



Residential Mortgage Insurance in Canada

Presentation to the American Bar Association

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- **Canada weathered the financial crisis better than most jurisdictions largely because of the strength of its residential housing market**
 - > mortgage interest not tax deductible
 - > no significant “originate to distribute” model
 - > bankruptcy laws favor creditors
 - > residential mortgage insurance market
- **The latter will be the focus of this presentation**

General Overview – Mortgage Insurance Market

- Federally regulated financial institutions (including all banks) required to purchase mortgage insurance if the loan on the residential property exceeds 80% of the value of the property
- Providers of Mortgage Insurance
 - > Canada Mortgage and Housing Corporation (“CMHC”)
 - > Genworth Financial Mortgage Insurance Company Canada (“Genworth”)
 - > Canada Guaranty Mortgage Insurance Company Canada (“Canada Guaranty”)

- CMHC receives 100% guarantee from the federal government
- Genworth / Canada Guaranty receive 90%
- the loan, lender and borrower must meet specified criteria – no significant sub-prime mortgage market

Funding

- Premiums paid by the borrower
- Borrower must pay the full upfront cost at time of origination

Eligibility for Government Guarantees

- Has evolved over time and currently requires:
 - > loan to value ratio equal to or less than 95%
 - > maximum amortization period of 30 years
 - > borrowers to immediately make payments to reduce the principal

Eligibility for Government Guarantees ... *con't*

- > lenders must be approved
- > borrowers require minimum credit score and to qualify based on the rate for 5 year mortgage regardless of the rate for the period selected
- > more stringent requirements for non-owner occupied properties (at least 80% loan to value) and limits on refinancing to 85% loan to value

CMHC v. Private Mortgage Insurers

- Private insurers required to pay Canadian government a risk premium for coverage
- Private insurers required to make additional payments to a reserve trust account of the government
- only 90% of the mortgage insurance risk-weighted at 0% (as a government guarantee) for capital purposes

- Mortgage Backed Securities under *National Housing Act*
- Canada Mortgage Bond Program
- CMHC is prepared to write bulk insurance policies over pools of “conventional” mortgages.
- Some asset-backed commercial paper conduits existed before 2007 before the financial crisis, but no new issuances
- Public term residential mortgage-backed securities were also limited

- **Canadian government recognizes need for banks to have diversified funding alternatives**
- **Government intends to table “covered bond” legislation**
- **OSFI currently limits amount at 4% of the total assets of the bank**

- **Quick recovery**
 - > Nationally prices have rebounded 31% from their lows in 2008 and are now 13% above pre-crisis valuations
 - > In Vancouver prices have rebounded 55% and are 29% above previous peak valuations
- **Speculation especially by foreign investors in certain markets in Canada**
- **Bank of Canada and OSFI will continue to monitor closely**

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