

## 19.2 Other financial institutions

### 19.2.1 Trust and mortgage companies

Trust and mortgage companies are registered with either federal or provincial governments. They operate under the federal Loan Companies Act (RSC 1970, c.L-12) and the Trust Companies Act (RSC 1970, c.T-16), or under corresponding provincial legislation.

Trust companies operate as financial intermediaries in two areas: banking and fiduciary. Under the banking function, trust corporations can accept funds in exchange for their own credit instruments such as trust deposits and guaranteed investment certificates. This aspect of its business is often referred to as the guaranteed funds portion and differs little from the savings business of chartered banks.

Trust corporations are the only corporations in Canada with power to conduct fiduciary business. In this capacity they act as executors, trustees and administrators under wills or by appointment, as trustees under marriage or other settlements, as agents in the management of estates, as guardians of minor or incapable persons, as financial agents for municipalities and companies, as transfer agents and registrars for stock and bond issues, as trustees for bond issues and, where so appointed, as authorized trustees in bankruptcies.

Mortgage corporations may also accept deposits and may issue both short-term and long-term debentures. The investment of these funds is spelled out specifically in the acts under which most of the funds are invested in mortgages secured by real estate.

Trust and mortgage companies were established and grew rapidly under provincial legislation in the late 19th and early 20th centuries. Some companies were chartered by special acts of Parliament but it was not until 1914 that the federal government began to regulate trust and mortgage companies registered under its acts. In 1976 there were: 69 trust companies of which 20 were federally incorporated and eight federally supervised; 69 mortgage companies of which 18 came under federal jurisdiction. The federal superintendent of insurance regulates the federal companies and also, by arrangement with the provinces, trust and mortgage companies incorporated in Nova Scotia and trust companies incorporated in New Brunswick and Manitoba. Companies must be licensed by each province in which they wish to operate.

Although there may be some differences among the federal and provincial acts, broad lines of the legislation are common. In their intermediary business the companies have the power to borrow or, in the case of trust companies, to accept funds in guaranteed accounts subject to maximum permitted ratios of these funds to shareholder equity. The funds may be invested in specified assets which include: first mortgages secured by real property; government securities and the bonds and equity of corporations having established earnings records; loans on the security of such bonds and stocks; and unsecured personal loans. Trust and mortgage companies are not required to hold specified cash reserves, as are the chartered and savings banks, but there are broadly defined liquid asset requirements in a number of the acts.

In the 1920s trust and mortgage companies held about half the private mortgage business in Canada but their growth rate fell off sharply because of the effect of the depression and World War II on the mortgage business. Since then strong demand for mortgage financing has led to sustained rapid expansion.

At the end of 1976 total assets of trust companies in the Statistics Canada survey were \$18,335 million compared with \$14,559 million in 1975, an increase of 25%. Trust companies have been putting a high proportion of their funds into mortgages and 72% of their total assets were represented by mortgages at the end of 1976. The trust companies had \$13,402 million in term deposits outstanding and \$3,156 million in demand deposits at the end of 1976, accounting for 90% of total funds. About 20% of demand or savings deposits were in chequing accounts. There is considerable variety among the trust companies and a few have developed a substantial short-term business, raising funds by issuing certificates for terms as short as 30 days and also operating as lenders in the money market. But the main business of trust companies in their intermediary role is to channel savings into mortgages. In addition, trust companies, as