

[Chairman: Mr. Kowalski]

[2 p.m.]

MR. CHAIRMAN: Good afternoon, ladies and gentlemen, and welcome to another meeting of the Select Standing Committee on the Alberta Heritage Savings Trust Fund Act. We have with us today the Hon. Larry Shaben, Minister of Housing. He will be reporting to the committee, and answering questions of committee members, with respect to the two large funding portfolios that currently come from the heritage fund that are under his responsibility, namely the Alberta Home Mortgage Corporation and the Alberta Housing Corporation.

Prior to introducing Mr. Shaben and asking him to introduce the gentleman with him, I would like to let all members know that I'm really pleased to be back here again. The euphoria of being back in this Assembly with my colleagues yesterday was so great that it allowed me to go out and play nine holes of golf last night, and I want you all to know that with the magic of this Assembly I scored a hole in one on a 255-yard hole. Mr. Alexander should not feel threatened, because that milestone also allowed me, for the first time in my life, to break 50 on nine holes.

MR. MUSGREAVE: I was going to ask you why you didn't invite him, but now I know.

AN HON. MEMBER: Did you use a five iron?

MR. CHAIRMAN: I drove.

Mr. Shaben, welcome and thank you once again for the excellent co-operation from you and your office in working on the administrative detail of scheduling your appointment here today. Thank you as well for providing all committee members with some documentation, that was circulated yesterday. I think it was most helpful. Sir, if you'd like to introduce the gentleman with you and if you have any opening comments, please proceed.

MR. SHABEN: Thanks very much, Chairman. I'd like to introduce the new president of the newly created Crown corporation, the Alberta Mortgage and Housing Corporation, Mr. Joe Engelman. As all members are aware, legislation was passed in the spring that combined the Alberta Home Mortgage Corporation and the Alberta Housing Corporation into a single Crown corporation.

The process that the corporations have gone through, and continue to go through, is a very difficult one in the combining of the two operations, principally because of the impact on staff members in the two corporations. In the past number of months, the staffing levels have been reduced in total by about 80 people. It's very difficult for those individuals and families who no longer have employment, but it's been necessary because of the reduced volume and level of activity of the two corporations.

Just to give members of the committee a brief outline of the portfolio, now singular, of the Alberta Mortgage and Housing Corporation, on the housing side, that area that was under the responsibility of the Alberta Housing Corporation, there are some 33,000 units of housing, principally made up of community or social housing, 9,028 units; self-

contained apartments for seniors, 12,155; and lodge units, 7,299. There are a number of others such as transitional housing, Metis housing, rural mobile home program, and the one-third capital grant program. In addition, within the portfolio of the Housing Corporation are residential and industrial land banks and residential and industrial lots. The total investment from the heritage fund in that area is approximately \$1 billion.

Under the lending side — that's the mortgage corporation — total loans are on 62,000 housing units, that is multiple-family as well as single-family. The major ones are the Alberta family home purchase program, where we still have 22,236 loans; the core housing incentive program loans, representing 20,038 units; the modest apartment program, with 5,751 units; and others that are involved in farm loans and some of our other lending programs such as the revolving trunk program. The total portfolio at the end of June is approximately \$2.7 billion. So investment by the heritage fund in housing for Albertans has been very, very significant.

The largest portion of these investments was made during the peak years of activity, that is from '77 through to '81. Members will realize that at that time we were experiencing in the housing market vacancy rates of nearly always near zero. The government chose a policy of providing assistance for the provision of housing units as opposed to implementing controls, that have been instituted in some other provinces.

I don't have much more to add in my opening comments, Mr. Chairman, except to say that the corporation — singular now and formerly plural — is really not much different from others who are involved in those activities, whether they are mortgage lenders or developers. We have been impacted in a similar way to that experienced by others; that is, the reducing property values that have resulted in a higher rate of foreclosures, declining marketability of our land, the difficult administrative problems in dealing with persons who have either walked away or sold to dollar dealers, and developers who own multiple-family projects where the incomes are far below that necessary to meet the requirements of meeting their mortgage commitments. So, Chairman, in that sense the corporation is not unlike private-sector corporations. In fact the Home Mortgage Corporation has prided itself on operating in a similar fashion to a private-sector corporation, and prior to subsidies each year it has realized a profit in its operations.

I'd be happy to respond to questions that members of the heritage fund select committee might have.

MR. CHAIRMAN: Thank you very much, Mr. Shaben.

MRS. CRIPPS: I note on page 22 of the report that the Alberta Home Mortgage Corporation has about \$2.5 billion from the Alberta Heritage Savings Trust Fund. Could you give me an indication of how secure that is and, if you have it, the rate of return?

MR. SHABEN: First of all with respect to security, Mrs. Cripps — do I address members by their name or by their constituency?

MR. CHAIRMAN: By their name would be most appropriate.

MR. SHABEN: I mentioned in my opening remarks that the Home Mortgage Corporation is not dissimilar from other financial institutions who are experiencing loan losses. The majority of Home Mortgage Corporation loans were high-ratio loans, and as a result it may be construed that the risk might have been higher than with a conventional lender. Many of our loans were made at a 90 or 95 percent loan rate, with 5 or 10 percent equity. But in terms of the health of the portfolio, I think our experience compares as favourably or more favourably than private-sector lenders. From 1978 to the present time, we have had some 700 foreclosures. So in terms of percentage of portfolio, it compares favourably.

In terms of the return on investment, I'm not sure. We'd have to do some calculations, because the loans go back to 1976 and at varying rates, depending on what the market was — unless Joe has an average interest rate.

MR. ENGELMAN: It's somewhere between 12 and 13 percent. I can't give you the average return.

MR. SHABEN: I think that responds to the two questions.

MRS. CRIPPS: Commercial lenders are insured by MICC. Is the Alberta Home Mortgage Corporation secured?

MR. SHABEN: Borrowers are required to pay a mortgage insurance fee on all our loans. The mortgage insurance fee is generally 1.5 percent, except on our mobile-home insurance plan. It's 2 percent on the mobile homes. So we're self-insured. Other lenders will contract with the Mortgage Insurance Company of Canada or Canada Mortgage and Housing Corporation, who provide mortgage insurance for properties. Ours is self-insured by way of a 1.5 percent fee on the gross amount of the loan.

MRS. CRIPPS: I understand that MICC has some huge calls on their insurance. What kind of call has there been on the self-insurance, and what position is that in?

MR. SHABEN: Mrs. Cripps, we're in the process of examining that right now, and it appears as though we had built up a significant reserve as a result of the lending activities of the corporation. That reserve was in the neighbourhood of \$50 million. Our examination of what our potential losses may be could total \$100 million more than that reserve. We won't know the precise amount that will be required to meet the reserves of the corporation until properties that have been acquired either by quitclaim or by foreclosure are disposed of. But today, in a preliminary way, we estimate that we would require an additional \$100 million to meet potential losses of the corporation.

MRS. CRIPPS: Without asking another question, Mr. Chairman, would you outline for the committee how you came to that conclusion?

MR. CHAIRMAN: That's your third question, Mrs. Cripps. There's no way in the world you can address it without asking another question and then proceed. It's quite within the rules of the game; it's your third question.

MRS. CRIPPS: Could you please explain how you get the figure of \$100 million or \$150 million?

MR. SHABEN: It's an estimate based on an examination of the portfolio, the number of final orders, the number of statements of claim, and an estimation of the average cost to the corporation for each of those properties when it is finally disposed of. As I say, it's an estimate. But generally in the industry, the amount lost on a home that is foreclosed on, including the real losses on the sale as well as legal fees, ranges from \$18,000 to \$25,000. So it's an estimate based on an examination of the present situation and experience in the industry.

MR. NELSON: Mr. Chairman, my question is to the minister. I'd like to first of all indicate that people in my constituency are certainly gratified that the extension of the interest shielding part of the program has been continued, at least for another year. Some are disappointed, however; those certainly are in a position that they probably can afford to continue their payments. But in general terms the announcement that was made has gained considerable support from people, especially those who are in a hardship situation.

Mr. Minister, through the Chair, these dollar deals of course have created a lot of concern and problems. In my own case, I probably have more dollar dealers in the McCall constituency than anybody. I wonder how you're dealing with these, whether they're being dealt with on a totally individual basis. I ask the question basically because there are people who are in fact closing the doors and just walking, demolishing the home, or whatever. But there are also those who are possibly being misled by licensed agents and/or salespeople of real estate companies, and of course these people are licensed through the government. I wonder how you're dealing with all these various things on an individualistic basis, and what types of actions we might see as far as some of these people who have been, I guess, sucked into other deals.

MR. SHABEN: Mr. Chairman, Mr. Nelson, this has been a very difficult problem and has had a significant impact on the real estate market in Alberta. The dollar dealers surfaced in the latter part of 1983. They took advantage of legislation that exists in Alberta, the Law of Property Act, that prevents mortgage companies from pursuing borrowers for the deficiency; that is, the difference between the face amount of the mortgage and the amount that is realized on the sale as a result of a foreclosure. Prior to that time, the Home Mortgage Corporation had only in one particular case pursued a borrower on their personal covenant. From the period of its first loans in the mid-70s until 1983, the Home Mortgage Corporation had only pursued one borrower on their personal covenant.

The Home Mortgage Corporation board of directors made a decision to pursue both the borrower — that is, the buyer — and the seller of the

home in one of these scam or dollar transactions on their personal covenant. We have not realized on any of the personal covenants, but our action had a significant impact in reducing the activities of dollar dealers in Alberta. Similarly, last fall we introduced amendments to the Law of Property Act that allowed for quicker redemption of properties, and that has also had an effect. Another factor has been greater vigilance by the lenders in following up when a borrower misses a payment, visiting the property to determine whether it has been sold, and obtaining an assignment of rents. So those are some of the things that have been done.

We estimate that there were over 300 dollar dealers operating, principally in Calgary and in Edmonton, during this past year. As I say, they have had a very detrimental effect on the citizens of Alberta in terms of their property values. It has pushed a lot of properties onto the market at foreclosure prices, which has depressed the market of the neighbouring properties. We believe that with the action we have taken and the closer attention by lenders in terms of loans administration, the activity of the dollar dealers is now virtually nil.

MR. NELSON: Mr. Chairman, to the minister. I'd like to follow up on this particular area at the moment, and I guess a portion of the question I asked previously with regard to dealing with each of these people individually. Have you got extra people? Have you got a team of people that will take an individual and virtually use a means test, if you want to use that term, to see if they qualify for a reduced mortgage payment, for how long, the reasons? In the cases of those people who have upgraded to another home who have used a real estate agent, either by a guarantee sale or by a purchase and then a resale to a dollar dealer, which has happened, as you're aware — I don't want to spill all the beans for you, because I know certain things are happening. But rather than going after these people who have been — I'd use the term — victimized, are we not making an effort to grab hold of the real estate companies, their agents or principals, or the dollar dealers themselves, to take them to task rather than these people who have felt they've dealt off their property in an honest and open manner?

MR. SHABEN: Chairman, wherever we have obtained a judgment, that judgment is obtained against the buyer and the seller. Where it is possible for us to pursue the purchaser — that is, the scam or the dollar dealer — we'll do so and are doing so vigorously. In some cases, they're shell companies that have no assets.

With respect to individuals who've been caught in a dollar dealer scam, we've set up a process where we'll review each of the final orders to determine whether the person was victimized or whether they knowingly escaped an obligation by taking advantage of a scam deal. That process is going on.

Evidence of the way the corporation has worked with borrowers is that we have accepted a large number of quitclaims from families who have had difficulty meeting their obligations. Also, in March this year, without cost to anyone who had a mortgage under our family home purchase program, we wrote down the mortgage interest rate to 12.5 percent, at a cost to the corporation of about \$40 million. We

have extended every effort where individual families have a capability of meeting their obligations. We work with them, and that continues to be the policy of the corporation.

MR. NELSON: Mr. Chairman, I don't intend to seem like I'm giving the minister a bit of a rough time and negatively. With that in mind, I'd like to make a short statement rather than ask another question.

Even though there are people out there having considerable difficulties, and in some cases we may overly criticize the corporation in the dealings with these people, there are a lot of people that have been given different terms from their original agreement, such as paying one-third of their mortgage payment and various other things. In many ways I think the corporation has done a tremendous job in the community in trying to support and assist those people who want to stay in their homes. I've had a lot of those, and the minister's department has responded extremely well.

There are those other ones that really give me some concern, where I think the original purchaser was a victim. These are being dealt with now, of course, and hopefully we'll get a quick answer.

MR. MUSGREAVE: Mr. Chairman, I'd like to ask the minister what he could tell us about the land banking situation in the province. What is your inventory of land? Are you writing down the inventory to reflect current values? What is happening with the municipalities? As I understand it, they are required to buy these lands. Just what are you doing in this regard?

MR. SHABEN: Mr. Chairman, Mr. Musgreave, you'll recall that a special warrant of some \$51 million was passed prior to the beginning of the current fiscal year. Involved in that special warrant was a \$15 million write-down; \$12 million of it was in the special warrant, and \$3 million came out of the budget of the Housing Corporation. So that was a significant write-down of the portfolio of the Alberta Housing Corporation.

The balance of the special warrant involved a suspension of the capitalization of interest on the lands held by the Housing Corporation. Then in the current fiscal year, the Treasurer purchased the debentures of the Alberta Housing Corporation. Therefore, there is not a continuation of capitalization of interest in the '84-85 fiscal year.

In terms of the land the corporation has: residential and industrial land banks, approximately 14,000 acres; residential and industrial lots, either completed or partially completed in terms of their on-site and off-site development, 4,700 lots. That is the land holdings of the Alberta Mortgage and Housing Corporation, formerly AHC. In addition to that, there was some long-term land banking that occurred that was not by way of agreement with municipalities but to meet the long-term — that is, five to 40 years — land needs of the growth of the province. There were some 12,000 acres under that program.

MR. MUSGREAVE: A supplementary, Mr. Chairman. Could you give me an idea of the value of your land bank and what you anticipate writing down in the current year to reflect the current property

values?

MR. SHABEN: With the suspension of the capitalization of interest, we are maintaining our policy of selling land at cost — that is, the cost to the Crown corporation — or market, whichever is higher. The board of directors has approved a policy change where we can sell at less than cost provided agreement is sought from me as well as the president of the corporation. Only on rare occasions have we exercised that ability to sell at less than cost, for obvious reasons. It's not the desire of the corporation to aggravate a situation that is difficult right now in terms of surplus land being available for Albertans' housing needs. We have maintained our policy in order to prevent an aggravation of the present problem.

MR. THOMPSON: Mr. Chairman, I would like to ask the minister a few questions on the senior citizen self-contained housing program. When this program was initiated several years ago, the housing situation in Alberta was quite tight, especially in Edmonton and Calgary. That's not the case now. What is your assessment for this year coming up? What is the demand for this type of housing? Surely by now we must be coming to a point where this isn't nearly as necessary as it was two or three or four years ago.

MR. SHABEN: Mr. Chairman, Mr. Thompson, I would have thought the same thing, but we have about 160 applications for seniors' self-contained projects, requesting about 4,000 units. Notwithstanding higher vacancy rates around the province, we continue to be pressed by volunteer groups and nonprofit societies to provide additional self-contained housing in some communities.

In our current budget the Legislature approved sufficient funds to provide 500 self-contained units. We are very carefully examining each application on the basis of need as opposed to demand, because we had been responding to what is known as need and demand. We have approved about 300 for construction in the current year, and there's a rigorous process of determining whether or not there is a real need for these units by low-income seniors in a particular community.

In our peak years of activity, as many as 2,000 self-contained units were built in a single year. In those periods of time, the vacancy rate in the private sector was running at zero or less than 1 percent. With higher vacancy rates now, we're very cautious in terms of approvals. We have not approved a single project for Edmonton or Calgary in the current year. That's because of the private market situation, and we'll continue to watch it carefully.

The program is very important for low-income seniors. We think there is a continued need to meet the legitimate requirements of low-income seniors, but I don't see the pace of meeting that requirement changing very much over the next three or four years.

MR. THOMPSON: Thank you. My next question, Mr. Chairman, is on the modified mortgage interest reduction program. I understand that there is a deadline at the end of August for these people to apply. In the case that someone misses the deadline or is not aware of the deadline, does that mean they

are automatically excluded?

MR. SHABEN: No. What we will be doing is mailing, toward the end of August, an application form to each of the approximately 70,000 families who are receiving benefits under the mortgage interest reduction program. The sooner the family fills in the information that is required in order to determine eligibility, the more quickly they will receive payment of the benefits. So I think it's advantageous to the families to get their application in soon. Those who will be eligible are only among those who are presently receiving benefits or will receive benefits during the month of August 1984. That's part of the terms of the modification of the program. Those who require more than 35 percent of their income to meet their mortgage payments will be eligible for continued assistance under the program, the lesser of what they're receiving now or what it would be calculated on the basis of 35 percent of income.

MR. THOMPSON: Thank you, Mr. Chairman.

MRS. CRIPPS: Mr. Chairman, my question is also on the interest shielding program. I understand that there was a ceiling placed on the interest the borrower could have shielded. Could you please explain how that ceiling worked? I understand that if they borrowed at 16 percent at some point in time, the ceiling may have been 15 percent. I've had some concerns raised, and I'd like an explanation.

MR. SHABEN: Mr. Chairman, when the program was announced in September 1982, there was a limit on the number of percentage points of interest that would be shielded. I believe that limit was six percentage points. If an individual had an 18.5 percent mortgage, they would be shielded down to 12.5 percent. As the program progressed, and if a person's mortgage came up for renewal, they would continue to be sheltered on the basis of what the three-year mortgage interest rate was at the time they renewed. So if an individual renewed in 1983 at 15.5 percent in a particular month of the year and the three-year rate in the market was 14.5 percent, we would provide the interest protection between 12.5 and what the current rate was. In other words, the policy of the program was not to subsidize risk, and we've maintained that policy. So if someone renegotiated at a rate higher than what the current or normal rate was, we would not provide additional subsidy to shelter that additional risk.

MRS. CRIPPS: They were able to renegotiate the loan. I understood that if there was a renegotiation penalty which would be substantially less in the long term than paying out the interest, they could do that if it was in the best interests of the borrower and of the mortgage interest subsidy program. Is that true?

MR. SHABEN: Mr. Chairman, more than 7,000 families took advantage of our mortgage renegotiation option. Through our program we provided assistance to people to renegotiate their mortgage ahead of the anniversary date and provided ongoing assistance in lieu of mortgage interest protection to meet the costs of the renegotiation. The criterion for eligibility under receiving the

benefits is that it provided a savings to the mortgage interest reduction program of \$100. So more than 7,000 families took advantage of that option, and it was very helpful to them.

MRS. CRIPPS: If there was no penalty clause but if the renegotiation just resulted in the expenses of the renegotiation, would that cost still be covered?

MR. SHABEN: Yes. The portion of the eligible costs that could be recovered would be that associated with the costs of negotiating, up to \$200. Quite a number of lenders had the opportunity available to write down without cost, once in the lifetime of the mortgage, the mortgage interest rate. Many borrowers took advantage of that option. For example, treasury branches and credit unions generally have that as a policy.

MR. MARTIN: Mr. Chairman, I'd like to come back to land banking. As I understood the minister, very seldom would they sell land at less than cost because of the effect that would have on the market in that particular area, that they would try to sell at market value or cost to the corporation. I guess sort of a twofold question: is there an active attempt to sell this land, and if land generally is not going very well — as we're all well aware — how long is the corporation prepared to sit and keep the land over a period of a number of years?

MR. SHABEN: Chairman, the agreements the corporation entered into with municipalities are generally of two types. The first is the five-year development agreement, where a partnership was entered into between the corporation and the municipality. The agreements that have been reached are that at the end of five years, those developed lots that haven't been sold will be purchased by the municipality. The other type of agreement that's been entered into with municipalities is a 15-year land banking agreement. In other words, the corporation responded to the request of a municipality, land banked by way of agreement with that municipality, and if at the end of 15 years the land has not been developed and sold, the municipality is responsible. There are other land banks.

To respond, Chairman, the time frame is that land banking is generally in the area of from the present to 25 years. The long-term land banking was in a 40-year time frame to meet the needs — for example, the northeast Edmonton land bank was acquired on the basis of meeting a need of up to 40 years. Those are the time frames.

With respect to whether or not we are making extraordinary efforts to sell land, generally we co-operate with the municipality with whom we are a partner, in attempting to market the lands as effectively as possible but stopping short of marketing at fire-sale prices.

MR. MARTIN: To follow up on that if I could, Mr. Chairman, let's use the example of the five-year program you were talking about. At the end of those five years, the municipality has to buy the land from the corporation.

MR. SHABEN: If that's what our agreements say.

MR. MARTIN: Then they would have to buy it at either market value or, as you put it, cost to the corporation?

MR. SHABEN: The agreement calls for them to purchase it at cost.

MR. MARTIN: I was going to go into a whole other area, but maybe I can come back. With the times, has there been any consultation or some concern expressed by municipalities that when these five years are up, or in the case of the land bank I believe you said it was 15 — well, the more immediate one would be the five — they just couldn't afford it at this particular time? Have they been making any representation that way?

MR. SHABEN: I've received some representation from some municipalities who have a concern about what will happen at the conclusion of the five years. My response has not been specific, because I haven't encountered one where it's necessary for them today to purchase those lots. I expect that we would look at each municipality's situation differently or in its own light — depending on how many of the lots had been marketed out of the entire project, what the capacity of the municipality was, and what the potential market was — before making a decision as to whether or not we'd pursue exercising the conclusion of the agreement.

MR. MARTIN: So there's flexibility.

MR. ALEXANDER: Mr. Chairman, just a couple of points and questions to the minister in the area of that euphemism which I see sprinkled in the housing and heritage fund literature called "affordable housing". I noted in an article recently that the Mortgage Insurance Company of Canada had reported that some 30 percent of the mortgage defaults in Alberta were by borrowers who were actually able to pay. The market being what it is, it became more economic just to toss in the key and leave. You've already indicated to us that the experience of the now single corporation is about the same as industry, so I suppose those numbers are applicable to your portfolio as well as they are to others, which raises a couple of questions having to do with inducing people into housing that they really can't afford. Is the corporation going to continue to make high-ratio loans, and has it made some recently? I noticed there are 528 new housing units in the previous year financed by the corporation. Were those high-ratio loans, and are you now making high-ratio loans?

MR. SHABEN: Mr. Chairman, first of all on the rental side, the corporation has not made a core housing incentive program loan since early 1982, nor did we budget any funds for any of those loans for '84-'85. With respect to family home purchase, in the current budget we budgeted for mortgages for 2,300 homes for moderate-income families — that is, those families who have an income of \$34,000 or less — but we changed some of the parameters in that 2,000 of those loans would be for existing housing and 300 would be allocated for new housing. There will not be a loan made this year under the family home purchase program on new homes in any of the five major cities. I think that responds to your question.

We have tailored the program to continue to assist families who have moderate incomes to purchase homes but without aggravating the supply situation, that at the current time is not very healthy.

Our experience with family home purchase loans has been that 70 percent of the families who have purchased homes under the family home purchase program no longer require a subsidy at the end of three years. So the program has been very, very successful in helping young families obtain home ownership.

MR. ALEXANDER: Just to follow up on that, when you say "assist families" could you expand a little bit on what you mean by that?

MR. SHABEN: Families with income of less than \$34,000 may have difficulty in purchasing a home because of their capacity to service the debt. The family home purchase program provides subsidies depending on income, that are reviewed annually, that assist them in meeting their mortgage commitments. That's the reference I made to our experience with families under that program, that 70 percent move out of the requirement of obtaining subsidies under the program within the two- to three-year time frame. So it's been successful. In that sense I meant it does assist them where, otherwise, housing may not be affordable.

The other criterion is in terms of house prices. I believe there's a maximum loan amount of \$68,000 and a maximum house price of \$74,000. So it's for modestly priced homes for moderate-income families.

MR. ALEXANDER: But the net effect is still a fairly high ratio loan.

MR. SHABEN: Yes, we're now using the 90 percent loan amount.

MR. ALEXANDER: Did that run me out?

MR. CHAIRMAN: No, not really. One more.

MR. ALEXANDER: In terms of the seniors' housing programs, which we all know are very popular, would the corporation anticipate that the demand — and I can't say I was surprised to hear the number you spoke of today as the demand for that kind of thing; I'm sure that demand will continue and perhaps even increase. Could you visualize that eventually this program will displace all other kinds of senior citizen housing? I can see the private operators having no role left in this area. Community operations — churches, Lions Clubs, and all those sorts of things — eventually have to be replaced by a government program, don't they?

MR. SHABEN: Chairman, no, I don't believe so. Presently about 15 percent of our seniors are housed through the programs of the corporation. I wouldn't expect that that percentage would increase. In other words, 85 percent of our citizens who are over 65 are being accommodated in their own homes, in privately owned rental accommodation, or in accommodation that may be put together by nonprofit foundations. Many of the clubs, groups, and organizations Mr. Alexander refers to are groups who manage

properties that the corporation has provided. But I don't see the necessity for the percentage of seniors who are housed in government-owned accommodation to move above the 15 percent level.

MR. NELSON: Mr. Chairman, I'll get away from the dollar dealers; we'll deal with that in another area. Can the minister indicate what the anticipated involvement of Alberta Home Mortgage is in the current housing starts and what their anticipated involvement may be over the next year and a half or so?

MR. SHABEN: Chairman, I'm not sure what it will be in the current year, because it's difficult to project what the total number of starts will be in the current year. Earlier in the year we had estimated a higher number of starts than we estimate at the moment. We had expected that the total involvement of the combined corporation would be about 10 percent. I don't really have any reason to change that unless total starts are down an awful lot more than we had expected. In the next year and a half, I wouldn't expect that that percentage would change perceptibly.

MR. NELSON: Mr. Chairman, would the minister give consideration to examining, where we have large banks of land set aside for the various projects — rather than developing or building homes and what have you, consider just possibly developing the land, selling the lots to the private sector, and having them develop homes without the involvement of Alberta Home Mortgage as far as mortgaging homes and what have you? Of course with the large number of homes that are in inventory now and also the fact that the private sector can develop projects as cheaply or cheaper than we can, is there any reason to continue in this program, either by mortgaging or building, when the current situation is very difficult for the private sector?

MR. SHABEN: Chairman, wherever possible we will make land or serviced lots available to either developers or builders so that they can develop them. Recently we have publicly invited developers or builders to bid on land held by the corporation, to develop it. With the very limited market demand as it is today, we're not pushing, if I can use the expression, for the development of more housing units when we have a surplus of housing units available in the province.

With respect to mortgages, under the basis that I responded to Mr. Alexander's question, the program is available for a limited number of mortgages, principally for resale houses, not for new houses. We have a limited capacity within our budget to provide financing or development. So we don't expect to be actively involved in development or mortgage lending.

MR. NELSON: Mr. Chairman, in the area of refinancing existing homes, is this refinancing for those homes which are mortgaged by Alberta Home Mortgage now? Are those mortgages for the present holder of that mortgage, or can they be assigned to a new purchaser or re-mortgaged by a new purchaser of that particular dwelling?

MR. SHABEN: When I referred to the allocation of sufficient mortgage funds to finance 2,000 existing homes, they could be previously owned homes with clear title, financed by another lender, or financed by the corporation. With respect to assignment of an existing mortgage, generally the majority now are all at the same interest rate, 12.5 percent. So if there's no subsidy required, depending on income, we can assign an existing mortgage.

MR. GOGO: Minister, I want to raise questions with regard to the senior citizens of Alberta and the role your department plays in providing housing. I'm confident that you agree with me that the primary role of government is to help those Albertans who really cannot help themselves. It's not to help those who refuse to help themselves, but tends always to come into the area of affordability and those who don't have the capacity.

The first question deals with the self-contained suites in the province of Alberta. I think there has been a remarkable job done in terms of supply. I tend to believe, and I hope you would confirm, that the housing authorities, that are appointed mainly by you as minister, provide a very great and needed service around Alberta in advising you on the needs in the communities and also running those organizations. I do have a concern in that in the past week I've had many complaints, soon to reach you, Minister, with regard to design within the buildings; for example, the absence of cooling systems in some of those senior citizens self-contained suites. I've noticed what I would see to be a deterioration in standards in those units compared to the traditional ones in Lethbridge such as Halmrast Manor.

First of all, Mr. Minister, have the criteria and design of our senior citizen self-contained suites changed dramatically over the past few years? If they have — i.e., in terms of size, quality, and components such as air systems — has it been primarily because of money?

MR. SHABEN: Chairman, there has clearly been an evolution in terms of design. Generally they're designed by private-sector architects, based on guidelines and global budgets that we provide. The size of the apartments has increased over the years, and I think the utility of the design has improved in terms of the effectiveness of the design. We have listened to seniors' organizations in terms of color schemes that are helpful to seniors who, like some of us, have difficulty with depth perception, so that there is color keying to suit the seniors.

With respect to air conditioning, it has not been a norm to air condition self-contained units. In some communities, in some projects, we've done it depending on the exposure, what the possibilities are for cross-ventilation, and other factors that are included in the design. So the majority of our units are not air conditioned.

I appreciate the comment with respect to housing authorities. Volunteer housing authorities across the province — they're all volunteers in these more than 40 housing authorities — provide tremendous service to the people of Alberta, particularly with administering the social housing. I think the only two housing authorities that manage senior housing are Lethbridge and Calgary, and Calgary is slowly moving out of the senior housing. So senior housing is

generally managed by volunteer groups that focus strictly on seniors.

I think that responds to the question with respect to design and cooling. We have on rare occasions retrofitted buildings we've found are just too uncomfortably hot, but those are rare occasions when we've done it. This summer has been particularly warm, and I know that some seniors have suffered from the heat because it has been warm.

MR. GOGO: Thank you. I was in one the other day, Minister. It was in the shade, no sun — in southern Alberta, the two days of the year when there's no sun. It was some 94 degrees, and one would think that just simply putting awnings on the building would alleviate a great deal. Perhaps the minister might comment in a moment as to what steps could be taken to encourage putting awnings on the building.

I want to ask the minister, Chairman, about the 25 percent guideline, the 25 percent rule for rent. I've been of the view for some years that although the intent of the program is to help low-income Albertans — I think the term used is "senior citizens" — we are in effect creating a ghetto system by attempting to put into one location those people whose means are somewhat limited, primarily those of old-age pension, guaranteed income supplement, and the assured income plan. I've long been of the view that we should be encouraging other people to come into those places; for example, people of means of \$25,000 or \$30,000 a year. Would the minister have any views with regard to his reaction to my comment that we may be attempting to create senior citizen ghettos over the long term?

MR. SHABEN: I've visited quite a number of seniors' self-contained apartment projects, and I haven't detected that they have become ghettos. The program was designed and continues to be there to meet the needs of low-income seniors. In some rare cases, in communities where there isn't private-sector accommodation available in that community, we have put a cap on the rental of that unit, but we would be reluctant to do so across the board.

Someone earlier asked about demand; I think it was Mr. Thompson. We have enormous demand as opposed to need. Seniors have amazing ingenuity in terms of getting their income down to a level where they qualify. So I haven't been persuaded that we should cap all the seniors' self-contained units, because the government and the taxpayers would not be able to meet the demand.

MR. GOGO: Mr. Chairman, my third question to the minister deals with the lodge program, another very successful program in the province. I assume one of the keynotes of that is the local autonomy of those foundations around Alberta. Certainly in Lethbridge it's very successful, with five within the city.

The concern I have, though, Minister: looking at seniors again, we have acute care hospitals, auxiliary hospitals, nursing homes, which are exclusively the Department of Hospitals and Medical Care. Then we come into your department with lodges and the self-contained suites, but there's a continuum there of the senior. It is my view that unless they work in concert with each other — i.e., your department with Hospitals and Medical Care — to see that there's an even stream based on the need, we end up with some

of these people in the wrong places. For example, we end up with people in the lodges who should really be in the nursing home, but there are not enough nursing home beds. They're crowded because there are not sufficient auxiliary beds. On April 27, the government announced a 55 percent increase in the home care program, which again is designed primarily for the seniors.

Could I ask you one question and get two answers? One, does your department work closely with Hospitals and Medical Care with regard to seeing that this continuum of treatment — that people end up in the proper institution and there's some degree of co-operation between the two? And do you anticipate as a result — and I recognize it's another department — the increase in the home care relieving the need on both the lodge program and perhaps the self-contained suite program?

MR. SHABEN: Chairman, yes to the first question. We're working, and have for quite a number of months, with the Department of Hospitals and Medical Care and the corporation, examining the situation you have identified. It has many facets. One of the aspects is that the lodge program has been in existence since the late '60s. A lot of the residents of the lodges have aged in the lodges, and the average age has gone up steadily. If you visit the lodges, you find — and it's logical — that the people who are staying there need a higher level of care but they really don't want to move. That's one aspect. The other aspect is that there may not be a place for them to move; that is, to a nursing home bed or an auxiliary care bed. So that's what we are examining.

I'm pleased you raised the home care issue, because we believe that home care can provide an extension of time for individuals to stay in their homes or in lodges or in self-contained, and reduce the pressure for nursing home beds. So we are working with Hospitals and Medical Care, but we haven't reached any conclusions. We've examined what is being done in some other jurisdictions with respect to single-entry determination into one of the four types of facilities or the establishment of multilevel care facilities within the constraints of our present budgetary situation.

It's an interesting challenge in terms of knowing how best to proceed in terms of provision of care. We think that home care is a vital link, and that is an aspect that is going to be looked at closely as a result of the new budget and what impact it will have on keeping people in their homes.

MR. ZIP: Mr. Chairman, I've had several representations made to me by financially hard-pressed landlords in Calgary about the difficulties that subsidized rentals are creating for them. Is this problem being kept under consideration by your department and yourself?

MR. SHABEN: Chairman, yes, very much so. I think it's reflected in our level of activity last year and this year in both corporations. We're aware that on the rental side there are probably 25,000 to 30,000 vacant apartment units in Alberta. That has a very traumatic affect on landlords and developers, because they're not nearly approaching economic rents and are having difficulty meeting their obligations.

The vast majority of the units that have been provided through government programs were provided when the province faced a zero to less than 1 percent vacancy rate. A lot of those decisions that were made — there was a lag time of two years from the time a decision was made until the building was built. As a result of NEP and high interest rates and the worldwide recession all hitting at once, and some out-migration, it's had a very difficult impact on the entire housing market, on both owners and landlords. We're aware of it and conscious of it in terms of our activities.

MR. ZIP: What percentage of the total subsidized housing units in Calgary is held by Alberta Mortgage and Housing Corporation? I notice that Canada Mortgage and Housing has the bulk of them. Of course the city of Calgary itself, through the Calgary Housing Authority, is quite heavily involved too in the whole business.

MR. SHABEN: Mr. Chairman, I'm not sure I understand the question. Is the question: of the total number of housing units in Calgary, what percentage receive some form of federal or provincial government subsidy?

MR. ZIP: Yes, plus what percentage of that percentage is Alberta Housing.

MR. SHABEN: I think I would be better able to give you a provincial figure. The total number of housing units in the province is ... If we use a figure of approximately 800,000 total households in Alberta, the AHC units — that is, seniors, lodge, and self-contained — plus those units that are financed through the Alberta Home Mortgage Corporation where a subsidy is attached, it would be about 10 percent. Of those housing units, 10 to 12 percent are receiving a subsidy of some sort.

MR. ZIP: A further question. There are several groups in Calgary who are still keenly interested in constructing new senior citizens' accommodation. What is the current situation in Calgary with respect to senior citizen housing in terms of vacancy rates in existing accommodation?

MR. SHABEN: Chairman, it varies depending on the community within the city of Calgary. For example, in the downtown core the vacancy rate would be higher. Baker House, for example, has quite a high vacancy rate. In some of the residential areas it's closer to zero. But overall, the vacancy rate is about 8 percent in our seniors' projects in Calgary, and that's as a result of quite a number of new projects coming on stream within the past year. That compares with the market vacancy rate in Calgary that's running between 14 and 15 percent.

MRS. CRIPPS: Mr. Chairman, Mr. Minister, by virtue of the changing marketplace, I guess, it appears that the value of the home which was there in 1980 isn't there in 1984. I've been given the information that we have a deplorable situation where some of the financial lending institutions have actually written down the equity of a home, and it affects the homeowner particularly in renewal of a mortgage. If the home was worth \$100,000, today it's only worth

\$75,000. If they have a mortgage which is higher than the \$75,000, then they're required to make an up-front payment, not only to bring the equity value of the house up to what their loan is but to bring their loan in a percentage ratio to what it was compared to 1980 figures. I understand this is causing a lot of people to lose their own homes irrespective of their ability to carry the mortgage under normal circumstances and to make the payments. Has Alberta Home Mortgage Corporation undertaken this practice of equity value write-downs?

MR. SHABEN: Chairman, upon the anniversary or the renewal time of a mortgage that has been provided under our family home purchase program, I'm not aware of any situation where we have refused a renewal or required that the owner provide increased equity. So from the point of view of the corporation, we're not responding in that way. I was just looking at the new house price indices for Calgary and Edmonton. Based on April '81 being 100 in Calgary, the May 1984 index in Calgary is 82.7. So there has been a pretty dramatic reduction in the index. For Edmonton the June '81 index was 100 and the May '84 is 86.1.

MRS. CRIPPS: Based on those figures, there could be a substantial payment required from the mortgagee if this debt/equity write-down occurred. Has the minister taken a position on this, and would you be willing to take a fairly vocal position in the interest of the 94 percent of the home buyers in the province of Alberta who are not financed through Alberta Home Mortgage Corporation?

MR. SHABEN: Chairman, I'm not aware that this is a widespread practice. However, if specific cases are drawn to my attention, we may be able to use friendly suasion. But I wasn't aware that it was a widespread practice. Generally where a mortgage lender has favourable experience with a borrower over a five-year period or so, with what is normally the case with a mortgage, they renew because the payment experience has been good. I'd be surprised if there are many instances where lenders were demanding an increased contribution toward the principal.

MRS. CRIPPS: I was given to understand by someone in your department that it was 15 percent.

The third question, Mr. Minister. The major concern of home buyers, and all borrowers for that matter, is the fluctuating interest rate. In order to ask the question under the terms of reference of this committee, first I'd like to know what the length of the term of the fixed interest rate is on Alberta Home Mortgage Corporation loans. Again in the interest of the 94 percent of Albertans who are not borrowing from Alberta Home Mortgage Corporation, has the minister made any representation to the federal government to assist in lengthening and assuring a fixed interest rate for those people?

MR. SHABEN: Chairman, until recently our mortgages were five-year fixed term. Recently the board of directors approved a policy change that provides an opportunity for borrowers to borrow for one-, two-, three-, or five-year terms, so we're

flexible in terms of the length of term on a mortgage.

Yes, I have made representation to the federal minister with respect to proposed modifications to the Canada Interest Act that would permit different sorts of mortgage instruments other than those we all have available to us today. From the previous minister, Mr. LeBlanc, who's no longer the minister, I have had a positive indication in a reply. We now have a new federal minister, probably for less than a month or so, so I will be pursuing it again after early September.

MR. MARTIN: Mr. Chairman, just to come back to the area of self-contained units for senior citizens, I believe you said there was still a huge demand. Something like 4,000 each year, and you're accepting 300 I believe; also the statement that you're looking at it in terms of need rather than demand. I suppose it's in the eyes of the beholder what need is and what demand is. But I am sort of curious. Without going through a whole criteria, is it based on the number of seniors in an area, what are perceived to be low-income seniors? For example, in my area I've been lobbied — and I know Mr. King and Mr. Diachuk have — about the unit the Norwood Legion wants to sponsor across from the Norwood Legion. I'm sort of curious in terms of what would be classified as need to, say, get into that top 300, without going through pages of it.

MR. SHABEN: The corporation goes through a number of steps. First of all, a volunteer group such as the Norwood Legion would approach the corporation with a request for self-contained housing. We go back to them and say, will you provide us with a little more information on the families or the seniors who are in need of this sort of accommodation? So the volunteer group, whether it's the Norwood Legion, a church group, or some other group in the province, will do some work in terms of establishing a number of names of individuals or the number of people who they feel require this sort of low-cost senior housing. We then examine that and follow it up as we get closer to a stage where the arguments are compelling to do a more detailed analysis of the real need.

As I indicated earlier in the session, we have arbitrarily said: no units for Edmonton and Calgary because of vacancy rates that are running at 15 percent. I recognize that in some neighbourhoods or communities there may continue to be a need, although when you have vacancy rates in neighbouring projects running 8 to 10 percent, that need can be met. When volunteer groups are well meaning and want to help in providing this senior housing, it's difficult for the corporation to say no. But when you have overall vacancies in our projects in neighbouring communities that are as high as they are, it's the only responsible thing we can do.

So that's the process. It's working with the volunteer group in terms of identifying the individuals and then responding to it within priorities, that is the 160 projects in terms of need, and trying to prioritize them within that context.

MR. MARTIN: You're saying that in the last year there were none in the two major cities that were accepted. Is this a continuation? Do you expect this

to go on in the next year or two years? Have you any projections on that?

MR. SHABEN: Chairman, I've written to all those groups who have applied, advised them that their project won't go forward in '84-85 but that we would review it in '85-86 depending on the overall vacancy situation, our fiscal capacity, and the priorities we have in the province. So it will be reviewed again next year.

MR. MARTIN: The third question I have, Mr. Chairman, is slightly different from this. It comes back to what Mr. Gogo was talking about in terms of the guidelines for buildings. I don't know if it's true or not, but I've heard recently of a senior citizens' home where the floors are sagging. Nobody has moved in, and it's put them back three, four, five, or six months. I'm told the problem is that cement slabs, apparently coming from the contractor, were too narrow and that this is the problem. The minister said that the private-sector architects are the ones who set up the guidelines following general guidelines from the department. If this is the case, if there was a screw-up in a senior citizens' house, who would pay for the extra amount that would have to be put into it to bring it up to standards?

MR. SHABEN: Chairman, in a case like that — and generally that's the case, where a private-sector consultant, an architect, is retained who in turn retains engineers to do the structural and mechanical — the corporation would pursue that professional person. Those professionals are generally insured, and that would be the route we would go. Similarly we've had projects where the contractors have unfortunately gone bankrupt, and the contractor is normally bonded. Often we will retain a contractor to finish the project so we can move it to completion and then worry about the legal hassles later, as opposed to leaving the project sit too long. The choice is made on an individual basis as to how the corporation proceeds in the case of a bankruptcy or an error in design or engineering, but we would pursue those responsible for the errors.

MR. NELSON: Mr. Chairman, to the minister. I'd just like to follow up on a previous question regarding interest rates for new mortgages. I just want to be clear. I thought the minister indicated that new mortgage interest rates were at 12.5 percent. I'm just wondering if that is for current mortgages or whether those are the ones you were discussing with relation to the 7,000 people who renewed their mortgages. If not, what is the current rate?

MR. SHABEN: Chairman, I used the 12.5 in two contexts. One, that's the mortgage interest reduction program level to which mortgages are shielded. I also used it in the context of providing an opportunity for those families who had borrowed money under the family home purchase program to write their mortgage interest rate down to 12.5 in March of this year. So the current mortgage rate that the Alberta Home Mortgage Corporation charges is the same as industry charges. That changes monthly.

MR. NELSON: Okay. I have just one other question

at the present time. Last year when we wound up, we discussed in certain areas the possible sale of the debentures of various corporations held by the government. I was just wondering if the Housing Corporation has made any endeavour to sell those debentures, if they have had any feelers to pick up those debentures, or is the market not in tune to pursue that activity at the present time?

MR. SHABEN: Chairman, the decision with respect to the purchase of debentures of the Alberta Home Mortgage Corporation is made by the government through the Provincial Treasurer, and a decision has been made that the heritage fund would continue to provide the debenture financing for the Alberta Home Mortgage Corporation. The Provincial Treasurer did purchase the debentures of the Alberta Housing Corporation that were connected to our land purchases, and I responded to that earlier. The corporation does not market its debentures in the public market. That's handled through the department of the Provincial Treasurer.

MR. ALEXANDER: Mr. Chairman, I'm going to try to make this into a question. I want to start by congratulating the minister on his distinction between making judgments on the basis of need, not demand. I think Mr. Martin captured the essence of the whole problem in a phrase a moment ago when he said, need and demand are in the eye of the beholder. That's the difficulty. It seems to me that's the difficulty that has led us into the whole area of "affordable housing".

I wonder if you can distinguish here between the two types of demand you have to cope with — one is the market demand and the other is the political demand — and make some kind of scale or set up some kind of parameters which help you to objectify, if you like, the idea of need so that it's a little easier to resist the idea of political demand. This is how the whole thing gets confused and clouded. For example, in the report itself, senior citizens' housing and the community housing program for low- to moderate-income Albertans of all ages are provided at rents below cost. That makes it very difficult to assess market demand, market supply, and all that sort of thing. So your problem is exacerbated when you're doing things like that. But if you're going to be able to examine the proposals on the basis of need as opposed to just political demand, have you a set of parameters or can you make a set of parameters? You've mentioned one, vacancy rates. Can you expand those parameters so that in all housing areas, from senior citizen to whatever classifications you might want to make, you could say, running down this list of parameters the need just doesn't present itself, and in that way, hopefully, separate these elements of the eye of the beholder or political demand as opposed to what the market demands?

If I haven't obscured that too badly, let me try to rephrase the question and simply say, do you have a list of parameters defining need for housing as opposed to political demand for housing?

MR. SHABEN: Mr. Chairman, I was hoping he wouldn't be able to phrase the question, because had he not been able to phrase the question I could have avoided answering it.

We do have a process — and I may not have have

described it adequately to Mr. Martin — in order to determine whether or not units are built by the government for low-income families, and it's a rigorous process. But no matter how rigorous the process, there is a political element and a subjective element. There's also the element of fiscal capacity. In terms of weighting, I don't know what sort of weighting we would give to them.

It would be really neat if we could say, a certain percentage of housing units will be social housing units and the rest will be the private sector. But that is complicated by demographics, by a particular circumstance in a particular community, and by efforts of volunteers and politicians — I withdraw that. I don't mean that it's complicated by politicians. But we in the corporation make every effort to be objective in terms of the decision-making on whether or not a project should be built. Notwithstanding that examination, there are times when there are subjective elements that go into the decision-making. We try to keep those to a minimum.

MR. ALEXANDER: If I can just follow up. That's an excellent answer. I think you did an excellent job of skating around a number of issues and you raised one, fiscal capacity. In terms of the person demanding, politically, housing accommodation, fiscal capacity is not a question. That's not a luxury you have to list as one of your items for avoiding it. It's just assumed that the government, whether it has to borrow money or wherever it has to get it, has the fiscal capacity, and we've established that through the heritage fund and a number of other ways. So that is another problem that exacerbates this whole matter of how to make that choice.

I guess I'm back to the bottom line. Isn't there a way that the Housing Corporation can become more of a market-based supply and demand kind of animal that doesn't deal with such things as affordable housing, social housing, and these other kinds of concepts outside the market framework? If you do that, it seems to me, don't you simply fall back and rely totally on the subjective elements that you've just listed? I have to take away — and you've already taken away — the caveat of fiscal capacity. It's not a question in people's minds. The money will be there.

MR. SHABEN: Chairman, government involvement in housing has evolved pretty dramatically over the past 30 years or less, not just in Alberta but throughout Canada and North America. There has been a political shift in terms of the elected people's view of government responsibility with respect to housing that wasn't in place 20 years ago. That is the political factor I referred to earlier. Certainly governments can make a decision as to the extent of involvement in providing housing or affordable housing or whatever term expresses it. I believe that is a political decision that may have been made or is made each year. But the process has evolved over a period of years and is certainly different from what it was a number of years ago.

I have to function on the basis of allocation of funds, response to the present circumstances, and the politics, too, in the sense of what is generally accepted in terms of provision of housing for low-income Albertans. I think it's worthy of debate in the

Legislature, Mr. Alexander, on what the role of the government is in housing.

MR. ALEXANDER: I have one shot left? I agree with that. Let's have it. I think what you have said is absolutely accurate, and I agree with it. But I guess what I am expressing in a sense is the inability, if that's the right word, to learn from the parallel experience of others. One thinks of the council flats in the big cities in England. One thinks of the core of New York City, where housing was controlled by rent controls for years and years. Somebody raised the question a few moments ago about the development of ghettos. That was the outcome of rent controls. How you choose to redistribute income isn't really that critical. The point is that you choose to redistribute it, and that's what you're doing in terms of social housing.

I guess what I'm asking here is: in defining need in terms of market supply and demand, what we are really doing is saving ourselves the long-term pain of wrong political decisions because we chose to ignore the short-term admonitions, if you like, of market supply and demand. I think the debate needs to be held too, and I'd be more than happy to see a debate. But the question is, having seen and having had graphically illustrated for us time and time again in major centres all over the world what the impact of social housing and those ideas, affordable housing, subsidies, and all that kind of thing, amount to — it ends up being hurtful to everybody, including the occupants.

I guess my question is really a variation on the same one. Again, I congratulate you on making that distinction now between demand and need. I only implore that you expand the idea of need, define it, and try to make it more objective and more market related so that we don't have to go through the same agonies they went through in New York City, Detroit, London, and all those other places with exactly the same idea.

MR. SHABEN: Chairman, if I can just volunteer a couple of comments. It sounds like we're into the debate.

During a seven-year period, the population of Alberta grew by 500,000. The government consciously took the decision not to implement rent controls, as every other jurisdiction in Canada implemented under that temporary measure, and they've stayed. I think we made the right decision. I know we made the right decision with respect to resisting that request for rent controls. But going along with refusing to implement rent controls, there needed to be a supply so that there was a market situation and not zero vacancy rates. That led the government into involvement that was pretty significant in order to make supply available to Albertans.

Now the circumstances that occurred in '81 and '82 were not foreseen by those who were making decisions as to whether they access the programs. In 1982, when we quit making CHIP loans available for apartment developers, we had developers saying, but we need this loan because ... And we refused. So there were market decisions being made based on programs that were available. We got caught in that downward spiral.

I would defend the government having taken the

position that supply was more important and more effective than controls. There are those who may argue as to how that supply was achieved as opposed to whether or not that was the right answer, but there was a good mix in terms of the supply.

MR. CHAIRMAN: Will there be additional questions from committee members?

MR. MUSGREAVE: Just one quick question. I can assure the hon. Member for Edmonton Whitemud that there's going to be a debate, because I have a resolution under way on this very subject.

In England they are turning over houses to people that have lived there. I saw some of them last summer. They're actually selling their council housing.

I wonder if anybody in the minister's department has thought of converting some of the apartments you are having trouble with in the cities into condominiums and selling them to the residents with, say, 100 percent mortgages, which is what the United States did to get rid of a lot of their housing. They gave 100 percent mortgages to returning veterans. You didn't have to put anything down. You could move in and start paying the mortgage. Quite often, this would be the value of the property at the current market value, and it gets it off your back. Has any consideration been given to this idea of getting more homeowners involved?

MR. SHABEN: Chairman, the majority of the multiple-unit projects are owned by private developers; they're not owned by the corporation. Some of them are mortgaged by the corporation, and some of them may have difficulty meeting their mortgage obligations. We have considered from time to time proposals by private-sector owners of buildings who say, we'd like to sell you our building and make it available for social housing. We haven't done so. But it's obvious by our budget and our priorities that we have no intention of aggravating the present supply situation in the major centres.

MR. CHAIRMAN: Will there be additional questions forthcoming from members of the committee?

MR. ZIP: Mr. Chairman, I would like to ask one very general question. I've been listening very carefully to all the problems that have been raised that have centred on housing. I realize the downturn. I realize the very excellent answer you gave on the policy decision that was made on not going ahead with rent controls and you had to increase the supply to meet the demand. But overall, what have we learned from this mess that has descended upon us in the last couple of years?

MR. SHABEN: We've learned what the NEP can do to a province. We've learned what high interest rates will do to people's investments. I think we've learned that when you have very rapid growth — not just the government but individual decision-makers and investors would probably have learned that the curve can't maintain itself at that pace. Those are some of the things we've learned.

MR. CHAIRMAN: Are there additional questions forthcoming from committee members? If not, I

wish to exercise the prerogative of the Chair and finally raise a question or two to the minister.

I find it interesting, Mr. Minister, that in all the discussion that has occurred in the last hour and three-quarters with respect to housing, one of the items I would think would come to the front of the minds of most people who are looking at property is the uncertainty over future interest rates. Your involvement with the two portfolios we're discussing here in the heritage fund committee has seen government involvement over the years to the massive amounts of upwards of \$5 billion in the housing market in the province of Alberta. I've no doubt whatsoever you'll be coming forward with additional requests from the committee and those responsible for the allocation of funds, probably in direct relationship to what happens with the interest rate.

Do you have a projection? Do you have a feel? Do you have anything in your mind that might give some feeling of confidence to the people who live in this province about what might happen with interest rates over the next 12 months?

MR. SHABEN: Sure, I think everybody in this room has an opinion, Chairman. First of all, I'd express my opinion this way. With inflation in Alberta, looking at Edmonton and Calgary running at about 2 percent, and interest rates on a three-year mortgage running at 15 percent, the rates of interest that people are forced to pay in terms of real costs of money are unconscionable. There are economists here. Bud is an economist, and he can tell us what the factors are that go into this calculation of interest rates.

Clearly, in my view, interest rates could come down significantly if there's the will by the national governments of Canada and the United States to reduce their budgetary deficits. That's the key factor. If those two federal governments — Canada first — would bring down their deficits, we could have interest rates that closely resemble historic interest rates; that is, a real cost of money of from 3.5 to 5 percent, as opposed to 13 percent. So I would put that caveat on any projection I make.

I hesitate to say that next year interest rates are going to be lower or level, but I would say this: I don't expect interest rates to reach those dizzying heights they did in the latter part of 1981 of 19.5 or 20 percent.

MR. CHAIRMAN: Mr. Minister, tax and fiscal policy can ameliorate the impact of rising and uncontrolled interest rates. If we live in an environment where interest rates were to escalate, it could cause devastating negatives in the people of this province. Recently the government of Alberta introduced a white paper called Proposals for an Industrial and Science Strategy for Albertans, with a time frame 1985 to 1990. My reading of the paper causes me to wonder where the word "housing" is ever contained in the paper; I don't think it is contained in the paper. There are sections in the paper, however, that deal with tax and fiscal policy.

One of the concerns that might ameliorate the devastating impact of interest rates, of course, is tax deductibility of interest rates against mortgage for homeowners. There is a suggestion in the paper that Alberta might want to take a look at the elimination of such things as capital gains. There is no

suggestion in the paper, however, about any kind of proposal for interest deductibility. Surely one of the mandates and responsibilities that you have as the Minister of Housing, which would relate directly of course to how much money you would want from the Heritage Savings Trust Fund, would be an assessment of what the impact would be if Alberta were to have an interest deductibility for mortgages. Do you have any idea what that impact might be in the housing market in the province of Alberta as it might impact on the Heritage Savings Trust Fund?

MR. SHABEN: Chairman, I'm not sure. We haven't examined that precise question, because the provincial share of personal income tax is about one-third of the total personal tax billed, so you could simply extrapolate that amount in terms of what the impact would be. It then becomes a question of priorities with respect to that paper in terms of if some of the proposals were to be concurred in and implemented, which proposals take priority.

There was no mention in the paper of housing per se, and there was a reason. This was an industrial and science strategy paper, not really addressing itself to housing or infrastructure as much as to the engine. But no, we haven't done an examination of what the impact would be of provincial personal tax deductibility on mortgage interest costs. We have looked at some variations of that, but I would prefer not to divulge them right now.

MRS. CRIPPS: A follow-up to the questions from the chairman. When interest rates were 5 and 6 percent it made sense to borrow over a 20- or 25-year period, and at that time you saw 30-year mortgages. But once interest rates reached 10 percent and higher, the equity of the homeowner over a long-term mortgage is practically negligible, say, in a 25-year mortgage for the first 15 years of the mortgage. Is the Alberta Home Mortgage Corporation making a conscious effort to make the home buyer aware of what the payments would be, say, on a 10-year and a 15-year and a 20-year mortgage, and what their equity would be at any point in that time if they were to consider those lengths of terms rather than a 25-year term?

MR. SHABEN: We're doing that, not just through the Alberta Home Mortgage Corporation, or the Alberta Mortgage and Housing Corporation, but through the Department of Housing and the Department of Consumer and Corporate Affairs, providing information to homeowners and potential home buyers on the differences between a 10-year mortgage, a 15, a 25, in terms of the real costs. So we are, wherever we possibly can, making that information available to homeowners.

MRS. CRIPPS: I'm extremely pleased to hear that.

MR. NELSON: Just a quickie, Mr. Chairman. Has the minister considered offering the people with mortgages through Alberta Home Mortgage the option of paying that mortgage on a weekly or biweekly basis to either reduce the total amount of a monthly payment, if you extend the mortgage over the full 25-year amortization, or reduce the amortized period of a mortgage? It is understood that a person with a \$50,000 mortgage paying

biweekly would reduce the costs of that mortgage considerably by anywhere up to, I believe, seven years in payments. Could the minister maybe address that briefly? If nothing is happening presently, could he maybe give that some consideration?

MR. SHABEN: Chairman, yes, we are giving that idea consideration. At the moment we can't physically handle it. Our staffing levels and our computers don't have the capacity to handle weekly mortgage payments, but we're working on it because there are some advantages in terms of shortening the term of the loan. We're looking at it. We will accept any amount of prepayment at any time from a borrower.

MR. NELSON: Could I just follow up on that, Mr. Chairman. When you suggest any prepayment, if you accept any prepayment does the borrower still have to repay the set mortgage amount on their monthly term? If you don't understand what I'm saying, you say if you accept prepayment of any amount the lender still has to meet his monthly obligation. Is that correct?

MR. SHABEN: Yes, he has to meet his mortgage payment obligations.

MR. CHAIRMAN: Mr. Shaben, thank you once again for the very positive co-operation in arranging your time before the committee. Thank you very much for the frankness in responses to the questions. As usual, you didn't skirt anything and came directly to the point. We appreciate that. Mr. Engelman, thank you again for being here. If all goes well, we'll see you one year hence. I certainly hope you will not be requesting too many draws on the Heritage Savings Trust Fund. In the next two months committee members may want to make alternate recommendations for the utilization of those funds. Thank you.

Committee members, that brings us to the end of this session this afternoon. Tomorrow morning those members who will be going to the Pine Ridge Forest Nursery should be here no later than eight o'clock, outside the front doors. I have on the list right now that the following members will be coming with us. Please just nod your head or something if this is so. Mrs. Cripps. Mr. Kroeger's not here, but I have notification that he's coming. Mr. Martin, you'll only be returning with us. Mr. Zip. Mr. Thompson, no. Mr. Nelson. Mr. Musgreave. Mr. Gogo, you're going to try to make your way there to join us? Mr. Alexander, you're not. Mr. Cook, you're not. Thank you very much.

I need a motion from somebody to provide the expenditure by this committee of the grand sum of \$240 for transportation costs to take us to and from Smoky Lake to visit the Pine Ridge Forest Nursery. We'll all be going same class in a communal bus.

MR. NELSON: I'll move.

MR. CHAIRMAN: See you tomorrow morning at eight o'clock.

[The meeting adjourned at 3:55 p.m.]

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