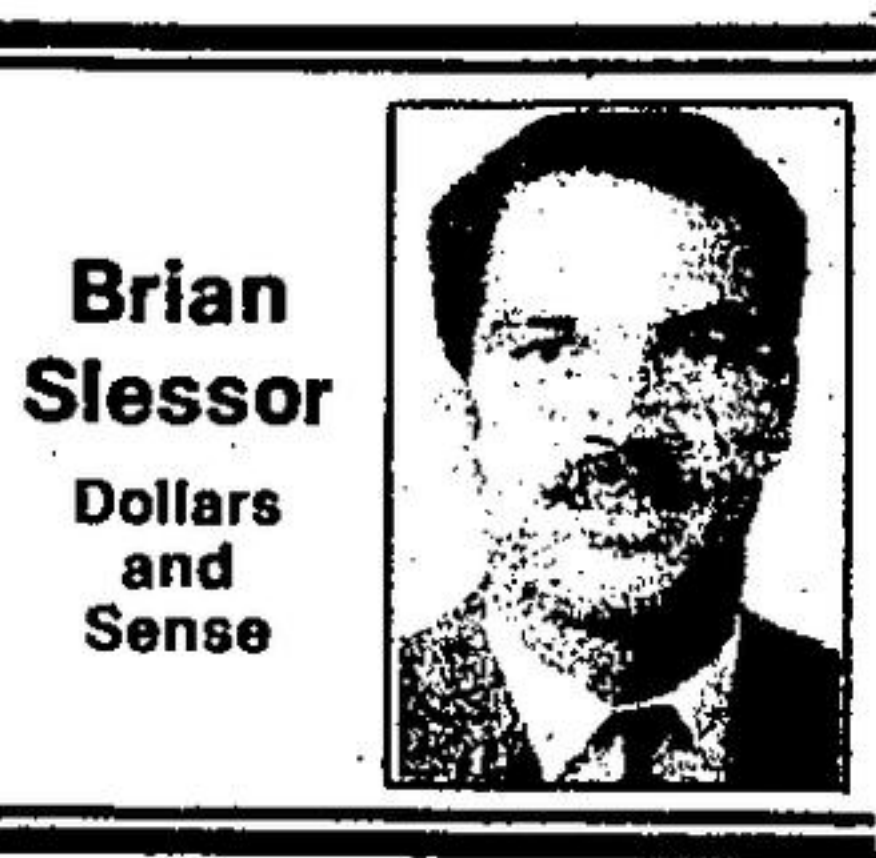


# Mortgage-backed securities guaranteed by government

Mortgage-backed securities were introduced to Canadian investors in 1987 and have become one of the fastest-growing segments of the Canadian fixed-income marketplace since that time. Today there are over \$1 billion in outstanding issues. The reasons for this popularity are easy to discern: Mortgage-Backed Securities provide a regular source of income, excellent liquidity, attractive yields and as they are guaranteed by the federal government through the Canada Mortgage and Housing Corporation (CMHC), they are of the highest credit quality as well. This government guarantee is very important because it covers timely payment of both principal and interest. This means that should an issuer or mortgagor, for whatever reason, not have the full amount due available by the payment date, CMHC will step in and make good the obligation. This way the investor is never inconvenienced.

But how do they work? Many investors are familiar with the investment attributes of Mortgage-Backed Securities but are not sure exactly how they work and how the payments are calculated. First, let's review what a mortgage-backed security is. MBSs are un-



**Brian Slessor**  
Dollars and Sense

divided interests in government-insured first residential mortgages. This means that you, as an investor, are buying into a pool of mortgages and that on the other side of the pool are people who are making payments on the mortgages of their homes, just as you have likely done. These mortgagors have borrowed money from banks and trust companies to finance home purchases.

A bank or trust company therefore has a pool of mortgage debt which it repackages into separate investments to sell to individual investors in minimum amounts of \$5,000. The mortgagors make regular, equal blended payments of principal and interest

into the pool which are then collected by the issuer and partially "passed through" to the individual MBS investors. Similar to the payments made by the mortgagors, the investors receive blended monthly payments of principal and interest.

All of the principal paid by the mortgagors is passed through to the investors while the interest portion is determined by applying the coupon on the MBS to the remaining principal owing on the initial investment. In addition to regular principal and interest payments, many mortgages allow prepayments. A Mortgage-Backed Security which allows prepayments is called an "Open Pool." In the case of an open pool MBS, these unscheduled prepayments are also passed through to the investor whereas in the case of a Closed Pool, no prepayments are allowed. Therefore, the cash flow of a Closed MBS is certain while the cash flow of an Open Pool is not because it is impossible to anticipate when an individual mortgagor is going to repay his or her mortgage. However, government and households tend to increase their spending - and their borrowing. With more borrowers competing for loans, interest rates rise.

The effect of the dollar on interest rates is also important. A lower dollar can mean more inflation, which, in turn, causes higher interest rates, and vice-versa.

The Bank of Canada's monetary policy is another determinant of interest rates (i.e., 90 days or less). By varying the amount it reserves it provides to the chartered banks, the Bank of Canada controls the growth of the nation's money supply. And by raising and lowering the interest rate it charges the banks for these reserves, it controls the Treasury bill rates and the bank rate. (The latter is the rate at which the Bank of Canada lends money to the chartered banks).

Brian Slessor is an Investment Executive with Scotia McLeod. Questions should be directed towards Brian, who can be reached at (416) 863-2825. Call collect if outside Toronto.

# Hamilton company is facing charges under the EPA

Hamilton Fire and Safety Equipment Ltd. and the company's owner, Colin Fleet, have been charged with operating a ventilation system without a Certificate of Approval.

Mr. Fleet operates a company which repairs and recharges fire extinguishers. It is alleged, a ventilation system, namely a fan, was installed to vent out airborne particles that interfere with production in the shop.

On August 28, 1989, a 20 pound extinguisher was being charged with nitrogen when a valve stuck in an open position. It is alleged that the extinguisher was then thrown into a small room where the fan was located. The fan was on and close to two pounds of chemical powder was discharged into the environment.

Mr. Fleet and Hamilton Fire and Safety Equipment Ltd. have been charged jointly with one count

under section 8(1)(a) of the Environmental Protection Act (EPA), which relates to unlawfully constructing a mechanism or apparatus that may discharge a contaminant into the natural environment without holding a Certificate of Approval.

The defendants have also been charged jointly with two counts under subsection 13(1) of the EPA, which relates to unlawfully permitting the discharge of a contaminant via a ventilation fan that is likely to cause an adverse effect.

The defendants have been charged jointly with one count under subsection 14(1) of the EPA, which relates to failing to notify the Environment Ministry of the discharge of a contaminant into the natural environment that is likely to cause an adverse effect.

A trial date has been set for December 12, 1990 at the Hamilton Provincial Offences Court.

# Wicor Canada receives grant

MISSISSAUGA - The Honourable Benoit Bouchard, Ministry of Industry, Science and Technology, has announced that Wicor Canada Inc., of Mississauga, will receive \$25,000 in federal assistance under the Advanced Manufacturing Technology Application Program (AMTAP).

The company will use the support under AMTAP to study and evaluate the potential impact that new information technologies can have on their operations, how it could improve their productivity and enhance their competitiveness in international markets.

AMTAP is a four-year service-oriented program of Industry, Science and Technology Canada. It has an \$8.5 million fund to sponsor about 90 projects in each of its four years of operation. The program provides funding for qualified firms to engage outside consultants who will assess the commercial and technical feasibility of comprehensively upgrading their manufacturing operations.

The program supports projects from both individual and groups of companies. Where one company is involved, contributions can be provided of up to 75 per cent of the cost

of engaging a consultant, to a total of \$25,000. Where there is a demonstrated advantage to a joint application covering a group of companies, assistance would be 75 per cent of the consultant's cost, with a limit of \$20,000 per firm up to a \$200,000 limit for the joint application.

Canada's leading manufacturers are actively updating technologies and management practices to meet international standards. It has been found that a comprehensive assessment of the manufacturing operations, by consultants with relevant prior experience, can assist change and enhance the probability of success. Senior management's commitment in these companies is seen as critical to successful implementation and this is a prerequisite to financial support under the AMTAP.

**OFFICE MAGIC**  
877-2300  
FOR ALL YOUR OFFICE & STATIONERY NEEDS  
138C Guelph St., Georgetown

**COMPUTER SALES & SERVICE**  
SOFTWARE UP TO **70% OFF** *September Special*  
COME AND SEE OUR SELECTION  
(416) 873-0325 348 Guelph St.  
(416) 873-0641 (Fax) Unit 2A, Georgetown

**NELL'S DRIVING SCHOOL**  
 **For information About Courses or Private Lessons**  
**PHONE 877-2671**

**NEXT CLASS**  
SEPT. 10th-Oct. 3rd  
MONDAYS & WEDNESDAYS  
6:30-9:30 P.M.

**CORPORATE PURCHASING AGENTS**  
 **WHOLESALE PRICES FULL SERVICE**  
FAX and COPIERS (New and Used), DESKS, CABINETS, SEATING, etc. DATA and SYSTEMS FURNITURE, and LOTS MORE - Buy/Lease  
**416-760-3393**

# Introducing...



**G.S.S. OFFICE SUPPLIES & SECRETARIAL SERVICES**

IS NOW....

**Our Name Has Changed  
Our Service To You Has Improved**

We have changed our name, added a second location and increased our buying power to better serve our valued customers. Stop in today and see our new showroom!

**A Change For The Better**

**footnotes**  
office supplies & furniture

LTD.

office supplies, furniture & secretarial services

"Two locations to serve you better!"

**BOLTON**  
93 Healey Road  
Bolton, Ontario

**GEORGETOWN**  
348-#4 Guelph Street  
Georgetown, Ontario