8	192.1
1970	28.9	17.0	63.8	32.9	15.6	158.3
1971	64.6	32.9	91.2	56.6	16.4	261.9
1972	78.6	36.3	100.3	67.8	16.9	300.0
1973	97.9	44.8	130.7	63.0	14.1	350.5
1974	72.3	25.9	88.6	53.4	10.0	250.2
1975	94.9	33.3	120.0	73.7	15.0	336.5
1976	88.0	41.8	128.8	67.2	19.2	344.9
1977	130.4	62.4	178.7	90.7	18.7	480.8
1978	131.7	39.9	157.3	78.8	16.1	423.9
1979	121.6	39.3	133.1	78.2	14.4	386.5
1980	93.9	36.9	107.3	53.3	14.4	305.8
1981	60.2	27.6	73.9	35.6	12.4	209.9

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

Table 3.3 sets out the market shares of all institutionally-approved residential mortgage loans in Canada from 1967 to 1981. The banks could be expected to fund between one-quarter and one-third of all loan approvals (in terms of dwelling units) after 1971, the LICs approximately one-eighth, the trust companies upwards of one-third, and the loan companies around one-fifth. Fluctuations in the pattern of institutional market shares were moderate throughout the decade. Table 3.2 shows that the institutional lenders usually reacted in concert to the dominant forces at play in the mortgage market: frenetic housing development in the early 1970s, the economic and housing market slump of 1974, the federal demand stimulus programs AHOP and ARP extending from 1975 to 1978, and the constricted mortgage market of the closing years of the decade. Variation in relative market shares which occurred from 1971 to 1981 resulted, in the main, from fluctuations in institutional asset growth and institutional emphasis on mortgages as a portfolio investment.

During the early years of the 1970s, particularly 1972, asset growth was strong for most of the institutional lenders (see Table 2.2). The money supply was expanding rapidly⁷⁶ and savers favoured institutional deposits and certificates. The tight money policy enacted by the federal government in late 1973 to reduce inflationary pressures in the economy had the greatest effect on bank asset growth.⁷⁷ Continued monetary restraint throughout the mid-1970s served to moderate bank asset growth for several years. Although banks steadily increased the proportion of their assets devoted to residential mortgages over this period, a lull in the growth of the banks' share of the mortgage market nonetheless ensued.

From 1978 to 1981 asset growth among the financial institutions was relatively buoyant, notably among the loan companies, LICs and banks. The

TABLE 3.3: Percent Shares (%) of All Residential Mortgage Loans Approved by Lending Institutions, by Type of Lender, Canada, 1967-1981 (Dwelling Units)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	Total
1967	10%	34%	31%	20%	5%	100%
1968	14	29	32	17	8	100
1969	12	18	40	19	10	100
1970	18	11	40	21	10	100
1971	25	12	35	22	6	100
1972	26	12	33	23	6	100
1973	28	13	37	18	4	100
1974	29	10	35	21	4	100
1975	28	10	35	22	4	100
1976	25	12	37	19	6	100
1977	27	13	37	19	4	100
1978	31	9	37	19	4	100
1979	31	10	34	20	4	100
1980	31	12	35	17	5	100
1981	29	13	35	17	6	100

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author from data in Canadian Housing Statistics, various issues.

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banks increased their commitment to mortgage lending (see Table 2.2) and saw their share of the mortgage market rise accordingly. LICs also increased their market share, despite a continuous decline in the proportion of their assets invested in residential mortgages. Both trust and loan company shares of the mortgage market levelled off towards the end of the 1978-81 period. In the case of the trust companies, gradually declining asset strength and mortgage portfolios were responsible for the slackening in share growth. Unimpressive growth in the market share of loan companies -- asset growth was very strong for these companies and mortgage investment levels high by traditional standards -- may be explained by the rising share of the "other lenders" group (featuring the MICs) in the late 1970s and early 1980s.

In the following sections, institutional participation in the residential mortgage market is examined briefly with respect to the different types of mortgage loan approved.

3.2.1 NHA and Conventional Mortgage Loans

One of the major generators of investor interest in the residential mortgage market over the 1967-81 period was the investment option presented by the existence of two types of residential mortgage instrument: the NHA federally insured mortgage and the conventional mortgage.⁷⁸ Before examining the NHA and conventional lending patterns of the major institutions, the fundamental connection between the NHA mortgage instrument and federal policy, both economic and housing related, must be emphasized. The terms of the NHA mortgage have traditionally been formulated to address the housing finance needs of middle-class Canadians. The development of more favourable terms -- e.g., creation of the high-ratio NHA mortgage loan in 1969 and the inclusion of NHA approved lenders under AHOP and ARP in 1975 --

succeeded in increasing the availability of mortgage credit to the housing market as well as stimulating consumer demand. Since the NHA mortgage may then be viewed as an indirect federal policy tool, it is useful to examine the institutional sources of NHA mortgage capital and the geographical distribution of this capital (see Section 3.3.1).

Table 3.4 illustrates the share of institutional mortgage portfolios devoted to the NHA market over the 1967-81 period. Clearly, of all the lenders, the banks placed the greatest emphasis on NHA loans. Whereas the LICs, and the trust and loan companies (and for much of the period, the "other lenders") devoted on average about 25-30 percent of their residential mortgage portfolios to NHA loans, the banks' NHA share averaged closer to 50 percent from 1967 to 1981. The ban on bank lending in the conventional mortgage field, in effect from 1954 to 1967, left the banks in a strong competitive position with respect to NHA mortgage origination.⁷⁹ Notwithstanding immediate expansion into conventional lending once the ban had been lifted by the Bank Act of 1967, the banks retained their focus on NHA loans for many years. It was only toward the close of the 1970s that the banks approached NHA loan shares more commonly associated with the other institutional lenders.

The variation in institutional NHA loan levels shown in Table 3.4 displays roughly similar patterns for each of the institutions over the 1969-81 period. The favourable mortgage investment climate of the early 1970s which featured the new high-ratio NHA loan stimulated all lenders to increase their NHA mortgage commitments. Similarly as NHA mortgage loans maxima were held to unrealistically low levels through 1973 and 1974 -- despite steadily rising prices in housing markets across the country -- all lenders retreated from the NHA market to focus on unfettered

TABLE 3.4: NHA Residential Mortgage Loans as Percent Total Residential Mortgage Loans Approved by Lending Institutions, by Type of Lender, Canada, 1967-1981 (Dwelling Units)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	All Lenders
1967	38%	12%	26%	1%	14%	17%
1968	59	33	28	11	20	30
1969	63	26	22	12	20	26
1970	68	29	33	25	30	37
1971	63	40	36	38	39	44
1972	61	33	36	31	44	42
1973	37	29	26	19	36	28
1974	35	16	15	18	20	22
1975	48	33	29	37	35	37
1976	56	35	30	37	43	39
1977	50	34	30	38	53	38
1978	41	22	20	30	38	29
1979	35	23	22	29	60	29
1980	34	21	33	25	87	33
1981	37	24	38	30	79	37

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

conventional loans. The inclusion of approved lenders under AHOP and ARP from 1975 to 1978 triggered renewed institutional investment in NHA mortgages; banks, loan companies and "other lenders" were most responsive. The greater representation of mortgage lenders such as pension funds and MICs in the "other lenders" category probably gave rise to the increase in NHA portfolio shares for this group. These relatively "...unseasoned..."⁸⁰ mortgage originators and investors likely preferred the more standardized NHA market over the unregulated conventional loan market. NHA mortgages are, of course, more useful for secondary market trading purposes, an important consideration for lenders with small and relatively inflexible mortgage portfolios.

The federal programs AHOP and ARP were phased out in 1978 and NHA loan volumes declined across the board. Recurring problems with low NHA loan maxima dampened NHA mortgage lending for most lenders in 1979. The 1980 repeal of the statutory loan maxima⁸¹ revitalized NHA lending for all lenders in 1980-81. It is interesting to note that the "other lenders" group virtually converted its portfolio to NHA loans in 1979-80, and yet reduced its NHA share allocation in 1981 just as the major institutional lenders were increasing theirs. It would appear that until the 1980 NHA change, the large institutions (except the trust companies) had left a rather large gap in the mortgage market to which the smaller lending institutions and investors willingly responded. As the major investors returned to NHA lending in 1981 the market closed on the smaller lenders and investors.

Historically NHA loans have been favoured by the approved lenders for use in financing new residential construction. The breakdown of NHA and conventional loans aimed at new residential construction by the major

mortgage lenders is shown in Table 3.5. The association between NHA loans and new housing is particularly evident in the lending patterns of the LICs. For the twelve year period from 1967 to 1978, LICs directed on average 98 percent of their NHA loans to new housing. This compares with 87 percent of "other lenders" NHA loans, 83 percent of trust company NHA loans, 75 percent of bank NHA loans, and 61 percent of loan company NHA mortgage loans. Of the group of mortgage lenders, banks and loan companies exhibited the least tendency to allocate their NHA portfolios to new residential construction. The sizeable decline in dwelling start activity in 1974 (see Appendix Table 2A-1) had a clear effect on the NHA holdings of all lenders as can be seen from Table 3.5.

The use of NHA mortgage loans for new residential construction fell off dramatically in 1979-80 for LICs, trust companies and "other lenders". This decline resulted in a closer alignment of NHA new residential construction figures for the five lender groups. Dwelling starts, which had declined substantially each year from 1977 (see Table 2A-1) were heavily weighted towards higher-priced single-detached units. The general NHA loan maximum of \$70000 then in effect proved quite insufficient and undoubtedly triggered some of the increase in the use of conventional financing for new housing (see Table 3.5).⁸² In 1980 the NHA loan maxima provisions were revised; the share of NHA lending directed towards new construction rebounded the following year for most lenders in response to the more favourable NHA lending terms and the increase in dwelling starts, the first in some years.

3.2.2 Existing and New Property Loans

The direction of mortgage loans to either new or existing housing

TABLE 3.5: New Residential Construction Loans as Percent All NHA and Conventional (Conv.) Mortgage Loans Approved by Lending Institutions, by type of Lender, Canada, 1967-1981 (Dwelling Units)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	All Lenders
1967						
NHA	100%	100%	100%	100%	100%	100%
Conv.	25%	74%	35%	42%	50%	51%
1968						
NHA	100	100	100	100	100	100
Conv.	42	80	51	51	75	61
1969						
NHA	100	100	99	91	100	99
Conv.	39	80	51	54	59	57
1970						
NHA	99	99	91	60	99	91
Conv.	28	68	40	41	32	42
1971						
NHA	96	99	87	62	94	87
Conv.	40	67	33	34	41	40
1972						
NHA	87	98	84	60	90	83
Conv.	35	63	35	36	32	40
1973						
NHA	74	98	80	51	70	79
Conv.	42	63	30	40	30	39
1974						
NHA	48	92	67	26	56	53
Conv.	45	54	27	38	24	37
1975						
NHA	55	98	73	46	77	63
Conv.	46	49	24	34	34	34
1976						
NHA	64	99	77	59	92	72
Conv.	40	62	26	31	22	34
1977						
NHA	47	98	78	49	91	65
Conv.	25	44	19	23	18	24
1978						
NHA	36	96	60	27	78	47
Conv.	28	45	21	23	18	26
1979						
NHA	26	89	41	27	67	38
Conv.	35	41	20	34	19	29

Table 3.5 cont'd.

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	All Lenders
1980						
NHA	23	54	27	27	43	30
Conv.	33	35	19	26	74	27
1981						
NHA	34	67	48	50	57	47
Conv.	39	44	20	33	48	32

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

proceeds in general from a small set of demand-related factors. The volume of new residential construction loans is closely tied, of course, to levels of dwelling starts and completions. Demand for existing housing loans is more complex however; three factors underlying this demand are examined here.⁸³ First, the greater the mobility of a population, the greater the turnover of homeownership and hence the demand for refinancing.⁸⁴ The decade of the 1970s in Canada was notable for its high mobility rates as the location of employment diversified away from traditional centres in Ontario and Quebec. Not unconnected with this first factor is the drive to upgrade shelter quality and hence -- at least in the Canadian example -- quantity, common to periods of rising real incomes such as the 1970s.

A third factor which might explain the demand for mortgage loans on existing housing concerns the terms of the mortgage itself. In this sense there is no necessary relationship between the demand for mortgage funds on existing housing and the actual turnover of homeowners in the existing housing market. During periods of rising prices, for example, the early and mid-1970s, the refinancing of existing mortgages is greater as borrowers and lenders attempt to capture the increased market value of housing by capitalizing additional value in a new mortgage. During periods of volatile interest rates, such as late 1978 through 1981, the refinancing of existing mortgages when rates are relatively favourable is also common. The shrinking of mortgage loan terms that took place in the late 1970s, provided added impetus to homeowners to refinance on a frequent basis: borrowers were able to catch mortgage rates going down and avoid being locked into long-term mortgages at high rates.

Throughout most of the 1967-81 period the level of dwelling starts was high despite the severe decline from 1978 to 1981 (see Appendix Table 2A-1).

The boom years for residential construction occurred at the outset of the 1970s as the market responded to strong demand pressure backed by rising real incomes, a high rate of net family and household formation⁸⁵ and strong population growth in Canada's metropolitan centres.⁸⁶ The pace of new residential construction was artificially maintained through the mid-1970s by the federal government's AHOP and ARP. Once the capital infusion provided by these programs was terminated in 1978, dwelling starts fell strikingly. The pernicious cost of credit which characterized the next three years effectively dampened any private sector-led recovery in residential construction.

Despite substantial bursts of growth in the new housing market during the 1970s; the share of mortgage finance invested in new residential construction steadily declined from 1967 to 1981. Table 3.6 below shows new residential construction mortgage loans as a percentage of total loans approved by the major lenders as a group, over the fifteen year period.

TABLE 3.6: New Residential Construction Loans as Percent All Residential Mortgage Loans Approved by Lending Institutions¹, Canada, Showing 3-year Averages 1967-81 (Dwelling Units)

1967-69	1970-72	1973-75	1976-78	1979-81
66%	59%	45%	40%	33%

¹Includes banks, life insurance companies, trust companies, loan companies and 'other lenders'.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

Without a doubt the real source of growth in the mortgage market of this time was in the existing housing loan market. Table 3.7 demonstrates the extent of involvement by each of the major lenders in both new and existing residential loan markets from 1967 to 1981. With the exception of the

TABLE 3.7: New and Existing Residential Construction Mortgage Loans
Approved by Lending Institutions, by Type of Lender, Canada,
1967-1981 (Thousands of Dwelling Units)

<u>NEW</u>		Life	Trust	Loan	Other ¹	All
	Banks	Insurance Companies	Companies	Companies	Lenders	Lenders
1967	8.4	42.9	25.9	13.7	4.8	95.7
1968	21.3	51.8	42.2	19.7	12.6	147.6
1969	18.4	29.7	47.9	21.9	12.6	130.5
1970	21.9	13.1	36.4	15.1	8.2	94.8
1971	49.0	26.1	47.8	25.5	10.2	158.6
1972	52.5	27.1	52.9	29.5	9.7	171.8
1973	52.6	32.8	55.7	26.3	6.3	173.8
1974	33.4	15.5	29.5	19.3	3.0	100.7
1975	47.5	21.6	46.2	28.4	7.3	151.1
1976	47.0	31.4	53.4	27.6	10.1	169.5
1977	46.8	38.9	65.2	30.0	10.6	191.5
1978	41.5	22.7	45.4	19.3	6.6	135.5
1979	38.6	20.5	32.8	25.2	6.9	124.0
1980	27.7	14.2	23.3	14.0	6.7	85.9
1981	22.3	13.9	23.0	13.7	6.9	80.4

EXISTING

1967	7.3	12.6	23.9	18.6	3.6	66.0
1968	6.7	8.1	22.8	15.4	3.1	56.0
1969	5.4	5.0	29.6	15.5	6.2	61.6
1970	7.0	3.9	27.3	17.8	7.4	63.5
1971	15.7	6.7	43.4	31.1	6.3	103.3
1972	26.1	9.3	47.4	38.3	7.1	128.2
1973	45.3	11.9	75.0	36.7	7.8	176.7
1974	39.0	10.4	59.1	34.0	7.0	149.5
1975	47.3	11.6	73.4	45.3	7.7	185.4
1976	41.0	10.4	75.4	39.6	9.1	175.5
1977	83.6	23.5	113.5	60.7	8.1	289.3
1978	90.2	17.3	111.9	59.5	9.5	288.4
1979	83.0	18.7	100.3	53.0	7.4	262.5
1980	66.3	22.7	84.0	39.3	7.6	219.9
1981	37.4	13.7	50.9	21.9	5.6	129.5

¹Includes Quebec savings banks, mutual benefit and fraternal societies,
pension funds and mortgage investment brokers.

Source: Canadian Housing Statistics, various issues.

the banks, no real growth occurred in the new construction loan holdings of any of the institutional lenders. Mortgage levels were much the same at the end of the 1967-81 period as at the beginning.⁸⁷ In contrast, all mortgage lenders actively developed their existing housing loan holdings over the same period.

Table 3.7 shows some of the characteristic differences which exist between the five mortgage lending groups.⁸⁸ The banks' position in the new residential construction loan market was strong at an earlier stage than was the case in the existing housing loan market. Their emphasis on new residential construction loans was not a matter of bank policy but of government fiat -- banks were legally prohibited from lending on existing housing until the 1967 Bank Act. Specialization in the new construction market allowed the banks to forge strong business ties with land and housing developers. Although the banks maintained their interest in new housing after 1967, most growth in bank lending occurred in the area of existing property loans, as was the case for all of the major lenders (see Table 3.8).

Like banks, LICs have traditionally favoured new residential construction loans. Before dwelling starts plummeted in the late 1970s, over 60 percent of all LIC mortgage loans each year were directed at new construction. LICs also established a solid working relationship with housing developers and contractors as a result of this focus. Trust and loan companies on the other hand have typically focused on the existing housing market. Trust companies have been able to maintain a competitive advantage in this side of mortgage lending through the service of their real estate departments and affiliated real estate companies. Loan companies have likely emphasized existing housing loans because the smaller size of individual

TABLE 3.8: New Residential Construction Mortgage Loans as Percent Total Residential Mortgage Loans Approved by Lending Institutions, by Type of Lender, Canada, 1967-1981 (Dwelling Units)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	All Lenders
1967	53%	77%	52%	42%	57%	59%
1968	76	86	65	56	80	72
1969	77	86	62	59	67	68
1970	76	77	57	46	52	60
1971	76	79	52	45	62	61
1972	67	74	53	43	58	57
1973	54	73	43	42	44	50
1974	46	60	33	36	30	40
1975	50	65	39	38	49	45
1976	53	75	41	41	54	49
1977	36	62	36	33	57	40
1978	31	57	29	24	41	32
1979	32	52	25	32	48	32
1980	29	39	22	26	47	28
1981	37	50	31	38	55	38

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

loan companies as contrasted with banks or LICs has never permitted them to compete on an equal footing in the high cost, and large scale new housing loan market. "Other lenders" mortgage loans have tended to divide evenly between new and existing residential construction. The share of new construction loans in the mortgage portfolios of "other lenders" is notable in this case. Unlike the large financial institutions, "other lenders" continued to lend on new residential construction to the end of the 1970s despite plummeting dwelling starts.

3.2.3 Single-detached and Multiple-Unit Housing Loans

Table 3.9 illustrates the pattern of institutional mortgage lending with respect to single-detached dwellings and multiple-unit dwellings from 1967 to 1981.⁸⁸ It is readily apparent from Table 3.9 that over this fifteen year period institutional lenders were reasonably consistent in their lending habits; little fluctuation between the two classes of mortgage loan is evident for any of the five lender groups. Bank mortgage portfolios are clearly weighted the most towards single-detached housing: on average, single-detached loans accounted for 72 percent of all bank mortgages from 1967 to 1981. Trust companies and the composite loan companies/"other lenders" divided their residential mortgage portfolios fairly evenly between the two classes of housing loan. Trust companies allotted a somewhat greater share of their mortgage portfolios to single-detached unit loans: 54 percent for the 1967-81 period versus 45 percent for the loan companies/"other lenders" over the same period.

Of all the institutional lenders, LICs display the greatest preference for multiple-unit dwelling mortgages. Loans of this type offered the LICs the opportunity for high income, equity participation, and a good term match,

TABLE 3.9: Single-detached Residential Mortgage Loans as Percent Total Residential Mortgage Loans Approved by Lending Institutions, by Type of Lender, Canada, 1969-1981 (Dwelling Units)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies/ Other Lenders ¹	All Lenders
1967	74%	27%	47%	42%	41%
1968	76	22	41	34	39
1969	72	25	47	34	42
1970	63	30	49	37	46
1971	63	23	51	44	49
1972	68	29	53	49	53
1973	71	29	59	49	56
1974	73	32	68	56	64
1975	71	29	60	46	58
1976	70	38	61	48	57
1977	75	22	51	48	53
1978	75	35	57	52	60
1979	81	32	59	57	63
1980	79	37	54	48	58
1981	76	42	50	32	55

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

all valuable investment characteristics from the life company perspective during the inflationary times of the 1970s. There is ~~some~~ indication however, that by the end of the study period, LICs were expanding into the single-detached field at the expense of their multiple-unit dwelling holdings. Part of the explanation for this change in direction is attributable to the stagnating construction rates in the multiple sector during the late 1970s⁸⁹ -- LICs usually concentrate their mortgage investment in new rental construction.

3.2.4 Average Loan Amounts

A comparison of all approved loans by lender in dollar and in dwelling unit terms, demonstrates a gradation in per unit investment levels by the major institutions. Average mortgage loan amounts approved per dwelling unit by the lender groups for the 1967-81 period are shown in Table 3.10. The banks consistently approved the largest dollar loan amounts of the five groups. As well, it can be seen from Table 3.10 that from 1976 on, the margin of difference between the banks and the other institutional lenders widened each year. Trust companies, lenders of the greatest number of loans over the study period, occupy, along with the LICs and loan companies, the mid-ground in the range of average loan amounts shown in Table 3.10. "Other lenders" always invested the least per dwelling for the duration of the 1967-81 period.

Average loan amounts are primarily a function of the type of dwelling unit which secures the mortgage. On a per unit basis, single-detached housing costs more than a dwelling in a multiple-unit building, and therefore the average value of a single-detached mortgage tends to be higher. To the extent that a lending institution is more active in the single-

TABLE 3.10: Average Loan Amounts for All Residential Mortgages Approved by Lending Institutions, by Type of Lender, Canada, 1967-1981
(Thousands of Dollars per Dwelling Unit)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	All Lenders
1967	\$14	\$11	\$11	\$9	\$7	\$11
1968	15	11	12	10	7	12
1969	15	12	13	11	7	12
1970	17	13	14	12	8	13
1971	17	13	15	14	9	14
1972	19	14	16	15	11	16
1973	22	16	21	18	12	20
1974	26	22	24	23	13	24
1975	29	22	27	26	16	27
1976	32	28	31	28	20	29
1977	35	26	29	30	23	30
1978	38	30	31	32	23	33
1979	43	32	32	37	26	36
1980	47	35	35	38	27	39
1981	53	39	41	45	34	44

¹Includes Québec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

detached market, that institution's average loan amounts will be correspondingly higher than those of a lender specializing in multiple-unit housing. Such is the case, for example, with banks and LICs, as is demonstrated in Table 3.10. A gradation of unit cost and consequently average loan amount also exists within the multiple-unit category: semi-detached and row units usually cost more than apartment units. Mortgage lenders expressing a preference for row housing (for example, high-priced town houses) will then be investing a greater amount per dwelling than will a mortgage lender specializing in apartments.

In Table 3.11 average loan amounts on single-detached and multiple-unit dwellings are detailed for each lender. The banks' position as lender of highest loan amount from 1967 to 1981 in the multiple-unit category is quite clear. This would seem to indicate a bank preference for lending on higher-priced multiple-unit dwellings such as row and townhouses. Bank loan amounts on single-detached units, on the other hand, do not differ greatly from those of the other lender groups. It is interesting to note that LICs consistently display the highest average loan amounts on single-detached units. Although comprising only a small part of their total mortgage portfolio (about 30 percent for the 1967-81 period) single-detached loans appear to be a lucrative sideline for the LICs. This may explain the significant rise in the share of LIC mortgages allocated to single-detached units in 1979-80 -- that and the severe depression in rental housing construction. The loan companies/"other lenders" group generally displays the lowest average loan amounts in both single-detached and multiple-unit categories.

The average loan amount of an institutional mortgage portfolio will also be affected by the proportion of new or existing units it contains.

TABLE 3.11: Average Loan Amounts of All Residential Mortgage Loans Approved by Lending Institutions, by Type of Loan, by Type of Lender, Canada, 3-year Averages 1967-81 (Thousands of Dollars per Dwelling Unit)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	All Lenders
a) NHA and Conventional (Conv.) Loans						
1967-69						
NHA	\$15	\$13	\$13	\$15	\$12	\$13
Conv.	15	11	12	10	6	11
1970-72						
NHA	18	15	15	17	13	16
Conv.	17	12	15	12	7	13
1973-75						
NHA	25	21	24	25	21	24
Conv.	27	19	24	21	10	23
1976-78						
NHA	35	30	35	36	31	34
Conv.	35	27	29	27	14	29
1979-81						
NHA	40	34	36	40	32	37
Conv.	52	35	37	40	21	41
b) New and Existing (Ex.) Construction Loans						
1967-69						
New	15	12	13	11	8	12
Ex.	14	10	11	9	5	10
1970-72						
New	18	14	16	16	12	16
Ex.	17	11	14	13	6	13
1973-75						
New	28	22	27	27	19	26
Ex.	23	15	22	19	10	21
1976-78						
New	38	33	36	38	29	36
Ex.	34	19	27	26	14	28
1979-81						
New	58	45	47	51	36	50
Ex.	41	25	31	33	21	34

Table 3.11 cont'd.

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	All Lenders
c) Single-detached (SD) and Multiple-Unit Dwelling (M) Loans						
1967-69						
SD	\$16	\$19	\$15	\$13		\$16
M	10	9	9	7		8
1970-72						
SD	19	22	18	17		18
M	15	10	11	9		11
1973-75						
SD	28	33	28	27		28
M	21	13	17	13		16
1976-78						
SD	37	45	37	38		38
M	29	20	22	19		22
1979-81						
SD	51	56	45	50		49
M	38	23	25	25		27

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

Generally, average loan amounts are higher for new housing although the difference will vary depending upon the nature of financing activity taking place in the existing housing market. For example, in the late 1970s and early 1980s the large volumes of refinancing which occurred in the existing loan market for purpose of debt load reduction had a dampening effect on the value of existing housing average loan amounts. In this case, the difference between average amounts for new and existing housing loans would be augmented (see Table 3.11).

In terms of NHA and conventional mortgage loans, average loan amounts will reflect the broad association between NHA loans, new housing and high-ratio insured loans, and between conventional loans, existing housing and uninsured lower-ratio loans. Although average loan amounts for NHA loans tend to be higher than for conventional loans (see Table 3.11) exceptions are not unusual. For example, as the use of privately-insured mortgages took hold in the first half of the 1970s, conventional mortgage loans approved by the trust companies were of higher value on average than trust company approved NHA mortgages. In the latter part of the 1970s, as housing starts declined precipitously and NHA loan maxima trailed price rises in the housing market, a broad market shift in the value of lending took place away from the NHA sector towards conventional lending. This shift was most noticeable in the lending patterns of the banks. From approximately 1977 onwards the average amount of bank conventional loans grew steadily greater than that of bank NHA loans; by 1981 the average amount of a bank conventional loan was \$18000 higher than that of a bank NHA loan.

3.2.5 Summary

The overview of institutional lending behaviour presented in Sections

3.2.1 through 3.2.4 demonstrates that the major mortgage lenders have varying approaches to mortgage investment. In general terms, the differences between lenders are not always substantial, however, several investment behaviour patterns can be identified. The banks and the LICs exhibit the most distinctive characteristics of the five groups of institutions. Trust and loan companies on the other hand usually represent a mid-ground between the banks and life companies. "Other lenders", which comprise a very small part of the total mortgage market, display a variety of mortgage investment patterns which often run contrary to those of the four major institutional groups.

The banks' share of the residential mortgage market varied from approximately 25-35 percent from 1967 to 1981. In dwelling unit terms, banks placed a close second to the trust companies. Banks typically invested in NHA mortgages to a greater degree than the other institutional lenders and, along with the loan companies, were most active during AHOP. The banks however, did not use their NHA portfolio for new housing loans as much as the other institutions did; that is, while banks devoted a greater share of their total mortgage investment to NHA loans the number of bank NHA mortgages on new residential construction did not increase proportionately. Banks began the 1967-81 period with a marked preference for new construction investment (on average 68 percent of bank mortgage loans went to new housing mortgages between 1967 and 1973) but by the end of the period had adjusted to the sustained decline in dwelling starts in the Canadian economy by reducing their new residential construction loan allocation to a level on par with the trust and loan companies (about 30 percent of total loan commitments). Over the 1967-81 period banks did maintain a steady emphasis on single-detached housing loans, allotting about three-quarters of their

TABLE 3.13: Population, Canada, by Province, 1972-1981 (in Millions)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Nfld.	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6
P.E.I.	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
N.S.	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9
N.B.	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Que.	6.1	6.1	6.1	6.2	6.2	6.3	6.3	6.3	6.3	6.4
Ont.	7.8	7.9	8.1	8.2	8.3	8.3	8.4	8.5	8.6	8.7
Man.	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Sask.	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0
Alb.	1.6	1.7	1.7	1.8	1.8	1.9	1.9	2.0	2.1	2.1
B.C.	2.2	2.3	2.4	2.5	2.5	2.5	2.5	2.5	2.6	2.6
Can.	21.6	21.9	22.3	22.7	22.9	23.1	23.2	23.5	23.9	24.1

Source: Canadian Housing Statistics, various issues.

conventional financing to a sizeable extent. Neither trust companies nor loan companies displayed any concentration of mortgage loans in single-detached or multiple-unit housing⁹⁰ and average loan amounts for both types of lender were moderate by group standards.

The final group, "other lenders", comprises only a minor part of the total institutional mortgage market. Over the course of the 1967-81 period the mortgages in "other lenders" portfolios were increasingly NHA financed and many of these used for new residential construction loans. "Other lenders" mortgage holdings were reasonably well divided between new and existing housing loans, and between single-detached and multiple-unit dwelling loans. Of all the lender groups "other lenders" mortgages were worth the least on average.

The following section explores the distribution of institutional mortgage loans across the ten Canadian provinces. The provincial portfolios of each of the major lenders is examined and compared both in general terms and by category of mortgage loan, in order to identify institutional preferences for the location of their mortgage investments.

3.3 The Geographical Allocation of Institutional Mortgage Loans

This section examines the geographical location of institutional investment in residential mortgages, that is, the distribution of institutionally financed residential mortgage loans over the ten Canadian provinces. In keeping with the format employed thus far institutional mortgage lending is analyzed according to type of loan: NHA and conventional, new and existing residential construction, and single-detached and multiple-unit mortgage loans. On this basis institutional preferences for the geographical location of specific kinds of institutional mortgage investment may be identified for

each of the lender groups.

As a benchmark it is first useful to describe a very general pattern for the institutional allocation of mortgages among the ten provinces. All residential mortgage loans (in dwelling units) approved by the set of lending institutions from 1975 to 1981 by province of loan are illustrated in Figure 3.1. Clearly Ontario along with Quebec, British Columbia and Alberta represent the dominant provincial mortgage markets for institutional lenders. The shares of the national market held by these four provinces are detailed in Table 3.12. Between them, Ontario, Quebec, Alberta and British Columbia received on average 86 percent of all institutionally financed residential mortgage loans from 1975 to 1981, with little year-to-year fluctuation in evidence. The share of the market held by the prairie provinces Manitoba and Saskatchewan was next in size, averaging around seven percent over the seven year period. Nova Scotia, New Brunswick and Newfoundland held about six percent of the market and Prince Edward Island the remainder.

The provincial ranking or order seen in Figure 3.1 corresponds well to the order of the ten provinces in terms of their population size (see Table 3.13). Not surprisingly, the most populous provinces exhibit the largest residential mortgage markets. Figure 3.1 and Table 3.13 display less similarity however, with respect to the relative standings of the ten provinces. Whereas four distinct provincial groupings are revealed in Table 3.13 -- Ontario and Quebec, British Columbia and Alberta, Manitoba, Saskatchewan, Nova Scotia and New Brunswick, and Newfoundland and Prince Edward Island -- only three are evident in Figure 3.1. In this case, British Columbia and Alberta loan levels are quite similar to those of Quebec and Ontario. The greater relative magnitude of British Columbia and

Figure 3.1 ALL RESIDENTIAL MORTGAGE LOANS APPROVED BY LENDING INSTITUTIONS,
BY PROVINCE, 1975 - 1981 (THOUSANDS OF DWELLING UNITS).

Notes: ¹Prince Edward Island: 1980 - 0.9 ; 1981 - 0.3

TABLE 3.12: All Residential Mortgage Loans, by Province, as Percent All Residential Loans, Canada, Approved by Lending Institutions¹, 1975-1981 (Dwelling Units)

	1975	1976	1977	1978	1979	1980	1981
Nfld.	1%	1%	1%	1%	1%	1%	1%
P.E.I.	<1	<1	<1	<1	<1	<1	<1
N.S.	3	3	3	3	3	3	2
N.B.	2	2	2	2	2	2	1
Que.	23	23	19	19	18	24	22
Ont.	39	37	40	39	38	32	39
Man.	5	4	4	5	4	3	3
Sask.	3	3	3	3	4	2	3
Alb.	10	12	13	14	12	12	12
B.C.	14	14	13	12	16	12	15
Can.	100	100	100	100	100	100	100

¹Includes banks, life insurance companies, trust companies, loan companies and other lenders.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

TABLE 3.13: Population, Canada, by Province, 1972-1981 (in Millions)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Nfld.	0.5	0.5	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.6
P.E.I.	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
N.S.	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.9	0.9
N.B.	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Que.	6.1	6.1	6.1	6.2	6.2	6.3	6.3	6.3	6.3	6.4
Ont.	7.8	7.9	8.1	8.2	8.3	8.3	8.4	8.5	8.6	8.7
Man.	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Sask.	0.9	0.9	0.9	0.9	0.9	0.9	0.9	1.0	1.0	1.0
Alb.	1.6	1.7	1.7	1.8	1.8	1.9	1.9	2.0	2.1	2.1
B.C.	2.2	2.3	2.4	2.5	2.5	2.5	2.5	2.5	2.6	2.6
Can.	21.6	21.9	22.3	22.7	22.9	23.1	23.2	23.5	23.9	24.1

Source: Canadian Housing Statistics, various issues.

Figure 3.3

ALL RESIDENTIAL MORTGAGE LOANS APPROVED BY LIFE INSURANCE COMPANIES, BY PROVINCE, 1975 - 1981 (THOUSANDS OF DWELLING UNITS).

Notes: ¹Prince Edward Island: 1975 - 0.048; 1977 - 0.048; 1981 - 0.04 0.004
²Newfoundland: 1975 - 0.022; 1981 - 0.013

Source: Canadian Housing Statistics, various issues.

TABLE 3.14: All Residential Mortgage Loans Approved by Lending Institutions, per capita, by Province, 1975-1981 (Dollars per capita)

	1975	1976	1977	1978	1979	1980	1981
Nfld.	\$173pc	\$200pc	\$234pc	\$197pc	\$236pc	\$264pc	\$158pc
P.E.I.	175	237	363	456	398	197	77
N.S.	273	286	477	407	357	300	167
N.B.	240	286	369	370	352	212	100
Que.	229	264	311	300	285	279	221
Ont.	481	498	750	681	649	451	408
Man.	375	409	609	637	445	252	219
Sask.	254	373	487	462	610	321	289
Alta.	590	796	1231	1345	1266	1040	737
B.C.	581	654	850	694	930	1165	646

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

Figure 3.2 ALL RESIDENTIAL MORTGAGE LOANS APPROVED BY BANKS, BY PROVINCE, 1975-1981 (THOUSANDS OF DWELLING UNITS).

Figure 3.3

ALL RESIDENTIAL MORTGAGE LOANS APPROVED BY LIFE INSURANCE COMPANIES, BY PROVINCE, 1975 - 1981 (THOUSANDS OF DWELLING UNITS).

Notes: ¹Prince Edward Island: 1978 - 0.048; 1977 - 0.046; 1981 - 0.04 0.004
²Newfoundland: 1978 - 0.022; 1981 - 0.013

British Columbia and Alberta. A comparison of provincial shares of total 'all lender' loans (Table 3.12) and of total banks loans (Table 3.15) reveals some lending patterns singular to the banks. Proportionally banks lent on more dwellings than did the group of institutions in British Columbia, Saskatchewan, Quebec and Newfoundland. Conversely, Ontario and Alberta's shares of all bank mortgages are less than their shares of total 'all lender' mortgage loans.

The provincial patterns of LIC mortgage lending is charted in Figure 3.3. While roughly similar to the overall pattern seen in Figure 3.1 for 'all lenders', Figure 3.3 does reveal certain anomalies. For example, LICs, like the banks, lent more mortgages in Quebec as a proportion of total mortgages lent than did the composite 'all lenders' (see Table 3.16 for LIC share figures). LICs also lent a greater share of their mortgages in Alberta than did 'all lenders' -- in fact, LICs allotted a greater share of mortgages to Alberta than to British Columbia, the reverse of the pattern for 'all lenders' and banks. Last, LIC lending levels in Newfoundland were low relative to 'all lenders' -- and it follows quite low compared to the banks.

Figure 3.4 and Table 3.17 describe the provincial lending patterns of the trust companies. The most striking feature of Figure 3.4 is the relative strength of trust company lending in Ontario: between 1975 and 1981 an average of 47 percent of all trust company loans were approved in this province (see Table 3.17). The remaining shares of trust company mortgage holdings are well apportioned among the other provinces, particularly the Atlantic provinces, unlike the LICs which also showed relatively high lending levels in Ontario. The Quebec share of trust company approved loans is the only provincial share that is unusually low by 'all lenders', bank

TABLE 3.15: All Residential Mortgage Loans, by Province, as Percent all Residential Loans, Canada, Approved by Banks, 1975-1981 (Dwelling Units)

	1975	1976	1977	1978	1979	1980	1981
Nfld.	1%	1%	1%	1%	2%	2%	2%
P.E.I.	<1	<1	<1	<1	<1	<1	<1
N.S.	2	2	3	3	3	3	3
N.B.	1	2	2	2	2	2	2
Que.	32	33	25	28	22	21	21
Ont.	30	29	35	31	30	25	33
Man.	4	4	4	4	4	4	5
Sask.	3	4	3	3	5	3	4
Alb.	10	10	12	14	14	12	12
B.C.	16	14	15	13	18	27	18
Canada	100	100	100	100	100	100	100

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

TABLE 3.16: All Residential Mortgage Loans, by Province, as Percent All Residential Loans, Canada, Approved by Life Insurance Companies, 1975-1981 (Dwelling Units)

	1975	1976	1977	1978	1979	1980	1980
Nfld.	<1%	<1%	<1%	<1%	<1%	1%	<1%
P.E.I.	<1	<1	<1	<1	<1	<1	<1
N.S.	2	2	2	2	2	3	1
N.B.	1	2	1	2	1	1	2
Que.	27	31	27	25	21	31	24
Ont.	39	33	43	39	45	33	48
Man.	6	4	1	3	1	1	1
Sask.	1	3	2	2	2	1	1
Alb.	10	14	13	17	13	13	15
B.C.	12	11	9	9	14	15	8
Canada	100	100	100	100	100	100	100

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

Figure 3.4 ALL RESIDENTIAL MORTGAGE LOANS APPROVED BY TRUST COMPANIES,
BY PROVINCE, 1975 - 1981 (THOUSANDS OF DWELLING UNITS).

Source: Canadian Housing Statistics, various issues.

Figure 3.5 ALL RESIDENTIAL MORTGAGE LOANS APPROVED BY LOAN COMPANIES,
BY PROVINCES, 1975-1981 (THOUSANDS OF DWELLING UNITS)

TABLE 3.17: All Residential Mortgage Loans, by Province, as Percent All Residential Loans, Canada, Approved by Trust Companies 1975-1981 (Dwelling Units)

	1975	1976	1977	1978	1979	1980	1981
Nfld.	<1%	1%	1%	1%	1%	1%	1%
P.E.I.	<1	1	1	1	1	<1	<1
N.S.	2	3	4	4	3	3	2
N.B.	3	3	3	3	3	2	1
Que.	12	11	10	9	13	22	21
Ont.	51	48	48	50	46	41	47
Man.	4	4	4	5	4	2	2
Sask.	2	3	2	3	4	2	2
Alb.	10	13	14	15	11	12	11
B.C.	13	15	13	11	13	15	12
Canada	100	100	100	100	100	100	100

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

and LIC standards (with the possible exception of Saskatchewan). Shares of trust company mortgages in Quebec tend to be closer to share levels for the Maritime provinces.

The provincial distribution of loan company mortgages is set out in Figure 3.5. Unlike the patterns described above for 'all lenders', banks, LICs and trust companies, loan company mortgages are more evenly distributed across the ten provinces with much less convergence of provincial loan curves in evidence. The order of the provincial curves is also unusual: the Quebec curve falls below those of Alberta and British Columbia for most of the 1975-81 period. The provincial shares of total loan company approvals, outlined in Table 3.18, reveal that only 12 percent of loan company mortgages on average were allotted to Quebec dwellings. This compares with 21 percent for 'all lenders', 26 percent for banks, 27 percent for LICs, and 14 percent for trust companies. Table 3.10 also shows that loan company approvals were relatively high by 'all lenders' standards in Atlantic Canada (particularly Nova Scotia) as well as in Manitoba and Saskatchewan.

The provincial pattern of mortgage loans approved by the composite 'other lenders' is found in Figure 3.6. While the core members of this group — that is, Quebec savings banks, mutual benefit and fraternal societies — are strongly oriented towards Quebec mortgage lending, the redefinition of the 'other lenders' category in 1978 to include pension funds and mortgage investment companies, did serve to expand the geographical lending scope of this category. Quebec loans continued nonetheless to predominate after 1978. From 1975 to 1978 an average of 73 percent of 'other lender' mortgage loans were allocated to Quebec, whereas in the 1979-81 period this average had only fallen to 69 percent (see Table 3.19). The majority of the remaining 'other lender' loans were approved in Ontario and the four

TABLE 3.18: All Residential Mortgage Loans, by Province, as Percent All Residential Loans, Canada, Approved by Loan Companies, 1975-1981 (Dwelling Units)

	1975	1976	1977	1978	1979	1980	1981
Nfld.	2%	2%	1%	1%	1%	1%	1%
P.E.I.	1	1	<1	<1	<1	<1	<1
N.S.	7	6	4	3	2	3	4
N.B.	4	3	2	2	1	1	1
Que.	13	14	14	11	12	13	9
Ont.	37	33	38	41	41	33	37
Man.	5	5	7	8	5	4	4
Sask.	4	4	5	4	4	3	4
Alb.	10	12	13	14	13	16	14
B.C.	16	19	17	16	20	26	25
Canada	100	100	100	100	100	100	100

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

Figure 3.6 ALL RESIDENTIAL MORTGAGE LOANS APPROVED BY "OTHER LENDERS"¹
BY PROVINCE, 1975 - 1981 (THOUSANDS OF DWELLING UNITS).

Notes: ¹ includes Quebec Savings Banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

² Manitoba: 1980 - no data available; 1981 - 0.064

³ New Brunswick: 1975 - no data available; 1976 - 0.001; 1977, 1978 - no data available; 1980 - 0.05; 1981 - 0.082

⁴ Prince Edward Island: 1975, 1976, 1977, 1978 - no data available; 1979 - 0.026; 1980 - 0.010; 1981 - 0.002

⁵ Newfoundland: 1975 - 1980, no data available.

Source: Canadian Housing Statistics, various issues.

TABLE 3.19: All Residential Mortgage Loans, by Province, as Percent All Residential Loans, Canada, Approved by 'Other Lenders'¹ 1975-1981 (Dwelling Units)

	1975	1976	1977	1978	1979	1980	1981
Nfld.	-	-	-	-	-	-	1
P.E.I.	-	-	-	-	41	41	41
N.S.	-	-	-	-	-	-	41
N.B.	-	41	-	-	1	41	41
Que.	86	75	58	73	66	77	65
Ont.	1	16	10	6	13	15	17
Man.	5	2	10	7	41	-	41
Sask.	2	2	5	3	10	2	7
Alb.	4	3	13	6	4	3	7
B.C.	2	2	4	5	4	2	3
Canada	100	100	100	100	100	100	100

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

western provinces. Until 1979, virtually no mortgage loans were approved by 'other lenders' in Atlantic Canada.

The portrait of institutional mortgage lending in the provinces outlined above is summarized in Table 3.20. Average provincial share values have been calculated for each institution for the 1975-81 period. Table 3.20 highlights those provinces in which an institutional lender displays a relative concentration (or lack of concentration) or residential mortgage approvals.

It can be seen from Table 3.20 that the banks tend to concentrate mortgage investment in Quebec, Saskatchewan and British Columbia to a greater degree than other mortgage lenders, while displaying a relative lack of investment in the large Ontario market. LICs concentrate their mortgage investment in central Canada and Alberta and show relatively low investment levels in the rest of the country. Trust companies display a considerable concentration of mortgage loans in Ontario, slightly greater than usual investment activity in New Brunswick, and low levels of mortgage investment in Quebec and British Columbia. Loan companies favour mortgage lending in the western provinces, particularly British Columbia; very little loan company lending takes place in Quebec. As could be expected, 'other lenders' focus their mortgage investment in Quebec. Average share values for this lender group in Saskatchewan also tend to be high by 'all lenders' standards; in the Atlantic provinces, Ontario, Alberta and British Columbia they fall well below.

It was noted at the outset of this section that primary cause(s) of temporal fluctuations in provincial loan figures over the 1975-81 period were the federal demand stimulus programs AHOP and ARP. The particular impact of AHOP and ARP on provincial loan figures notwithstanding, it is

TABLE 3.20: All Residential Mortgage Loans, by Province, as Percent All Residential Loans, Canada, Approved by Lending Institutions, by Type of Lender, Average 1975-81 (Dwelling Units)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	Loan Cos./ Other ¹ Lenders	Total
Nfld.	1%	<1%	1%	1%	<1%	1%	1%
P.E.I.	<1	<1	1	<1	<1	<1	<1
N.S.	3	2	3	4	<4	3	3
N.B.	2	1	3	2	<4	1	2
Que.	26	27	14	12	71	24	23
Ont.	30	40	47	37	11	32	37
Man.	4	2	4	5	4	.5	4
Sask.	4	2	3	4	4	4	3
Alb.	12	14	12	13	6	12	12
B.C.	17	11	13	20	3	17	14
Canada	100	100	100	100	100	100	100

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various years.

clear from Tables 3.15 through 3.19 that institutional mortgage lending declined over the seven year study period in some provinces, and increased in others. In the case of banks, Newfoundland, Alberta and British Columbia shares of total bank loans tended to rise from 1975 to 1981, while Quebec's share fell strikingly. In 1975 32 percent of all bank mortgages were approved in Quebec but by 1981 only 21 percent of bank residential loans were located in that province.

For LICs, mortgage lending activity was further concentrated in Ontario and Alberta; it declined substantially in Manitoba -- the home province for a number of Canadian life companies, and it would seem a traditional area of concentration for LIC mortgage lenders in previous years (see Table 3.16). Trust company mortgage activity declined slightly in Ontario from 1975 to 1981, bringing trust company figures for this province more into line with those of other institutional lenders. Over the same period trust companies increased in large measure the share of their mortgage investment allocated to Quebec. From 1975 to 1979 trust companies had allotted an average 11 percent of their mortgages to Quebec but in 1980 and 1981 this share value jumped to 22 percent and 21 percent respectively, again bringing trust companies into line with the group standard for this province.

The shares of loan company mortgage outlays in Atlantic Canada, notably Nova Scotia and New Brunswick, were considerably reduced by the end of the 1975-81 period. Since loan companies had displayed an unusual concentration of mortgages in these provinces relative to other institutions, the decline served to reduce this anomaly. Loan companies also increased their allotment of mortgages marginally in Alberta and British Columbia, following the trend displayed by banks and LICs. The final category of

mortgage lender, 'other lenders', displayed a general expansion of share values from 1975 to 1981 in most provinces outside Quebec -- Quebec saw a moderate decline in its share of 'other lenders' loans. Share increases were particularly marked in Ontario and Saskatchewan.

In broad terms, provincial shares of institutional mortgage loans did not change radically from 1975 to 1981. Most lender groups did increase their allocation of mortgages to Alberta and, to a lesser extent, British Columbia. The rise in share values for Alberta and British Columbia is likely the result of the high levels of new construction which took place within these two provinces over the 1970s -- for further discussion see Section 3.3.2 below. To a large extent, the data from Tables 3.15 through 3.19 point to a structuring of the institutional supply of mortgages at the provincial level. For example, banks and 'other lenders' reduced their interests in Quebec over the study period while trust companies increased their share of mortgages allocated to this province. Similarly, trust company mortgage investment in Ontario declined from 1975 to 1981 while LICs and 'other lenders' expanded their Ontario commitments. There does appear to be some indication from the Tables that institutional mortgage lending declined in significance in Atlantic Canada and Manitoba. Because of the short term of the study period -- that is, seven years -- it is difficult to raise this point beyond the level of conjecture.

In the following sections, the provincial mortgage lending activities of the five institutional groups is examined by type of mortgage loans.

3.3.1 NHA and Conventional Lending

In Section 3.2.1 the relative propensities of the financial institutions to favour NHA loans over conventional loans were discussed. On average,

the banks devoted approximately half of their mortgage portfolios (in terms of dwelling units) to NHA financed mortgages from 1967 to 1981, while LICs and trust and loan companies hovered around 25-30 percent. Over the course of this period however, bank NHA lending as a proportion of total bank lending declined considerably, and by the late 1970s, the bank NHA-conventional ratio differed much less from that of the other institutions than had been the case a decade earlier (see Table 3.4). Data relating to the provincial distribution of institutionally approved NHA mortgage loans is available only from 1977. The five year period from 1977 to 1981 features AHOP's last full year in operation (1977), the decline in NHA lending which lasted from 1978 through 1980 and, at the end of the period, the modest resurgence in NHA lending which took place after NHA loan amount ceilings were removed.

The annual figures for institutional NHA holdings in the provinces are set out in Table 3.21. An examination of the 'all lenders' distribution reveals that the shape of the general NHA curve (1977-81) described above (concave) holds true in most provinces. In Prince Edward Island and New Brunswick, two notable exceptions, institutional lenders apparently chose not to exploit AHOP subsidies in 1977 and instead financed the vast majority of their mortgage loans that year under conventional terms (90 percent and 81 percent respectively for Prince Edward Island and New Brunswick). In Ontario the institutions were remarkably consistent in the proportion of mortgage loans they financed under the NHA -- thus making for a very flat provincial loan curve. Ontario's NHA share values varied only six percentage points from 1977 to 1981 in contrast to, say, Quebec where the NHA loan component of institutionally approved mortgages varied 23 percentage points.⁹¹ Over the five year period as a whole, the share of provincial

TABLE 3.21: NHA Mortgage Loans as Percent All Residential Mortgage Loans Approved by Lending Institutions, by Type of Lender, by Province, 1977-1981 (Dwelling Units)

All Lenders

	1977	1978	1979	1980	1981
Nfld.	34%	22%	20%	37%	44%
P.E.I.	10	20	19	24	26
N.S.	28	17	12	19	19
N.B.	19	21	20	32	35
Que.	38	28	34	53	52
Ont.	36	31	30	31	35
Man.	50	37	27	30	39
Sask.	52	37	46	32	50
Alb.	41	26	22	18	24
B.C.	41	29	27	24	29
Canada	38	29	30	33	37

Banks

Nfld.	23	22	20	31	38
P.E.I.	11	7	13	25	26
N.S.	14	10	11	11	10
N.B.	29	27	29	40	42
Que.	53	45	45	51	54
Ont.	55	47	38	35	37
Man.	57	54	43	42	55
Sask.	63	52	46	41	49
Alb.	43	30	25	18	17
B.C.	43	35	29	26	28
Canada	50	41	35	34	37

Life Insurance Companies

Nfld.	41	-	4	61 ¹	-
P.E.I.	-	37 ¹	-	-	-
N.S.	55	13	10	12	27
N.B.	19	40	6	23	15
Que.	28	8	11	23	20
Ont.	39	33	34	23	28
Man.	45	28	3	27	9
Sask.	36	16	27	28	40
Alb.	30	21	22	19	22
B.C.	31	19	11	9	19
Canada	34	22	23	21	24

Table 3.21 cont'd.

	1972	1978	1979	1980	1981
<u>Trust Companies</u>					
Nfld.	43%	19%	17%	39%	44%
P.E.I.	9	24	21	24	18
N.S.	32	19	10	30	22
N.B.	12	11	13	26	34
Que.	33	14	29	60	63
Ont.	23	20	21	29	34
Man.	30	17	10	15	16
Sask.	43	29	45	23	36
Alb.	43	23	21	18	30
B.C.	40	22	23	22	21
Canada	30	20	22	33	38
<u>Loan Companies/Other Lenders</u> ²					
Nfld.	42	37	25	38	59
P.E.I.	11	6	26	40	39
N.S.	22	22	23	20	25
N.B.	29	28	34	31	46
Que.	26	19	34	66	55
Ont.	42	36	35	33	41
Man.	64	46	32	25	34
Sask.	55	38	49	30	61
Alb.	43	26	20	18	27
B.C.	44	35	36	29	40
Canada	40	31	34	38	43

¹Percent NHA loans calculated from a low number of total loans.

²Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

loan holdings which were NHA financed increased substantially in the Atlantic provinces (except Nova Scotia) and in Quebec while remaining strong in Saskatchewan throughout 1977-81. Relative to all other provinces Nova Scotia was the least favoured by institutional mortgage lenders for investment in NHA mortgage loans.

The banks, typically the institutional lenders most committed to NHA lending, displayed a marked regional preference for the use of NHA financing. Table 3.21 shows that the NHA share of bank loans approved in Newfoundland, Prince Edward Island and Nova Scotia often fell well short of the comparable figures for 'all lenders', especially during the vital AHOP years 1977 and 1978. The discrepancy is most striking in the case of Nova Scotia where in 1977 only 14 percent of all bank loans were NHA financed compared to 28 percent for 'all lenders'. (Bank NHA levels in the fourth Atlantic province, New Brunswick, were by contrast quite pronounced in each year of the study period.) It is clear from Table 3.21 that the banks concentrated their NHA investment in central and Prairie provinces. Approximately half of all bank mortgages approved in Quebec, Ontario, Manitoba and Saskatchewan were NHA financed -- share levels well above those for 'all lenders' in these four provinces. In Alberta and British Columbia bank NHA allotments were of much the same magnitude as those of 'all lenders' but, at least in the case of Alberta, they appear to have been on the decline.

The preference LICs display for conventional mortgage lending is evident in Table 3.21. Apart from Newfoundland and Prince Edward Island -- provinces in which total LIC loan volumes are low and quite variable year-to-year (see Figure 3.3) -- none of the provinces appear to have received a concentrated share of the life companies' small NHA portfolio.

The NHA component of the LICs' Nova Scotia holdings is sizeable by 'all lenders' standards, while Ontario and Alberta portfolios display NHA share components similar in proportion to the holding of 'all lenders'. Unlike the group of lending institutions as a whole and the banks specifically, LICs⁴ financed a relatively small share of their Quebec, Manitoba, Saskatchewan and British Columbia mortgage loans under the NHA. It is also evident from Table 3.21 that the pattern of LIC lending over the course of the 1977-81 period is less clearly defined than that of the other groups; NHA share levels fluctuate in most provinces from 1978 to 1980, an indication that the choice between NHA and conventional investments is for the LICs less clear-cut than for the other lending institutions.

Trust companies traditionally have favoured conventional mortgages over NHA; however, in 1980 the trust companies' NHA holdings began to grow in significance both relative to trust company conventional holdings and to the proportion of NHA investments approved by other mortgage lenders (see Tables 3.4 and 3.21). Whereas the institutional use of NHA financing generally rose through 1980-81, it increased substantially for the trust companies. The bulk of this increase arose out of their Quebec portfolios: in 1980 and 1981 the majority of trust company mortgages approved in Quebec, 60 percent and 63 percent respectively for the two years, became NHA financed. NHA loan levels in other provinces as a whole tended to fall below the 'all lender' averages, with the exception of Newfoundland, Nova Scotia and Alberta where trust company NHA share allocations were slightly higher. The trust companies exhibited markedly few NHA approvals in New Brunswick, Manitoba and the trust companies' major lending market, Ontario.

Of the set of mortgage lending institutions, loan companies and 'other

lenders' display one of the stronger emphases on NHA lending (see Table 3.4). (In the late 1970s, 'other lenders' converted the bulk of their approvals to NHA financing.) The NHA share of loan company and 'other lenders' provincial portfolios is in every case, except for Quebec, higher than those of 'all lenders'. Unlike the banks, the combined loan companies - 'other lenders' exhibit relatively substantial NHA holdings in the Atlantic Provinces, particularly Newfoundland and New Brunswick. The NHA share of this lender group's British Columbia portfolio is also quite large by 'all lenders' standards. In Quebec, loan companies and 'other lenders' allocated on average around 40 percent of their mortgages under the NHA; this figure only approximates that of 'all lenders'. Because 'other lenders' predominantly invest in Quebec and because they became primarily NHA lenders in 1979-80, loan companies on their own may tend to lend a smaller proportion of NHA financed loans in Quebec than indicated by the joint figures.⁹²

The use of NHA or conventional financing is the prerogative of the mortgage lender. To the extent that NHA loans are less risky, the yield or interest rate charged for NHA financing will be lower than that for conventional financing. The rate differential is not measurable, however, since conventional terms are not reported by lending institutions and NHA interest terms are, as of 1969, negotiable. The spatial use of either type of financing has therefore, no necessary implications for the cost of mortgage funds in a given area. There are however, indirect implications for the geographical cost and availability of funds arising from the use of NHA or conventional financing. The relative homogeneity of NHA mortgages (see Section 2.1) renders them better suited to secondary trade. The greater the incidence of secondary trade associated with a given area or

region, the greater the flow of mortgage capital within the region and, potentially, into the region. Locations preferred by institutional mortgage lenders for NHA investment may be viewed therefore, as being the potential beneficiaries of an improved supply of mortgage capital.

By the late 1970s institutional lenders had come to invest in NHA mortgages at reasonably similar levels: about one-quarter to one-third of institutional mortgages approved were NHA financed. Each of the institutional types however, display a unique pattern for the distribution of these NHA mortgages among the ten provinces. The banks favoured central and western Canada for NHA loans, and preferred to use conventional loans in Newfoundland, Prince Edward Island and Nova Scotia. The LICs, the least engaged in NHA lending of the institutions, committed themselves to a level of NHA mortgage approvals in Ontario and Alberta which was commensurate with that of the other lending institutions. Trust companies, contrary to the banks, exhibited a relatively high level of NHA commitments in Newfoundland, Prince Edward Island and Nova Scotia; like the banks, trust company NHA approvals were substantial in Quebec. In the west (except Alberta) and Ontario, trust companies preferred the use of conventional financing. Loan companies and 'other lenders' used NHA financing a great deal by 'all lenders' standards, but especially so in Newfoundland, New Brunswick and British Columbia. The one common aspect of all the institutional patterns is the NHA share of mortgages approved in Alberta: on average banks, LICs, trust companies and loan companies and 'other lenders' all financed between 23 and 27 percent of their Alberta mortgages under the NHA from 1977 to 1981. In the other nine provinces, the institutions' average provincial share values varied one from the other by 12 to 32 percentage points.

3.3.2 New and Existing Housing Loans

Dwelling starts in Canada rose to record levels in the first half of the 1970s but by 1976 had settled into a major decline: in 1980 fewer housing units were begun than in 1967 (see Appendix Table 2A-1). Provincial dwelling start activity at this time is illustrated in Table 3.23. The general downward trend in starts which characterized the late 1970s is evident in all provinces. It is clear from Table 3.23, however, that in any given year, housing construction activity varied substantially province to province. For example, from 1977 to 1978, Newfoundland's dwelling starts fell 23 percent; Prince Edward Island's rose 47 percent, Nova Scotia's fell 35 percent, and New Brunswick's increased 20 percent; in central Canada, Quebec starts declined by 24 percent and Ontario's by nine percent; in Manitoba starts increased 29 percent, fell by 26 percent in Saskatchewan, rose by 26 percent in Alberta, and declined by 12 percent in British Columbia. Each year the investor in new construction mortgage loans was thus faced with a new set of active provincial housing markets; or put another way, the demand for new construction mortgage funds shifted markedly among the ten provinces.

Provincial shares of national dwelling starts and the provincial distribution of institutional new housing loans for the 1975-81 period is set out in Table 3.24. A comparison of the set of figures for the institutional lenders as a group reveals that provincial shares of national dwelling start activity were not always matched by institutional lending activity. The difference is particularly marked in Ontario, Quebec, Alberta and British Columbia — the four provinces with the highest number of dwelling starts. In Ontario's case, in every year from 1975 to 1981, institutional mortgage lenders allotted a share of their new residential construction

TABLE 3.2 3 Dwelling Starts, Canada, by Province, 1972-1981
(Thousands of Dwelling Units)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Nfld.	3.9	4.8	4.9	5.3	5.7	3.7	2.9	3.0	3.8	3.2
P.E.I.	1.1	2.1	1.3	0.8	0.8	0.8	1.2	1.1	0.5	0.2
N.S.	5.2	7.7	6.0	6.4	7.5	7.5	4.8	4.5	3.9	3.7
N.B.	6.4	7.2	5.9	7.0	6.8	4.3	5.2	5.0	2.6	2.2
Que.	55.7	59.5	51.6	54.7	68.7	57.6	43.7	41.7	29.2	29.6
Ont.	102.9	110.5	85.5	80.0	84.7	79.1	71.7	56.9	40.1	50.2
Man.	12.1	11.5	8.7	7.8	9.3	9.4	12.1	5.8	2.6	2.8
Sask.	4.8	6.4	7.7	10.5	13.1	12.8	9.5	11.7	6.2	6.0
Alb.	22.5	21.0	19.0	24.7	38.8	38.1	47.9	39.9	32.0	38.5
B.C.	35.3	37.6	31.4	34.1	37.7	32.4	28.6	27.3	37.5	41.6
Canada	249.9	268.3	222.0	231.3	273.1	245.7	227.6	196.9	158.4	178.0

Source: Canadian Housing Statistics, various issues.

TABLE 3.24: Dwelling Starts (DS) by Province as Percent Dwelling Starts Canada, 1975-1981; and New Residential Construction (NRC) Mortgage Loans, by Province, as Percent all Residential Construction Loans, Canada, Approved by Lending Institutions, by type of Lender, 1975-1981 (Dwelling Units)

a) All Lenders

		1975	1976	1977	1978	1979	1980	1981
Nfld.	DS	2%	2%	1%	1%	1%	2%	2%
	NRC	1	1	1	1	1	2	1
P.E.I.	DS	<1	<1	<1	<1	<1	<1	<1
	NRC	<1	<1	<1	1	1	<1	<1
N.S.	DS	3	3	3	2	2	2	2
	NRC	3	2	3	3	2	2	1
N.B.	DS	3	2	2	2	2	2	1
	NRC	2	2	2	2	2	1	1
Que.	DS	24	25	23	19	21	18	17
	NRC	25	25	19	16	14	16	18
Ont.	DS	34	31	32	31	29	25	28
	NRC	39	36	39	40	39	35	42
Man.	DS	3	3	4	5	3	2	2
	NRC	5	3	4	5	2	2	2
Sask.	DS	4	5	5	4	6	4	3
	NRC	2	4	4	4	6	3	4
Alb.	DS	11	14	15	21	20	20	22
	NRC	10	13	15	19	18	15	17
B.C.	DS	15	14	13	13	14	24	23
	NRC	12	13	13	9	14	20	14
Canada		100	100	100	100	100	100	100

b) Lending Institutions: B - Banks, LIC - Life Insurance companies, T - Trust companies, L - Loan companies, O - Other lenders¹.

			1975	1976	1977	1978	1979	1980	1981
Nfld.	DS		2	2	1	1	1	2	2
	NRC	B	1	2	1	1	1	2	1
		LIC	<1	<1	<1	<1	<1	<1	<1
		T	<1	1	2	1	1	2	1
		L	2	2	1	1	1	2	1
		O	-	-	-	-	-	-	<1
P.E.I.	DS		<1	<1	<1	<1	<1	<1	<1
	NRC	B	<1	<1	<1	<1	<1	<1	<1
		LIC	1	<1	<1	<1	<1	<1	-
		T	<1	<1	<1	1	1	1	<1
		L	<1	<1	1	1	<1	<1	<1
		O	-	-	-	-	<1	<1	-

Table 3.24 cont'd.

			1975	1976	1977	1978	1979	1980	1981
N.S.	DS		3%	3%	3%	2%	2%	2%	2%
	NRC	B	2	2	2	2	3	3	2
		LIC	3	1	3	1	1	1	1
		T	1	2	5	4	2	2	1
		L	6	6	4	4	2	1	3
		O	-	-	-	-	-	-	-
N.B.	DS		3	2	2	2	2	2	1
	NRC	B	1	2	2	2	3	2	1
		LIC	<1	2	1	1	1	1	2
		T	3	3	3	2	3	1	<1
		L	3	3	3	3	1	<1	<1
		O	-	-	-	-	2	1	<1
Que.	DS		24	25	23	19	21	18	17
	NRC	B	32	34	28	26	20	13	15
		LIC	27	33	25	15	13	19	13
		T	16	13	10	7	10	15	24
		L	16	12	11	6	6	5	4
		O	75	54	27	40	39	55	47
Ont.	DS		34	31	32	31	29	25	28
	NRC	B	32	31	39	34	29	29	38
		LIC	40	33	44	48	55	42	59
		T	51	44	41	48	39	41	46
		L	39	34	34	34	43	34	32
		O	2	29	18	14	28	32	24
Man.	DS		3	3	4	5	3	2	2
	NRC	B	4	3	2	4	3	3	4
		LIC	8	4	1	4	1	1	1
		T	4	2	3	5	2	1	1
		L	4	4	7	8	5	2	3
		O	10	4	18	18	1	-	<1
Sask.	DS		4	5	5	4	6	4	3
	NRC	B	3	4	3	2	5	3	3
		LIC	1	2	3	4	3	2	2
		T	1	3	3	4	8	2	2
		L	4	6	7	6	5	4	5
		O	3	3	8	6	14	2	10
Alb.	DS		11	14	15	21	20	20	22
	NRC	B	11	10	11	17	20	19	20
		LIC	11	14	15	21	15	21	16
		T	8	15	17	20	17	18	14
		L	12	15	16	24	21	23	20
		O	7	6	22	14	8	7	12

Table 3.24 cont'd.

			1975	1976	1977	1978	1979	1980	1981
B.C.	DS		15%	14%	13%	13%	14%	24%	23%
	NRC	B	14	11	12	10	13	25	15
		LIC	8	11	7	5	9	14	6
		T	13	16	16	9	17	17	10
		L	13	16	16	14	16	27	31
		O	3	4	7	8	7	3	6

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

loans to Ontario that increasingly exceeded that province's share of national dwelling starts. In 1977, 39 percent of institutional mortgages approved on new construction were taken out in Ontario, a province which represented 34 percent of Canada's dwelling starts; by 1981 the figures were 42 percent of institutional new construction mortgages for 28 percent of the country's dwelling starts. The distributional situation is reversed in Quebec, Alberta and British Columbia. For these three provinces, particularly after 1977, their shares of Canadian dwelling starts were rarely matched by their shares of total institutional mortgages on new construction. The gap appeared to be widening for British Columbia at the turn of the decade.

Taken individually, the institutions display a variety of locational preferences for their new housing loans. Banks tend to allocate new residential mortgages disproportionately to Ontario and Quebec, while 'under-lending' in the Saskatchewan, Alberta and British Columbia new housing markets. LICs devoted a small proportion of their new construction loans to Atlantic and western Canada given their share of national starts. The discrepancy is most striking in British Columbia and Newfoundland (see Table 3.24). On the other hand, LICs exhibit a strong preference for lending on new housing in Ontario. While this province averaged 30 percent of Canada's new housing starts for 1975 to 1981, it received on average 46 percent of all LIC new construction mortgages approved over the same period. (In 1981, Ontario claimed 28 percent of all starts yet 59 percent of LIC new housing loans.)⁹³

Trust and loan companies display some common lending patterns with respect to new construction loan allocations across the provinces. Both institutional types provided Atlantic Canada (notably Nova Scotia) with a

share of new construction loans which usually exceeded the region's allotment of national dwelling starts. Both trust and loan companies allocated proportionately fewer new construction mortgages to Quebec -- on average 14 percent and nine percent respectively for (on average) 21 percent of the country's starts -- while at the same time devoting a disproportionately large share of their new housing loans to Ontario (44 percent and 36 percent respectively compared to the LICs' 46 percent). The similarity in lending patterns between the two types of institution is less apparent in western Canada. Loan companies generally allocated higher shares of their new residential construction portfolio to the western provinces than did the trust companies. Compared to the provincial shares of national dwelling starts, loan company shares in the four provinces were high while trust company shares were relatively low. The last group of mortgage lenders, 'other lenders', typically exhibited a concentration of loans in Quebec. On average from 1975 to 1981 Quebec claimed 21 percent of Canadian housing starts and over the same period 'other lenders' allocated an average of 48 percent of their new residential construction loans to that province. 'Other lenders' activity in Atlantic Canada's new construction market was virtually non-existent in the 1975-81 period whereas in the west, 'other lenders' allocated shares of their new housing loan approvals which often well exceeded the western provinces' share of national dwelling starts.

In summary, the geographical preference for new construction lending as measured against the dwelling start benchmark, appears centered in Ontario for all institutions except 'other lenders'. The banks (and to a lesser extent, the LICs) exhibited a moderate concentration of new construction loans in Quebec. Trust and loan companies were proportionately more active in Atlantic Canada's new housing market. In the west

loan companies clearly favoured lending on new construction more than any of the other institutional lenders. The variation in geographical preferences for the location of new housing loans between the institutional lenders indicates that dwelling start levels by themselves are not the primary factor in the location of new construction mortgage loans.

3.3.3 Single-detached and Multiple-unit Dwelling Loans

Table 3.25 describes the structure of provincial dwelling units, that is, the proportion of units in each province which are single-detached and, by implication, the proportions which are multiple-unit. The unique structural composition of Quebec housing is readily apparent: the majority of Quebec dwellings are multiple-unit. Housing in Atlantic Canada and the Prairie provinces (less so in Alberta's case by the 1981 census) is by contrast predominantly single-detached. In Newfoundland and Prince Edward Island three-quarters or more of the houses are single-detached. The composition of Ontario and British Columbia housing is approximately 60:40, single-detached to multiple-unit dwellings.

The provincial distribution of institutional mortgage loans by dwelling type is detailed in Table 3.26. First, with regard to the figures for 'all lenders', it can be seen that the financial institutions placed slightly less emphasis on single-detached mortgages than might be expected in view of the structural composition of provincial housing outlined above. In no case, however, including that of Quebec, are the single-detached approval levels substantially lower -- that is, institutional mortgage loans are primarily single-detached if to a lesser degree than total Canadian dwelling units. The strong relationship likely existing between the institutional mortgage lenders and urban housing may

TABLE 3.25: Single-detached Private Owner-occupied Dwellings as Percent Total Private Owner-Occupied Dwellings, Canada, by Province, 1971, 1976, 1981 (Dwelling Units)

	1971	1976	1981
Nfld.	78%	73%	78%
P.E.I.	75	74	75
N.S.	71	67	68
N.B.	70	66	71
Que.	40	39	44
Ont.	61	57	57
Man.	72	67	68
Sask.	81	77	77
Alb.	71	65	62
B.C.	68	62	62
Canada	59	56	57

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

TABLE 3.26: Single-detached Residential Mortgage Loans as Percent All Residential Loans Approved by Lending Institutions, by Type of Lender, by Province, 1977-1981 (Dwelling Units)

	1977	1978	1979	1980	1981
<u>All Lenders</u>					
Nfld.	66%	69%	72%	62%	64%
P.E.I.	72	59	76	73	83
N.S.	55	64	69	63	61
N.B.	72	75	74	69	56
Que.	39	45	47	38	45
Ont.	55	62	64	60	54
Man.	58	57	67	72	70
Sask.	63	69	60	76	64
Alb.	53	62	70	66	62
B.C.	56	66	67	69	61
Canada	53	60	63	58	55
<u>Banks</u>					
Nfld.	87	83	84	81	84
P.E.I.	89	90	89	79	93
N.S.	87	89	90	88	92
N.B.	90	88	89	76	79
Que.	65	59	67	60	65
Ont.	65	70	75	75	69
Man.	88	81	89	92	78
Sask.	96	96	89	94	90
Alb.	88	88	86	88	88
B.C.	90	95	95	90	88
Canada	75	75	81	79	76
<u>LICs</u>					
Nfld.	51	14	91	11	100
P.E.I.	80	27	30	44	100
N.S.	15	18	29	12	47
N.B.	53	42	49	61	19
Que.	16	28	33	34	46
Ont.	25	47	35	48	43
Man.	42	33	40	71	97
Sask.	14	16	11	32	66
Alb.	27	37	40	39	35
B.C.	13	14	17	17	30
Canada	22	35	32	37	42

Table 3.26 cont'd.

	1977	1978	1979	1980	1981
<u>Trust Companies</u>					
Nfld.	47%	52%	57%	50%	50%
P.E.I.	66	53	75	74	86
N.S.	51	58	60	57	63
N.B.	68	73	66	62	50
Que.	35	47	41	30	38
Ont.	58	61	65	61	52
Man.	51	47	47	57	60
Sask.	55	62	42	69	64
Alb.	45	53	66	64	62
B.C.	38	52	56	58	51
Canada	51	57	59	54	50
<u>Loan Companies/Other Lenders</u> ¹					
Nfld.	68	74	66	51	45
P.E.I.	72	66	74	77	68
N.S.	38	57	62	57	30
N.B.	64	65	76	76	61
Que.	20	25	32	26	33
Ont.	61	62	63	49	52
Man.	47	53	67	58	56
Sask.	57	64	56	66	39
Alb.	45	54	67	56	51
B.C.	58	60	60	65	46
Canada	48	52	57	48	45

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

explain the weaker presence of single-detached loans in institutional portfolios. Proportionately, there are far more multiple-unit dwellings in urban areas than are to be found in rural areas of the country.

Among the four categories of lending institutions, a gradation exists with respect to emphasis placed on single-detached mortgages. As set out in Section 3.2.3, the banks generally allocate around 70 percent of their mortgages to single-detached units; the life companies around 30 percent; the trust companies around 55 percent and the loan companies-'other lenders' about 45 percent (see Table 3.9).⁹⁴ In the case of the banks, their provincial allocations of single-detached are reasonably consistent. The national figures do of course understate the banks' preference for single-detached units in eastern and western Canada. The banks allocated well in excess of 70 percent of their mortgage loans to single-detached units in these eight provinces: on average 84 percent to 93 percent in single-detached units. When contrasted with the relative proportions outlined for 'all lenders', banks display a somewhat weaker inclination toward single-detached approvals in Ontario, especially relative to Quebec. In these two provinces, multiple-unit loans made up 30-40 percent of the banks' approvals from 1977 to 1981.

LICs display a remarkable level of variability in the shares of their provincial holdings devoted to single-detached units. Not only are there substantial differences between provinces -- and thus a wide spread of share values created about LIC national averages over the 1977-81 period -- but there is also considerable intra-provincial variation year-to-year. In the Atlantic provinces, particularly Newfoundland and Prince Edward Island, the small number of total loans approved by the life companies (see Figure 3.3) combined with their preference for multiple-unit financing

explains some of the radical shifts in single-detached loan percentages apparent in Table 3.26. In Manitoba and Saskatchewan, the wide range of single-detached loan shares from 1977 to 1981 appears rooted in a move away from multiple-unit lending toward predominantly single-detached loan portfolios. This trend is also in evidence in the LICs' single-detached loan shares for Quebec and Ontario. In general, LICs do not conform to the provincial breakdown of loans by structural type seen in the figures for 'all lenders' or banks. Quebec and Ontario (usually the choice for concentration of multiple-unit mortgages by institutional lenders) were allotted relatively high proportions of single-detached loans by LIC standards. Again in contrast to the 'all lenders' norm, LICs displayed a marked preference for multiple-unit mortgages in Nova Scotia, Saskatchewan, and British Columbia. Each of these provinces (Saskatchewan in particular) was generally favoured by other institutional lenders for high percentages of single-detached mortgages.

Trust companies display a low level of inter-provincial variation in the proportion of single-detached mortgages they allocate, with the exception of Quebec which figures well below the other nine provinces. Outside Quebec, the trust companies' provincial approvals are typically comprised of 50-60 percent single-detached dwelling loans (in Prince Edward Island 71 percent and in New Brunswick, 64 percent). The relative lack of inter-provincial variation in percentage single-detached values points to a singular interest in multiple-unit lending in Newfoundland, Nova Scotia, Manitoba and British Columbia, and a heightened interest in single-detached lending in Ontario and Alberta compared to 'all lenders'.

The last category of mortgage lenders, the loan companies-'other lenders' demonstrates a moderate degree of variation in the structural

composition of its mortgage approvals both year-to-year and inter-provincially. The Quebec portfolio is set quite apart: proportionately it contains about half as many loan company-'other lenders' single-detached mortgages as found in the other provincial portfolios. It is difficult to tell whether the large proportion of 'other lenders' mortgages in the Quebec total for this group has a bearing on this relationship.⁹⁵

Overall, loan companies and 'other lenders' do not manifest a strong preference for single-detached lending in any one area of the country. The single-detached proportions in western provinces, in Ontario and Newfoundland are all similar. Like the LICs and trust companies (and in contrast to the banks) loan companies and 'other lenders' display a low percentage of single-detached mortgages in their Nova Scotia approvals relative to other Atlantic holdings.

At the national scale the single-detached share of total institutional mortgage approvals was relatively unchanged during the 1970s and early 1980s. This sameness, however, masked a sizeable degree of variation at the provincial level for most institutions. In the case of the banks, single-detached mortgage allocations were reasonably constant from 1977 to 1981 in all provinces. Banks therefore, displayed a steady preference for multiple-unit lending in central Canada, with none of the gradation and variation among the remaining eight provinces shown by other institutional lenders. (For example, bank holdings in Nova Scotia and British Columbia are dominated by single-detached mortgages.) LICs, in contrast to the banks, showed little locational consistency in the concentration of their single-detached or multiple-unit loans, except perhaps in the major central Canadian housing markets. Notwithstanding mortgage approvals dominated by multiple-unit loans, life companies favoured single-detached

lending in Ontario and Quebec to an unusual extent by institutional standards. In Atlantic Canada, LICs preferred lending on multiple-unit mortgages in Nova Scotia; in western Canada the overall shift in LIC lending in favour of single-detached loans was most apparent in Manitoba and Saskatchewan. Trust companies tended to split their provincial mortgage approvals evenly between single-detached and multiple-unit loans from 1977 to 1981. In Quebec, as could be expected, trust companies did allocate a larger share of their mortgages to multiple-unit dwellings, whereas in Prince Edward Island trust companies became overwhelmingly biased toward single-detached by the turn of the decade. The last group of lenders, loan companies and 'other lenders', like the trust companies, do not appear to have any particular locational preferences for mortgage lending on the basis of structural type outside of Quebec and Prince Edward Island.

3.3.4 Average Loan Amounts

Over the 1975-81 period rapidly escalating housing prices applied steady upward pressure on mortgage loan amounts. Growing inflation had elevated the value of housing for many Canadians⁹⁶ and, especially, for market speculators since housing best provided a ready hedge against rising prices in the economy. An undersupply of available housing units⁹⁷ in fast growing areas of the country like British Columbia, Alberta and southern Ontario, exacerbated housing price rises which in turn was reflected in higher mortgage loan amounts.

Table 3.27 sets out the average loan amounts of institutionally financed residential mortgages from 1975 to 1981. While all provinces experienced increases in average loan amounts for the period the degree

TABLE 3.27: Average Loan Amounts for All Residential Mortgage Loans
Approved by Lending Institutions,¹ by Province, 1975-1981
(Thousands of Dollars per Dwelling Unit)

	1975	1976	1977	1978	1979	1980	1981
Nfld.	\$26	\$27	\$29	\$29	\$31	\$35	\$38
P.E.I.	16	20	24	25	28	28	36
N.S.	21	23	25	26	27	31	30
N.B.	19	23	24	26	27	27	25
Que.	19	21	21	23	25	24	31
Ont.	30	33	32	34	37	39	43
Man.	24	30	30	30	31	33	36
Sask.	26	29	31	33	36	40	42
Alb.	31	36	37	44	53	57	65
B.C.	30	33	33	35	39	49	57
Canada	27	29	30	33	36	39	44

¹Includes banks, life insurance companies, trust companies, loan companies and other lenders.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

varied substantially.⁹⁸ Loan amounts rose the most in Alberta and British Columbia; both provinces witnessed dramatic growth in population during the late 1970s (see Table 3.13). In 1980 and 1981 loan amounts leapt in Newfoundland, as offshore oil exploration got underway; in Ontario, as the lack of new housing starts in ownership and rental markets in previous years made itself felt; and in Quebec, as the ascendancy of the Parti Quebecois became accepted and the population exodus by largely English-speaking Quebecers stabilized.⁹⁹ For the 1975-81 period as a whole average loan amounts on institutional mortgages generally increased from east to west; Newfoundland amounts approximated those of Manitoba and Saskatchewan.

The average values of institutional mortgages by type of lender and province are shown in Table 3.28. With few exceptions, bank loan amounts increased steadily in each province from 1975 to 1981.¹⁰⁰ In Alberta and British Columbia the rise was very pronounced: average bank loan amounts in Alberta increased \$34000 over the seven year period, and \$28000 in British Columbia. Since the rise in loan amounts on bank mortgages approved in the Maritimes was much less pronounced (\$11000 in Prince Edward Island, \$12000 in Nova Scotia, and \$6000 in New Brunswick) the range of bank loan amounts across the country widened considerably from 1975 to 1981 (see Table 3.28). By 1981, a \$50000 difference in average value existed between bank mortgages approved in New Brunswick and Alberta.

The steady acceleration of average loan values evident in 'all lenders' and bank figures for 1975-81 is not apparent in the LIC figures. Over the course of the seven year period, average LIC loan amounts rose and fell. In most provinces, however, a broad trend to rising values is discernible. (In Newfoundland, Prince Edward Island, and New Brunswick

the extent of annual fluctuations in average loan amounts is such that a trendline is less perceptible.) In contrast to the banks, and as a result of the considerable fluctuation in provincial figures, the range of life company average loan amounts for the ten provinces is moderate (see Table 3.27).

The trust companies, like the life companies, do not display the steady incremental growth in provincial mortgage loan amounts common to the banks — the degree of fluctuation in trust company values is less, however, than for the LICs. In most provinces the rate of increase in loan amounts was relatively moderate until late in the study period. Quebec experienced virtually no rise in the average loan amounts of its trust company mortgage approvals until 1981; in Manitoba trust company loan amounts did not really increase at all from 1975 to 1981. The pattern of loan amount growth for the trust companies is reflected in their range figures (see Table 3.28): the spread of average loan amounts between highest and lowest valued province in terms of mortgage amount does not expand until 1978-79, quite late by institutional standards.

Average provincial mortgage values for the loan companies followed the general rising trend over the 1975-81 period. Like the trust companies and LICs, loan company loan amounts declined in many provinces over the seven years and, therefore, the extent of the overall value rise was diminished. Only in Alberta did loan companies display a major and consistent increase in mortgage loan values (the decline in 1979-80 notwithstanding). In the Maritimes and Quebec the rise in loan amounts was slight. A comparison of 'all lenders' and loan company ranges in provincial loan values shows that the better part of growth in loan company mortgage values occurred in Alberta.

Table 3.28 cont'd.

	1975	1976	1977	1978	1979	1980	1981
<u>Loan Companies</u>							
Nfld.	\$26	\$25	\$30	\$31	\$34	\$36	\$41
P.E.I.	18	21	24	24	17	26	28
N.S.	20	22	23	27	25	27	20
N.B.	17	22	26	27	27	28	22
Que.	15	15	17	18	21	20	24
Ont.	30	31	33	33	39	37	42
Man.	25	30	31	31	34	28	30
Sask.	24	28	28	31	36	38	37
Alb.	31	34	37	41	52	51	62
B.C.	29	31	32	31	35	45	52
Canada	26	28	30	31	37	38	44
<u>Other Lenders¹</u>							
Nfld.	-	-	-	-	-	-	28
P.E.I.	-	-	-	-	32	36	48
N.S.	-	-	-	-	-	-	34
N.B.	-	25	-	-	35	37	36
Que.	15	16	16	19	22	23	28
Ont.	26	29	30	29	31	33	38
Man.	23	24	27	31	29	-	41
Sask.	23	33	35	39	37	41	47
Alb.	28	36	33	39	47	59	48
B.C.	23	30	33	37	36	45	36
Canada	16	20	23	23	26	30	33

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

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For the last group of mortgage lenders, 'other lenders', average loan amounts rose from 1975 to 1981 in all provinces, however the advance was particularly marked in Saskatchewan and, with some fluctuation, in Alberta. In British Columbia, 'other lenders' loan values increased moderately compared to the other institutions. The spread in provincial loan values for 'other lenders' is relatively constant over the 1975-81 period in contrast to banks, LICs, and trust and loan companies: 'other lenders' invested considerably more per dwelling in the Maritimes on average than did these larger institutions.

In Section 3.2.4 a comparison of institutional loan amounts was detailed (see Table 3.10). Banks could be expected to lend the most funds per dwelling unit of all the institutional lenders followed by the trust and loan companies, the life companies and 'other lenders'. The disparity between bank loan amounts and those of the other lender groups increased over the late 1970s. In 1975 \$2000 separated bank and second place trust companies; in 1978, a difference of \$7000 separated the banks and then second placed loan companies average amounts; by 1981, a \$9000 difference existed between bank and loan company figures. In Table 3.29 the average provincial loan amounts for the five groups of mortgage lenders are compared.

On average over the 1975-81 period, institutional mortgage lenders as a group, approved loans valued at approximately \$43000. Institutional mortgages approved in Alberta and British Columbia exceeded the national mean — in Alberta by a considerable margin. Ontario and Saskatchewan mortgages tended to be valued around the national average, while Manitoba and Newfoundland figured below the mean. Average loan amounts for institutional mortgages approved in the Maritimes and Quebec placed well below the

Table 3.29: Average Loan Amounts for All Residential Mortgage Loans
Approved by Lending Institutions, by Type of Lender, by
Province, Average 1975-81 (Thousands of Dollars per Dwelling
Unit)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	All Lenders
Nfld.	\$33	\$30	\$28	\$32	\$28 ²	\$31
P.E.I.	29	25	22	23	39 ²	25
N.S.	32	26	24	23	34 ²	26
N.B.	30	23	22	24	33 ²	24
Que.	28	22	23	19	20	23
Ont.	42	35	33	35	27	35
Man.	36	32	26	30	29 ²	31
Sask.	38	28	30	32	36	34
Alb.	55	39	43	44	41	46
B.C.	45	27	38	36	34	39
Canada	40	30	32	33	24	34

¹Includes Quebec savings banks, mutual benefit and fraternal societies,
pension funds and mortgage investment brokers.

²Less than seven-year average.

Source: Compiled by author based on data in Canadian Housing Statistics,
various issues.

national average, and at almost half the value of Alberta mortgages.

The average provincial values of bank mortgages all exceeded the figures for 'all lenders', thus consistently reflecting the banks' position as lender of highest value in the national market. Bank provincial loan amounts, relative to each other, differ however from the 'all lender' benchmark. The average value of bank mortgages in Alberta exceeds that in other provinces to a greater extent than in the case for 'all lenders'. The same can be said of bank mortgages in Ontario relative to the other provinces. The average amount of bank loans in Newfoundland is, on the other hand, quite low contrasted with Newfoundland's standing in the 'all lenders' figures: they are valued closer to Maritimes and Quebec loan amounts than western amounts as is the case with 'all lenders'. In contrast with 'all lenders', the banks display a sizeable range of average loan amounts between highest and lowest provinces (viz., Alberta and Quebec): \$27000 on average for the 1975-81 period for banks versus \$23000 for the institutional lenders as a group.

A similar provincial rank comparison carried out with the life companies and 'all lenders' loan amount figures revealed that the LICs tended to lend less per dwelling on average in British Columbia than the other institutional lenders, and more in Manitoba and Newfoundland. LIC mortgage values in British Columbia fall below average for those institutions and are exceeded by both Manitoba and Newfoundland in contrast to the relative standings of these three provinces in the 'all lenders' data set. Unlike the banks, the spread between Alberta (with the highest average LIC loan amounts) and Quebec (with the lowest amounts) is quite moderate — \$17000 on average for the 1975-81 period. The life companies show the least variation in mortgage investment per dwelling across the ten provinces

of all the lender groups (see Table 3.29).

The trust companies exhibit a pattern of relative provincial loan amounts which basically reflects that of 'all lenders'. The only notable difference is Quebec: trust companies tend to lend a bit more per dwelling in Quebec relative to that lent in other provinces, than do the banks, LICs or loan companies and 'other lenders'. In the case of the trust companies, Quebec average loan amounts exceed those of Prince Edward Island and New Brunswick (if only by a slight margin). Because Quebec figures higher in trust company ranks (and because the trust companies' Alberta loan amounts are not hugely greater than British Columbia's) the spread between Alberta and lowest ranked Prince Edward Island and New Brunswick is relatively low by the 'all lenders' standard.

Loan companies tend to allocate more per dwelling on average in Newfoundland, where loan company mortgage values approximate those of Saskatchewan and do not fall much below those of Ontario and British Columbia. Loan companies also manifest a low average value for their Quebec mortgages. On average from 1975 to 1981 loan company mortgages in Quebec were worth \$19000 compared to \$23000 and \$24000 for loan company mortgages in the Maritimes. The low average value of loan company Quebec mortgages increases the range of provincial loan amounts for this type of lender to a level above 'all lenders', and second highest next to the banks.

The loan amount figures for the fifth group 'other lenders' shown in Table 3.29 do not include a full yearly complement of data for this group in Atlantic Canada and Manitoba. As such, average provincial loan amounts quoted for these five provinces are not wholly comparable with those of the rest of the country. In the rest of the country the relative provincial positions with respect to average 'other lenders' loan amounts is

fairly similar to the norm for mortgage lending institutions, except that 'other lenders' allot more per dwelling in Saskatchewan than they do in either Ontario or British Columbia. 'Other lenders' average loan amounts in Quebec are quite low relative to western values; although this relationship is to be seen in the figures for 'all lenders', in this group's case it would seem to point to a major difference in the types of 'other lenders' active in the two regional markets.

Of the institutional lenders the banks are the highest value lenders, followed by loans companies, trust companies, LICs and 'other lenders' (see Table 3.30). As was noted in Section 3.2.4 the one exception in this regard concerns single-detached dwelling mortgages: LICs invest much more per single-detached loan on average than any of the other institutional groups. The banks, otherwise lenders of highest value, allot especially high sums relative to the other groups on conventionally financed, existing construction and multiple-unit loans. Table 3.31 details institutional investment levels by province for each of the six types of residential mortgage.

The general pattern of institutional loan values by type and lender described above is in large measure mirrored at the provincial scale. In the multiple-unit, NHA, conventional, new and existing housing loan categories the banks typically extended the most credit per dwelling of all the institutional lenders in every province. In the single-detached loan category, the LICs were also fairly consistent: except for New Brunswick, the single-detached mortgages approved by the life companies in each province were valued higher than comparable loans made by any of the other institutional lenders. Deviations from the general pattern by any one of the lenders were usually centred in a few provinces. For the banks in the

TABLE 3.30: Average Loan Amounts for All Residential Mortgage Loans Approved by Lending Institutions, by Type of Lender, by Type of Loan, Canada, Average 1975-81¹, 1977-81² (Thousands of Dollars per Dwelling Unit)

	Bank	Life Insurance Companies	Trust Companies	Loan Companies	Other ³ Lenders	Loan Companies/ Other Lenders ³	All Lenders
NHA ²	\$38	\$32	\$35			\$36	\$36
Conv. ²	46	32	34			34	37
NRC ¹	47	38	41	43	31		42
Ex.R.C. ¹	36	21	29	29	17		30
SD ²	46	52	42			46	45
M ²	34	22	23			22	25
Total ¹	40	30	32	34	24		23

³Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

TABLE 3.31: Average Loan Amounts for All Residential Mortgage Loans Approved by Lending Institutions, by type of Lender, by Type of Loan, by Province, Average 1975-81¹, 1977-81² (Thousands of Dollars per Dwelling Unit)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies/ Other Lenders ³	All Lenders	
<u>NHA Loans²</u>						
Nfld.	\$33	\$30	\$31	\$34	\$32	
P.E.I.	22	25	30	44	35	
N.S.	31	26	28	34	30	
N.B.	30	29	24	33	28	
Que.	30	27	25	27	28	
Ont.	40	31	38	37	38	
Man.	36	37	33	34	35	
Sask.	38	30	32	38	36	
Alb.	53	44	47	47	49	
B.C.	45	43	43	43	44	
Canada	38	32	35	36	36	
<u>Conventional Loans²</u>						
Nfld.	36	31	27	34	32	
P.E.I.	31	27	24	24	26	
N.S.	34	30	24	22	27	
N.B.	31	23	23	24	25	
Que.	30	22	24	18	24	
Ont.	48	38	32	36	37	
Man.	41	34	25	28	31	
Sask.	45	33	31	32	36	
Alb.	64	38	47	49	52	
B.C.	52	26	39	37	42	
Canada	46	32	34	34	37	
<u>New Construction Loans¹</u>						
				Loan Companies	Other Lenders ³	
Nfld.	36	41	33	38	49	35
P.E.I.	31	28	30	32	34	30
N.S.	36	31	32	31	-	32
N.B.	32	25	35	31	39	30
Que.	34	29	29	31	28	31
Ont.	49	41	42	45	33	44
Man.	43	34	33	38	30	38
Sask.	45	32	35	39	37	38
Alb.	61	46	48	53	41	52
B.C.	49	37	44	42	31	43
Canada	47	38	41	43	31	42

The differences between institutional mortgage lenders extends to the way in which they lend within each province, that is in this case, by type of loan. Proportionate to the institutional lenders as a group (on average for the 1977-81 period) the banks financed a large part of their mortgages in central and western Canada under the NHA; the LICs in Ontario and Alberta; the trust companies in Atlantic Canada and Quebec; and the composite loans companies-'other lenders' in Newfoundland, New Brunswick and British Columbia. Measured against provincial shares of total Canadian dwelling starts, the banks and LICs concentrated their lending on new residential construction to an unusually high degree in central Canada; the trust companies similarly in the Atlantic provinces and Ontario; the loan companies in all provinces except Quebec; and 'other lenders' in Quebec and the west. Again, compared to the distribution of 'all lenders' loans, here with respect to single-detached and multiple-unit dwelling mortgages, the various lenders are distinguished in their lending practices. The banks allocated a high proportion of their Nova Scotia and British Columbia approvals to single-detached housing, while the life companies did likewise in Quebec, Ontario, Manitoba and Saskatchewan, and the trust companies and loan companies-'other lenders' in Prince Edward Island. Multiple-unit dwelling mortgages were comparatively high as a proportion of total institutional loans in Quebec and Ontario for the banks, in Nova Scotia for the LICs, and in Quebec for the trust companies and loan companies-'other lenders'.

Since housing prices vary substantially across the provinces it is to be expected that the level of financial commitment associated with residential lending will also vary by province. Price levels notwithstanding, the institutional mortgage lenders each showed a different pattern

single-detached and multiple-unit categories, Alberta (along with Ontario (multiple-unit) and British Columbia (single-detached)) were allotted inordinantly high average loan amounts, even by bank standards. Average loan amounts on bank mortgages approved for multiple-unit dwellings in Alberta were approximately \$20000 higher than those of other institutional lenders (see Table 3.51). In Newfoundland the mean values of bank mortgages were low in all categories of mortgage -- usually they better approximated bank values for Maritime loans than for Prairie province loans, the reverse of the situation for 'all lenders'. The LICs' tendency towards high mortgage loan amounts in Atlantic Canada (especially Newfoundland) and in Manitoba was repeated in all categories of mortgage except single-detached. The general trend for low LIC average loan amounts in British Columbia was most evident in the conventional and existing mortgage categories. For the trust companies typically high valued Quebec loans were outstanding in the single-detached and multiple-unit categories.

In the loan amount figures for all mortgage types (see Table 3.28) loan companies and 'other lenders' each exhibited different provincial emphases for high value lending. The loan companies invested more in Newfoundland proportionate to 'all lenders', and the 'other lenders' proportionately more in the western provinces, especially Saskatchewan. This is in each case evident in the new and existing housing figures for which separate data is available for these two lender groups (see Table 3.31). By collapsing the two groups in the presentation of single-detached, multiple-unit, NHA and conventional loan data, however, the 'other lenders' concentration of funds in the western provinces within the four loan categories is likely eclipsed. The composite loan companies-'other lenders' group primarily manifests higher than usual average loan amounts in

Newfoundland. Only within the NHA loan category do Saskatchewan mortgages figure highly for the group.

3.3.5 Summary

Institutional mortgage lenders can be differentiated by the geographical location of their mortgage investments and by the emphasis they place on particular kinds of residential mortgages within each province. At the outset of Section 3.3 it was shown that each type of institutional lender displayed a unique distribution of total loans among the ten provinces. Table 3.32 summarizes the regional concentration of residential mortgage loans by each type of lender, averaged for the 1975 to 1981 period. Of the institutional lenders, trust and loan companies were the most committed to residential mortgage lending in the Atlantic provinces: eight percent and seven percent of their total approvals respectively were directed to these four provinces. In central Canada, specifically Ontario, the trust companies again displayed a concentration of mortgage lending: almost half of their total mortgage approvals were made in Ontario alone. The LICs also focused their lending in central Canada, although they allocated large shares of their mortgage approvals to both Ontario and Quebec. 'Other lenders' concentrated their residential mortgage lending in Quebec as could be expected since they are predominantly Quebec-based institutions. Approximately 71 percent of all 'other lenders' loans on average from 1975 to 1981 were approved in Quebec. In the western provinces, the banks and the loan companies stand out as the most committed of the lending institutions. On average both types of institution allocated around 40 percent of their total mortgage approvals to the Prairies and British Columbia for the 1975-81 period.

TABLE 3.32 All Residential Loans by Region as Percent all Residential Loans Canada, Approved by Lending Institutions, by Type of Lender, Average 1975-81 (Dwelling Units)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	All Lenders
Atlantic Canada	6%	4%	8%	7%	2%	6%
Central Canada	56	67	61	49	82	60
Quebec	26	27	14	12	71	23
Ontario	30	40	47	37	11	37
Western Canada	37	29	32	42	17	33
Prairies	20	18	19	22	14	19
B.C.	17	11	13	20	3	14

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

The differences between institutional mortgage lenders extends to the way in which they lend within each province, that is in this case, by type of loan. Proportionate to the institutional lenders as a group (on average for the 1977-81 period) the banks financed a large part of their mortgages in central and western Canada under the NHA; the LICs in Ontario and Alberta; the trust companies in Atlantic Canada and Quebec; and the composite loans companies-'other lenders' in Newfoundland, New Brunswick and British Columbia. Measured against provincial shares of total Canadian dwelling starts, the banks and LICs concentrated their lending on new residential construction to an unusually high degree in central Canada; the trust companies similarly in the Atlantic provinces and Ontario; the loan companies in all provinces except Quebec; and 'other lenders' in Quebec and the west. Again, compared to the distribution of 'all lenders' loans, here with respect to single-detached and multiple-unit dwelling mortgages, the various lenders are distinguished in their lending practices. The banks allocated a high proportion of their Nova Scotia and British Columbia approvals to single-detached housing, while the life companies did likewise in Quebec, Ontario, Manitoba and Saskatchewan, and the trust companies and loan companies-'other lenders' in Prince Edward Island. Multiple-unit dwelling mortgages were comparatively high as a proportion of total institutional loans in Quebec and Ontario for the banks, in Nova Scotia for the LICs, and in Quebec for the trust companies and loan companies-'other lenders'.

Since housing prices vary substantially across the provinces it is to be expected that the level of financial commitment associated with residential lending will also vary by province. Price levels notwithstanding, the institutional mortgage lenders each showed a different pattern

of provincial mortgage funding from 1975 to 1981. The banks approved very high value loans on average in Alberta and Ontario and proportionately expended relatively little per loan in Newfoundland compared to other institutions operating in that province. The LICs assigned high value loans to Manitoba and Newfoundland while preferring low value loans on average in British Columbia. The loan companies invested highly in Newfoundland proportionate to other institutions, but in Quebec, spent relatively little per dwelling unit. Although western loans comprised only a small part of total 'other lenders' approvals from 1975 to 1981, they were generally high-valued for 'other lenders'.

3.4 Summary

In Chapter I the argument was introduced that institutional mortgage lenders pick and choose among competing spaces for the location of their mortgage investments. It was argued that without a common method by which to evaluate the worth of alternative spaces, the choice of an investment location would to varying degrees depend upon concerns more closely related to each institution's broad investment strategy and market position than on complex and specific property market realities. The geographical criteria associated with a single location would not, it followed, elicit the same investment response from each institutional lender. The purpose of Chapter III was to examine the mortgage investment behaviour of the major types of institutional lender with a view to identifying and differentiating between their spatial lending patterns. To this end, Section 3.1 addressed the role played by mortgages in overall institutional investment strategies and consequently the types of mortgages which best served these strategies. Section 3.2 provided a national overview of institutional mortgage investment

behaviour, and in Section 3.3 the spatial or in this case provincial lending patterns of the major mortgage lenders (1975-81) were identified and compared.

In the process of allocating their residential mortgage investment among provincial housing markets, the banks consider the following objectives: 1) to effect a relatively even distribution of loan approvals across the country; 2) to serve existing bank customers; 3) to direct mortgages toward areas strong in new construction; and 4) to emphasize lending in areas in which housing demand is ample and property resale values are positive. These objectives appear to be borne out in the lending data recorded in this chapter for the banks.

Of the five types of financial lending institutions examined the banks exhibit the least concentration of mortgage approvals: on average no more than 30 percent of bank mortgages were allocated to any one province from 1975 to 1981 (see Table 3.32). Within central Canada in particular, bank mortgage approvals were well distributed, showing a good balance between Quebec and Ontario — 26 and 30 percent of total bank loans respectively. The comparatively even regional distribution of bank loans is likely a testament to the ubiquitous presence of bank branches across Canada. New construction levels and overall health of regional housing markets aside, banks must respond to a minimum level of mortgage demand in all regions or risk losing all-important deposit business to competing financial intermediaries.

That the majority of bank mortgages were usually directed towards new residential construction was seen in Table 3.8. It was observed, however, that bank new construction loans were not always directed to individual provinces in proportion to relative provincial shares of national dwelling

starts (see Section 3.3.2). Central Canada regularly received a much larger share of bank new construction loans than did Alberta or British Columbia, although Alberta and British Columbia had the highest levels of dwelling starts for the 1975-81 period (see Table 2A.3). It appears that from the bank perspective new housing mortgage markets in Alberta and British Columbia were made less attractive at this time because either a) Albertans and British Columbians as bank customers or potential bank customers were not exerting pressure on the banks for mortgage funds, or b) the Alberta and British Columbia housing markets were not considered secure locations for hefty investments in new residential construction. In the first case, it is unlikely that the banks were not experiencing significant demand for mortgage funds in these two provinces. Alberta and British Columbia registered the highest use of institutional mortgage funds of all the provinces from 1975 to 1981 (see Table 3.14); presumably the banks received their share of mortgage requests from both customers and non-customers. It is more likely that banks held back on their new construction lending in Alberta and British Columbia because they preferred to wait for greater stability in the housing markets of these two provinces. Both Alberta and British Columbia experienced rapid population growth in the late '1970s (see Table 3.13) following explosive growth in their resource-based economies. For some lenders, "...a high rate of recent population growth...might be considered...as enhancing risk due to possibilities of overbuilding and excessive optimism on the part of developers and appraisers".¹⁰¹ The escalation of prices in Alberta and British Columbia's lively housing markets -- best exemplified in Vancouver and Calgary -- at a time of high and rising interest rates elevated the risk of default associated with new construction mortgages. The speed and extent of the

housing price rises only punctuated the inherent instability of the British Columbia and Alberta housing markets: the inevitable downturn in housing prices which would follow (see Section 3.3.4) was made all the more threatening to the property values which secure residential mortgages. These were ~~not~~ ideal markets for conservative bank lenders.

The trend in overall bank mortgage lending from 1975 to 1981 was to increased approval levels in both Alberta and British Columbia¹⁰² along with Newfoundland, which also experienced a surge of growth in its resource-based economy during the late 1970s. The trend to greater lending in the far western and eastern provinces helped the banks to maintain a good distribution of loans across the country. This trend does however mask a seemingly uneven distribution of mortgages by loan type. While the banks' emphasis on new construction lending in central Canada had weakened somewhat by the turn of the decade, it was mainly attributable to a decline in bank new construction lending in Quebec. The banks continued their disproportionate emphasis on new housing mortgages in Ontario throughout the 1975-81 period. (In 1981, 38 percent of bank new residential loans were allocated to Ontario, a province which boasted a per capita dwelling start ratio of only 0.005 in contrast with 0.017 and 0.015 for Alberta and British Columbia respectively -- see Table 2A.3.) The westward trend in overall bank lending policy was not therefore entirely reflective of specific sources of mortgage demand in western provinces.

Whereas bank lending was on the rise in the periphery and stable in Ontario from 1975 to 1981, it gradually declined in Quebec over the same period. Bearing in mind that at the outset the banks allocated a relatively high proportion of their loans to Quebec contrasted with other institutional lenders, this decline may be viewed as an outcome of greater market competition

among institutional lenders for deposit business and mortgage lending in that province. The trust companies in particular were actively developing their Quebec portfolios during the late 1970s (see Figure 3.4, and for discussion, below). It is also possible that the weak state of Quebec's new residential construction and existing housing sectors following the 1976 provincial election discouraged the banks from maintaining their previous emphasis on Quebec lending. If there is a correlation between English-speaking Quebecois and the use of banks, then the exodus of many English-speaking households after 1976 may have reduced bank deposit inflows and hence bank mortgage investment levels within Quebec in subsequent years. Certainly in the new construction field bank confidence in Quebec had fallen off substantially by 1979 (see Table 3.25).

Following a sustained and dramatic decline in prominence as residential mortgage lenders, LICs stabilized their mortgage activities in the mid-1970s through specialization. Whereas they had once been a broadly-based force in the family housing market (see Section 3.1.2) the life companies emerged in the 1970s as lenders of primarily multiple-unit dwelling mortgages. This focus was further narrowed by the LICs' emphasis on lending in central Canada and Alberta (see Section 3.3). Compared to the other institutional mortgage lenders the LICs allocated relatively insignificant loan shares to the rest of Canada. If any trend can be found in the lending patterns of the life companies over the 1975-81 period it would be to a further concentration of LIC mortgage lending in Ontario and Alberta.

LICs differ from other institutional mortgage lenders in one fundamental respect: unlike the banks and trust and loan companies, the life companies rely primarily upon an indirect network of contacts to find

potential mortgage customers. It is through this network of independent mortgage brokers and land and building developers and contractors that LICs engage in most of their real estate lending activities. The banks and trust and loan companies (as well as credit union) on the other hand, rely on direct networks of contacts -- their systems of branch outlets -- to attract mortgage customers. Whereas these institutions thus combine mortgage lending into their mainstream operations, the LICs pursue mortgage lending apart from their other investment interests.¹⁰³ Unencumbered by physical plant and the ever-present need to generate deposit income from that plant, LICs are more properly seen as looking for mortgage business and not as trying to attract it. They are consequently a potentially more mobile source of mortgage funds than the banks and near-banks.

LICs traditional focus on new residential construction (see Table 3.7) in conjunction with their specialization in multiple-unit dwelling mortgages and, at least in the late 1970s, in high-priced single-detached loans helps to explain this intermediary's concentration of mortgage approvals in central Canada and Alberta over the 1975-81 period. The dynamic urban housing markets within these regions surely provided the LICs with the type of loan customers which best met their needs. The appeal of residential mortgage lending on the large multiple-unit complexes and upper-income housing developments of Canada's more developed conurbations was undoubtedly increased for the LICs since these same locations were already familiar markets for the life companies in their primary capacity as commercial or non-residential mortgage lenders (see Table 3.1). The spatial link between the two sides of LIC mortgage lending will likely be strengthened in the future as combined residential, commercial and office developments grow in popularity and usage in Canada's major centres.

It is interesting to note that the LICs were not particularly active in British Columbia's residential loan market during the late 1970s. On average the share of total LIC loans directed towards British Columbia was well below the province's share values for other institutional lenders at this time (see Table 3.20). As a potential market for LIC residential mortgage investment, British Columbia appears to have been quite comparable to Alberta: it had approximately the same breakdown of dwelling units by structural type (see Table 3.26) and similar high levels of dwelling starts in the late 1970s (see Table 3.25). An examination of LIC lending patterns for the two neighbouring provinces reveals that the source of British Columbia's low attraction for the life companies may be found in the province's single-detached housing sector. Unlike in Alberta, the vast majority (approximately 80 percent) of the LICs' relatively small allocation of mortgages to British Columbia were approved on multiple-unit dwellings (see Table 3.27). Compared to Alberta then, British Columbia did not offer the LICs a good market for single-detached housing mortgage capital -- the very sort of market into which the life companies were expanding in the late 1970s and early 1980s. It is also possible that the LICs were unable to capitalize on growth in British Columbia's single-detached markets because of poorly developed contacts or because of fierce competition from the banks and loan companies which were very active in the British Columbia market at this time (see Table 3.20).

The redefinition of the LICs spatial lending patterns in the 1975-81 period included a substantial reduction in the share of LIC loans allocated to Manitoba. It is perhaps this change which best characterizes the new directions taken in LIC lending. At the outset of the period LICs devoted a substantial share of their total mortgage outlays to Manitoba (see Table

3.16). This apportionment likely reflected the presence of several life company headquarters in that province and a policy of financing the residential mortgages of company employees and by extension those of other area householders. The difficult economic times of the 1970s which necessitated a major restructuring of the life companies' approach to residential loans probably resulted in some rationalization of lending policy and geographical redeployment of investment capital. The Manitoba market could no longer compete with the more developed and hence lucrative Alberta and Ontario markets.

Trust and loan companies are the least specialized of the major institutional mortgage lenders: they are 'general purpose' mortgage lenders. Each of the two types of institution divides its residential loan approvals in roughly equal measure between new and existing housing and between single-detached and multiple-unit dwellings. Like the LICs, trust and loan companies favour conventional financing over the more restricted and administratively demanding NHA kind.

Trust companies are predominantly oriented towards the large Ontario mortgage market: approximately half of all trust company loans on average were directed to Ontario over the 1975-81 period (see Table 3.20). (Loan companies were also relatively active in Ontario but not to the extreme degree exhibited by the trust companies -- about 37 percent of all loan company mortgages on average were approved in Ontario from 1975 to 1981.) The loan companies are prominent among the major institutions as mortgage lenders in western Canada. Shares of total loan company mortgage approvals are high in all four western provinces, but particularly so in British Columbia. Both trust and loan companies display a low approval rate in Quebec. Whereas on average 25 percent and 27 percent of total bank and

total LIC residential mortgages respectively were approved in Quebec from 1975 to 1981, only 14 percent and 12 percent of total trust company and total loan company mortgages, respectively, were so directed at this time.

The trust company focus on Ontario residential mortgage markets may best be explained by the large number of trust companies which are based in that province.¹⁰⁴ The trust company is the dominant near-bank financial intermediary in Ontario, just as credit unions figure highly in Quebec. Ontario offers the trust companies a wide-ranging market for their mortgage investment dollars as well as an extensive urban network ideally suited to the trust companies' real estate sales divisions.¹⁰⁵ The prosperity of trust company firms in Ontario is also rooted in favourable provincial legislation relating to the operation and management of this type of financial intermediary.¹⁰⁶

Loan companies have a longstanding history of involvement in Canada's residential mortgage market (see Figure 1.1). Prior to the emergence of banks and trust companies into the mortgage lending field, loan companies and LICs constituted the virtual entirety of private sector institutional mortgage lenders.¹⁰⁷ Loan companies by nature have tended to be small in size and local in scope; they (along with the credit unions) best represent the tradition of local savings and loan institutions operating in Canadian communities. That loan companies expend greater energies in western mortgage markets than do other institutional lenders may reflect this institution's familiar position as residential mortgage lender in western communities.

The more recent assimilation of loan companies by the westward-expanding banks may also help to explain the western presence of loan companies. With or without the competitive advantage of local familiarity and usage

in Western Canada, loan companies provide the banks with an additional edge with which to compete against trust companies and western credit unions. Not only can loan companies exploit the sources of near-bank income closed to the banks but as well they can engage in the sort of mortgage lending considered to be too risky by the conservative banks. Western mortgage markets have been volatile and risky because provincial economies are overly reliant upon unpredictable primary resource industries like oil, mining and agriculture. The potential value of these resources means, however, that western mortgage markets continue to be promising locations for investment. Through the loan companies the banks are able to establish a solid base of lending experience without themselves assuming the high risk of loan default associated with transitional property markets.

The symbiotic relationship between banks and loan companies is best exemplified in the new construction loan markets of Alberta and British Columbia. Table 3.33 below contrasts the allocation of loan company and bank new construction mortgage approvals to the two provinces. While the banks allotted new construction loans to the active Alberta and British Columbia markets at a lower rate than these provinces represented in terms of Canadian dwelling starts, the loan companies clearly favoured new construction lending in both provinces. In Alberta and British Columbia the loan companies' share allocation of new construction loans exceeded each province's share of national dwelling starts. Lending on new housing in western Canada is apparently a less risky business for loan companies than for the banks.

Trust and loan companies both display relatively strong interest in Atlantic Canada's mortgage markets compared to either the banks or the LICs (see Table 3.20). In the case of the loan companies their traditional

TABLE 3.33 Dwelling Starts, Alberta and British Columbia, as Percent Total Dwelling Starts, Canada, Average 1975-81; and New Residential Construction Loans, Alberta and British Columbia, as Percent New Residential Construction Loans, Canada, Approved by Banks and Loan Companies, Average 1975-81 (Dwelling Units)

	% Share of Canadian Dwelling Units	% Share Total Bank New Construction Loans	% Share Total Loan Co. New Construction Loans
Alberta	18%	15%	19%
B.C.	17	14	19

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

role as mortgage lender in conjunction with their small size and local orientation may explain the high share of total loan company approvals directed towards, say, Nova Scotia. For the trust companies the eastern Canadian housing markets with their settled urban structure and proximity to Ontario may have proven to be attractive and accessible lending fields under the new housing legislation of the 1950s and 1960s. The relative dominance of banks and loan companies in western Canada by the late 1970s would seem to indicate that the trust companies were not busy mining western markets in these early years.

Over the 1975-81 period both loan and trust companies decreased their interests in Atlantic Canada. For the loan companies the decline was quite substantial in Nova Scotia and New Brunswick; for the trust companies a marginal decline was evident in New Brunswick. Whereas the loan companies opted to further consolidate their lending in Alberta and British Columbia, the trust companies maintained their eastern focus by raising the level of their Quebec mortgage approvals in 1980 and 1981. Until the expansion into Quebec by the trust companies, both trust companies and loan companies displayed a generally weak commitment to that province's mortgage market compared to either the banks or the life companies. This likely attests to the direct competition existing within Quebec between trust and loan companies and Quebec's extensive system of caisses populaires. In view of the lengthy history of the credit union movement in Quebec (the first caisse populaire was founded in 1900; see Appendix I) coupled with the propensity of Quebec governments to enact protective legislation in favour of indigenous financial institutions¹⁰⁸ trust and loan companies probably have encountered substantial hurdles in any concerted attempts they might have made to establish themselves as front-runners in Quebec's

financial markets. It is interesting to note that the substantial increase in trust company loan approvals which did take place in 1980 and 1981 (primarily in new construction; see Table 3.25) was largely carried out under NHA financing (see Table 3.21). The increase may thus be more indicative of government induced action in Quebec's sluggish new housing markets of this period than of a fundamental change in the trust companies' spatial lending policies.

Each of the four major types of institutional mortgage lender exhibits a unique spatial pattern of loan approvals. Salient geographical phenomena within the Canadian residential mortgage market, for example the dynamic new construction markets of Alberta and British Columbia during the late 1970s, do not elicit a common reaction from all lenders. In every case the institutional pattern of mortgage investment is intimately related to the character of the type of lending institution in question.

The supply of institutional mortgage capital to any given region depends not so much upon specific activities in a region's housing and mortgage markets as upon the institutional appraisal of these activities. There is no necessary connection between a geographically-defined set of mortgage market factors and its associated supply of institutional mortgage credit. In each case the location of residential mortgage investment is arrived at through consideration of alternative regional mortgage markets and the general -- that is, aspatial -- investment objectives of the institutional lenders. The appraisal of locational worth with respect to mortgage lending varies then by type of institutional lender since each pursues different investment objectives and values alternative spaces in its own fashion. The degree to which institutional lenders respond to changes in a region's demand structure will therefore vary as well.

The following chapter examines the implications of variable institutional responsiveness to regional mortgage demand factors for the stability of the mortgage capital supply within regional markets. It was argued in Chapter I that stability of the mortgage capital supply is a crucial factor in the maintenance of quality housing. Since one institution's supply of mortgage funds to a given area may decline for reasons unrelated to the area's housing market, the stability of that area's supply of mortgage capital ultimately depends upon a diversified lender base. In Chapter IV, the institutional composition of provincial mortgage markets in Canada is evaluated.

Footnotes - Chapter III

1. M.J. Boddy, "The Structure of Mortgage Finance: Building Societies and the British Social Formation", Transactions of the British Institute of Geographers I (1976), p. 67.
2. James Hatch, The Canadian Mortgage Market (Toronto: Ontario Ministry of Treasury, Economics and Intergovernmental Affairs, 1975), p. 131.
3. E.H. Neave, Canada's Financial System (Toronto: John Wiley and Sons, 1981), p. 88.
4. Ibid., p. 81.
5. Hatch, The Canadian Mortgage Market, p. 132.
6. Ibid., p. 131; Neave, Canada's Financial System, p. 93.
7. Hatch, The Canadian Mortgage Market, p. 131.
8. Not all analysts agree on the significance of the mortgage as a deposit generator.
9. Neave, Canada's Financial System, p. 82.
10. Ibid., pp. 81-82.
11. Hatch, The Canadian Mortgage Market, p. 117.
12. H. Woodward, Canadian Mortgages (Don Mills, Collin, 1959), p. 21.
13. E.D.L. Miller, G.A. Golden and J.A. Galbraith, "The Potential Impact of a Residential Mortgage Market Corporation on Major Lending Institutions", in J.V. Poapst (ed.), Developing the Residential Mortgage Market (Ottawa: Central Mortgage and Housing Corporation, 1975), p. 49.
14. Hatch, The Canadian Mortgage Market, p. 138.
15. No restrictions apply to bank lending in the NHA loan market.
16. The ceiling was set at four percent in 1967 and only gradually eased upwards to ten percent, "...in order to modify any disruptive effects on the other mortgage lending institutions, especially trust and mortgage (loan) companies". Neave, Canada's Financial System, p. 85.
17. Hatch, The Canadian Mortgage Market, p. 139.
18. For example are the Royal Bank's RoyMor, the Canadian Imperial Bank of Commerce's Kinross Mortgage Corporation, and the Bank of Montreal's (and Royal Trust's) First Canadian Investments Ltd.
19. Hatch, The Canadian Mortgage Market, pp. 141-4.

20. During the 1970s several regional banks opened for business, for example the Bank of British Columbia.
21. One exception to this is the Canadian Imperial Bank of Commerce (CIBC) whose mortgage affiliate Kinross is charged with the allocation of CIBC mortgage money.
22. Hatch, The Canadian Mortgage Market, p. 140.
23. Ibid., pp. 140-1.
24. Ibid., p. 140.
25. Ibid., p. 113.
26. Ibid., p. 140.
27. Ibid., p. 140.
28. Ibid., p. 113.
29. Ibid., p. 140.
30. J.V. Poapst, "Introduction", in Poapst, Developing the Residential Mortgage Market, p. 5.
31. Neave, Canada's Financial System, p. 133.
32. Hatch, The Canadian Mortgage Market, p. 146.
33. Miller, Golden and Galbraith, "The Potential Impact of a Residential Mortgage Market Corporation on Major Lending Institutions", p. 45.
34. Ibid., pp. 44-5.
35. Ibid., p. 48.
36. Neave, Canada's Financial System, p. 135.
37. Hatch, The Canadian Mortgage Market, p. 154.
38. Miller, Golden and Galbraith, "The Potential Impact of a Residential Mortgage Market Corporation on Major Lending Institutions", pp. 46-7.
39. Additional factors which underlay the retreat from single-detached lending include (1) the emergence of group insurance schemes in the 1960s, which broke the direct link between the individual policy holder and the life insurance company and reduced the company's perceived obligation to supply the policy holder with a family mortgage; (2) the emergence of the banks as major lenders in the single-detached field. Canadian Housing Statistics (Ottawa: Central Mortgage and Housing Corporation, 1972), p. xiv.
40. Hatch, The Canadian Mortgage Market, p. 116.

98. For a comparison of housing prices on similar dwellings located in different centres across Canada, see Financial Post, 21/03/81, "Vancouver prices hit the road"; Globe and Mail, 07/10/81, "House prices in BC post a sharp decline".
99. Globe and Mail, 07/05/81, "Buying fever pushing up Montreal housing prices".
100. A comparison of Table 3.26, showing the proportion of institutional loans per province which were approved on single-detached units, and Table 3.28, reveals that most of the fluctuation in average institutional loan amounts occurred when the institutions altered their mortgage approvals in favour of either single-detached or multiple-unit dwelling loans. The correlation is not simple however: a substantial increase in the proportion of multiple-unit loans tends to have a greater effect on average loan amounts than smaller increases. In the latter case, average loan amounts often continue rising. LIC figures exhibit the poorest correlation between average loan amounts and loans by structural type, perhaps because of the considerable disparity between the average loan amounts LICs allocate to single-detached and multiple-unit dwellings (see Table 3.9).
101. A.H. Schaaf, "Regional Differences in Mortgage Financing Costs", Journal of Finance XXI (1966), pp. 87-90.
102. For a discussion of the general shift in bank activities to western Canada, see Financial Post, 21/11/81, "Western shift, specialization, to dominate lending pattern".
103. There is some indication that at least for administrative purposes, LIC mortgage lending is being increasingly integrated with other aspects of LIC business; see Section 3.1.2.
104. Financial Post, 15/01/83, "Trust companies that do business in Ontario".
105. It is difficult to find the economies of scale required to support the profitable real estate component of a trust company's property investment business in regions with less concentrated population and more dispersed housing markets. See Financial Post, 28/08/82, "Royal Trustco pulls out of PEI".
106. The recent financial debacle involving the apartment mortgage swaps by Ontario trust and mortgage loan companies drew public attention to the extent of institutional freedom under existing Ontario trust and loan company legislation.
107. In Quebec, credit unions have always been the major force in that province's residential mortgage market.
108. Globe and Mail, 22/06/81, "Spectre of favouritism worries some bankers"; Globe and Mail, 04/03/81, "Montreal bank plans branches."

61. The banks' "...investment vehicles have traditionally been shorter in term and subject to less stable interest earnings". Miller, Golden and Galbraith, "The Potential Impact of a Residential Mortgage Market Corporation on Major Lending Institutions", p. 42.
62. Ibid., p. 42.
63. Neave, Canada's Financial System, p. 123. Leverage here, "...refers to the use of borrowed funds in order to increase the rate of return to an equity holder". Hatch, The Canadian Mortgage Market, p. 158.
64. Neave, Canada's Financial System, p. 118.
65. Hatch, The Canadian Mortgage Market, p. 47.
66. Neave, Canada's Financial System, p. 118.
67. Hatch, The Canadian Mortgage Market, p. 115.
68. Ibid., p. 116.
69. Ibid., pp. 117-8.
70. Ibid., p. 191.
71. Ibid., p. 172.
72. Ibid., p. 172.
73. The banks are the only intermediary for which specific legislation exists regulating the proportion of mortgages held as a component of total assets; see Section 2.2.
74. Canadian Housing Statistics, 1967, p. 12.
75. Calculated in terms of dwelling units.
76. In 1971 the money supply grew by about 20 percent, and in both 1972 and 1973 by about 15 percent; Canadian Housing Statistics, various issues.
77. The sharp decline in the asset growth figures for loan companies in 1976 (see Table 2.2) was as a result of a definitional change which saw Mortgage Investment Corporations removed to the 'other lenders' category.
78. Smith (The Postwar Canadian Housing and Residential Mortgage Markets and The Role of Government) contends that NHA and conventional mortgages are substitutes for each other and therefore the investment option presented would not necessarily result in greater investment by mortgage lenders.

79. Hatch, The Canadian Mortgage Market, p. 116.
80. H.H. Binnhammer, "The Mortgage Market: the Nature of the Problem", in Poapst, Developing the Residential Mortgage Market, p. 22.
81. Canadian Housing Statistics, 1980, p. xii.
82. The absence of any major change in the new housing share of conventional loan holdings at this time reflects both the extent of the decline in housing starts and basic consumer and lender reluctance to engage in high-ratio mortgage finance.
83. One factor not considered here relates to the demand for existing mortgage funds arising from the simple demand for consumer credit. Instead of taking out a personal loan, some homeowners will use the equity built up in a house to gain access to credit through mortgage loans.
84. In housing markets characterized by high interest rates, ineffective demand and the pressures of high mobility, the level of institutional refinancing may be unaffected as existing mortgages are simply turned over or assumed by new homeowners.
85. In the critical house buying age group of 25-34, the net family formation rate was 64.7 and the net household formation rate was 82.5.
86. The annual growth rate for the 1971-76 period was 3.2 percent.
87. In dollar terms, of course, the value of the 1981 new construction portfolios would be considerably greater.
88. Multiple-unit dwellings include semi-detached, row and apartment units.
89. See Canadian Housing Statistics, 1981, Table 9.
90. Since loan companies are grouped together with 'other lenders' for the housing type category, it can only be assumed that the small size of 'other lenders' mortgage holdings has not unduly altered the distribution of mortgages common to loan companies in this case.
91. In other provinces the variation in NHA shares of total loans was 22 percentage points in Newfoundland, 20 percentage points in Saskatchewan, 17 percentage points in British Columbia, and 16 percentage points in Prince Edward Island, Nova Scotia and New Brunswick.

92. The influence of 'other lenders' in the Quebec figures of the loan company-'other lenders' category is significant with regard to all approved loans (see Table 3.22 below); the relative weight of each lender type in the NHA and conventional figures for Quebec is probably similar.

TABLE 3.22: All Residential Loans/ Approved by 'Other Lenders' as Percent All Residential Loans Approved by Loan Companies and 'Other Lenders', Canada, by Province, 1977-81 (Dwelling Units)

	1977	1978	1979	1980	1981	Average 1977-1981
Newfoundland	-	-	-	-	18	4
Prince Edward Island	-	-	9	7	3	4
Nova Scotia	-	-	-	-	1	1
New Brunswick	-	-	14	8	17	8
Quebec	46	57	51	61	72	57
Ontario	5	3	5	11	13	7
Manitoba	21	16	2	-	3	.8
Saskatchewan	21	14	30	12	35	22
Alberta	15	7	5	6	14	9
British Columbia	5	6	4	2	4	4
Canada	13	17	15	21	26	18

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

93. Consideration of the LIC emphasis on multiple-unit loans does little to change the balance: of all Canadian multiple starts in 1981, only 30 percent were raised in Ontario. See Canadian Housing Statistics, 1981, Table 10.
94. For the 1977-81 period specifically, the breakdowns change somewhat: the banks' average single-detached allocation rises to an average of 77 percent, the LICs' rises slightly to 34 percent, and the loan companies-'other lenders' figure runs closer to 50 percent for the five year period.
95. See Table 3.22 above.
96. Predominantly upper-income homeowners would have been affected.
97. Public regulations brought in during the late 1960s in an effort to control and direct residential development raised the cost of serviced land and slowed down its turnover. As well, labour and materials costs increased significantly during the mid-1970s. These two factors contributed to the disequilibrium in the housing market. Globe and Mail, 03/04/81, "Toronto housing boom may cause severe labour shortage for builders".

98. For a comparison of housing prices on similar dwellings located in different centres across Canada, see Financial Post, 21/03/81, "Vancouver prices hit the road"; Globe and Mail, 07/10/81, "House prices in BC post a sharp decline".
99. Globe and Mail, 07/05/81, "Buying fever pushing up Montreal housing prices".
100. A comparison of Table 3.26, showing the proportion of institutional loans per province which were approved on single-detached units, and Table 3.28, reveals that most of the fluctuation in average institutional loan amounts occurred when the institutions altered their mortgage approvals in favour of either single-detached or multiple-unit dwelling loans. The correlation is not simple however: a substantial increase in the proportion of multiple-unit loans tends to have a greater effect on average loan amounts than smaller increases. In the latter case, average loan amounts often continue rising. LIC figures exhibit the poorest correlation between average loan amounts and loans by structural type, perhaps because of the considerable disparity between the average loan amounts LICs allocate to single-detached and multiple-unit dwellings (see Table 3.9).
101. A.H. Schaaf, "Regional Differences in Mortgage Financing Costs", Journal of Finance XXI (1966), pp. 87-90.
102. For a discussion of the general shift in bank activities to western Canada, see Financial Post, 21/11/81, "Western shift, specialization, to dominate lending pattern".
103. There is some indication that at least for administrative purposes, LIC mortgage lending is being increasingly integrated with other aspects of LIC business; see Section 3.1.2.
104. Financial Post, 15/01/83, "Trust companies that do business in Ontario".
105. It is difficult to find the economies of scale required to support the profitable real estate component of a trust company's property investment business in regions with less concentrated population and more dispersed housing markets. See Financial Post, 28/08/82, "Royal Trustco pulls out of PEI".
106. The recent financial debacle involving the apartment mortgage swaps by Ontario trust and mortgage loan companies drew public attention to the extent of institutional freedom under existing Ontario trust and loan company legislation.
107. In Quebec, credit unions have always been the major force in that province's residential mortgage market.
108. Globe and Mail, 22/06/81, "Spectre of favouritism worries some bankers"; Globe and Mail, 04/03/81, "Montreal bank plans branches."

CHAPTER IV

THE INSTITUTIONAL PRESENCE IN PROVINCIAL MORTGAGE MARKETS

The maintenance of housing quality in a given area ultimately depends upon stable and responsive lending from area mortgage investors. Both declining and unstable capital supplies create a general perception of high risk in residential markets. Since the perception of risk is reflected in the cost of mortgage capital, declining and unstable mortgage capital supplies usually result in more expensive housing finance. When that share of the aggregate shelter budget directed towards mortgage financing increases in proportion to that relegated to maintenance and improvements, housing quality and area property values are jeopardized. Persistent instability in the supply of mortgage capital or the unchecked decline of that supply may eventually precipitate a change in land use.

Whether a given residential area is set on the road to decline is in large measure determined by the response of area mortgage lenders to changing financial circumstances within mortgage and broader financial markets. In Canada, mortgage markets are poorly integrated: mortgage lenders comprise a highly diffuse decision-making body operating without the benefit of well-developed inter- or intra-market information flows. The lack of orchestration which characterizes local market operations encourages conflicting decision-making as well as poorly-conceived risk assessment practices. The influence mortgage lenders may bring to bear over the fate of housing quality in any given area is therefore predominantly a product of the particular mix of lenders concerned and their individual responses to financial market changes.

If mortgage lenders may be regarded as individually autonomous and

distinguished from one another in their investment practices, then the potential influence of any one lender over housing quality will be a function of that lender's share of the local mortgage market. Ultimately the greater the number of active or potentially active mortgage lenders serving a given area the more limited the effect of individual investment decisions such as spatial risk assessment for mortgage lending purposes. For example, when one lender out of many withdraws temporarily or even permanently from an area's mortgage market (either because the risk of lending there is considered too great for the lender or because alternative investment locations are more appealing), the available supply of mortgage funds may not be significantly reduced or made more costly. In this case, the impact of one lender's decision on the ability of area householders to maintain the quality of their housing is not great. If the number of mortgage lenders active within an area is limited or subject to domination by a few large institutional lenders the spatial impact of investment decisions by individual lenders is substantial. Any further reduction in the number of individual lenders suggests a dependent relationship between area housing and the investment behaviour of a few mortgage lenders. A narrow or closed source of mortgage funds reduces the flexibility within area housing markets; property owners are less able to offset the specific economic and financial circumstances of individual lenders in their area.

In Canada mortgage lending has become synonymous with the large financial intermediaries. The traditional set of mortgage lenders, comprised of a host of personal sector investors, small local institutions and a range of the larger institutions has been replaced by a relatively small coterie of very large often nationally-based financial institutions,¹

supplemented by a diminishing group of personal sector investors. The dependent relationship between the quality of the housing stock and the spatial investment behaviour of contemporary Canadian mortgage lenders is thus signal and merits exploration. How influential are the large institutional lenders on the direction of change in the quality of Canadian housing?

The degree to which the quality of housing in an area may depend upon the spatial mortgage investment behaviour of the large financial intermediaries will be influenced by three factors: 1) the level of competition existing between institutional lenders; 2) the extent of market participation by non-institutional and personal sector lenders; and 3) the proportion of the housing stock which is debt-encumbered. Because of the lack of substantive and useful data relating to factors two and three, their weight in the function described above is largely indeterminate. While the bulk of this chapter is devoted to an examination of inter-institutional competition within provincial mortgage markets, a brief discussion is included here on the subjects of personal sector lending and the proportion of provincial housing without mortgages as these factors pertain to the quality of the housing stock.

The ultimate safeguard protecting local housing markets from detrimental changes in property risk assessment by a few prominent mortgage lenders is an active and broadly based set of personal sector lenders.² The extent of the personal sector's share of Canadian housing finance markets is regrettably unclear.³ The limited mortgage data series produced by Ontario's Ministry of Treasury, Economics and Intergovernmental Affairs⁴ reveals that private sector lending declined relative to institutional and government lending over the 1969-76 period. Whether a similar trend was

taking place in other provinces is unknown. Circumstantial evidence can be had, however, from Table 4.1 which records institutionally approved mortgage loans as a percentage of housing stock for each province for 1961, 1971 and 1981. An expanded institutional presence in area housing markets over the twenty-year span is evident in all provinces, most notably in Manitoba, Alberta and British Columbia. The ubiquitous rise of the institutional lenders makes it somewhat more likely that Ontario's experience of a rise in institutional lending and a coincident decline in personal sector lending was also common to other provinces during the 1970s.

A second mitigating factor in the influence mortgage lenders might wield over the quality of an area's housing stock concerns the proportion of that housing which is not subject to mortgage debt. In general, the proportion of wholly-owned housing will vary with the level of household mobility within a population, the value of the housing investment relative to other personal investments, and the cost of mortgage credit. Particularly during the late 1970s and early 1980s inflation-induced housing price rises in many areas of Canada, combined with universally high mortgage rates and shorter mortgage terms, together provided Canadians with a strong incentive both to invest in housing and to reduce their mortgage burden expeditiously.

The replacement of lender equity by owner equity severs the direct link existing between the maintenance of housing quality, the cost of housing finance and the state of the nation's financial markets within which the major institutional lenders operate. Property-owners who are free of mortgage debt or bear a limited debt burden do not face the prospect of sacrificing property maintenance and improvement if mortgage costs rise.⁵ Debt-free housing, adequately maintained, thus acts as a stabilizing

TABLE 4.1: All Residential Mortgage Loans¹ Approved by Lending Institutions² as Percent Housing Stock, by Province, 1961, 1971, 1981 (Dwelling Units)

	1961	1971	1981
Nfld.	1	2	2
P.E.I.	1	3	3
N.S.	3	4	4
N.B.	1	3	3
Que.	3	3	3
Ont.	4	4	5
Man.	2	3	4
Sask.	1	1	3
Alb.	3	4	5
B.C.	3	4	5
Canada	3	3	4

¹ Mortgage loans were averaged from 1957 to 1964, 1965 to 1974, and 1975 to 1983, to correspond to the three census years 1961, 1971 and 1981, respectively.

² Includes banks, life insurance companies, trust companies, loan companies and 'other lenders'.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

force in area housing markets when financial market rates and hence mortgage rates are on the rise. In the short-term, debt-free housing helps to preserve the value of surrounding housing; in the long-term it helps to preserve the quality of the surrounding housing stock by reducing the likelihood of institutional lenders negatively re-assessing the spatial mortgage risk associated with that stock.

Debt-free housing counteracts the influence mortgage lenders might wield over area housing quality in a second important way. When debt-free housing is sold, the equity built up in a house is released for potential use by the new owner in the form of mortgage finance. Through the vendor take-back mortgage the ready supply of mortgage funds available to an area is thus preserved. Insofar as recourse to conventional mortgage lenders, particularly institutional lenders, has been circumvented, the degree of their influence over property and area valuation and risk assessment processes has also been reduced. As was noted in Section 2.2.3, however, the vendor take-back mortgage is an option often used when house buyers are scarce due to high financing costs and cautious lending practices by conventional mortgage lenders. In these cases the vendor provides the mortgage funds initially (usually at below market rates but on a house with an inflated price) but subsequently turns around and sells the mortgage to a more conventional lender at a discount. The house and its surrounding area have not, therefore, escaped the orbit or influence of conventional lenders. Once the initial term of the mortgage runs out, the new owner is usually faced with the same mortgage capital supply problems as had existed in the area when the property was originally placed on the market.

The only available statistics on the proportion of Canadian housing stock which is mortgage-free were collected in 1974 as part of CMHC's

Survey of Housing.⁶ The Survey revealed that for 23 Canadian urban centres the percentage of owner-occupied dwellings without mortgages ranged from 26.5 percent in Calgary to 51.7 percent in Vancouver (see Table 4.2). Insofar as metropolitan figures are representative of provinces as a whole, there is some indication that Canadians in the Atlantic provinces, British Columbia and parts of Ontario favour outright home-ownership, whereas those in Quebec, and the Prairie provinces of Saskatchewan and Alberta rely more heavily on outside financing. Since each group contains provinces characterized by stable if not sedentary housing markets as well as provinces with recently dynamic housing markets, there does not appear to be a ready explanation for the distribution of mortgage-free housing in Canada.

4.1 Inter-institutional Competition Within Provincial Mortgage Markets

The shares of Canada's national mortgage market held by the country's large institutional lenders for the 1975-81 period are shown in Table 4.3a. The trust companies consistently captured the greatest market share of all institutional lending groups: on average from 1975 to 1981 trust companies approved 36 percent of all institutionally-financed residential mortgages in Canada (as measured in dwelling units). The banks placed second to the trust companies with an average market share of 29 percent for the seven year period.⁷ Loan companies claimed 19 percent of Canada's residential mortgage market on average and LICs 11 percent. 'Other lenders', the predominantly Quebec-based group, accounted on average for 5 percent of the national total from 1975 to 1981. Institutional shares remained relatively consistent over the seven year span with the minor exception of loan companies (see Table 4.3a). Whereas all institutional lending groups

TABLE 4.2: Percent Owner-Occupied Dwellings without Mortgages, by Province,¹
by Urban Centre, 1974 (Dwelling Units)

Newfoundland		47.9%
St. John's	47.9%	
Prince Edward Island		48.3
Charlottetown	48.3	
Nova Scotia		34.9
Halifax	34.9	
New Brunswick		48.5
Saint John	48.5	
Quebec		31.9 ²
Quebec	31.4	
Chicoutimi	32.3	
Montreal	34.3	
Ontario		41.6
Ottawa-Hull	29.5	
Toronto	41.2	
Hamilton	39.3	
Kitchener	38.1	
London	34.5	
St. Catherines	44.2	
Windsor	49.9	
Sudbury	46.3	
Thunder Bay	51.6	
Manitoba		44.2
Winnipeg	44.2	
Saskatchewan		36.6
Regina	37.6	
Saskatoon	35.7	
Alberta		30.3
Calgary	26.5	
Edmonton	34.2	
British Columbia		51.3
Vancouver	51.7	
Victoria	51.0	

¹ Provincial figures are averages of each province's urban centres.

² Quebec's provincial average includes Ottawa-Hull.

Source: 1974 Survey of Housing, preliminary results, Central Mortgage
and Housing Corporation.

TABLE 4.3: Institutional Shares (%) of All Residential Mortgage Loans Approved by Lending Institutions, Canada, by Province, by Type of Lender, 1975-1981 (Dwelling Units)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	Total
a) Canada						
1975	28%	10%	35%	22%	4%	100%
1976	25	12	37	19	6	100
1977	27	13	37	19	4	100
1978	31	9	37	18	4	100
1979	31	10	34	20	4	100
1980	31	12	35	17	5	100
1981	29	13	35	17	6	100
b) Newfoundland						
1975	35	2	17	45	-	100
1976	32	2	33	33	-	100
1977	40	2	44	14	-	100
1978	49	3	33	14	-	100
1979	49	41	34	16	-	100
1980	46	6	29	18	-	100
1981	44	41	34	18	4	100
c) Prince Edward Island						
1975	13	11	40	37	-	100
1976	14	3	55	27	-	100
1977	18	2	57	22	-	100
1978	16	7	64	13	-	100
1979	26	5	53	15	1	100
1980	25	9	51	14	1	100
1981	29	1	41	27	1	100
d) Nova Scotia						
1975	17	8	25	50	-	100
1976	17	8	37	37	-	100
1977	21	8	50	21	-	100
1978	28	6	48	17	-	100
1979	36	6	42	16	-	100
1980	36	12	35	16	-	100
1981	33	6	30	30	41	100

Table 4.3 cont'd.

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	Total
e) New Brunswick						
1975	13%	2%	48%	36%	- %	100%
1976	18	9	49	24	41	100
1977	25	6	51	17	-	100
1978	32	7	47	14	-	100
1979	33	6	49	10	2	100
1980	39	5	47	9	1	100
1981	35	15	40	9	2	100
f) Quebec						
1975	40	12	19	12	17	100
1976	36	16	17	12	18	100
1977	37	19	19	14	12	100
1978	45	12	18	11	14	100
1979	37	12	25	13	13	100
1980	27	16	33	9	15	100
1981	28	14	34	7	17	100
g) Ontario						
1975	22	10	47	21	41	100
1976	20	11	49	18	2	100
1977	23	14	44	18	1	100
1978	24	9	47	19	1	100
1979	24	12	41	22	1	100
1980	24	12	44	17	2	100
1981	24	16	42	16	2	100
h) Manitoba						
1975	27	12	30	25	5	100
1976	26	11	33	27	3	100
1977	24	5	32	29	9	100
1978	27	6	35	27	5	100
1979	34	4	35	26	41	100
1980	42	5	26	27	-	100
1981	48	7	20	24	1	100
i) Saskatchewan						
1975	35	5	27	29	3	100
1976	32	11	28	25	3	100
1977	27	9	28	29	6	100
1978	30	7	34	25	4	100
1979	34	6	30	21	9	100
1980	41	6	25	24	3	100
1981	35	5	24	23	12	100

Table 4.3 cont'd.

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ , Lenders	Total
j) Alberta						
1975	28 %	10%	37 %	22%	2 %	100%
1976	22	14	41	21	2	100
1977	25	13	39	19	4	100
1978	30	12	37	19	1	100
1979	35	10	32	21	1	100
1980	30	13	33	21	1	100
1981	29	16	33	19	3	100
k) British Columbia						
1975	31	8	34	25	1	100
1976	25	9	39	26	1	100
1977	29	9	36	24	1	100
1978	33	7	33	25	1	100
1979	35	9	29	26	1	100
1980	42	9	26	22	1	100
1981	35	7	28	28	1	100

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author from data in Canadian Housing Statistics, various issues.

experienced some fluctuation in their market shares, loan companies witnessed a gradually declining market presence in the late 1970s, particularly relative to the banks.

4.1.1

Against the national benchmark may be juxtaposed institutional shares of individual provincial loan markets. Institutional shares of Atlantic Canada's residential mortgage market (1975-81) are charted in Tables 4.3b through 4.3e. In Newfoundland's mortgage market, the banks were the dominant force over this period: in 1978 and 1979, for example, banks approved close to 50 percent of all Newfoundland mortgages assumed by lending institutions. In Prince Edward Island and New Brunswick trust companies supplied the largest share of residential approvals, in each case around half of the provincial market. In Nova Scotia competition between banks, trust and loan companies over the 1975-81 period was sufficient to preclude any one of the three institutional types from gaining the level of market influence seen in the other Atlantic provinces.

In all four Atlantic provinces the share of provincial mortgage markets held by loan companies declined substantially from 1975 to 1981. For example in 1975, loan companies claimed 45 percent of Newfoundland's residential mortgage approvals and thus constituted the dominant institutional force in that province's market. By 1977, loan company shares had fallen off to 14 percent of the total provincial market, and continued to be below 20 percent through to 1981. Loan companies were able to recoup some of their lost market standing by 1981 in Prince Edward Island and Nova Scotia (see Tables 4.3c and 4.3d); figures for that year reveal that loan companies were quite competitive with banks and trust companies in both provincial mortgage markets, especially Nova Scotia's market.

A second pattern common to each of the four Atlantic provinces concerns the rise of the banks as market leaders over the seven-year study period. In the three Maritime provinces this rise was sizeable: the banks at least doubled their market share in Prince Edward Island and Nova Scotia from 1975 to 1981, while in New Brunswick the banks' market share tripled between 1975 and 1981. In all four Atlantic provinces the greater bank share of provincial mortgage markets came about primarily at the expense of loan companies. Trust companies by and large maintained their share of provincial markets if not their dominant position. LICs and 'other lenders' rarely achieved a significant market position during the 1975-81 period and, with the exception of LICs in New Brunswick, were quite uncompetitive with the large financial intermediaries.

Institutional shares of Quebec's residential mortgage market for the 1975-81 period are illustrated in Table 4.3f. The predominance of the banks in this province's mortgage market, prior to 1980, is striking. Whereas the trust companies, loan companies, LICs and 'other lenders' each held approximately 15 percent of the Quebec mortgage market from 1975 to 1979, the banks dominated with around 40 percent. In 1979, however, the banks' disproportionately large share began to dwindle in the face of strong competition from the trust companies. By 1980, the trust companies had overtaken the banks as the leading approvers of institutional mortgages in Quebec. In effect the banks and trust companies exchanged market positions; their combined shares -- that is, slightly less than two-thirds of the Quebec market -- did not change dramatically from 1975 to 1981. From 1975 to 1978 banks and trust companies averaged 56 percent share of all institutionally approved mortgages; from 1979 to 1981 the average share value rose to 61 percent of total approvals.

In marked contrast to the institutional share patterns seen in the Atlantic provinces (and those discussed below in regard to Ontario and the West) is the tight grouping of LIC, loan company and 'other lenders' shares of the Quebec loan market (see Table 4.3f). Throughout most of the 1975-81 period these three groups each held between 10 and 15 percent of the market. As well, in any given year with the exception of 1980 and 1981 when the loan companies' share of the Quebec market seriously declined, there was never a substantial difference between the shares of the life companies, loan companies and 'other lenders'. The three types maintained a relatively constant share of Quebec mortgage approvals over the study period individually as well as collectively.

The peculiar distribution of institutional shares evident in Quebec arises in large part from the unusual roles of loan companies and 'other lenders' in that province's market. Loan companies did not play a major role in financing Quebec housing, as can be seen from Table 4.3f. That role became even less significant in the early 1980s: by 1981, loan companies accounted for only seven percent of institutionally approved mortgages in Quebec. In contrast, 'other lenders' (the amalgam of small savings institutions and societies) assumed a prominent place in the Quebec lending field.⁸ Their market share exceeded both that of LICs and loan companies in Quebec for much of the 1975-81 period, a relative share position for this lender group unique to Quebec.

Table 4.3g illustrates the shares of Ontario's residential mortgage market held by the major institutional lenders between 1975 and 1981. Clearly, the trust companies dominated residential mortgage lending in Ontario over the seven-year span: around 45 percent of all institutionally approved mortgage loans in the province were financed each year by the trust

companies. Although the trust companies experienced a slight decline in their share of the Ontario market from 1975 to 1981, they nevertheless maintained a minimum 15 percentage point advantage over their nearest competitors, the banks, for the entire period. The second-place banks claimed a relatively consistent share of about 23 percent over the period while the loan companies held about 19 percent and the LICs a share that varied between 10 and 15 percent. The composite 'other lenders' were not a significant force in Ontario's mortgage market at this time; their share of institutional mortgage approvals never exceeded two percent of the market.

Over the course of the study period, remarkably little variation in relative institutional shares of Ontario's mortgage market is evident (see Table 4.3g). The absence of significant inter-institutional fluctuations in shares may have its basis in the high number of approvals associated with Canada's largest provincial mortgage market. For significant change to occur in relative institutional shares, particularly those of the banks or trust companies, singularly large swings in approval levels would be required by one or more of the major lenders. In smaller provincial mortgage markets though, much less change in one institution's approval levels would be needed to trigger a perceptible repartitioning of the provincial market among mortgage lenders. However, the apparent stability of institutional market shares in Ontario from 1975 to 1981 may also indicate that a high degree of competition for mortgage approvals existed between institutional lenders at that time. What little change is evident over the period points to 1) a slight narrowing of the gap between trust companies and bank shares, 2) a gradual decline in the significance of the loan companies' share, similar to that in the Atlantic provinces,

and 3) a concomitant although quite modest rise in the significance of LICs as Ontario lenders.

A comparison of Tables 4.3h and 4.3i shows the similar nature of institutional participation in the Manitoba and Saskatchewan mortgage markets. In both provinces through the late 1970s the banks, trust and loan companies were equally competitive. On average from 1975 to 1979 in Manitoba, trust companies claimed 32 percent of the institutional loan market, loan companies 27 percent and the banks 26 percent. In Saskatchewan over the same period, the banks approved an average 31 percent of all institutionally financed mortgages, the trust companies 29 percent and the loan companies 27 percent. Then, at the turn of the decade in both Manitoba and Saskatchewan, the banks assumed the unqualified position of market leader. For the period 1979 to 1981, the average bank shares of Manitoba and Saskatchewan's loan markets were 41 percent and 37 percent respectively, an increase over the previous period of 58 percent for banks in Manitoba and 19 percent for banks in Saskatchewan.

The dramatic increase in the bank share of Manitoba and Saskatchewan loan markets at the turn of the decade was generally matched by a decline in trust and loan company shares in each province over the same period (see Tables 4.3h and 4.3i). In Manitoba, the trust companies experienced by far the greater share reduction of the two lender groups: between 1975-78 and 1979-81 the trust companies' share of all institutionally approved loans in Manitoba fell 16 percent whereas the loan companies' share only declined four percent. In Saskatchewan, trust and loan companies both saw large declines in their share of provincial loan approvals, in the order of 10 and 15 percent respectively. LIC shares of institutional mortgages approved in Manitoba and Saskatchewan at this time were relatively

constant throughout the late 1970s and early 1980s, at around five to six percent of the total loan market.

A minor but significant difference between the institutional share distributions within Manitoba and Saskatchewan mortgage markets relates to the size of the 'other lenders' share. In contrast to Manitoba where 'other lenders' saw their share of institutional loan approvals dwindle to nothing in 1980, the Saskatchewan loan market experienced relatively active lending by this composite group throughout the 1975-81 period. The 'other lenders' share of Saskatchewan's institutionally approved mortgages actually doubled from 1975-78 to 1979-81 to eight percent of the market.

The institutional shares of Alberta and British Columbia mortgage approvals for the 1975-81 period are shown in Tables 4.3j and 4.3k. In both provinces the banks and trust companies enjoyed the largest market shares throughout the study period; these varied from about 25 to 40 percent of the market. The nature of the bank-trust company competition for loan approvals did however differ between the two provinces. The banks saw their share of loan approvals rise in both provinces from 1976 to 1980. The trust companies maintained a competitive and, with the exception of 1979, dominant position in the Alberta market, but in British Columbia, experienced a steady decline in their market share. By 1978, the banks had overtaken the trust companies as the dominant lenders in British Columbia.

Like the banks, loan companies played a larger role in British Columbia's market than in Alberta's market. Throughout the 1975-81 period the loan companies' share of British Columbia mortgage approvals was never far removed from that of the banks or trust companies (see Tables 4.3j and 4.3k). In Alberta's institutional mortgage market, however, the loan

companies were generally not competitive with the trust companies and banks. Once the banks had established themselves as market leaders in the late 1970s, the loan companies' share of all institutionally approved mortgages in that province rarely came closer than 10 percentage points to that of the trust companies or banks. LICs, conversely, maintained a much larger market share in Alberta than in British Columbia. In Alberta LICs enjoyed a steady 10 to 15 percent share of the approval market from 1975 to 1981 while in British Columbia, they never bettered 10 percent of the market in any year and placed a distant fourth to the banks, trust and loan companies.

The pattern of LIC, loan company and 'other lenders' shares of Alberta and British Columbia mortgage markets displayed in Tables 4.3j and 4.3k is in certain ways similar to that seen in Table 4.3g for Ontario. Specifically, there is relatively little fluctuation evident in the share values for these institutional groups over the study period. Like Ontario, the absence of major swings in yearly share values for the three groups may be indicative of strong and sustained competition between lender groups from 1975 to 1981, or the sheer size of the Alberta and British Columbia markets working against the ready perception of change in institutional shares values.

4.1.2

Fluctuations in institutional shares of provincial mortgage markets are best examined in the light of changes in geographical lending patterns carried out by the major institutions (see Section 3.3). In Atlantic Canada's residential loan markets for example, there occurred extensive realignment of institutional shares throughout 1975-81 (see Tables 4.3b, c,

d, and e) but little substantive change in institutional emphasis on Atlantic Canada loans by any of the institutional groups save the loan companies and, in the specific case of Newfoundland, the banks. The loan companies' falling share of Atlantic Canada's mortgage market of that time certainly matched the general decline in the proportion of loan company approvals allocated in the four eastern provinces from 1975 to 1981 (see Table 3.18). The change in the banks' share of Newfoundland's mortgage market was also commensurate with the sizeable increase in the proportion of bank loans approved in Newfoundland relative to total bank loans approved in Canada for the study period (see Table 3.15). Otherwise, growth in institutional shares of Atlantic Canada's markets did not usually spring from aggressive institutional lending programs in this region of the country.

In the great Ontario and Quebec loan markets of the 1978-81 period by far the majority of the change which occurred in institutional share holdings (see Tables 4.3f and 4.3g) was rooted in substantive shifts in the proportion of institutional mortgage approvals allotted to the two provinces. In Quebec the trust companies' commitment to develop their Quebec mortgage portfolios in the late 1970s (see Table 3.17) was directly responsible for the simultaneous jump in the trust company share of the Quebec loan market. That the banks' share of the Quebec residential loan market was on the wane during the late 1970s was no doubt partly a result of greater market competition from the trust companies. However, a more important cause of the banks' falling share of Quebec's markets at this time was a general decline in the proportion of mortgage approvals banks were allocating to Quebec relative to other provinces over the 1975-81 period (see Table 3.15). In Ontario the trust companies' falling share

of the market was also directly attributable to an absolute decline in relative mortgage allocation (see Table 3.17). The modest increase in the LIC share of Ontario's institutional loan market from 1975 to 1981 originated with the LICs' effort to develop their Ontario holdings (see Table 3.16).

The rather spectacular relative increase in the banks' share of Manitoba's mortgage market during the latter half of the study period was not based upon a corresponding rise in the banks' interest in Manitoba loans. The restructuring of a relatively tight market during the late 1970s in Manitoba in favour of the banks (see Table 4.3h) had, it seems, more to do with a weakened lending thrust on the part of the life companies, trust companies and 'other lenders' than with a concerted effort by the banks to develop their own Manitoba portfolios (see Tables 3.15, 16, 17 and 19). It is interesting to note that while 'other lenders' actually reduced their Manitoba approval levels over the 1975-81 period (see Table 3.19) their share of the Manitoba market also increased, although by a smaller margin than that posted by the banks.

In Saskatchewan the banks and 'other lenders' each saw their share of the residential loan market rise from 1975 to 1981 (see Table 4.3i). In both cases the boosted market shares were a direct outcome of the heightened interest each lender displayed in Saskatchewan mortgages (see Tables 3.15 and 3.19). The coincident decline in the loan companies' allocation of mortgages to this province (see Table 3.18) was also however a factor in the relative rise of bank and 'other lenders' shares of the Saskatchewan mortgage market.

The effect of keen interest in lending in British Columbia exhibited by the banks and loan companies (see Tables 3.15 and 3.18) and in Alberta

by the banks, LICs and loan companies (see Table 3.15, 16 and 18) was most rewarding for the banks in that their share of both provincial markets rose significantly from 1975 to 1981 (see Tables 4.3j and 4.3k). For the life companies and loan companies the major effect of their greater devotion to Alberta and British Columbia approvals was to help curb trust company dominance of the two provincial markets, for in neither case did LICs or loan companies see much positive change in their shares of the two markets.

The contrasting of institutional shares of provincial mortgage market activity with individual institutional approval levels in each province highlights one of the limitations of the market share technique. Specifically, it is not possible to infer from market share figures in regard to individual cause. The fact that one institution experiences a rising share in a particular provincial market does not necessarily mean that that institution increased its allocation of loan approvals to that province accordingly. Conversely, the outcome of changes in economic circumstances which affect individual institutional approval levels is not readily translatable into a change of market shares. Each market share figure is net: it accounts for the activity of all market participants and not just the individual institutions.

A second limitation of the market share technique relates to the matter of scale. Clearly, year-to-year fluctuation in market shares are most evident in those provinces with small populations, viz., Manitoba, Saskatchewan, Newfoundland, Prince Edward Island, New Brunswick and Nova Scotia. In Ontario, the most populous province, institutional shares of mortgage market activity remained relatively constant year to year. The effect of scale in this case was to mask year-to-year changes in individual

lending activities in the heavily populated provinces while exaggerating those changes in the less populated provinces. There is no reason to believe, for example, that Nova Scotia's mortgage market experienced a great deal more investor turbulence over the 1975-81 period than did Ontario's market. In Nova Scotia any changes in institutional lending activities were probably magnified whereas in Ontario's case, many were likely lost in the total figure.

4.1.3

In this section, the institutional shares of all provincial loan markets have been averaged for the 1975-81 period; these are summarized in Table 4.4. The concentration of mortgage approvals with one institutional lender is quite evident in several provinces, notably in Newfoundland, Prince Edward Island, New Brunswick and Ontario. Before proceeding, however, a cautionary note should be made concerning the figures in Table 4.4. As averages, they do not fully describe the change in institutional market shares which occurred over the 1975-81 period. In particular, the average loan company shares of Atlantic Canada markets which, except for New Brunswick, figure well above the loan companies' average national share value for the 1975-81 period, clearly overstate the loan companies' Atlantic holdings for much of that time. In Quebec the dramatic rise in the trust companies' share of that province's mortgage market at the turn of the decade is hidden in the average share value. Similarly the average value of bank shares in Maritime, Manitoba and Saskatchewan residential loan markets conceals the major shift in bank share holdings which took place in those provinces over the study period. The limitations of the averaging technique aside, Table 4.4 is useful as

TABLE 4.4: Institutional Shares (%) of All Residential Mortgage Loans Approved by Lending Institutions, by Province, by Type of Lender, Average 1975-81 (Dwelling Units)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Other ¹ Lenders	Total
Nfld.	42%	2%	32%	23%	4 1%	100%
P.E.I.	20	5	52	22	4 1	100
N.S.	27	8	38	27	4 1	100
N.B.	28	7	47	17	1	100
Que.	36	14	24	11	15	100
Ont.	23	12	45	19	1	100
Man.	33	7	30	26	3	100
Sask.	33	7	28	25	6	100
Alb.	28	13	36	20	2	100
B.C.	33	8	32	25	1	100
Canada	29	11	36	19	5	100

¹Includes Quebec savings banks, mutual benefit and fraternal societies, pension funds and mortgage investment brokers.

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

a general indicator of the degree of institutional concentration within provincial mortgage markets for the 1975-81 period.

Table 4.5 details the cumulative average institutional share holdings in all provincial loan markets for the 1975-81 period. It can be seen that on a regional basis Atlantic Canada mortgage markets show the greatest incidence of single-institution concentration of loan approvals for the period as a whole. In Newfoundland 42 percent of all institutionally approved mortgages on average from 1975 to 1981 were financed by the banks. At the same time, in Prince Edward Island an average of over half (52 percent) of all institutional loan approvals were concentrated with the trust companies, and in New Brunswick slightly less than half (47 percent). Elsewhere in Canada, only Ontario experienced a similar degree of concentration in its residential loan market of the 1975-81 period: 45 percent of all institutionally approved mortgages in that province on average were financed by the trust companies.

Two points are clear from Table 4.5 as regards single-institution concentration of loan approvals in provincial mortgage markets. First, on a regional basis western Canadian markets display none of the domination by one institution seen in the eastern part of the country. In Manitoba, Saskatchewan and British Columbia no more than a third of all institutionally approved loans were financed on average by any one type of lending institution. The second point arising from Table 4.5 relates to the propensity of trust companies to pursue geographical specialization in choosing their mortgage markets. In three out of the four provincial markets in which high institutional concentration of loan approval was evident, trust companies accounted for the concentration.

At the second level, that is mortgage market shares concentrated with

TABLE 4.5: Cumulative Institutional Shares (%) of All Residential Mortgage Loans Approved by Lending Institutions,¹ by Province, by Type of Lender, Average 1975-81 (Dwelling Units)

No. of Lending Institutions	1	2	3	4
Nfld.	42 (B)	74 (B,T)	97 (B,T,L)	99 (B,T,L,LIC)
P.E.I.	52 (T)	74 (T,L)	94 (T,L,B)	99 (T,L,B,LIC)
N.S.	38 (T)	65 (T,B)	92 (T,B,L)	100 (T,B,L,LIC)
N.B.	47 (T)	75 (T,B)	92 (T,B,L)	99 (T,B,L,LIC)
Que.	36 (B)	60 (B,T)	75 (B,T,O)	89 (B,T,O,LIC)
Ont.	45 (T)	68 (T,B)	87 (T,B,L)	99 (T,B,L,LIC)
Man.	33 (B)	63 (B,T)	89 (B,T,L)	96 (B,T,L,LIC)
Sask.	33 (B)	61 (B,T)	86 (B,T,L)	93 (B,T,L,LIC)
Alb.	36 (T)	64 (T,B)	84 (T,B,L)	97 (T,B,L,LIC)
B.C.	33 (B)	65 (B,T)	90 (B,T,L)	98 (B,T,L,LIC)
Canada	36 (T)	65 (T,B)	84 (T,B,L)	95 (T,B,L,LIC)

¹Include B-banks, LIC-life insurance companies, T-trust companies, L-loan companies and O-'other lenders'.

Source: Compiled by author based on data in Canadian Housing Statistics, various years.

two types of institutional lender, much the same pattern is evident as that identified above. Specifically, Newfoundland, Prince Edward Island and New Brunswick continue to exhibit relatively uncompetitive residential mortgage markets for the 1975-81 period. In each province three-quarters of all institutionally approved loans on average were financed by just two types of financial intermediary from 1975 to 1981: in Newfoundland, by the banks and trust companies, in Prince Edward Island by the trust and loan companies, and in New Brunswick by the trust companies and banks. The degree of concentration in Nova Scotia and Ontario markets is, however, less pronounced when two institutional groups out of the five are considered. Although two-institution concentration within Ontario's market remained on the high side, it (along with that found in Nova Scotia and British Columbia, Alberta and Manitoba) approached the average two-institution value for Canada as a whole -- that is, around two-thirds of the market (see Table 4.5). By contrast, in Quebec and Saskatchewan less than two-thirds of residential loan approvals were financed on average by only two types of institutional lenders from 1975 to 1981. At this level then, institutional competition for residential loan approvals appears to have been greatest in Quebec and Saskatchewan.

At the third level of scrutiny with regard to mortgage market concentration among the major institutional lenders, a division begins to form between those provincial markets in which LICs and 'other lenders' were relatively active and those in which they were not. The negligible lending activities of these two groups in Atlantic Canada (see Tables 3.16 and 3.19), is emphasized when one considers that portion of the region's mortgage approvals which was financed by the three major lending groups, the banks, trust and loan companies (see Table 4.5). On average for the 1975-81

period in Newfoundland, 97 percent of all institutionally approved mortgages came from the banks and trust and loan companies; in Prince Edward Island the figure is 94 percent; in Nova Scotia and New Brunswick, 92 percent of the total loans made by lenders at this time. Again in contrast one may examine Quebec: only 75 percent of Quebec's institutional mortgage approvals were financed by the three most active lenders in that province, one of which was, of course, 'other lenders'. Of the remaining five provinces (Ontario and the west) average market concentrations with the top three institutional lenders from 1975 to 1981 in each province varied from 84 percent in Alberta to 90 percent in British Columbia. The relatively low figure for Alberta testifies to a reasonably competitive market for institutional loans in this province over the 1975-81 period.

Mortgage market concentration with the four top lenders in each province was in most cases 95 percent or more of all institutionally approved loans on average for 1975-81 (see Table 4.5). Two notable exceptions to this pattern are clear. In both Quebec and Saskatchewan 'other lenders' captured significant share of the residential loan market thus limiting the market domination usually enjoyed by the large financial intermediaries. As well in Quebec, the least committed of all lenders involved in Quebec housing, the loan companies, maintained a sizeable if uncharacteristically low average market share from 1975 to 1981. Overall, Quebec displayed the most institutionally diversified loan market of all ten provinces.

4.1.4

Over the course of the study period the majority of provincial loan markets experienced major restructuring with respect to institutional share holdings and, it follows, concentration of lending with one or more types

of institution. Broadly speaking, whereas loan companies dominated many provincial markets in the mid-1970s, they had in every case been replaced by the banks by 1980. Trust companies also suffered a decline in market prominence relative to the banks in several provinces over the 1975-81 period. Changes in the degree of concentration of mortgage approvals with one or more lending institutions regardless of type were however, more varied province to province at this time.

In Newfoundland, Alberta and British Columbia mortgage markets were neither more nor less concentrated by the end of the seven-year study period at any of the levels discussed above. For example, while the types of institution often changed order, the institutional share breakdown of Newfoundland's mortgage market remained roughly 45:35:17:2:1 throughout much of 1975 to 1981 (see Table 4.3b). An increase in the degree of concentration with one group of institutional lender occurred in Manitoba and Saskatchewan markets as the banks broke away from the trust and loan companies to assume the dominant market position (see Tables 4.3h and 4.3i). This increase is not well represented in either Table 4.4 or 4.5 in which Manitoba and Saskatchewan are shown to have had among the least one-institution concentrated markets in the country.

In contrast to the events in Manitoba and Saskatchewan, the market concentration with the primary institutional lender in Nova Scotia and Ontario (the trust companies) and in Quebec (the banks) declined substantially from 1975 to 1981 (see Tables 4.3d, f and g). For Nova Scotia and Quebec this change further aligned the two provinces with their western counterparts and clearly distanced them from other eastern Canadian provinces characterized by skewed institutional share distribution as a result of one-institution dominance.

In Prince Edward Island and Manitoba the concentration of mortgage approvals among the three top lending groups, the banks, trust and loan companies, increased from 1975 to 1981 (see Tables 4.3c and 4.3h). The three groups had financed around 90 percent of Prince Edward Island mortgage approvals in 1975 but by 1981 that share figure had risen to closer to 97 percent of the market. In Manitoba the substantial decline in the market presence of LICs and 'other lenders' over the course of the 1975-81 period resulted in an increase in approval concentration with the banks, trust and loan companies from about 82 percent in 1975 to about 92 percent of the market in 1981. (Although Saskatchewan, like Manitoba, witnessed a rise in the market share of its leading type of institutional lender (the banks), Saskatchewan also saw its minor institutional lenders (the LICs and 'other lenders') increase their share of total Saskatchewan mortgage approvals (see Table 4.3i). As a result, the concentration of loans with Saskatchewan's three top lending groups (the banks, trust and loan companies) actually declined over the 1975-81 period.)

In Quebec the four top ranked lending groups increased their combined share of that province's mortgage market from 1975 to 1981. The development of a more concentrated market occurred because the loan companies' share of Quebec approvals shrank steadily from around 17 percent of the institutional loan market in 1975 to around seven percent in 1981 (see Table 4.3f). In contrast, the four top ranked lending groups in New Brunswick's residential loan market witnessed a reduction in their combined share of all institutional loan approvals (see Table 4.3e). The lowest ranked LICs, in this case, developed their share of overall institutional mortgage approvals from 1975 to 1981 at the expense of all other lending groups. By 1981 the institutional share composition of New

Brunswick's mortgage market sat at 40:35:15:9, whereas in 1975 it had been 48:36:13:2 (see Table 4.3e).

4.1.5 Summary

The composition of institutional suppliers of mortgage finance varied across the ten provincial loan markets during the 1975-81 period. In all cases the provincial markets were dominated by the trust companies and banks by the turn of the decade. Loan companies usually placed third in line of importance as suppliers of mortgage money, LICs fourth and, with the notable exception of Québec, 'other lenders' fifth. While the ranking of institutions by type of lender did not vary substantially province to province, their respective shares of each provincial loan market did.

The mortgage markets of Atlantic Canada for the 1975-81 period were characteristically dominated by one type of institutional lender: loan companies, trust companies or banks. In none of the four provinces however, did market dominance remain with the same institutional lender throughout the seven-year study period. Loan companies, the early lenders in all four Atlantic markets, experienced a universal decline in importance during the late 1970s. In Newfoundland, the banks replaced the loan companies as the predominant institutional suppliers of mortgage finance; in Prince Edward Island and New Brunswick, the loan companies were replaced by the trust companies. Only in Nova Scotia did the market domination characteristic of the mid-1970s give way to a more institutionally competitive market in the early 1980s. These changes in the composition of the institutional supply of mortgage finance to the Atlantic region were not however, heralded by a heightened institutional interest in Atlantic

lending. To the contrary, only in the case of the banks in Newfoundland was there any appreciable increase in the proportion of total or national loan approvals directed towards the east by any of the large financial institutions. The major transposition of institutional shares which occurred in the mortgage markets of this region from 1975 to 1981 took place in an atmosphere of generally declining investment commitment on the part of the major lending institutions. The overall decline notwithstanding, the degree of market concentration evident in 1975 remained clear in 1981, with the minor exception of the Nova Scotia case.

In the Quebec mortgage market of the late 1970s and early 1980s institutional lenders were all well represented although the banks were clearly the dominant lending group. Over the course of the period, some restructuring of institutional shares occurred as the trust companies focused their mortgage lending on Quebec and subsequently gained a greater share of that market, while at the same time the banks reduced the proportion of their national approvals allocated to the province, and witnessed a fall in their share of the Quebec loan market. The unusually active participation in Quebec lending shown by 'other lenders' and the LICs throughout 1975 to 1981 limited the overall degree of concentration found in this provincial loan market. Since the loan companies did not maintain their small hold on the market however, this most competitive of all provincial loan markets was slightly more concentrated by the end of the study period.

Ontario's mortgage market of the 1975-81 period was consistently dominated by the trust companies. Despite a decrease in the proportion of all trust company mortgage approvals allocated to Ontario and an increase in the proportion of all LIC approvals so directed, the institutional share

structure of the Ontario market showed little change from 1975 to 1981. The trust companies were unequivocally the predominant institutional lender in this province while banks, loan companies and LICs competed for the rest of the market with only minor year-to-year fluctuations in their share holdings. It is likely that the sheer volume of loan transactions associated with Ontario's mortgage market is responsible for the lack of obvious institutional fluctuations year to year.

In both Manitoba and Saskatchewan relatively competitive institutional loan markets during the mid-1970s were followed by more highly concentrated markets at the turn of the decade. In each case this was the outcome of a dramatic rise in the banks' share of the two markets. Whereas the increase in the banks' share of Saskatchewan's loan market was precipitated by a rise in the proportion of total bank approvals allocated to Saskatchewan, in Manitoba's case the banks simply benefited from a declining interest in Manitoba markets shown by the four other lender groups. Saskatchewan and Manitoba markets were distinguishable, though, with respect to the participation of the residual group 'other lenders'. In Saskatchewan 'other lenders' increased their allocation of total loan approvals as well as saw their share of the market rise; in Manitoba, the market presence of 'other lenders' seriously receded over the course of the 1975-81 period. Overall both provincial loan markets remained relatively free of institutional concentration despite the substantial rise of the banks' share of lending in recent years. Market concentration in Saskatchewan was the least of all provinces, next to Quebec, for the study period.

The prominent lenders in Alberta and British Columbia mortgage markets of the 1975-81 period were the trust companies and banks. The trust

companies predominated in Alberta, while the banks -- along with the loan companies -- led the way in British Columbia. Despite the western focus of most institutional lending during the late 1970s, British Columbia and Alberta mortgage markets displayed little fluctuation in institutional shares of market activity. Again, this can be partially explained by the relative size of the two markets. In general, the banks marginally increased their shares of the two provincial markets while the trust companies saw their shares reduced correspondingly. The LICs and loan companies did not realize greater market shares in Alberta and British Columbia, respectively, their increased lending efforts notwithstanding. For the 1975-81 period then, the British Columbia and Alberta mortgage markets were throughout relatively competitive and showed an average degree of institutional concentration compared to the rest of the country.

4.2 Provincially-based Lenders: the Credit Unions

It is useful at this point to give consideration to the market role of credit unions and caisses populaires in the provinces' residential loan markets. Data on the lending activities of local credit unions, available in the form of outstanding residential loans, is not compatible with that presented in Chapters III and IV for the other major lending institutions. It does nonetheless allow for some measurement of the relative market role of credit unions during the late 1970s and early 1980s.⁹ However, since the value of outstanding loans for banks, LICs, trust and loan companies has only been published by province of loan since 1978, the calculation of market shares in this case is based on a four-year period rather than the seven-year period used elsewhere in this paper.

Table 4.6 illustrates the extent of credit union investment in

TABLE 4.6: Residential Mortgage Loans Outstanding, Credit Unions, by Province, 1975-1981 (Billions of Dollars)

	1975	1976	1977	1978	1979	1980	1981
Nfld.	(0.000277)	(0.000312)	(0.001408)	(0.003001)	(0.003447)	(0.004103)	(0.005546)
P.E.I.	-	-	-	-	-	-	(0.004466)
N.S.	(0.008782)	(0.011107)	(0.009385)	(0.013753)	(0.016177)	(0.013512)	(0.011977)
N.B.	(0.0321)	(0.043946)	(0.054923)	0.1	0.1	0.1	0.1
Que.	2.1	2.5	3.3	4.3	4.8	5.6	5.9
Ont.	0.6	0.8	1.1	1.5	1.9	1.9	1.9
Man.	0.2	0.2	0.3	0.3	0.4	0.3	0.3
Sask.	0.2	0.3	0.4	0.5	0.6	0.6	0.7
Alb.	0.1	1.2	0.4	0.5	0.7	1.1	0.7
B.C.	0.9	1.3	1.9	2.4	2.6	2.7	2.7
Canada	4.1	6.3	7.5	9.6	11.1	12.3	12.3

Source: Statistics Canada, Cat. 61-209, Table 8, various issues.

provincial loan markets over the 1975-81 period. The caisses populaires of Quebec maintained a consistent and strikingly large share of that investment: from 1975 to 1981 caisses populaires held on average 46 percent of total outstanding credit union loans in Canada (see Table 4.7).

British Columbia credit unions were also major investors in residential loans throughout the period. Their outstanding loans represented on average almost one-quarter of all credit union dollar loans outstanding from 1975 to 1981. In contrast, local credit unions in Ontario, home of the largest provincial housing market in Canada, were relatively modest in their residential investments. Over the seven-year study period, the Ontario locals' share of all outstanding credit union loans never exceeded 18 percent.

Together Quebec, British Columbia and Ontario locals held the lion's share of all credit union investment in Canadian residential mortgages -- an average of 85 percent of total outstanding credit union loans for the 1975-81 period (see Table 4.7). Prairie credit unions held only minor shares of all outstanding loans: Manitoba locals averaged a three percent share, Saskatchewan locals a five percent share and Alberta locals a six percent share of all outstanding residential mortgages financed by credit unions. In Atlantic Canada the value of credit union mortgage investments was insignificant. Atlantic locals held at best one percent of the national credit union holding.

It is clear from Table 4.7 that the distribution of credit union loans over the ten provinces is as variable, province to province, as for the other major institutional lenders. In some provinces such as Quebec and British Columbia credit unions were active investors in residential mortgages whereas in others, notably the four Atlantic provinces, local credit

TABLE 4.7: All Outstanding Credit Union Residential Mortgage Loans, by Province, as Percent All Outstanding Residential Credit Union Loans, Canada, 1975-1981 (Millions of Dollars)

	1975	1976	1977	1978	1979	1980	1981
Nfld.	<1%	<1%	<1%	<1%	<1%	<1%	<1%
P.E.I.	-	-	-	-	-	-	<1
N.S.	<1	<1	<1	<1	<1	<1	<1
N.B.	1	1	1	1	1	1	1
Que.	49	46	44	45	43	45	48
Ont.	15	15	15	16	17	16	16
Man.	4	4	4	3	4	3	2
Sask.	6	6	5	5	5	4	5
Alb.	4	4	5	5	7	9	6
B.C.	22	24	25	25	23	22	22
Canada	100	100	100	100	100	100	100

Source: Statistics Canada, Credit Unions (Cat. 61-209), various issues.

unions made only small advances into the residential lending field. Table 4.8 shows the share of each provincial market held by the banks, LICs, trust and loan companies and credit unions over the 1978-81 period. In five provincial loan markets -- New Brunswick, Quebec, Manitoba, Saskatchewan and British Columbia -- credit unions claimed, on average from 1978 to 1981, a greater share of all outstanding institutional loans than at least one other type of institutional lender. In the Saskatchewan and British Columbia loan markets credit unions held or shared the second highest share of outstanding loans on average over the four year period. In Quebec the caisses populaires held, by a substantial margin, the largest share of all outstanding institutional loans in the province: 39 percent compared to 25 percent for the second-placed banks, on average from 1975 to 1981.

Without loan approval data for the credit unions it is difficult to tell how active credit unions have actually been in recent years. While it is possible to calculate annual net investment figures for provincial credit unions from outstanding loan data, they are a poor substitute for approved loan figures.¹⁰ Net investment figures are quite inappropriate as a means of quantifying the credit union shares of provincial loan markets vis-a-vis other institutional lenders as well as the effect of credit union participation on the degree of lender concentration found within the provincial mortgage markets of the 1975-81 period. All that may be surmised from Tables 4.6 and 4.8 is that in several provinces, notably New Brunswick, Quebec, Manitoba, Saskatchewan and British Columbia, credit unions have amassed a significant and in the cases of Quebec, Saskatchewan and British Columbia, a major stake in recent residential mortgage markets.

TABLE 4.8: Institutional Shares (%) of All Residential Mortgage Loans Outstanding, Lending Institutions, by Type of Lender, by Province, Average 1978-81 (Millions of Dollars)

	Banks	Life Insurance Companies	Trust Companies	Loan Companies	Credit Unions	Total
Nfld.	45%	5%	29%	21%	1%	100%
P.E.I.	23	4	43	30	1	100
N.S.	23	8	41	27	1	100
N.B.	26	5	43	17	9	100
Que.	25	9	15	12	39	100
Ont.	26	14	39	14	6	100
Man.	36	8	24	19	12	100
Sask.	28	5	26	15	26	100
Alb.	29	10	36	17	7	100
B.C.	33	7	20	18	22	100
Canada	28	10	30	15	16	100

Source: Compiled by author from data in Canadian Housing Statistics, various issues; and Statistics Canada, Credit Unions (Cat. 61-209), various issues.

If it is assumed that traditional credit union emphasis on residential lending was ongoing during the late 1970s then the nature of lender competition within provincial mortgage markets as outlined in Section 4.1 above can be further qualified. For example, the high level of lender concentration with banks and trust companies identified in Atlantic Canada over the 1975-81 period would not likely be altered were credit unions included in the calculations, except in the case of New Brunswick. If the New Brunswick credit unions were approving residential mortgages commensurate with their share of outstanding institutional mortgages in the province at that time, the market dominance of the trust companies would probably be less than the 47 percent shown in Tables 4.4 and 4.5. In general, however, in none of the Atlantic provinces would the market situations be changed dramatically: banks and trust companies would continue to dominate residential lending in all four provinces.

The addition of credit unions into the calculation of institutional shares of mortgage loans approved in Quebec and the four western provinces would in all probability raise the level of competition associated with their institutional loan markets. In Quebec in particular the inclusion of the caisses populaires when figuring institutional shares would likely result in highly competitive shares for all types of institutional lender since all of the major institutional lenders (including the residual 'other lenders' group) are already well represented in that province's market.

Like the Atlantic provinces of Newfoundland, Nova Scotia and Prince Edward Island, the concentration of mortgage lending in the Ontario market would likely be little affected by consideration of credit union participation. It is indeed curious that mortgage lending in Canada's largest

residential market is so concentrated with one major lender. The extent of personal sector lending in this province -- as with the Atlantic provinces -- is a subject deserving of attention.

4.3 Summary

Chapter IV addressed the subject of composition of the institutional supply of residential mortgage finance within Canada's provincial loan markets. At the outset it was suggested that the greater the concentration of that supply the greater the vulnerability of local housing stock in the face of institutional changes to the spatial risk assessment practices which determine the cost of housing finance and, ultimately, the standard of housing quality within an area. In Canada institutional mortgage lenders are synonymous with large, national and in some cases multinational financial intermediaries. The primary effect of concentration of the housing finance supply with one, two or three types of institutional lender is, then, to tie area mortgage markets to the fate of specific types of financial intermediary. Since each type pursues distinct investment goals in their own administrative fashion, operates under quite separate federal and provincial legislation and has varying degrees of public visibility and public sector accountability, it is significant that one or another type of institution dominates the supply of housing finance in a given provincial mortgage market.

The findings presented in this chapter indicate that the institutional supply of mortgage capital to Canadian loan markets varies substantially across the country in terms of institutional source. While banks and trust companies (and in some cases loan companies) are the principal institutions involved in all provincial loan markets, the degree of their

market prominence both individually and collectively is not uniform. In Atlantic Canada the supply of mortgage funds is concentrated with one type of institutional lender. In Ontario, the supply of mortgage funds is similarly concentrated. Elsewhere in Canada, institutional dominance of provincial loan markets is less pronounced. It is clear though, from the Manitoba example that market domination on the scale of that seen in Atlantic Canada or Ontario can develop within a very short time period. Generally however, competition for mortgage business in the west and particularly in Quebec appears keenest. In Quebec, all institutional lenders considered here were active at a significant level, the effect of which was to limit the potential for market concentration with the major lenders, the banks and trust companies.

Curiously, the sketchy provincial data available on the degree of wholly-owned housing by province (see Section 4.0) appears to show that the demand for institutional or private sector housing finance is greater in those provincial markets which experienced the highest level of institutional competition over the 1975-81 period, for example, Quebec and the Prairies. Alternatively, in Atlantic Canada and Ontario where there appears to be less use made of outside housing finance, the market for institutional finance is quite concentrated. While it is not altogether surprising that institutional competition is greatest where market demand is most pronounced, it would indeed be perturbing if, as it appears, the level of competition drops off dramatically with a decline in relative -- in view of Ontario's sheer market size, surely not aggregate -- demand.

Footnotes - Chapter IV

1. All major types of financial intermediary in Canada -- that is, banks, LICs, and trust companies -- have been subject over the last quarter century to a steady stream of mergers as the focus of the business world turned to the acquisition of existing wealth rather than the creation of new wealth.
2. See P.S. Morrison, "Mortgage Lending in Canadian Cities", draft (Toronto: Centre for Urban and Community Studies, University of Toronto, 1978).
3. Figures from CMHC's Supplement to Economic Research Bulletin No. 7 (Mortgage Finance Section and Statistics Department, Economic and Statistics Division circa 1970) show that from 1920 to 1970 personal sector outstanding mortgage loans declined in dollar terms as a percentage of total outstanding loans from over 40 percent to a little over 20 percent. A warning accompanying these estimates notes, however, that their associated error factor is too large to permit publication of the figures by CMHC. Morrison, "Mortgage Lending in Canadian Cities", p. 9.
4. Ontario Ministry of Treasury, Economics and Intergovernmental Affairs, "Realty Mortgage Loans Registered in Ontario", various years. See also Section 1.6.
5. Certainly in this regard Canadian property owners faced with taking out or renewing a mortgage during the early 1980s were kept in a constant state of vulnerability as market rates steadily escalated over the decade.
6. Central Mortgage and Housing Corporation, "1974 Survey of Housing" Preliminary Results (Ottawa: July 1976).
7. In dollar terms, the banks' share of total Canadian approved loans exceeded that of the trust companies from 1978 onwards.
8. Included among the small savings institutions is the Montreal and District Savings Bank. While regional in orientation, this savings bank nonetheless carries a good deal of weight in the Quebec financial market. It is therefore somewhat inappropriate to label it 'small'.
9. Outstanding residential loans include all residential mortgage assets held, that is, mortgages originated by a lender in addition to mortgages bought in the secondary market. Outstanding mortgages are net.
10. Net investment in residential mortgages is calculated by subtracting the previous year's outstanding loan figure from each year's outstanding loan amounts, or $(t+1)-t$. Net investment would account for both new loans assumed during a year as well as old loans finished.

CHAPTER V

CONCLUSION

The major objective of this paper has been to explore geographically the lending activities of Canada's large institutional mortgage lenders. It has been argued that the activities of mortgage lenders in general, and large institutional lenders in particular, are crucial to the eventual location of housing finance in local housing markets. The risk assessment practices which underlie the location of the mortgage investment vary, however, from one lender to another. As well they are in large measure reflective of concerns essentially unrelated to the location of the investment itself -- that is, property characteristics. These external factors or externalities which are considered during the locational risk assessment process and which vary from lender to lender, have a direct impact on the stability of mortgage capital flows to local housing markets. Ultimately they affect the cost¹ of housing finance and the quality of the housing stock in those local markets.

Severely limited geographical data on the lending activities of Canada's large institutional mortgage lenders restricted the scope of this study. Specifically, the lack of institutional mortgage investment data disaggregated beyond the provincial level necessitated the adoption of a rudimentary approach to the question of geographical lending practices. Ideally, a study such as this would best be carried out at the inter-urban scale. It must be stressed, however, that in view of the overall lack of information available with respect to the operation of the Canadian mortgage market and its participants, a high premium must be placed on all mortgage-related research, rudimentary or advanced.

5.1 Summary of Findings

A review of Canada's residential mortgage market of the 1954-81 period shows that a major restructuring occurred in the 1960s and 1970s: the institutional sector came to dominate residential lending in Canada. The rise of the large institutional lenders, especially the banks and trust companies, was a direct result of successive federal initiatives to develop the institutional supply of mortgage capital. Early on it was clear that unless these financial giants could be attracted to residential mortgage investment, the supply of mortgage capital required to support the growing and increasingly affluent population of the 1960s and 1970s would not be met. It was also clear that the extent of projected demand for mortgage capital ruled out any significant direct role for the public sector in the provision of that capital.

By the end of the study period the national mortgage market had grown remarkably in terms of size and complexity. The security of the mortgage capital supply, however, remained a pressing problem for all concerned with the provision of affordable housing. Despite federal attempts -- for example, through the creation of the NHA guaranteed mortgage, floating NHA interest rates, flexible mortgage terms, secondary mortgage investment vehicles such as REITs and MICs -- to develop an attractive market structure that would address the concerns of institutional lenders and allay their fears about the security of their residential investment, the demand for institutional mortgage funds in Canada often outstripped supply. It could be argued that institutional mortgage money was usually available and that the cost of that money was the sole prohibitive factor. It is debatable, though, whether the large institutions made much of an attempt to explore needed market improvements which might have cushioned

the cost of mortgage funds from instability generated in the capital markets.

The large institutional lenders were encouraged to pursue the development of their residential mortgage portfolios in the atmosphere of unsatisfied demand which prevailed during much of the 1954-81 period. As institutions grew to dominate mortgage lending they assumed substantial influence over the location of residential mortgage finance in Canadian housing markets. Toward the end of the period examined here institutional mergers became alarmingly commonplace and the degree of concentration within the set of Canadian financial intermediaries increased markedly. Not only did the institutional sector enjoy substantial control over the location of a scarce resource (mortgage capital) but that control fell to a shrinking number of decision-making bodies.

Institutional mortgage investment conducted in Canada over the 1975-81 period by the large institutions, was examined with a view to characterizing institutional lenders by the location of their mortgage investments and to identifying inter-institutional differences in geographical lending patterns. This examination revealed that each type of institutional lender -- bank, LIC, trust and loan companies, credit unions and 'other lenders' -- favoured certain parts of the country for residential mortgage investment. The banks showed a modest preference for lending in western Canada, Quebec and Newfoundland. The life companies concentrated their residential loan approvals in central Canada and Alberta. Of the six lender groups the trust and loan companies were the only ones to show a broad interest in Atlantic Canada mortgages. This interest did decline, however, on the part of the loan companies over the 1975-81 period. In central and western Canada, trust and loan companies differed in the location of their residential investments. Trust companies allocated almost half of their approvals

in Ontario alone and did not display any particular emphasis on mortgages in western Canada; loan companies clearly favoured the western provinces. Credit unions, the provincially-based lending institutions, were most strongly committed to residential mortgage lending in Quebec and British Columbia. 'Other lenders', comprising an assortment of small lending institutions and societies, were predominantly a feature of the Quebec financial marketplace and, accordingly, showed a remarkable concentration of loan approvals in that province.

The unique geographical approaches to residential mortgage lending shown by Canada's institutional lenders may be partially explained by institutional specialization in one or another loan type and hence in certain locations. For example, LICs are predominantly multiple-unit dwelling lenders and consequently they conduct most of their investment activities in Quebec and Ontario where multiple-unit dwellings are concentrated in Canada (see Table 3.17). The banks which focus on single-detached lending, show a geographical pattern of loan approvals which reflects more the distribution of single-detached dwellings in Canada. Overall, however, geographical variation in housing types does not fully explain the investment patterns of the institutional lenders. The institutional investment patterns identified in this study would, perhaps, appear more consistent were more comprehensive documentation of provincial housing and mortgage market characteristics available. It is also likely, though, that these patterns are rooted in the nature of the lending institutions themselves and not in geographical imbalances in housing or mortgage characteristics.

A variety of factors will influence an institution's choice of location for residential investment. Some are unrelated to housing and

mortgages while others involve interpretation of specific locational characteristics which ultimately bear upon the risk assessment process. Several of these factors are discussed below.

- 1) All types of Canadian financial institutions operate under dual jurisdiction, that is, federal and provincial. In some cases, such as credit unions, provincial legislation is the most relevant but in most cases federal legislation is the more comprehensive of the two. Both provincial and federal legislation can affect the institutions' attraction to a particular provincial, regional or local housing market. Aside from specific expenditures which alter the property value of a particular market each level of government in Canada can legislate directly or indirectly in relation to institutional activities such as rate setting and establishment of loan quotas. For example, in June of 1982 the Quebec government attempted to get all provincial mortgage lenders to reduce the cost of their financing in order to support a government house construction scheme. The Canadian Bankers Association argued against the proposal. They observed that the penalty for non-compliance (a substantial increase in the provincial tax on institutions' paid-up capital) would not apply to trust and loan companies or individual credit unions but would to banks and, therefore, the proposal was discriminatory. They did not argue that it was illegal.²
- 2) The competitive advantage which can be gained by experience (in the broad sense) in a particular mortgage market is a strong incentive for re-investment in an area. That other investment locations may offer a better match between mortgage loan type and institutional interests could be overlooked without a great deal of profit

sacrifice. Institutional lenders may also concentrate in a given region because of the co-existence of associated business. In the case of trust companies, it is not entirely unexpected that their loans are concentrated in Ontario since their affiliated real estate divisions are primarily Ontario-based operations.

- 3) A host of institutional practices -- organization, administrative and policy-oriented -- will affect the eventual location of institutional mortgage investment. The most important however concerns the way in which specific locations are risk-rated for the purpose of mortgage lending. In the process of risk-rating an institution could consider any number of demographic, economic, social and property development criteria. In the absence of an accepted model for risk-rating, it is inevitable that each type of lender will employ a unique set of such criteria.

The anticipated return on mortgage investment in a given location or, conversely, the risk attributed to a location, will clearly differ for each type of institutional mortgage lender. The notion that a particular location bears an identifiable and measurable risk³ is simplistic for it does not account for this multiplicity of risk assessors and their diverse risk considerations. It is not inevitable that the resultant risk assessment attributed to a particular location shall be a poor reflection of its investment potential. The risk of an inaccurate investment picture taking hold -- that is, an undersupply of mortgage capital and the potential decline of housing quality -- likely increases, however, as the number of mortgage lenders active in an area decreases. A diversified lender base provides local housing markets with some measure of security against falling capital supplies when one or another institutional lender re-assesses

locational risk.

The study of institutional shares of provincial mortgages approved over the 1975-81 period showed that the lender structure of provincial loan markets varied considerably across the country. In Atlantic Canada mortgagors faced a relatively limited selection of institutional lenders: life companies, credit unions and 'other lenders' were not competitive lenders. Those who sought mortgage funds in Quebec, Saskatchewan and British Columbia appear to have been offered the greatest choice of credit suppliers in Canada. In each of these provinces no one institutional lender dominated and some or all of the smaller mortgage lenders were active participants in the market. In several provinces -- Newfoundland, Prince Edward Island, New Brunswick and Ontario -- mortgage approvals were heavily concentrated with one type of institutional lender. Of all the institutional lenders, the trust companies were best able to control large shares of provincial loan markets -- in many cases approximately half the market.

In this study it has been possible to identify in broad terms the nature of institutional participation in Canada's provincial mortgage markets. In several of the markets diverse groups of institutional lenders are to be found while in other markets institutional representation is concentrated with a few types of lender. Because the mixture of institutional lenders is distinct for each province it should be understood that government initiatives or general economic events which alter the investment climate for a financial institution operating in Canada will not be felt equally in all provincial mortgage markets. To the extent that change effecting a decrease in one institution's loan approval levels is compensated for by other institutional lenders or personal sector lenders

in each local housing market, a credit shortage will not ensue. In those housing markets in which the other suppliers of mortgage credit do not or are unable to adjust their loan approval rate, property risk assessments will change to account for the allocation of now more scarce mortgage credit. Some areas and some of the housing stock will be affected by disinvestment.

5.2 Improving Inter-provincial Flows of Mortgage Capital

The primary function of the capital market is to transfer funds from households, businesses, governments, or other organizations with money surpluses to similar types of organizations with money deficits. The terms and conditions on which funds are transferred depend upon the ease with which the associated financial instrument can be traded subsequently by investors. In the case of residential mortgages, marketability is low compared to other leading long-term financial instruments....This condition restricts the private supply of residential mortgage money and raises its cost.⁴

In 1974 the federal government passed legislation enabling the creation of a Federal Mortgage Exchange Corporation (FMEC). In March 1977 the government formally abandoned the idea of a publicly funded central market for trade in mortgage assets. It was felt that sufficient secondary market trade in mortgages was being conducted by Canada's major institutions and that in times of economic restraint, there was no pressing need to inaugurate a new federal crown corporation.⁵

The reasons for establishing a national facility to intermediate secondary mortgage market transactions, accepted at the time of the passing of the FMEC Act in 1973, remain pertinent. While it is true that the volume of trade in Canada's secondary mortgage market grew remarkably during the 1970s (see Table 5.1) it consisted largely, however, of sales by the banks (and to some extent the trust companies) to non-originating

TABLE 5.1: Sales and Purchases of NHA-Insured Residential Mortgages
by Lending Groups¹, Canada, 5-year Averages, 1962-81
(Millions of Dollars)

	1962-66	1967-71	1972-76 ²	1977-81
Sales and Purchases	\$121.1	\$90.5	\$574.9	\$897.4

¹Lending groups include banks, life companies, trust companies, loan companies, other lenders, CMHC, pension funds, corporate (including provincial crown corporations), and unincorporated firms and institutions.

²From 1976 onwards, data relate to both initial and subsequent sales and purchases.

Source: Canadian Housing Statistics, various issues.

firms, institutions and pension funds as well as captive loan companies.⁶ Transactions in the market were of a direct placement nature. No nationally-based brokerage industry existed to support actual market trading.

Canada's secondary mortgage market is a mechanism used primarily by the banks to turn over huge mortgage holdings. The secondary market is not a true market but, as noted by the Ontario Mortgage Brokers, an administered market unresponsive to traditional forces of supply and demand.⁷ The geographical switching of loans, central to the functioning of a true secondary market, is not being performed except insofar as the banks regularly sell mortgages originated from across the country. Whether or not and to what extent they do so is, of course, unknown. It does not appear that any of the large financial intermediaries consider the formalization of a geographical switching operation an important or potentially profitable cause. They have neither lobbied the federal government for the appropriate facility nor have they proposed one of their own. As Hatch observed, "(i)t may be pointed out that there is a shortage of good mortgage administration within financial institutions today".⁸

In theory the unfettered movement of capital is the sign of a free market. Barriers to the flow of capital lead, it is said, to market inefficiencies and distortions and to higher costs of market goods. The institution of a secondary mortgage market facility would serve to reduce some of the existing barriers to mortgage flows among Canada's numerous regional and urban mortgage markets, and in the process help reduce the cost of mortgage credit for many. The pursuit of an integrated financial market in mortgages is, though, no more a priority of the federal and provincial governments than it is of the financial community. On the contrary,

it has been suggested by provincial ministers that their concern over poor inter-regional capital flows might best be dealt with by purposely erecting barriers to capital through the promotion of provincial or regional lending institutions.⁹ The opening of several western banks during the 1970s,¹⁰ one of which is partially owned by a western provincial government¹¹ is a profound testament to the frustrations of borrowers in Canada's western (and eastern) provinces with so-called national institutions.

The recent development of regionally-based financial intermediaries¹² signals a change in the political organization of space in Canada. More simply put, the development of these regional intermediaries is a clear assertion of regional property rights. Proliferation of regional structures may argue the democratization of financial activity in Canada but it would not be without its price. Insofar as Canada's residential mortgage market is concerned the supply of capital available for housing finance is already sufficiently constrained. There is no reason to believe that regionally-based institutions would, alone, be able to overcome credit problems through manipulation of small pools of funds. It is, on the other hand, entirely conceivable that with access to an institution like the FMEC, regionally-based (as well as nationally-based) lending institutions would be able to serve their particular constituency in a useful and profitable way.

5.3 Institutional Mortgage Lenders and the Regional Allocation of Mortgage Capital in Canada: An Outlook

By 1990 major legislative changes will have been enacted with respect to each of Canada's leading financial intermediaries. In 1980 the Bank Act was revised. Currently revisions to the Trust Companies and Loan

Companies Act as well as the Canadian and British Insurance Companies Act are pending. Canada's financial system is undergoing a fundamental restructuring which will see the end of investment specialization by type of financial intermediary. Traditional investment fiefdoms are being opened up in response to a universal demand for investment flexibility. The notion of the 'financial department store' is becoming a reality.¹³

It is clear that those institutions which profited from the mortgage market during the 1950s, 1960s and 1970s will soon be turning to other investment vehicles.¹⁴ Canadian demographics point to a declining demand for residential mortgage funds in the coming decades. The question is how will institutional diversification of investments affect the supply and allocation of mortgage capital. Will the lending institutions continue to serve the mortgage market in the same way as they have over the last few decades but simply on a reduced scale? Or, will these large institutions gradually abandon part of their market to smaller, local institutions and personal sector lenders?

Certainly as the growth potential in Canada's mortgage market declines into the next century, institutions will be paying less attention to mortgage lending and, at the same time perhaps, they will be expecting a greater return on their mortgage business. This does not bode well for those seeking mortgage funds. The institution of a secondary mortgage market facility in the coming years would indeed be timely. Whereas the primary mortgage market may contract, the secondary market has much room for expansion and that expansion will have definite benefits for the geographical allocation of mortgage capital.

Canada's residential mortgage market has undergone phenomenal change over the postwar period and, in particular, over the last decade. By all

accounts stability in the market will not be seen for many years yet. In order to ensure that imminent change takes into account the diverse geographical characteristics of Canada's residential mortgage market, the mortgage lending activities of the large financial institutions should be closely monitored. An adequate monitoring program demands, however, a more comprehensive data base on the location of institutional mortgage loans.

At this time, the financial institutions are not required to report where they do their lending except in very general terms. Consequently, all loan information is aggregated to the provincial level before being released by institutional associations. Adequate monitoring of institutional mortgage lending activities requires, as a minimum, loan data provided at the urban scale. Without the co-operation of the financial institutions in the provision of comprehensive spatial lending data (either through public or private surveys), such information could be sought from local land registry and titles offices. Since there is no central registry for this data in each province, the task of compiling standardized sets of urban loan data by type of lender, would be onerous. It is clear from the Ontario case¹⁵ that there would be, as well, numerous definitional problems associated with such an undertaking.

Ideally, one would like to be able to characterize each province or region in terms of its investment appeal (or risk) as seen from the perspective of the national mortgage lender. In the absence of suitable mortgage interest rate data at the required scale,¹⁶ it is difficult to tell what sort of factors are relevant and to what if any degree they are so. In the United States, Gau has proceeded with the formulation of a mortgage risk-rating model which incorporates geographical characteristics.¹⁷ Those,

along with borrower and property characteristics, were measured against regional mortgage rates¹⁸ in order to assess their significance in the cost (and, in reality, the availability) of regional mortgage finance. In this way Gau was able to dismiss or identify regional factors which appeared significant to the direction of mortgage capital flows within the country.

The findings presented in this paper show that institutional lenders vary geographically in the volume of their mortgage approval activity. Despite a lack of regional mortgage interest rates and a short time series on the provincial lending activity of the institutions, it will nonetheless be useful to explore the rationale for variable institutional lending patterns by examining provincial characteristics against loan approval levels. A number of economic, demographic and housing characteristics have been postulated by various researchers¹⁸ which could be used in such an enquiry. For example, correlations of housing construction activity and new residential construction loan approvals by institutional lender by province could be calculated. In a more complex vein, provincial measures of economic activity dealing with economic diversification, employment levels, family income, level of savings and bankruptcy rates would also be correlated with the geographical patterns of institutional lending.

Since each of the provincial governments legislates in relation to housing and the conduct of institutions acting within its domain, it would also be useful to undertake a comparative provincial review of direct and indirect regulatory constraints and benefits affecting mortgage lenders and investors. Insofar as provincial housing grant and incentive programs influence the level of mortgage demand in a province, it would be interesting

to see if the institutional lenders display similar responses to provincial actions. Certainly, the reaction of the institutional lenders to the federal government's AHOP and ARP varied both by lender and by province. It might be expected that provincial incentive programs will also appeal to some lenders more so than others, and that, as a result, individual provinces may at times be in direct competition for additional mortgage investment by a very few lender types.

The pursuit of an understanding of mortgage lending behaviour in Canada has begun in earnest over the last few years. Until such time as either Statistics Canada or CMHC initiates the collection of a uniform loan series for Canadian urban centres, this pursuit will take varied forms. In this paper the provincial lending patterns of the large institutional lenders were identified and compared. It is hoped that the findings presented here will contribute to a better understanding of mortgage lending behaviour and its relationship to the nature and quality of the housing supply.

Footnotes - Chapter V

1. The phrase 'cost and availability' is perhaps more descriptive in this case, however in strict economic terms availability or the lack thereof is by definition reflected in cost.
2. Globe and Mail, 25/06/82, "Quebec tax is coercion, banker's group protests".
3. John N. Benson, Provincial Government Banks: A Case Study of Regional Response to National Institutions (Vancouver: Fraser Institute, 1978), p. 53.
4. J.V. Poapst, "Introduction", in J.V. Poapst (ed.), Developing the Residential Mortgage Market Vol. 1 (Ottawa: Central Mortgage and Housing Corporation, 1975), p. 1.
5. Honourable Donald S. MacDonald, Minister of Finance, Commons Debate, 21 March 1977.
6. Canada Mortgage and Housing Corporation, Canadian Housing Statistics (1981), Table 26.
7. The Ontario Mortgage Brokers went on to say that a primary cause of the uncompetitive state of the mortgage market is the persuasive influence of the banks in market transactions. James Hatch, The Canadian Mortgage Market (Toronto: Ontario Ministry of Treasury, Economics and Intergovernmental Affairs, 1975), p. 245, ft. 6.
8. Ibid., p. 206.
9. Western Economic Opportunities Conference, Calgary, July 24-26, 1973.
10. Northland Bank, Bank of British Columbia, and the Canadian Commercial Bank of Edmonton are examples.
11. Financial Post, 21/11/81, "Bank of BC zeroes in on big borrowers".
12. It should not be overlooked that the vast majority of traditional financial institutions in Canada are themselves regional in origin, and usually from central Canada.
13. Globe and Mail, 23/06/81, "Trust, banking business urged for life insurers".
14. Globe and Mail, 04/04/81, "Trust firms seek flexibility under new laws"; Financial Post, 07/08/82, "Trust companies move nearer to the banks".
15. Ontario Ministry of Treasury, Economics and Intergovernmental Affairs, Realty Mortgage Loans Registered in Ontario (Toronto, various issues).

16. The only mortgage interest rate data available in Canada, other than that included in individual land titles, are the rates advertised by mortgage lenders in the press. These are, of course, very crude indicators of the actual cost of mortgage capital.
17. George W. Gau, "A Taxonomic Model for the Risk-rating of Residential Mortgages", Journal of Business LI (1978).
18. Gau uses secondary mortgage market rates.
19. Gau, "A Taxonomic Model for the Risk-rating of Residential Mortgages"; Philip Morrison, "Mortgage Lending in Canadian Cities", draft (Toronto: Centre for Urban and Community Studies, University of Toronto, 1978); Benson, Provincial Government Banks: A Case Study of Regional Responses to National Institutions; Poapst, Developing the Residential Mortgage Market Vol. 1.

APPENDIX 1

CREDIT UNIONS

Credit unions or co-operative banks, are financial institutions which provide lending, saving and other financial services for the mutual benefit of their member-owners.¹ The first such Canadian co-operative bank was formed in 1900 by Quebecois Alphonse Desjardins; institutions belonging to the now extensive Desjardins movement have since come to be known as caisses populaires.² During the Depression years credit unions and caisses populaires grew in numbers; by the second world war a system of credit unions had been established in most provinces. By 1979, "...one in every two Canadians was a member of some credit union or caisse populaire".³

The local credit union is formed by persons with a common bond of association such as "...residence in a community or parish, employment in an industry or occupation, or affiliation with an ethnic group".⁴ In Quebec, "...the local parish traditionally forms the boundary".⁵ In Ontario common practice has been to form a credit union on the basis of employment or industry association.⁶ Membership in a caisse populaire or credit union is concluded through purchase of a share in the institution⁷ which entitles the member to "...a voice in the affairs of the local and to dividends from its earnings".⁸ Democratic control within the credit union is maintained by limiting the number of votes per member to one, regardless of the number of shares held by a member.⁹

Local credit unions and caisses populaires commonly band together to form centrals¹⁰ within their home province, for example Quebec's Fédération de Québec des Caisses Populaires (FQCPD).¹¹ The centrals "...accept deposits of surplus funds from their member locals and issue loans to meet their

fiscal requirements."¹² The centrals also offer a wide range of management and investment services including clearing functions, inspection and regulation services, and the provision of liquidity to member locals.¹³ The second-tier operation performed by the provincial central "...increases the stability of local credit unions and enhances each region's ability to deal with economic fluctuations".¹¹

At the head of the credit union system is the National Association of Canadian Credit Unions (NACCU) representing five of the provincial centrals. This organization is federally chartered under the Federal Cooperative Credit Associations Act. The financial arm of NACCU, the Canadian Cooperative Credit Society (CCCS) performs various investment, management and educational duties similar to those carried out by the provincial centrals. CCCS accepts deposits from the participating centrals and supplies them with loans.¹⁵ Following recent changes to Canada's clearing house system, the credit union movement is now able to participate directly in the Canadian Payments Association through the CCCS and la Caisse centrale Desjardins du Québec.¹⁶

Legislation under the Cooperative Credit Association Act of 1973 was instrumental in expanding the investment powers of NACCU and CCCS. The Act placed the credit union movement on the same footing in the financial market as the near-banks and the LICs.¹⁷ Federal legislation of the same year under the Residential Mortgage Financing Act granted credit unions entry to the field of NHA mortgage lending.¹⁸ The 1974 passage of the federal Canadian Cooperative Credit Society Act further strengthened inter-union lending and investment activities.¹⁹

The rise of the credit union movement in Canada is due in large part to the aggressive role of the provincial centrals. They have sought to

increase their influence in the financial markets through a policy of direct ownership of other financial intermediaries. Western credit union centrals established the Northland Bank, headquartered in Calgary.²⁰ The Desjardins federation has expanded into trust, insurance and commercial lending fields.²¹ The BC central owns a captive finance institution which, like bank loan company affiliates, can purchase excess credit union mortgages.²²

The most striking aspect of the provincial centrals' growth as financial intermediaries however has been their ability to concentrate investment within their home region. Organizations, in some cases such as the Desjardins movement "...as extensive as those of all but the largest Canadian chartered banks",²³ have been able to successfully attract deposits and to keep those deposits circulating in the provincial credit union system once captured.²⁴ Benson comments in the case of the British Columbia credit unions that their impressive growth performance "...is evidence that provincially based deposit-taking institutions behave in ways which differ significantly from nation-wide institutions".²⁵

Credit unions and caisses populaires both issue shares and accept deposits as means of raising funds. The emphasis placed on each liability may vary. Caisses populaires for example, raise the majority of their funds through deposits, while Ontario credit unions favour the issue of shares.²⁶ A large difference exists between the asset structures of caisses populaires and credit unions. Caisses populaires originated as thrift societies and pursue a conservative investment pattern with a heavy emphasis on primarily municipal securities.²⁷ Credit unions, "...whose philosophical orientation is that of a consumer credit society", invest a greater proportion of their funds in member loans.²⁸ Whereas

approximately half of credit union members are borrowers, only 10 to 15 percent of caisses members normally are. Of the member loans made however, most in the case of caisses populaires are for residential mortgages while only a small proportion of credit union loans are directed towards housing.²⁹

Each credit union local has complete responsibility for the origination of their mortgage loans. The supply of mortgage funds "...depends primarily on the members' needs and the nature of the local credit union's liabilities".³⁰ The decentralized decision-making process has encouraged a wide variety of mortgage practices over the years.³¹ Credit unions as a result have distinguished themselves as innovators in the mortgage lending field. By the mid-1970s, credit unions had already turned away from the ubiquitous³² five year term mortgage to the three year term, and were contemplating the use of variable term mortgages.³²

Credit unions rely on their knowledge of a borrower's financial strength and character when making loans. They have traditionally eschewed reliance on insured loans and do not hesitate to make unsecured loans beyond the legislated 75 percent maximum.³³ (Since credit unions began qualifying as approved NHA lenders an increasing although yet small proportion of credit union mortgage loans have been insured.) Because they make loans available to their members at rates generally more favourable than those offered by competing intermediaries, credit unions must occasionally resort to credit rationing. Neave explains that rationing techniques may include "...setting up waiting lists for types of credit and imposing restrictions on the amount that any individual can borrow".³⁴

Footnotes - Appendix 1

1. Statistics Canada, Credit Unions (Cat. 61-209, 1980), p. 7;
James Hatch, The Canadian Mortgage Market (Toronto: Ontario Ministry
of Treasury, Economics and Intergovernmental Affairs, 1975), p. 207.
2. All other Quebec credit unions must go by some other name, for
example 'caisse d'épargne' or 'caisse d'économie'. Hatch, The Canadian
Mortgage Market, pp. 207-8.
3. E.H. Neave, Canada's Financial System (Toronto: John Wiley and Sons,
1981), p. 123).
4. Statistics Canada, Credit Unions, p. 7.
5. Hatch, The Canadian Mortgage Market, p. 207.
6. Ibid., p. 207.
7. The usual cost is approximately \$5.00, a nominal sum which allows
membership to be acquired with relative ease. Hatch, The Canadian
Mortgage Market, p. 210.
8. Neave, Canada's Financial System, p. 125.
9. Statistics Canada, Credit Unions, p. 8.
10. The centrals are also known as regionals, leagues or federations.
11. The largest of the Quebec centrals, the FQCPD accounts for well over
three-quarters of credit union membership in the province. Hatch,
The Canadian Mortgage Market, p. 207.
12. Statistics Canada, Credit Unions, p. 8.
13. Neave, Canada's Financial System, p. 123; Hatch, The Canadian
Mortgage Market, p. 207.
14. Statistics Canada, Credit Unions, p. 8.
15. Hatch, The Canadian Mortgage Market, p. 208.
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APPENDIX 2

SUPPLEMENTARY TABLES

TABLE 2A.1: Dwelling Starts, Canada, 1950-1981 (Thousands of Dwelling Units)

1950	92.5	1966	134.5
1951	68.6	1967	164.1
1952	83.2	1968	196.9
1953	102.4	1969	210.4
1954	113.5	1970	190.5
1955	138.2	1971	233.6
1956	127.3	1972	249.9
1957	122.3	1973	268.5
1958	164.6	1974	222.1
1959	141.3	1975	231.5
1960	108.9	1976	273.2
1961	125.6	1977	245.7
1962	130.1	1978	227.7
1963	148.6	1979	197.1
1964	165.6	1980	158.6
1965	166.6	1981	178.0

Source: Canadian Housing Statistics, various issues

TABLE 2A.2: Assets of Trust Companies and Estate, Trust and Agency (ETA) Funds, showing All Mortgage Loans Outstanding as Percent Total Assets, Canada, 5-year Average 1962-81 (Millions of Dollars)

	Trust Companies		ETA	
	Assets	Mortgage Loans as % Assets	Assets	Mortgage Loans as % Assets
1962-66	\$2897	51.0%	\$11265	11.6%
1967-71	5828	57.0	20519	12.0
1972-76	12898	69.4	31980	13.5
1977-81	33418	70.5	61174	16.0

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

TABLE 2A.3: Dwelling Starts per Capita, by Province, 1975-1981
(Dwelling units per capita)

	1975	1976	1977	1978	1979	1980	1981
Nfld.	0.010	0.010	0.007	0.005	0.005	0.007	0.006
P.E.I.	0.007	0.007	0.007	0.010	0.009	0.004	0.002
N.S.	0.008	0.009	0.009	0.006	0.005	0.004	0.004
N.B.	0.010	0.010	0.006	0.007	0.007	0.004	0.003
Que.	0.009	0.011	0.009	0.007	0.007	0.005	0.005
Ont.	0.010	0.010	0.009	0.008	0.007	0.005	0.006
Man.	0.008	0.009	0.009	0.012	0.005	0.002	0.003
Sask.	0.011	0.014	0.014	0.010	0.012	0.006	0.006
Alb.	0.014	0.021	0.020	0.024	0.020	0.015	0.017
B.C.	0.014	0.015	0.013	0.011	0.011	0.014	0.015
Canada	0.010	0.012	0.011	0.010	0.008	0.007	0.007

Source: Compiled by author based on data in Canadian Housing Statistics, various issues.

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