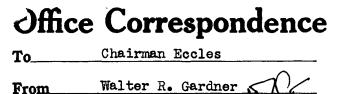
BOARD OF GOVERNORS



Date February 10, 1942

Subject: Bank of Canada, Treasury,

and Central Mortgage Bank

We have now obtained a full copy of the Act incorporating the Central Mortgage Bank in Canada. In my memorandum of yesterday, I called attention to the fact that while the effective management of the Bank would be in the hands of the Bank of Canada, the capital was to be subscribed by the Canadian Treasury. I did not note, what is now clear, that the contribution of the Treasury is to be on a yet larger scale.

The Act contemplates cancellation of interest arrears in excess of two years on outstanding mortgages, the addition of arrears up to two years and certain other items to principal, and the writing down of this combined amount to 80 per cent of the fair value of the property as appraised under the Act. The losses thus incurred by member institutions are to be reimbursed to the extent of 50 per cent by the delivery of Central Mortgage Bank debentures to the member institutions. Interest and amortization on these debentures will be borne by the Treasury.

The fact that so much Treasury money will be involved in the Central Mortgage Bank without any direct contribution from the Bank of Canada makes all the more significant the leading position given to the Bank of Canada in the management.