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

Trust and mortgage loan 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 loan companies registered under its acts. The federal superintendent of insurance regulates the federal companies and also, by arrangement with the provinces, trust and mortgage loan companies incorporated in Nova Scotia and trust companies incorporated in Prince Edward Island 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 financial 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 shareholders' 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 loan 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 effects 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 1985 total assets of trust companies in the Statistics Canada survey were $64.6 billion compared with $58.5 billion in 1984, an increase of 10%. Trust companies have been putting a high proportion of their funds into mortgages and 58% of their total assets were represented by mortgages at the end of 1985. The trust companies had $43.2 billion in term deposits outstanding and $14.0 billion in demand and notice deposits at the end of 1985, accounting for 89% of total funds. About 52% 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 financial intermediary role is to channel savings into mortgages. In addition, trust companies, as at December 31, 1985, had $133 billion under administration in estate, trust and agency accounts.

Mortgage loan companies had total assets of $52.4 billion at the end of 1985 compared with $45.3 billion in 1984. Their holdings of mortgages were $42.6 billion, or 81% of total assets. To finance their investments, these companies raised $32.6 billion of term deposits and $1.4 billion of demand deposits and sold $438 million of debentures.

More complete and up-to-date financial information may be found in quarterly financial statements published by Statistics Canada and the Bank of Canada, the reports of the superintendent of insurance on loan and trust companies and the reports of provincial supervisory authorities.

Sales finance and consumer loans. Statistics Canada publishes quarterly balance sheets for sales finance and consumer loan companies as a whole and does not attempt to distinguish the two groups within the industry (see *Financial Institutions*, Statistics Canada Catalogue 61-006).

An act to amend the Small Loans Act and to provide for its repeal and to amend the Criminal Code was approved by the Senate and received royal assent in December 1980 (SC 1980-81-82-83, c.43). Under this act the limits on interest rates previously set for small loans, not over $1,500, no longer applied for new loans. Formerly, for example, lenders not licensed under the act could not charge more than 1.0% interest a month. In future the only limit to rates applicable would be set out in the Criminal Code. The new act defines the criminal rate as an effective annual rate of interest, calculated in accordance with generally accepted actuarial practices and principles, that exceeds 60% on the credit advanced.

18.3 Insolvency

The term "insolvency" refers to the state or condition of a person (or of a company engaged in business) when he is no longer able to pay his debts as they normally become due for payment.