

Canada's Housing Finance System: An Overview

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Key Metrics

Country	Country Population (million)	Mortgage Market Size (in local currency)	Mortgage Debt to GDP	RMBS Issuance		Homeownership Rate
				Public	Private	
Canada	33.9 (October 2009)	952 (October 2009)	62% (2009-Q3)	\$ 134.3 bn (2009)	0	69% (2006)
USA	307 (October 2009)	11,763 (2009-Q3)	62% (2009-Q3)	\$ 1,925 bn (2009)	\$24 bn (2009)	68% (2009)

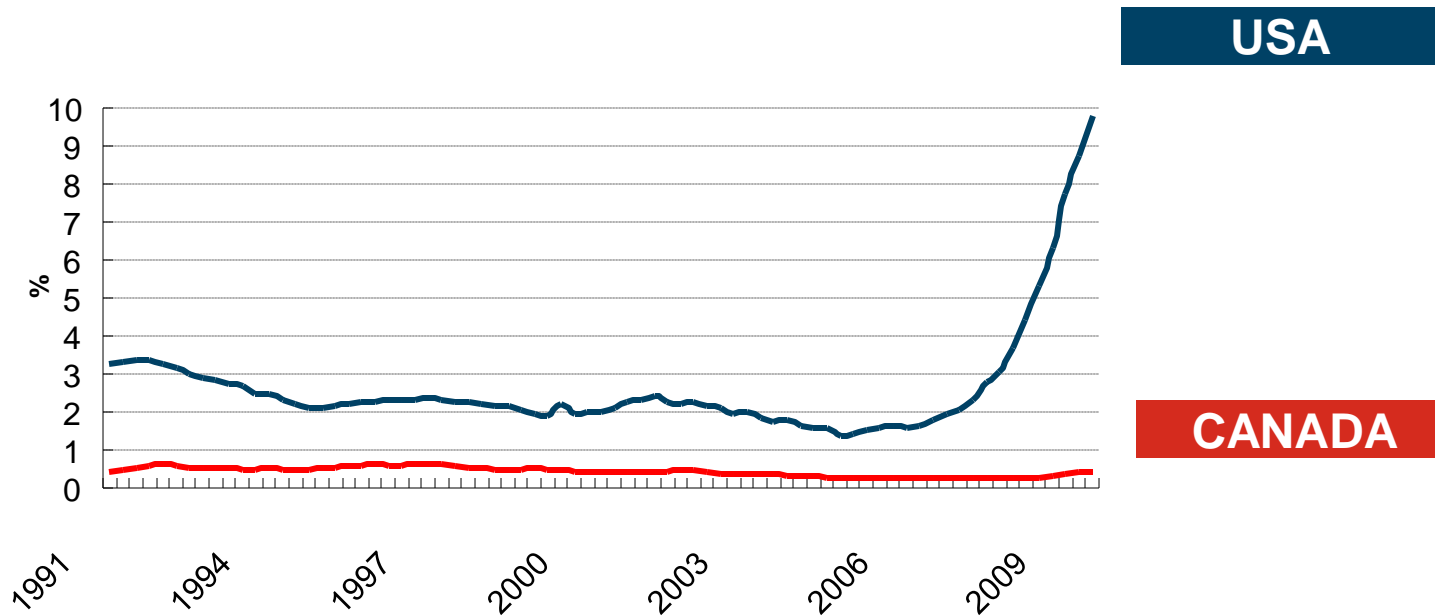
Sources: CMHC and Bank of Canada

Canada's Housing Finance Remains Strong

- Compared with many countries, Canada's housing markets and its housing finance system held up well during the global financial crisis
- Six largest Canadian banks are well capitalized, with less leverage than international peers
- Small subprime mortgage market
- Very low mortgage arrears

Canadian Mortgage Arrears Remain Low

Percentage of mortgages in arrears
Canada and the USA



Sources: Canadian Bankers Association, Federal Reserve

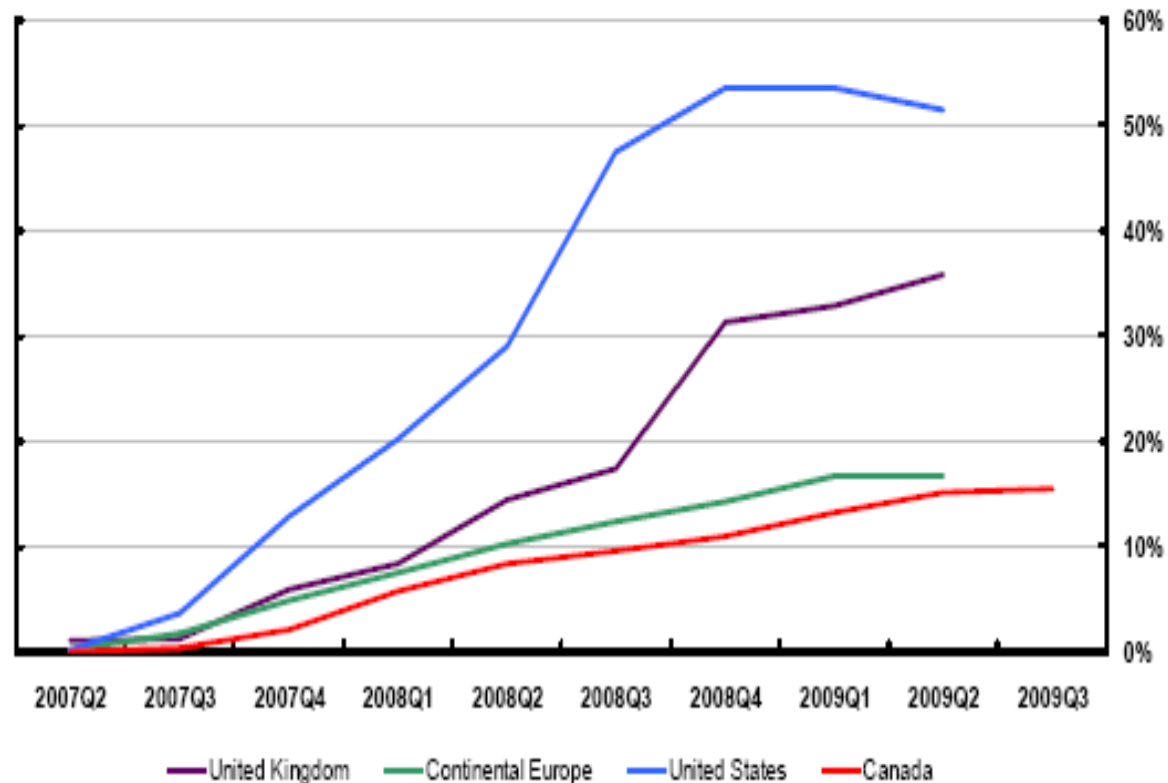
Canada: Mortgages in arrears three months or more

USA: Mortgages in arrears thirty days or more

Canada's Mortgage Lenders - Lower Writedowns

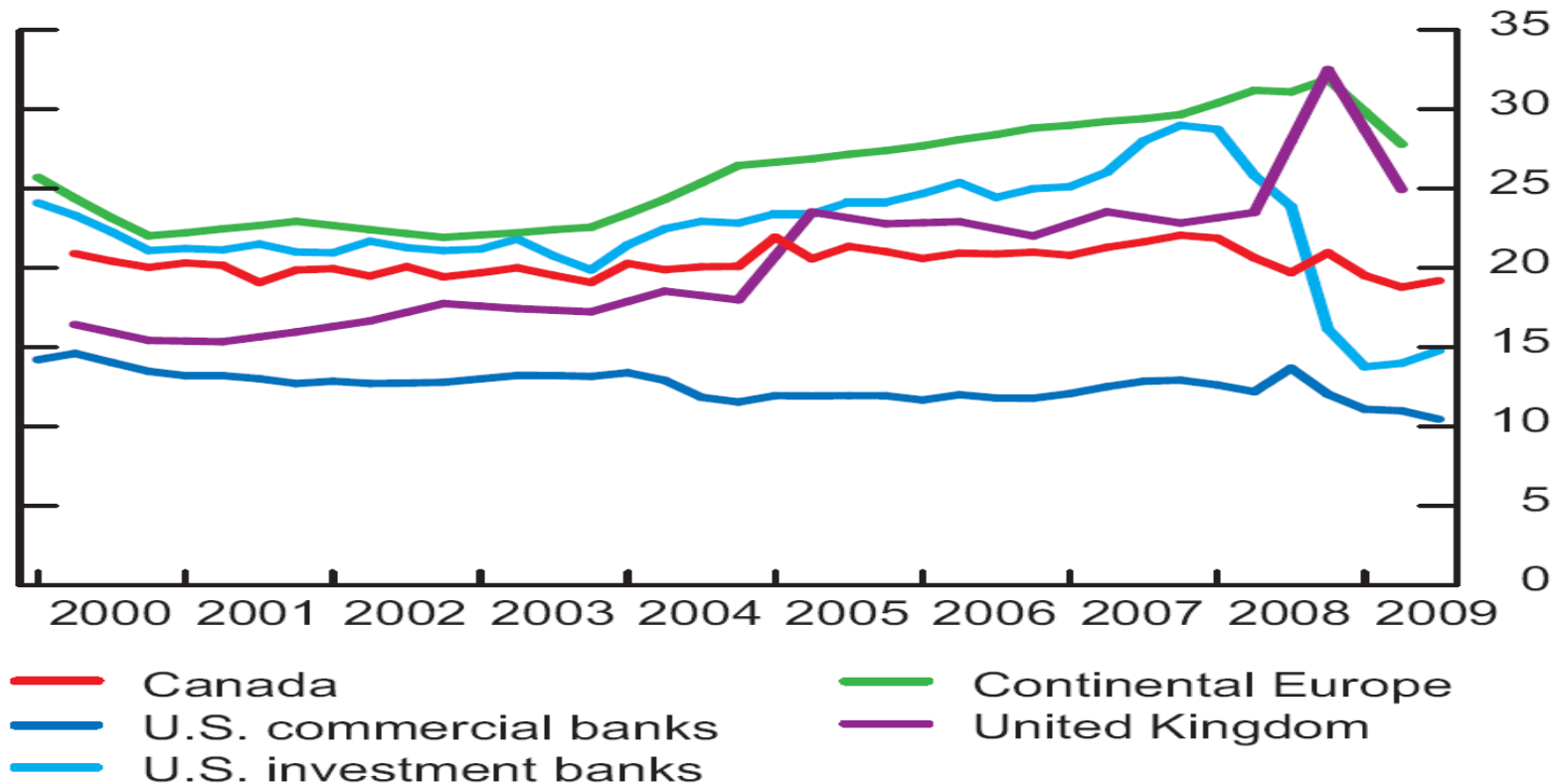
Conservative risk appetite of Canadian banks

Cumulative writedowns as a share of shareholders' equity



Sources: Bloomberg and banks' financial statements

Canada's Mortgage Lenders -- Leverage and Capital



a. Balance-sheet assets to shareholders' equity

Source: Bloomberg

Last observation: Canada and United States, 2009Q3;
Continental Europe and United Kingdom, 2009Q2

- Tier I capital of major banks in Canada has exceeded 9.5% since 2003

Policy Backdrop

- Government policies do not explicitly favour homeownership over rental
- Mortgage interest not deductible
- Lenders have recourse on borrower's assets and income
- Significant government support for low income rental housing

Regulatory Framework

- A single federal regulator – Office of the Superintendent of Financial Institutions (OSFI)
- Mandatory mortgage insurance LTV > 80%
- No CRA-type legislation – public mortgage insurance ensures equal access
- No special rules against predatory lending

CMHC: Canada's Housing Agency

- A government owned Crown corporation
- Created in 1946 initially to house returning war veterans
- Key Functions:
 - Funded through government appropriations:
 - Assisted Housing
 - Research and Information Transfer
 - Government of Canada housing policy
 - International and export assistance
 - Housing Market Analysis
 - Self funding on a commercial basis:
 - Mortgage Insurance
 - Mortgage Securitization

Mortgage Origination

	Name of Institution	Type	Principle location of operations	Residential Mortgages (\$B)	Assets (\$B)
The “Big Five”	Royal Bank of Canada	Chartered bank	Canada	117	695
	Toronto-Dominion Bank	Chartered bank	Canada	58	557
	Scotiabank	Chartered bank	Canada	88	496
	Bank of Montréal	Chartered bank	Canada	46	388
	CIBC	Chartered bank	Canada	86	336
Major regional players	Desjardins	Caisse populaire	Quebec	63	163
	National Bank of Canada	Chartered bank	Quebec	15	132
	VanCity Group	Credit union	British Columbia	6	15
	Canadian Western Bank	Chartered bank	Western provinces	2	12
Monolines (most mortgages are securitized)	First National Financial LP	Monoline	Canada	0.1	0.7
	MCAP/MCAN	Monoline	Canada	0.4	0.6

Mortgage Origination

- Use of mortgage brokers is lower than in United States
- Originate-to-Distribute model is far less common in Canada than in the United States
 - 68% of mortgages remain on balance sheet of lender
 - Often the lender has other financial business of the borrower
 - Personal banking
 - Investments
 - Insurance

Mortgage Insurance

- Canada: 50% of mortgages insured
- U.S.: 30% (2008), only 15% pre-crisis
- Public and private insurers:
 - CMHC
 - Operates everywhere in Canada
 - Only provider of insurance for large rental, nursing and retirement homes, on-reserve
 - 0 risk weight
 - Genworth
 - AIG-UG
- Mortgage insurance covers the full loan amount, for the full life of the mortgage

Government Guarantee of Mortgage Insurance

- Government guarantee of private insurers = 90% OLA
- July 2008:
 - Maximum amortization period: 35 years;
 - Minimum down payment: 5%;
 - Minimum credit scores (varies based on LTV); and
 - Loan documentation standards.
- February 2010:
 - Borrowers must qualify based on five-year fixed rate
 - Refinance maximum 90%LTV (down from 95%)
 - Small rental maximum 80%LTV

Mortgage Funding

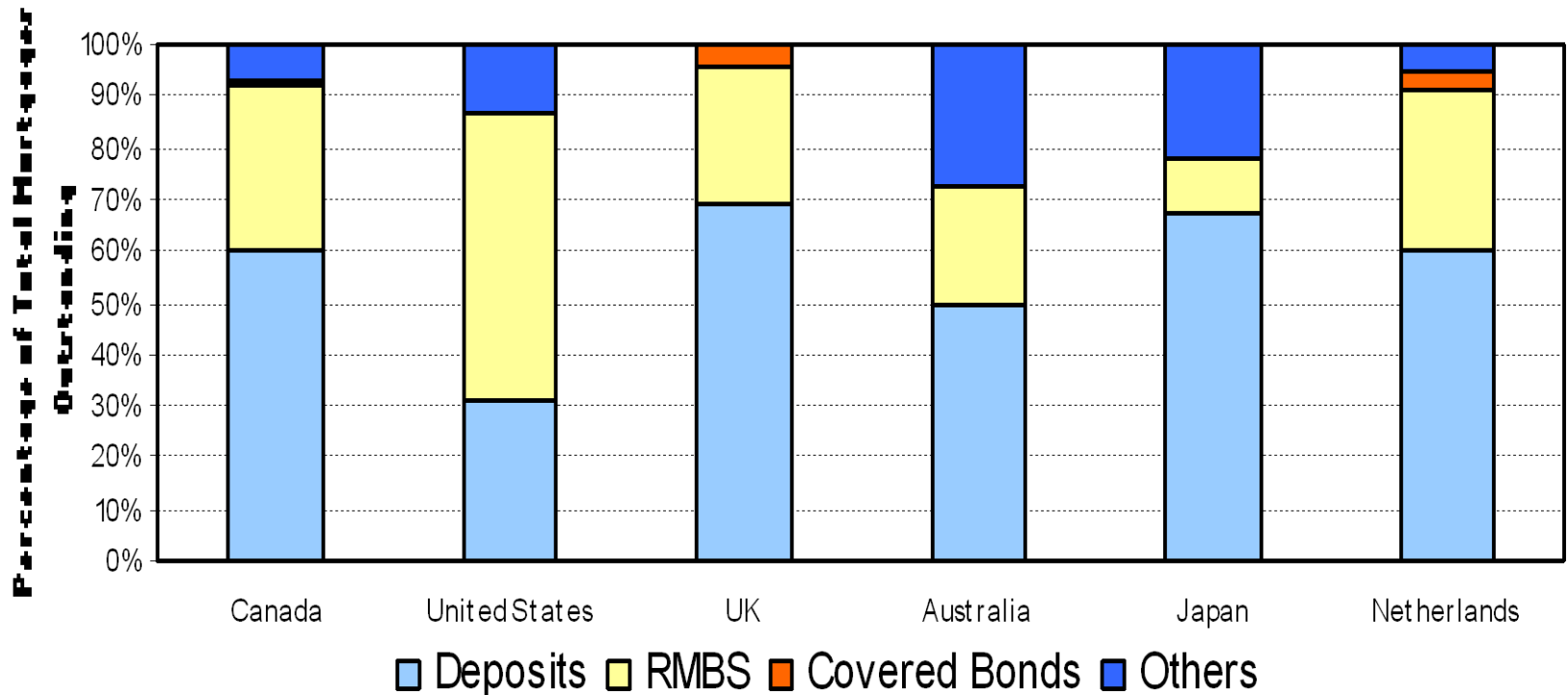
- 60% of mortgages funded through deposits. (2009)
- Securitization primarily for liquidity rather than risk transfer
- Prior the crisis, Canada had a small private RMBS sector
- Post-crisis only CMHC-sponsored funding vehicles, and a small covered bond sector
- CMHC-sponsored securitization:
 - 30% of mortgages outstanding
 - About half of funding for new mortgages

Mortgage Funding

- NHA Mortgage-Backed Securities (NHA MBS)
 - Pass-through securities backed by pools of amortized, insured residential mortgages
 - CMHC guarantees timely payment of interest and principal
 - Outstanding volume: \$ 298 billion
- Canada Mortgage Bonds (CMB)
 - Bullet-bonds issued through Canada Housing Trust (CHT) which in turn purchases NHA-MBS
 - Government of Canada guarantees full and timely payment of interest and principal
 - Outstanding volume: \$176 billion.
 - Spread over GoC 5-year bonds: approximately 20 basis points

Mortgage Funding

- In contrast with the U.S., but in keeping with most countries, deposits have been the primary mortgage funding source in Canada.
- Funding via securitization has increase both before and during the global crisis.

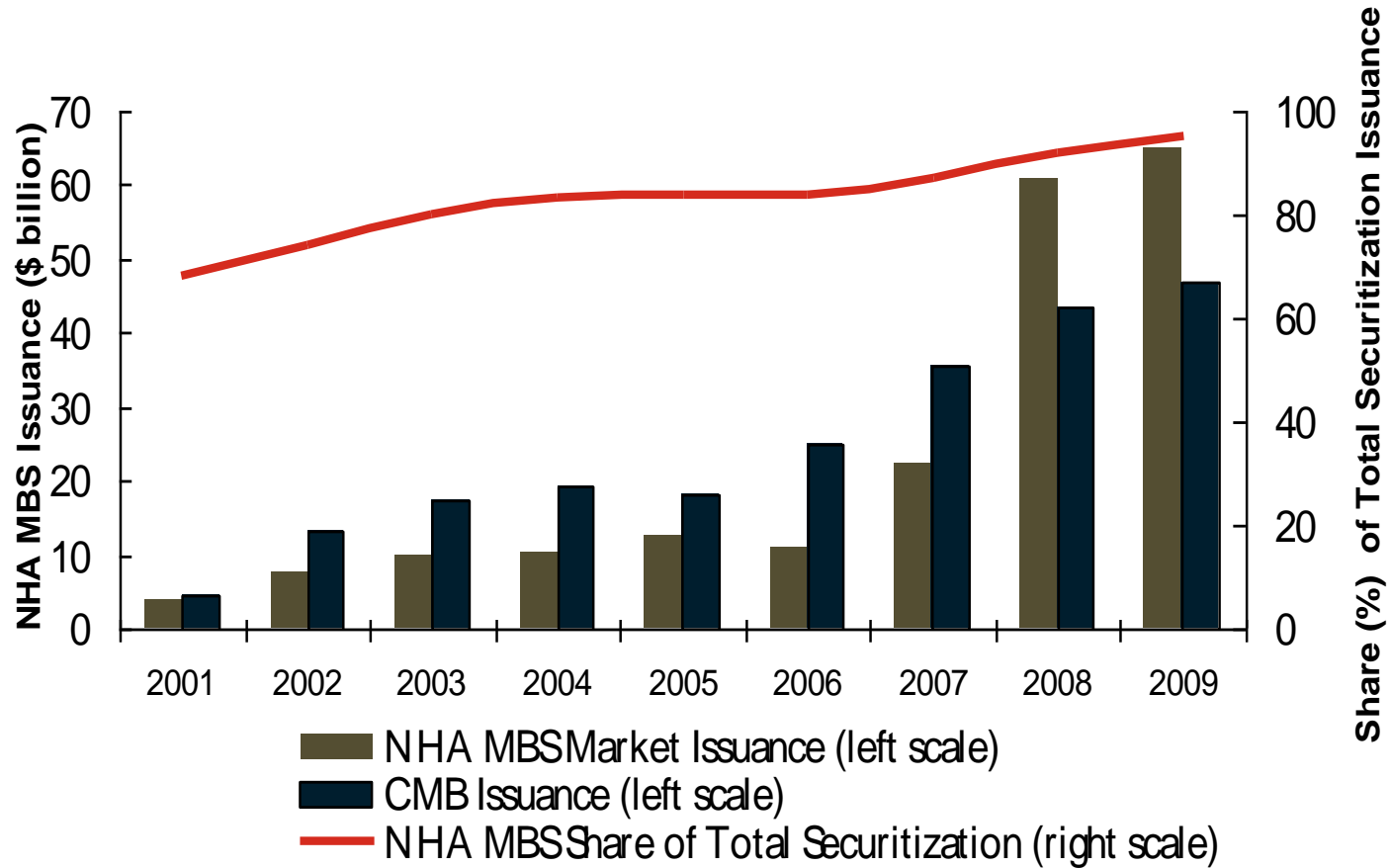


Note: Covered bonds were issued by Canadian and US mortgage lenders recently yet only account for a small part of total mortgage funding in both countries. “Others” vary between countries, often include: wholesale debt funding, whole loan sales

Data as of 2009 for Canada, UK, US; 2007 for Australia; 2004 for Japan; 2008 for the Netherlands

Source: Bank of Canada, CMB Evaluation, Merrill Lynch, Dr. M. Lea, HM Treasury, and Reserve Bank of Australia.

Mortgage Funding



Source: CMHC, and Bank of Canada

Mortgage Funding

Insured Mortgage Purchase Program (IMPP)

- Temporary program created October 2008
- Government purchased insured residential mortgage pools through reverse auctions
- Rate of return on the purchased mortgages exceeds the government's cost of borrowing.
- \$125 billion authorized, \$66 billion used to date

Covered bonds

- In 2007, OSFI allowed deposit-taking institutions to issue covered bonds up to 4% of their total assets.
- Three Canadian banks have issued covered bonds in Euros, U.S.\$ and Cdn\$
- Amount outstanding: approximately \$13 billion

Current Issues

- Home Prices
- Household Indebtedness
- Treatment of CMHC Securitization Products and Leverage Ratios