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Connecting the world to better housing

The Stability of the Canadian Mortgage Market

October 2008

27th World Congress - International Union for Housing Finance



#43503

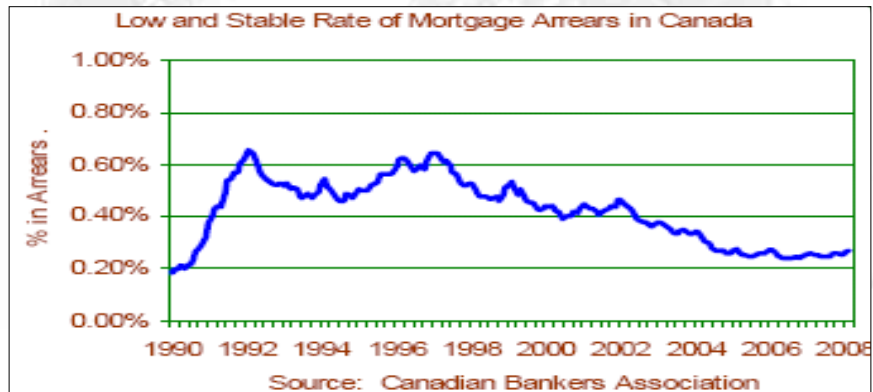


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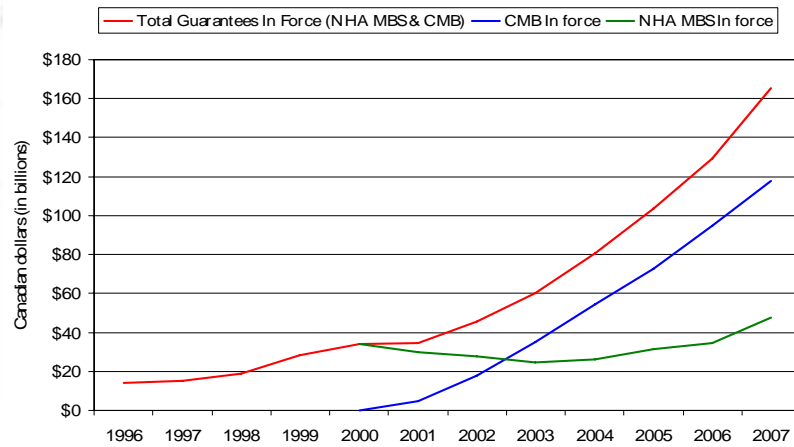
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Mortgage Arrears

- Stable at 0.27 % near the lowest levels since 1990

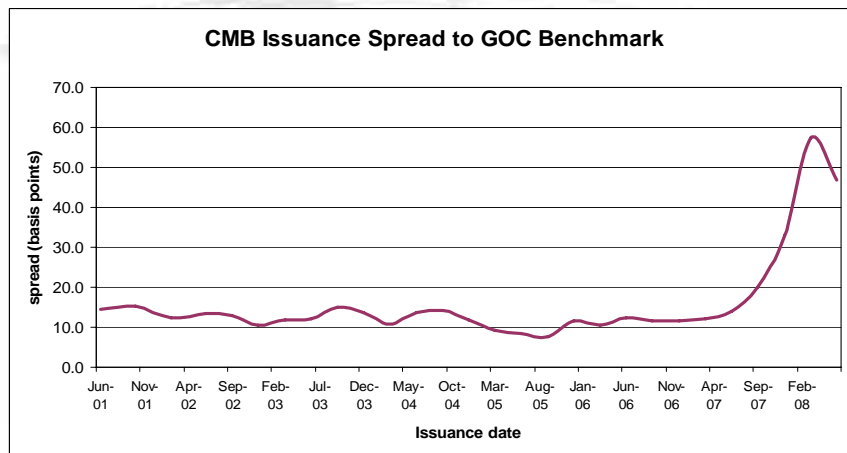


CMB – increasing share of mortgage market



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Widening CMB Spreads



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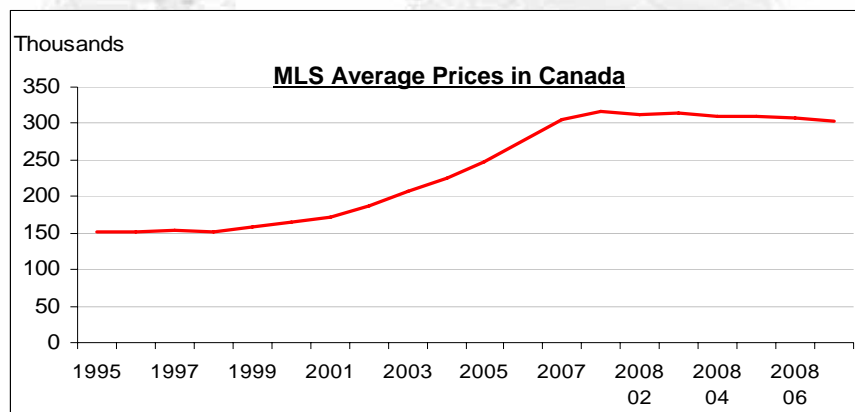
Asset-Backed Commercial Paper (ABCP)

- \$35 billion freeze in non-bank ABCP
 - Concerns about the quality of underlying assets
 - Suspicion that asset pools contain US sub-prime mortgages
- A rescue plan “The Montreal Accord”
 - Large banks and institutional investors formed a group
 - Group members bought back ABCP from small investors
 - ABCP converted into long-term securities

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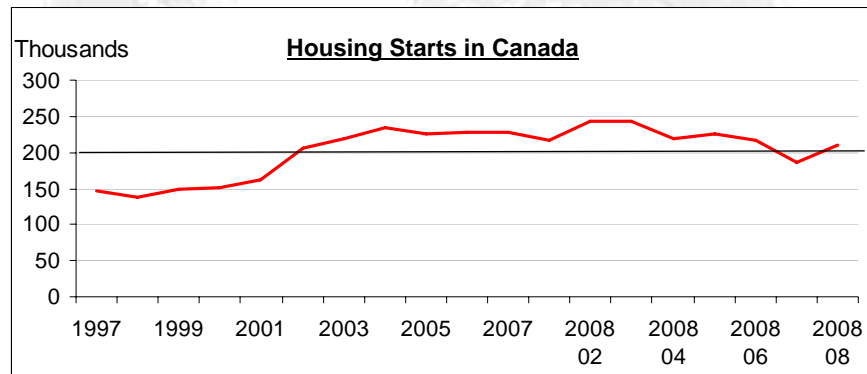
Housing Prices

- Home equity gains based on economic fundamentals



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Housing Starts



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Public and Private Mortgage Default Insurance Guaranteed by Government

- More conservative parameters announced by Department of Finance
 - Maximum LTV - from 100% to 95%
 - Maximum amortization period - from 40 years to 35
 - Stop to High ratio home equity lines of credit (HELOC)

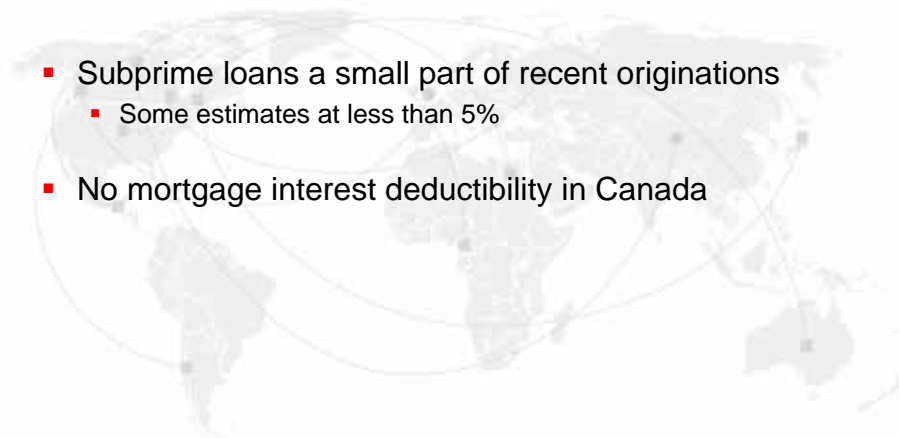
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Basic facts

- Subprime loans a small part of recent originations
 - Some estimates at less than 5%
- No mortgage interest deductibility in Canada

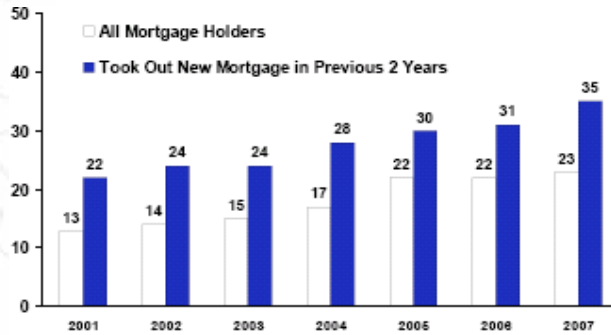


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Mortgage Broker's Role

- Approx. 1/3 of borrowers use brokers
- More regulated than in the USA

Percentage of Mortgage Holders using Brokers



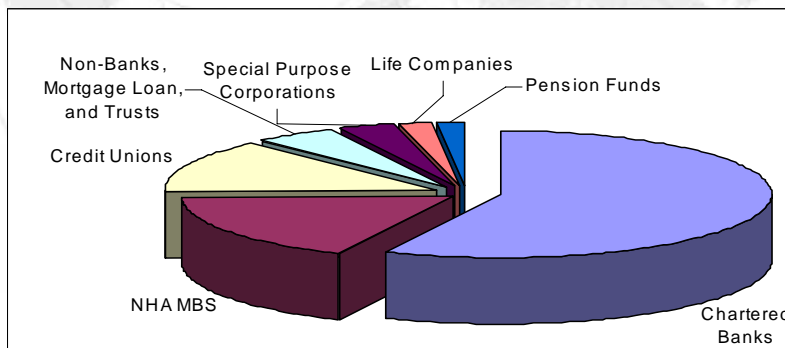
Source: Altus Group/Ipsos-Reid, The FIRM Residential Mortgage Survey, combined survey quarters in each year.

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“Originate to hold” vs “Originate to distribute”

- Portfolio practice of lenders : a strong incentive for good credit quality

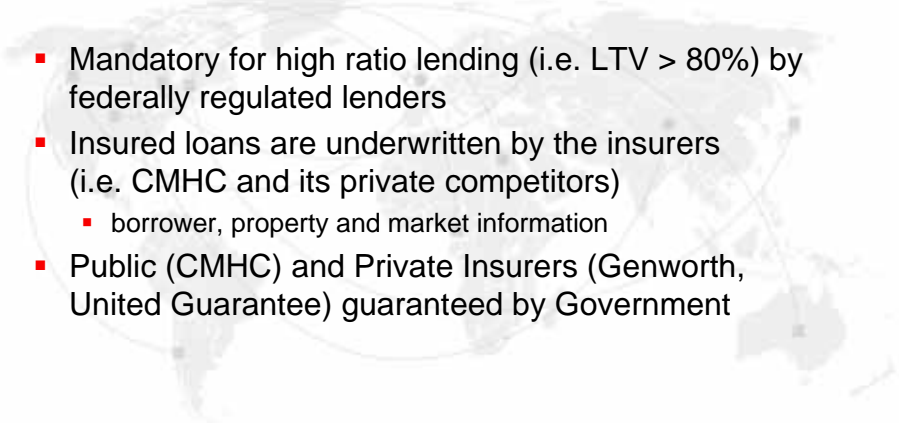
Residential Mortgage Credit Outstanding 2007



Source: Canadian Housing Statistics 2007


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Mortgage Default Insurance in Canada

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- Mandatory for high ratio lending (i.e. LTV > 80%) by federally regulated lenders
 - Insured loans are underwritten by the insurers (i.e. CMHC and its private competitors)
 - borrower, property and market information
 - Public (CMHC) and Private Insurers (Genworth, United Guarantee) guaranteed by Government

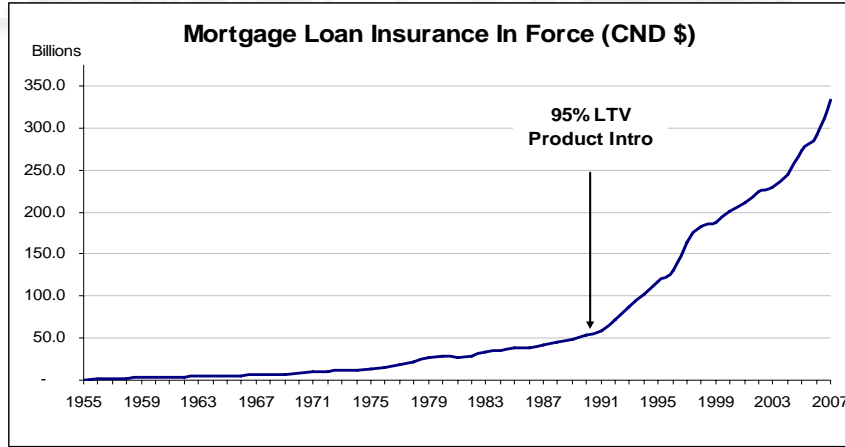
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MDI Making the Difference

- 
- Benefits To Lenders
 - Eliminates loan losses
 - Reduces capital adequacy requirements
 - Enhances access to securitization
 - Benefits To Borrowers
 - Reduces down payment requirements
 - Better interest rate
 - Access for under-served borrower segments - young or self-employed
 - Benefits to the financial system
 - Scrutiny of risky loans
 - Funding of risk (i.e. reserves and capital)

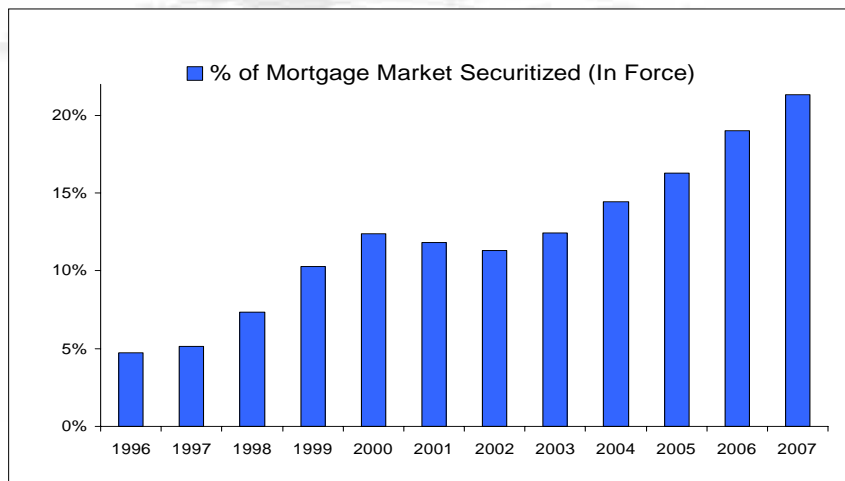
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CMHC MDI Growing since 1954



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Liquidity: Funding Diversification Through Securitization



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CMB Features

- Capital certainty
 - Insured underlying mortgage assets
 - No complicated risk subordination structure
- Cashflow certainty
 - Timely payment
 - No unscheduled payments
- Mortgages transformed in plain “bullet bond”
 - Principal at maturity only
 - Semi-annual interest coupon

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Thank You

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