

# SUMMARY OF THE CORPORATE PLAN

2007-2011



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CANADA MORTGAGE AND HOUSING CORPORATION

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# 2007 – 2011 SUMMARY OF THE CORPORATE PLAN

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CANADA MORTGAGE AND HOUSING CORPORATION

## INCLUDES SUMMARIES OF THE FOLLOWING:

- 2007 Operating Budget
- 2007 Capital Budget for Furniture, Equipment and Business Premises
- 2007 Capital Budget for Loans and Investments

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for more than 60 years. Together with other housing stakeholders, we help ensure that Canada maintains one of the best housing systems in the world. We are committed to helping Canadians access a wide choice of quality, affordable homes, while making vibrant, healthy communities and cities a reality across the country. For more information, visit our website at [www.cmhc.ca](http://www.cmhc.ca). You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274. Outside Canada call 613-748-2003 or fax to 613-748-2016. Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

## **Library and Archives Canada Cataloguing in Publication**

Canada Mortgage and Housing Corporation  
Summary of the corporate plan, 2007-2011 / Canada Mortgage and Housing Corporation.

Text in English and French on inverted pages.  
Title on added t.p.: Résumé du plan d'entreprise, 2007-2011.  
Available also on the Internet.  
ISBN 978-0-662-69776-3  
Cat. no.: NHI-5/2007

I. Canada Mortgage and Housing Corporation. 2. Housing policy--Canada.  
I. Title. II. Title: Résumé du plan d'entreprise, 2007-2011.

HG2040.5.C3C36 2007

353.5'5

C2007-980103-XE

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Produced by CMHC





# FOREWORD

This Summary of Canada Mortgage and Housing Corporation's (CMHC) 2007-2011 Corporate Plan has been prepared in accordance with section 125 of the Financial Administration Act (FAA). It provides an overview of the Corporation's mandate and business structure, analyzes the expected operating environment, and sets out CMHC's corporate objectives and strategies for the next five years. The Summary demonstrates how the Corporation intends to achieve these objectives and measure its performance. It also shows how CMHC will manage the public assets entrusted to the Corporation through the presentation of its financial plan and resource requirements.

Minister of Human Resources and Social Development





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## SUBSEQUENT EVENTS

Since the preparation of CMHC's 2007-2011 Corporate Plan, the government announced an extension of the renovation programs by two years, providing additional funding of \$256 million. The resulting increase in housing program expenses as well as the impact on new commitments of 38,000 units is not reflected in this Corporate Plan Summary. The program extension will have a marginal impact on operating expenses.





## BUSINESS HIGHLIGHTS...

The following table summarizes CMHC's results and projections for key business areas over the planning period

Year	2003	2004	2005	2006
Corporate Results	Actual	Actual	Actual	Estimate
Total Assets (\$M) <sup>1</sup>	59,925	81,008	101,093	117,188
Total Liabilities (\$M) <sup>1</sup>	57,449	77,582	96,665	111,844
Total Equity (\$M) <sup>2</sup>	2,476	3,426	4,428	5,344
Total Revenue (\$M) <sup>1</sup>	5,563	6,560	7,334	7,836
Total Expenses (\$M) <sup>1</sup>	4,556	5,161	5,870	6,477
Total Operating Expenses (\$M) <sup>1</sup>	294	305	303	353
Net Income (\$M)	667	950	1,002	917
Other Comprehensive Income <sup>3</sup>				n/a
Comprehensive Income <sup>4</sup>				n/a
Reserve Fund (\$M)	91	134	143	142
Staff Years	1,799	1,814	1,804	1,936
<b>Insurance</b>				
Annual Insurance Units Approved	517,795	652,573	746,157	702,574
Insurance in Force (\$M)	230,000	243,800	273,700	299,700
Net Insurance Claims Expense (\$M)	188	51	119	231
Premiums and Fees Received (\$M)	1,203	1,446	1,492	1,622
Investments (including cash) (\$M) <sup>5</sup>	6,710	7,831	9,142	10,332
Net Income (\$M)	602	875	951	877
Other Comprehensive Income <sup>3</sup>				n/a
Comprehensive Income <sup>4</sup>				n/a
Unappropriated Retained Earnings (\$M)			657	922
Retained Earnings Set Aside for Capitalization (\$M)	2,237	3,112	3,406	4,017
<b>Securitization</b>				
Annual Securities Guaranteed (\$M)	27,017	29,592	30,374	30,000
Securitization Guarantees in Force (\$M)	59,994	80,800	103,709	124,500
Fees Received (\$M)	60	66	68	67
Investments (including cash) (\$M) <sup>5</sup>	200	266	327	387
Net Income (\$M)	30	32	42	40
Other Comprehensive Income <sup>3</sup>				n/a
Comprehensive Income <sup>4</sup>				n/a
Unappropriated Retained Earnings (\$M)	123	155	197	238
<b>Housing Programs</b>				
Annual New Commitments (units) under Renovation Programs	18,467	25,539	21,990	22,090
Annual New Commitments (units) under Renovation Programs – On-reserve	1,183	1,484	1,508	2,381
Annual New Commitments (units) under Renovation Programs – Off-reserve	17,284	24,055	20,482	19,709
New commitments On-Reserve Non-Profit Units	968	978	1,045	4,829
Estimated Households Assisted through long-term Commitments	635,900	632,650	633,300	634,250
Affordable Housing Initiative (\$M)	166	173	175	174
Housing Program Expenses (\$M) (excluding operating expenses)	1,972	2,006	1,973	2,136
<b>Lending</b>				
Loans and Investments in Housing Programs (\$M)	14,075	13,669	13,170	13,029
Borrowings from Capital Markets (\$M)	10,244	9,212	9,467	8,834
Borrowings from the Government of Canada (\$M)	5,232	5,045	4,899	4,701
Net Income (\$M)	35	43	9	(0.1)
<b>Canada Housing Trust</b>				
Canada Housing Trust Assets (\$M)	35,422	54,975	73,208	90,562
Canada Housing Trust Liabilities (\$M)	35,422	54,975	73,208	90,562

1 - Historical results and future year plans have been restated to reflect the consolidation of Canada Housing Trust.

2 - With the introduction of the new accounting standards in 2007, Equity now includes Accumulated Other Comprehensive Income.

3 - Results from changes in fair value of certain financial assets and liabilities.

4 - Financial Instruments – Recognition and Measurement, Comprehensive Income and Hedges will be adopted by CMHC January 1 2007.

5 - Excluding investments related to repurchase activities.

# AND OUTLOOK

Year Corporate Results	2007 Plan	2008 Plan	2009 Plan	2010 Plan	2011 Plan
Total Assets (\$M) <sup>1</sup>	127,548	132,282	145,776	155,541	161,578
Total Liabilities (\$M) <sup>1</sup>	120,752	124,342	136,569	145,037	149,652
Total Equity (\$M) <sup>2</sup>	6,796	7,940	9,207	10,504	11,926
Total Revenue (\$M) <sup>1</sup>	8,137	8,341	9,188	9,846	10,407
Total Expenses (\$M) <sup>1</sup>	6,606	6,714	7,470	8,047	8,529
Total Operating Expenses (\$M) <sup>1</sup>	362	380	402	424	467
Net Income (\$M)	1,033	1,131	1,202	1,278	1,334
Other Comprehensive Income <sup>3</sup>	65	13	65	20	88
Comprehensive Income <sup>4</sup>	1,098	1,144	1,267	1,297	1,422
Reserve Fund (\$M)	151	147	138	127	121
Staff Years	1,897	1,859	1,851	1,851	1,842
<b>Insurance</b>					
Annual Insurance Units Approved	603,061	584,781	574,659	568,141	559,150
Insurance in Force (\$M)	308,800	314,400	318,000	320,000	320,300
Net Insurance Claims Expense (\$M)	181	208	220	222	235
Premiums and Fees Received (\$M)	1,529	1,530	1,545	1,562	1,578
Investments (including cash ) (\$M) <sup>5</sup>	11,842	13,093	14,340	15,697	17,182
Net Income (\$M)	991	1,081	1,151	1,222	1,270
Other Comprehensive Income <sup>3</sup>	60	15	59	22	81
Comprehensive Income <sup>4</sup>	1,051	1,096	1,210	1,244	1,351
Unappropriated Retained Earnings (\$M)	1,608	2,314	3,235	4,267	5,432
Retained Earnings Set Aside for Capitalization (\$M)	4,433	4,807	5,037	5,227	5,333
<b>Securitization</b>					
Annual Securities Guaranteed (\$M)	30,500	32,500	34,500	36,500	38,500
Securitization Guarantees in Force (\$M)	136,900	140,500	153,500	160,400	169,800
Premiums and Fees Received (\$M)	69	73	78	82	87
Investments (including cash ) (\$M) <sup>5</sup>	460	517	590	655	739
Net Income (\$M)	46	54	60	67	69
Other Comprehensive Income <sup>3</sup>	4	-2	5	-3	7
Comprehensive Income <sup>4</sup>	50	52	65	64	76
Unappropriated Retained Earnings (\$M)	288	343	403	469	538
<b>Housing Programs</b>					
Annual New Commitments (units) under Renovation Programs	3,694	924	924	924	924
Annual New Commitments (units) under Renovation Programs – On-reserve <sup>6</sup>	644	601	601	601	601
Annual New Commitments (units) under Renovation Programs – Off-reserve <sup>6</sup>	3,050	323	323	323	323
New commitments On-Reserve Non-Profit Units	1,122	809	809	809	809
Estimated Households Assisted through long-term Commitments	630,400	623,200	616,400	608,000	601,000
Affordable Housing Initiative (\$M)	82	76	63	27	9
Housing Program Expenses (\$M) (excluding operating expenses)	1,930	1,884	1,887	1,853	1,835
<b>Lending</b>					
Loans and Investments in Housing Programs (\$M)	12,643	12,273	11,783	11,343	10,911
Borrowings from Capital Markets (\$M)	8,694	8,773	8,502	8,263	7,975
Borrowings from the Government of Canada (\$M)	4,446	4,235	4,025	3,822	3,675
Net Income (\$M)	(3.7)	(4.1)	(8.5)	(11.2)	(5.6)
<b>Canada Housing Trust</b>					
Canada Housing Trust Assets (\$M)	99,866	103,541	116,140	125,042	130,051
Canada Housing Trust Liabilities (\$M)	99,866	103,541	116,140	125,042	130,051

1 - Historical results and future year plans have been restated to reflect the consolidation of Canada Housing Trust.

2 - With the introduction of the new accounting standards in 2007, Equity now includes Accumulated Other Comprehensive Income.

3 - Results from changes in fair value of certain financial assets and liabilities.

4 - Financial Instruments – Recognition and Measurement, Comprehensive Income and Hedges will be adopted by CMHC January 1 2007.

5 - Excluding investments related to repurchase activities.

6 - Future year projected commitments reflect on-going funding for RRAP On-Reserve and the Shelter Enhancement Program.



# INTRODUCTION

Sixty years ago, CMHC opened its doors as Canada's national housing agency to welcome home the soldiers returning from the Second World War. Since then, CMHC has played a pivotal role in helping ensure adequate and affordable housing through its housing finance activities, social housing assistance and other programs.

The Summary of the 2007-2011 Corporate Plan presents an overview of CMHC's strategic business plan and sets out the objectives and priorities that will guide the Corporation's activities over the next five years.

## Corporate Profile

### I - MANDATE

CMHC derives its authorities from the *CMHC Act*, the *National Housing Act* (NHA) and, as a federal Crown corporation, the *Financial Administration Act* (FAA). CMHC's mandate as described in the NHA is to promote:

- housing construction, repair and modernization;
- housing affordability and choice;
- improvements to overall living conditions;
- the availability of low-cost housing financing; and
- the national well-being of the housing sector.

### 2 - CORPORATE STRUCTURE

CMHC is a Crown corporation, reporting to the Parliament of Canada through the Minister of Human Resources and Social Development, and is governed by a Board of Directors which is responsible for managing the affairs of the Corporation and the conduct of its business. CMHC's Board of Directors consists of the Chairman of the Board, the President and Chief Executive Officer, and eight other members appointed by the Government of Canada from the public and private sectors.

Based on policy expectations and government priorities communicated by the Minister, the Board guides CMHC's corporate planning process. The Board sets out broad strategies for the Corporation at the beginning of each planning year, discusses the Plan as it is drafted, and recommends CMHC's five-year Corporate Plan for Government approval. The Board follows up on CMHC's plans and priorities by regularly reviewing the Corporation's performance against the goals and objectives set out in its Corporate Plan.

Also part of the corporate structure are:

- a) ***Canada Housing Trust (CHT)*** is an arms-length legal entity for which CMHC provides guarantees and financial advisory services. It has been consolidated due to the application of new accounting rules. CHT was established in 2001 to fund housing loans and

operates on a break-even basis. Its functions are limited to the acquisition of ownership interests in eligible housing loans such as National Housing Act Mortgage Backed Securities (NHA MBS), the purchase of highly rated investments, certain related financial hedging activities and the issuance of Canada Mortgage Bonds (CMB).

and

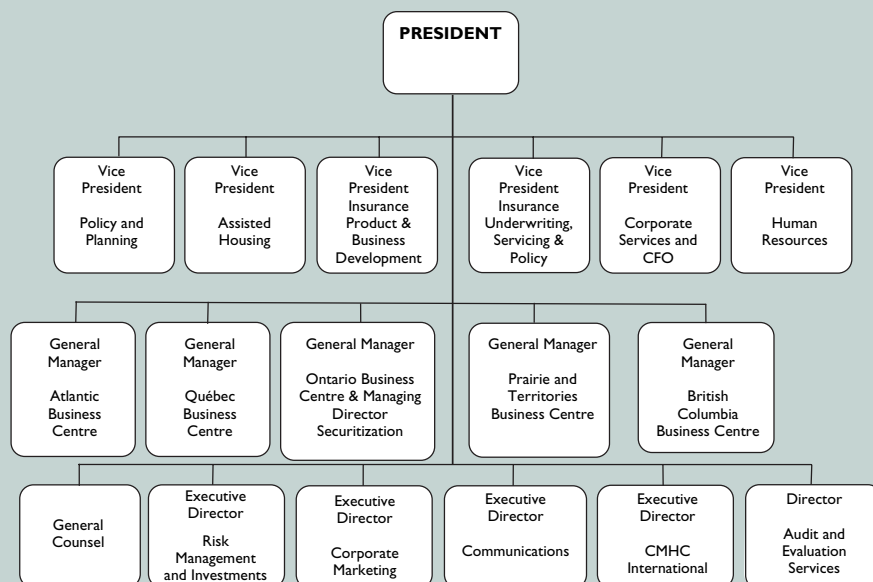
- b) **Granville Island** is an urban renewal project initiated by the federal government in 1972 to attract residents and visitors to the heart of Vancouver. This 15.2 hectare property is owned by the Government of Canada and managed by Canada Mortgage and Housing Corporation. Historically, Granville Island has been financially self-supporting with all operations maintenance covered by revenues earned through rental of property and vehicle parking.

### 3 - ORGANIZATIONAL STRUCTURE

In addition to CMHC's National Office in Ottawa, the Corporation has five regional Business Centres: Atlantic, Quebec, Ontario, Prairie and Territories, and British Columbia to provide Canadians with access to CMHC programs, products and services.

Under the leadership of CMHC's Management Committee, the Corporation delivers its products and services, to Canadians through the following key business areas: Assisted Housing, Insurance, Securitization, Research and Information Transfer, Market analysis (housed in Policy and Planning) and CMHC International. In addition to its overarching policy function, CMHC is supported by the following functions: Human Resources, Marketing, Communications, Administration, Legal Services, Information Technology, Risk Management and Investments, Finance, Treasury and Internal Audit and Evaluation.

## CMHC's Management Committee





#### 4 - BUSINESS LINES

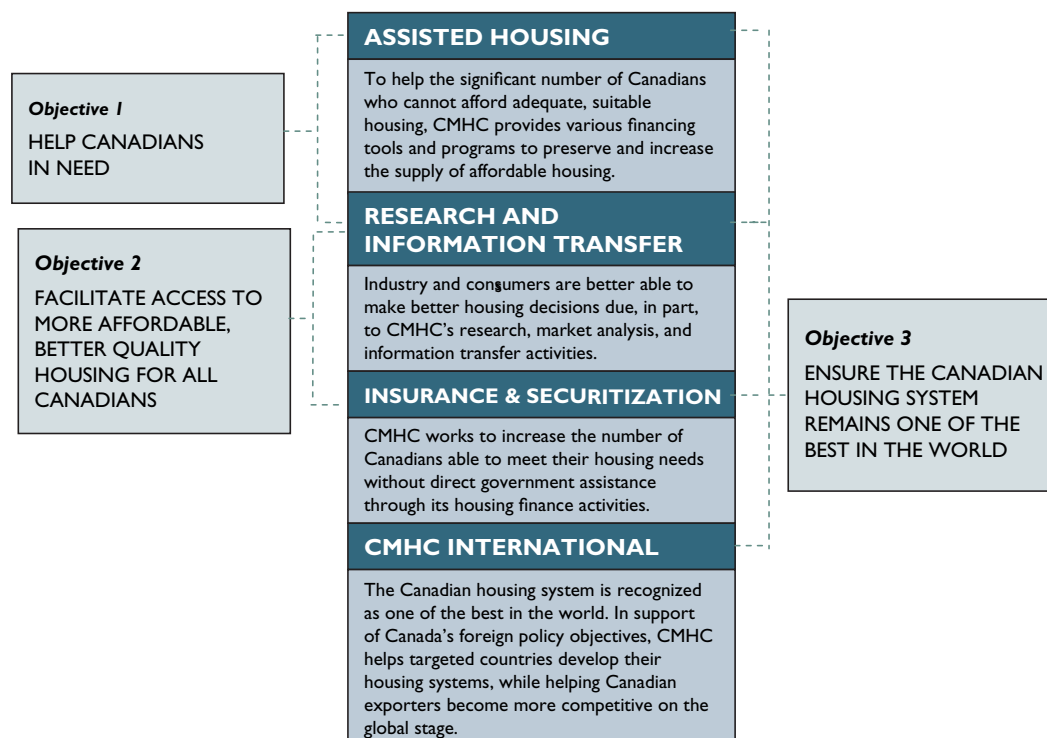
With the exception of Insurance and Securitization, CMHC's business lines are non-commercial in nature and, for the most part, they account for the Corporation's Parliamentary appropriations. Insurance and Securitization activities are commercial and, are expected to earn a reasonable rate of return in the long-term and do not receive any government assistance.

#### 5 - FINANCIAL REPORTING

CMHC Management is responsible for the integrity and objectivity of the financial statements and related information and for ensuring that this information is prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and applicable law. In carrying out its responsibilities, Management maintains appropriate financial systems and related internal controls to

provide reasonable assurance that financial information is reliable, assets are safeguarded, and transactions are properly authorized and in accordance with relevant legislation and the bylaws of the Corporation. Recent changes to accounting practices include:

Effective January 1, 2005, the Corporation adopted *Accounting Guideline 15: Consolidation of Variable Interest Entities (AcG-15)*, issued by the Canadian Institute of Chartered Accountants, which requires the consolidation of certain variable interest entities that are subject to control on a basis other than through ownership of a majority of voting interest. CMHC's consolidated financial statements now include the Canada Housing Trust.



Effective January 1, 2007, the Corporation will adopt three new accounting standards; *Section 3855 Financial Instruments – Recognition and Measurement*, *Section 3865 Hedges*, and *Section 1530 Comprehensive Income*. The principal impacts of the standards are detailed in the Financial Plan.

## 6 - CORPORATE PLANNING AND REPORTING PROCESS

CMHC's corporate planning process is guided on an annual basis by the broad strategic direction provided by the Board of Directors at the beginning of each year's planning cycle. The Board's input to the process in turn reflects the direction provided by the Minister in support of the Government of Canada's current priorities.



The Board's direction is informed by an ongoing environmental scanning process that outlines the latest economic, industry and socio-political issues and trends as well as CMHC's Enterprise Risk Management (ERM) landscape review. The ERM assessment looks comprehensively at risks and opportunities facing the Corporation and serves as an important front-end planning input for the Board. The Board's direction forms the basis of CMHC's corporate objectives and strategic priorities established by Management Committee for the five year planning period. Short- and long-term action plans and key initiatives are then developed requiring ongoing attention and follow-up by CMHC's business lines. The Corporation has performance measures and targets for its planned activities which it continues to develop and refine to ensure that progress can be tracked and to improve overall accountability.

In 2006, CMHC instituted a quarterly review of strategic priorities, performance and resources. The review was an improvement opportunity identified in an independent assessment of management practices. The adoption of this systematic, consistent quarterly review of strategic priorities, performance and resources enables the Corporation to more effectively align its efforts to the matters of greatest importance as priorities change over the course of the year and ensures that the established objectives are achieved. At the conclusion of each planning cycle, an Annual Report communicates CMHC's results to Parliament and Canadians.



## 2007-2011 PLANNING FRAMEWORK

Below is the Corporate Planning Framework for the 2007-2011 planning period. CMHC's nine strategic priorities are derived from the 2006 Board Planning session and are structured around three corporate objectives that reflect the Corporation's ongoing mandate as outlined below. The plans and priorities cover the Corporation's key activities for the planning period and reflect the direction provided by the Minister and CMHC's Board of Directors at the outset of the planning process. They reflect the important role that housing has to play in supporting the health and well being of Canadians, from strengthening Canada's

social foundation and supporting a strong economy, to promoting more sustainable housing and communities. They are supportive of governments and other partners that are actively engaged in finding housing solutions. They also include preparing for changes in the financial services industry to ensure that CMHC's mortgage insurance and securitization businesses continue to serve the needs of Canadians. Taken together, these priorities will have a significant impact on housing in Canada and provide the opportunity to shape the Canadian housing system to meet the needs of future generations.

The Corporate Planning Framework also provides a means to assess results against the objectives set out in the Corporate Plan through the monitoring of identified performance indicators. The 2006-2010 Corporate Plan introduced a series of outcome statements to articulate the intent of the Corporation's objectives. This focus on outcomes is in response to the public's expectation of being able to accurately measure and report on results. Treasury Board and the Auditor General as well as private sector organizations and the Canadian Institute of Chartered Accountants have encouraged more outcome based performance measurement to identify the impacts of the Corporation's programs and investments on target groups and stakeholders.

### **Corporate Objective 1 - Help Canadians in Need**

#### *Strategic Priorities*

- 1.1. Help Canadians in need to access affordable, sound and suitable housing
- 1.2. Improve living conditions for Aboriginal Canadians

### **Corporate Objective 2 - Facilitate Access to More Affordable, Better Quality Housing for All Canadians**

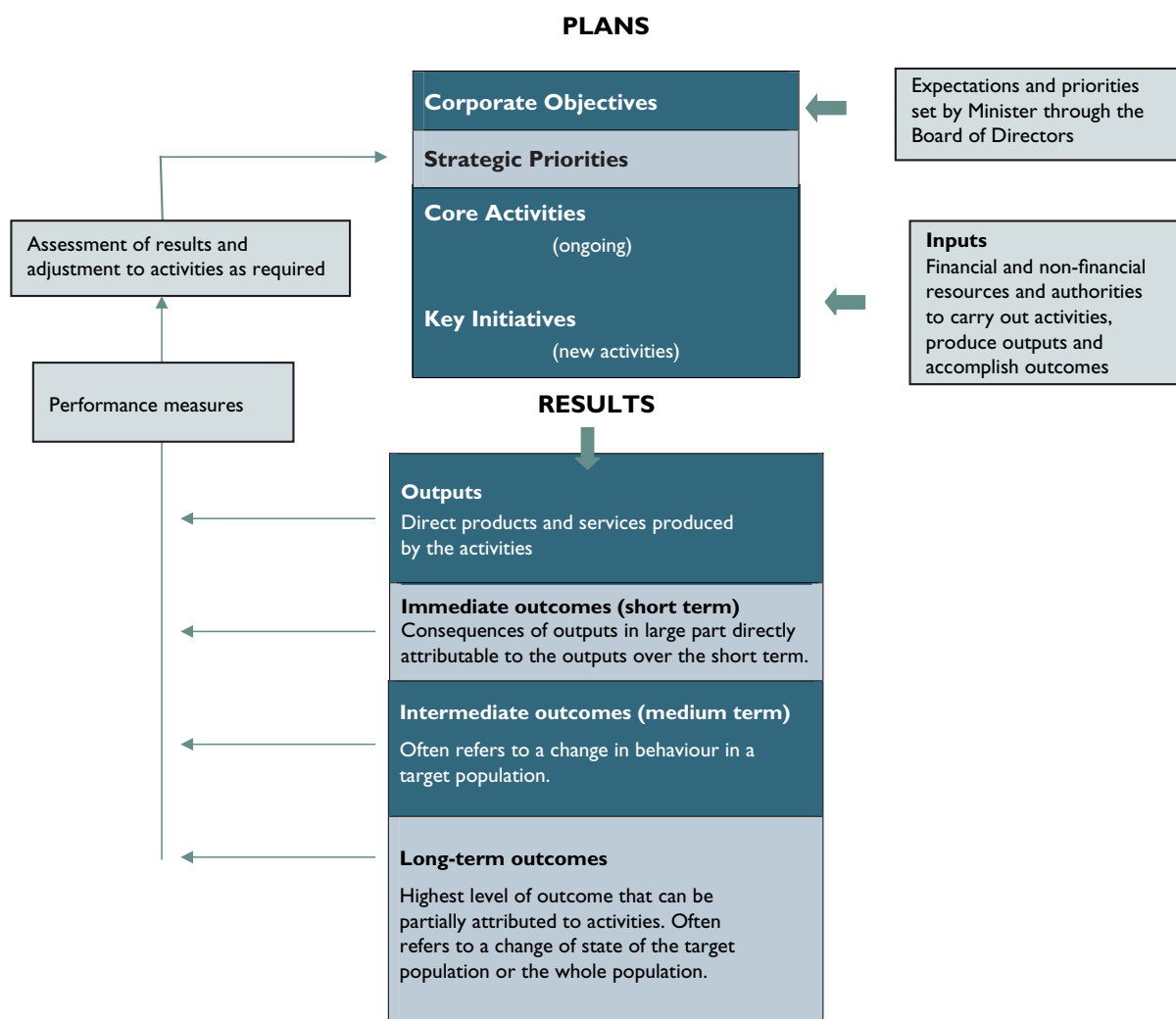
#### *Strategic Priorities*

- 2.1. Ensure Canadians have access to mortgage insurance products and tools that meet their needs
- 2.2. Enhance the supply of low-cost funds for mortgage lending by expanding the securitization program
- 2.3. Provide comprehensive, timely and relevant information to enable Canadian consumers as well as the housing sector to make informed decisions

### **Corporate Objective 3 - Ensure the Canadian Housing System Remains One of the Best in the World**

#### *Strategic Priorities*

- 3.1. Lead the development and implementation of federal housing policy in support of the Government of Canada's priorities and objectives
- 3.2. Promote sustainable housing and communities
- 3.3. Support and promote Canada's world-class housing products, services and system internationally
- 3.4. Ensure that CMHC remains a strong organization that is able to fulfil its mandate



For 2007, the Corporate Plan has been modified to include statements of the intermediate and longer-term intended outcomes for each of the strategic priorities. With respect to these longer-term outcomes, it is important to note that CMHC's actions may be only one of many contributing factors to the longer-term outcomes, therefore

changes in measures of these outcomes may or may not be primarily attributable to activities of the Corporation. CMHC's ability to influence these outcomes will be largely dependent on the level of resources dedicated to addressing housing need by all levels of government and by contributions of the private-and not-for-profit sectors.

# Objective I

## HELP CANADIANS IN NEED

To help the significant number of Canadians who cannot afford adequate, suitable housing, CMHC provides various financing tools and programs to preserve and increase the supply of affordable housing.

### RESOURCES

CMHC dedicates the following resources in support of its objective to help Canadians in need.

- \$ 80.6M operating expenses
- \$1922.3M government appropriations
- 526.6 staff-years





## I-1 HELPING CANADIANS IN NEED TO ACCESS AFFORDABLE, SOUND AND SUITABLE HOUSING

### Recent Progress

#### Managing Canada's social housing stock

CMHC works with the provinces and territories to manage some 630,000 housing units efficiently. In 2005, British Columbia and the Government of Canada announced an agreement to transfer the administration of social housing resources from the Government of Canada to the Province of British Columbia. The transfer will help streamline and simplify administration. The Province can use savings generated through the efficient use of federal funds to maintain the existing stock and to reinvest in housing for low-income people. Similar agreements have been signed with six provinces and the three territories, leaving Quebec, Alberta and Prince Edward Island as the only unsigned jurisdictions. The federal government is prepared to continue negotiating similar agreements in these jurisdictions.

#### TRENDS IN HOUSING NEED

- The proportion of recent immigrants in core housing need decreased from 42.8 per cent in 1996 to 36 per cent in 2001; however, this is still double the national rate.
- Almost 29 per cent of lone-parent families were in core housing need in 2001, down from 36 per cent in 1996.
- 16.9 per cent of seniors were in core housing need in 2001, nearly 70 per cent of whom were females living alone. In 1996, 18 per cent of senior led households were in core housing need.
- 28 per cent of households in core need in 2001 lived in inadequate or crowded conditions, down from 29.7 per cent in 1996.

#### Increasing the supply of affordable housing

During the first half of 2006, approximately \$96 million was spent under the Affordable Housing Initiative which represents 64 per cent of the 2006 target of \$150M. CMHC continues to work with its provincial and territorial partners to encourage timely take-up of funding and increased affordable housing supply.

#### STRENGTHS

- Well established relationships with federal, provincial, municipal governments and housing stakeholders.
- Extensive knowledge and experience in the development of housing and an in-depth understanding of the housing needs of a diverse population.
- Wealth of information on innovative approaches and best practices across the country that can facilitate the development of affordable housing.

#### RISKS AND CHALLENGES

- Evolving federal role in housing.
- Managing heightened expectations emanating from an increased focus on housing issues.
- Provinces, territories and others, including municipalities, are responsible for the design and delivery of affordable housing programs and therefore determine the pace of production and associated expenditures.



CMHC also supports social housing sponsors by providing low-cost funding for social housing projects. These loans provide non-profit groups with funds at the best possible interest rates, thereby reducing costs they would otherwise have to carry. CMHC's Direct Lending Program has provided almost \$197 million in new loans and renewed nearly \$1,130 million of existing loans in the first half of 2006.

### **Maintaining the existing supply of housing for low to moderate income Canadians**

With the assistance of CMHC's renovation and repair programs, 6,803 low-income households were provided with assistance to improve their homes in the first half of the year. The Corporation expects to provide assistance to some 22,000 households both on and off-reserve by the end of the year.

### **Working with the Agency for Co-operative Housing**

In addition to working with government to efficiently meet the needs of Canadians, CMHC has also completed the transfer of certain default and portfolio management responsibilities to the Agency for Co-operative Housing in accordance with the agreements signed in 2005. In the first half of 2006, files have been transferred to the Agency according to the schedule for P.E.I. and Ontario. The transfer of files for Alberta and British Columbia is planned for the fall of 2006. Ongoing communication between the Agency and CMHC ensures transitional issues are addressed and operations remain efficient and effective.

Under the current phase of the agreement, CMHC continues to be responsible for co-operative housing programs and policies as well as the management of certain financial aspects of the portfolio. In addition, CMHC monitors the activities of the Agency to ensure satisfactory performance. Some of the retained portfolio management activities may be transferred to the Agency under a future phase conditional on the demonstrated satisfactory performance by the Agency under the current agreement.

### **Supporting the development of affordable housing**

Housing solutions are as varied as the housing challenges they address. One way to help Canadians access suitable, affordable housing is to provide support in the early stages of developing affordable housing projects. Each year, CMHC provides \$4 million in Seed Funding and \$3 million in Proposal Development Funding to help affordable housing proponents carry out the activities required to turn their housing proposals into reality.

CMHC's Partnership Centre works with clients from the non-profit and private-sectors, as well as municipalities and others who are interested in producing affordable housing without ongoing government subsidy. The Partnership Centre assists clients in a variety of ways by drawing on the full range of CMHC's products, services and programs. The Centre also connects clients with other sources of information and support. In the first half of the year, the Centre helped create 2,024 homes exceeding its full year target of 1,470.

## **What does CMHC want to accomplish over the longer-term?**

CMHC wants to reduce the proportion of Canadian households in core housing need by maximizing the use of available public and private resources.

## **Focus over the planning period**

Over the planning period, the Corporation will use its existing tools as well as its depth and breadth of expertise to work with its network of government, industry and non-profit stakeholders to address housing needs. CMHC will work with its partners to identify, develop and share innovative approaches to increase the supply of suitable and affordable housing for those Canadians in need. CMHC will use its extensive research capabilities to research improved housing options for new Canadians, seniors, persons with disabilities and low-income Canadians. The Corporation will also explore opportunities to facilitate the regeneration and revitalization of major social housing projects, and the development of federal surplus lands, as inclusive and sustainable neighbourhoods.

## **Issues affecting CMHC's direction**

- One-in-seven Canadian households cannot afford to live in good quality, uncrowded housing. In 2001, 1.5 million Canadian households lived in housing that did not meet affordability, adequacy or suitability standards and earned insufficient income to address their housing needs.
- Recent immigrants, lone-parents, seniors and Aboriginal households are more likely than other Canadians to be in core housing need. Those segments of Canadian society that are most in need are also among the fastest growing segments of the Canadian population.
- Through ongoing and new commitments, the Government of Canada is addressing the affordable housing needs of Canadians. The Government of Canada, through CMHC, provides approximately \$1.7 billion in ongoing subsidies through Long-term agreements with private and public non-profit housing providers as well as provincial and territorial governments.
- Canada's housing stock is aging and older homes are more likely to be in need of major repair. Sixty-seven per cent of Canada's housing stock was built before 1980 with this older stock accounting for 93 per cent of the dwellings in need of major repair. Approximately 75 per cent of all households in core need live in homes built before 1980 and it is estimated that about 415,000 core need households lived in homes needing major repair in 2001. Each year as the housing stock ages it is estimated that the number of homes in need of major repair increases by about 28,000 units.

## **Core Activities (ongoing)**

- Supporting and managing affordable housing through existing housing commitments, new programs and initiatives either directly or through the provinces, territories and others;
- Ensuring the timely take-up of the Affordable Housing Initiative Agreements;
- Facilitating partnerships to encourage the production of affordable housing;
- Conditional upon government approval, continue to provide funding to low-income individuals and families to assist with housing renovation, home adaptations for seniors, emergency repairs and assistance to shelters for building enhancements;

- Providing access to low-cost mortgage funds through direct lending to social housing;

As well as the core activities, the Corporation will undertake the following key initiatives:

#### **Key Initiatives (new activities)**

- Ensure the Community Development function has a comprehensive focus using the full range of the Corporation's products and services to promote and encourage innovative approaches to the development of affordable housing;
- Research improved housing options for new Canadians, seniors, persons with disabilities and low-income Canadians;
- Implement effective monitoring and assessment of Co-op Agency performance to ensure effective and efficient management and support to co-op projects as well as ensure objective assessments are in place to determine appropriateness/timing of moving to the next phase;
- Explore opportunities to facilitate the regeneration and revitalization of major public and social housing projects, and the development of federal surplus lands, to be inclusive and sustainable neighbourhoods.

## HELP CANADIANS IN NEED TO ACCESS AFFORDABLE, SOUND AND SUITABLE HOUSING

### INDICATORS OF PROGRESS

These activities will generate a number of immediate outcomes that support progress against the intermediate and longer-term outcomes.

Core Activities	Performance Measure	2005 Actual	2006 Target	2006 mid year results	2006 mid year plan	2007 Target
Supporting and managing affordable housing through existing housing commitments, new programs and initiatives either directly or through the provinces, territories, and other communities.	Housing program expenses (excluding operating expenses)	\$1,973M	\$2,059M	\$1,041M	\$1,029M	\$1,929.7M
	Estimated number of households assisted <sup>1</sup>	633,300	632,000	N/A	N/A	630,400
Ensuring the timely take-up of the Affordable Housing Initiative Agreements.	Affordable Housing Initiative expenditures	\$175M	\$150M	\$95.5M	\$92.2M	\$82M
Facilitating partnerships to encourage the production of affordable housing.	Total affordable partnership units facilitated	2,378	1,470	2,024	735	1,650
	Mortgage insurance approvals of partnership units	1,640	1,250	1,117	625	1,250
Providing funding to low-income individuals and families to assist with housing renovation and repair, home adaptations for seniors, emergency repairs and assistance to shelters for building enhancements.	Estimated new commitments under strategic initiatives in units (renovation and repair programs: RRAP, ERP, HASI and SEP)	21,990	22,091	6,760	9,250	3,694
	Estimated new commitments under strategic initiatives in \$'s (RRAP, ERP, HASI and SEP) <b>(NEW MEASURE)</b>	\$132.8M	N/A	\$60.3M	N/A	\$22.6M
Providing mortgage funds through direct lending.	Annual direct lending - new business	\$197M	\$313.4M to \$336.9M	\$196.7M	\$159.3M to \$171.2M	\$122M to \$131M
	Annual direct lending - subsequent renewals	\$1,843M	\$1,653M to \$1,778M	\$1,129.6M	\$962.9M to \$1,035.3M	\$842M to \$906M

### Longer-term Indicators of progress

There are a number of outcomes and associated indicators that demonstrate progress in reducing the number of Canadian households living in core housing need. Achievement of longer-term outcomes is dependent on the level of resources dedicated to addressing housing need by all levels of government, and by contributions by the private and not-for-profit sectors.

### Examples of CMHC's contributions to date towards achieving longer-term outcomes

- More than 630,000 households are helped annually.
- Over 750,000 households have been helped by CMHC's repair and renovation programs since their inception more than 30 years ago.
- Since it was established in 1991, CMHC's Partnership Centre has facilitated the creation of more than 40,000 units.

<sup>1</sup> These results are provided once a year in the fourth quarter.

Intermediate Outcomes	Performance Measure
There is more affordable housing available for Canadians.	Improved rental affordability.
low-income households continue to benefit from subsidized housing.	Stock of assisted housing remains stable.
Housing conditions are improved.	The percentage of dwellings in need of major repair is lower compared to the 2001 Census.
Long-term Outcome	Performance Measure
Reduce the proportion of Canadian households in core housing need by maximizing the use of available public and private resources.	The proportion of Canadians in core housing need is lower compared to the 2001 Census.

**Note:** Intermediate and long-term outcomes can be affected by a variety of factors outside of CMHC's control. The associated indicators are for monitoring purposes only. They are designed to help ensure that CMHC's activities remain well aligned with the desired outcomes.

## I-2 IMPROVE ABORIGINAL LIVING CONDITIONS

### Recent progress

#### Investing in On-reserve Housing

An additional \$295 million in funding was announced in the 2005 Budget to reduce or eliminate the growth in the shortfall of housing on-reserve. In 2006, CMHC continued to work closely with First Nations and INAC to deliver the planned 4,800 new units with 2,300 committed in the first half of 2006. In addition to the new construction, funding for the renovation and repair of on-reserve housing through RRAP (Residential Rehabilitation Assistance Program) has permitted 1,356 households to be assisted in the first half of 2006.

#### Developing market-like conditions on-reserve

CMHC continues to work closely with First Nations to implement a new on-reserve homeownership loan insurance pilot product that will expand homeownership on-reserve, as well as create employment and business opportunities on-reserve. Building on an agreement reached in 2005, advanced discussions are underway with other First Nations. CMHC anticipates signing at least one

additional trust agreement to facilitate on-reserve housing markets this year. This may act as a catalyst for other options.

#### Helping First Nations to keep the existing on-reserve housing stock adequate and functional, through the Housing Quality Initiative

The percentage of on-reserve programs and services delivered through First Nations or Aboriginal organizations exceeded its target by 13 per cent in the first half of 2006. This success is partially attributable to the recruitment and development of Aboriginal service providers for the delivery of training related to the Comprehensive Housing Quality Initiative. The intent of this initiative is to positively impact Aboriginal housing by providing useful information to Aboriginal builders, housing managers, technical service providers and home occupants. In the first half of 2006, 32 of the 60 training sessions planned for the year were delivered.

#### What does CMHC want to accomplish over the longer-term?

CMHC wants to ensure Aboriginal Canadians have the same opportunity for adequate, affordable housing as other Canadians.



**STRENGTHS**

- Extensive experience in delivering high quality durable housing to First Nations communities.
- Increased efficiencies and enhancements in Aboriginal program administration resulting from the implementation of recommendations from the Auditor General's 2003 review.
- Knowledge and awareness of Aboriginal housing needs developed through research and first-hand experience in program delivery.
- Proven history of contributing to skills training and capacity development.

**RISKS AND CHALLENGES**

- Finding solutions to the housing shortage on-reserve, while ensuring durable construction of new and existing housing, and reducing the incidence of mold in on-reserve housing.
- Assessing and meeting the need to build increased community capacity.
- Guiding the development of an efficient housing system on- and off-reserve, and in the North, given the system of collective land ownership on-reserve, the lack of traditional mortgage security, and other social and economic challenges.

**Focus over the planning period**

In response to the serious housing conditions faced by Aboriginal Peoples, CMHC will continue to transfer its skills and knowledge to Aboriginal communities in areas including community planning, housing construction, renovation, management and maintenance practices. It will continue to work in close partnership with Aboriginal organizations and other stakeholders to improve the existing housing stock on-reserve including addressing the issue of mold through the Housing Quality Initiative and the Inter-departmental Committee on Mold, as well as the action plan being developed in 2006 in response to the Standing Committee on Public Accounts. CMHC will also focus on facilitating market based solutions where feasible and desired by First Nations and, over the longer-term, investing in capacity development activities to develop Aboriginal skills and housing systems.

**Issues affecting our direction**

- Growth in Canada's Aboriginal population is five times greater than that of the Canadian population as a whole. Economic and social challenges are well documented and in combination with strong population growth make for a level of need that is much higher than that of the rest of the Canadian population.
- Poor housing conditions persist in many First Nations communities. A combination of overcrowding and a high incidence of moisture-damage and mold in the homes have led to a rapid deterioration of the housing stock.
- Off-reserve, Aboriginal households are almost twice as likely to be in core need. Northern and remote areas rely heavily on social housing units given the inability of residents to pay for appropriate housing due to socio-economic factors such as high unemployment, high construction and operating costs, and a lack of private investment in housing.

- There is increasing recognition that a continued focus on Aboriginal capacity development is needed to ensure that Aboriginal housing issues are met over the longer-term.
- Federal government investment is on the rise. In addition to existing program offerings, the Government of Canada, through the Department of Finance, has set up two independent trust funds as a one-time strategic investment totalling up to \$600 million to address housing needs throughout the Country and in particular those of Aboriginal people and the North.

### Core Activities (ongoing)

- Provide subsidy funding to build new and renovate existing housing on-reserve.
- Provide funding to encourage skill development in the housing industry among Aboriginal and First Nation youth.
- Support the development of Aboriginal institutions and the skills of Aboriginal people to manage their own housing needs.

- Subject to government approval, continue to deliver the existing suite of renovation programs.

### Key initiatives (new activities)

- Encourage adoption of market-based solutions where feasible and desired by First Nations, including improving access to private sector financing and homeownership on-reserve.
- Assist First Nations to improve the existing housing stock on-reserve including addressing the issue of mold through the Housing Quality Initiative and the Inter-departmental Committee on Mold, as well as the action plan being developed in 2006 in response to the Standing Committee on Public Accounts.
- Research the unique challenges of housing in northern and remote parts of Canada particularly energy costs, durability and health.

## IMPROVE LIVING CONDITIONS FOR ABORIGINAL CANADIANS

### INDICATORS OF PROGRESS

These activities will generate a number of immediate outcomes that support progress against the intermediate and longer-term outcomes.

Core Activity	Performance Measure	2005 Actual	2006 Target	2006 mid year results	2006 mid year plan	2007 Target
Provide subsidy funding to build housing on-reserve.	New commitments of on-reserve non-profit units	1,045	4,829	2,321	2,326	1,122
Provide funding to encourage skill development in the housing industry among Aboriginal and First Nation youth.	Commitment to Housing Internship Initiative for First Nations and Inuit Youth	\$9M	\$1M	\$8M	\$5M	\$1M
Support the capacity and institutional development of Aboriginal people to manage their own housing needs.	% of delivery of on-reserve programs and services through First Nation or Aboriginal organizations	88.7%	80%	90.7%	80%	80%

### Longer-term indicators of progress

There are a number of outcomes and associated indicators that can demonstrate progress in improving the living conditions of Aboriginal Canadians. CMHC's activities generate a number of immediate outcomes that support progress against the intermediate and longer-term outcomes. CMHC's ability to achieve these outcomes is also largely dependent on the level of resources dedicated to addressing housing need by all levels of government and contributions by the private and not for profit sectors.

### Examples of CMHC's contribution to date towards achieving longer-term outcomes

- Homes built and renovated on-reserve using CMHC programs are of good quality and modest cost. CMHC contributes to the construction of approximately 1,000 new units and the rehabilitation of 1,000 units on-reserve each year.
- First Nation households in 150 communities have received information and training on home tenure options, maintenance practices, and the prevention and remediation of mold, helping to improve the liveability of their housing.
- CMHC support for the First Nations National Building Officers Association promotes the development of residential construction and renovation technical expertise to ensure housing in First Nation and Aboriginal communities is sound and suitable.
- First Nation and Inuit Youth are able to access meaningful on-the-job training in the housing industry, leading to improved job opportunities and life prospects for these young people.
- Off-reserve, CMHC provides an estimated \$163 million annually to support the housing needs of Aboriginal households in urban, rural and remote areas.

Intermediate	Outcome Performance Measure
There is more suitable, affordable housing available for First Nation households on-reserve.	The housing shortfall on-reserve decreases from the 2005 baseline estimate of between 20,000 and 35,000 dwellings.
There are more programs and services being delivered on-reserve by First Nation and Aboriginal organizations.	The percentage of programs and services delivered on-reserve by First Nation and Aboriginal organizations is maintained or increased.
Long-term Outcome	Performance Measure
Reduce the housing gap faced by Aboriginal Canadians	The proportion of Aboriginal households on-reserve living in housing that is below the adequacy and/or suitability standard has declined from the 2001 Census baseline of 27.7 per cent.
	The proportion of Aboriginal Peoples (off-reserve) who are living in core housing need is reduced.

**Note:** Intermediate and long-term outcomes can be affected by a variety of factors outside of CMHC's control. The associated indicators are for monitoring purposes only. They are designed to help ensure that CMHC's activities remain well aligned with the desired outcomes.

# Objective 2

## FACILITATE ACCESS TO MORE AFFORDABLE, BETTER QUALITY HOUSING FOR ALL CANADIANS

Canadians are among the best housed people in the world with some 80 per cent of the population able to meet its housing needs in the market. The country has a well-functioning housing system that meets the needs of consumers. CMHC contributes greatly to the success of this system and its positive societal outcomes, working to increase the number of Canadians able to meet their housing needs without direct government assistance through its housing finance, research, market analysis, and information transfer activities.

### RESOURCES

CMHC dedicates the following resources to facilitate access to more affordable, better quality housing for all Canadians:

- \$209M operating expenses
- \$4.1M government appropriations
- 1250.1 staff-years



## 2-1 - ENSURE MORTGAGE INSURANCE PRODUCTS AND TOOLS CONTINUE TO SERVE CANADIANS WELL

### Recent Progress

#### Ensuring that our mortgage insurance products help a broad range of Canadians

Housing markets continued to benefit from favourable economic conditions in the first half of 2006. Total insurance approvals as at June 30, 2006 were 356,503 units, slightly above the mid-year target and representing 62 per cent of the annual plan.

As a Crown corporation, CMHC works to ensure that Canadians in all markets, including those that are relatively less served or not served at all by the private sector, have access to housing finance that meets their needs. Approximately one-third of our mortgage insurance business continued to be directed towards under-served borrower populations through the provision of insurance on loans for nursing and retirement homes, rental accommodations, and mobile homes, and through the provision of insurance on mortgage loans in single industry towns, on reserves and in rural and northern areas.

#### Through innovation, CMHC offers products, services, supports and tools to better meet the needs of changing housing and financial markets in a cost-effective and efficient manner

In response to growing demand from key clients for more flexible products that continue to maintain responsible mortgage qualification criteria, CMHC now offers insurance on mortgages with amortizations of up to 35 years. The Corporation also insures lines of credit to provide eligible borrowers with additional repayment flexibility. These products are available to qualified Canadians with a proven track record of prudently managing their debt and, for the interest-only product in particular, a stronger credit history.

### STRENGTHS

- Innovative products and services that meet the needs of Canadians across the country, including those in traditionally under-served areas.
- Strong committed sales force, with locally-based and highly knowledgeable underwriters, and predictable and reliable claims payment.
- Fully capitalized according to the Office of the Superintendent of Financial Institutions' guidelines, thereby strengthening CMHC's ability to effectively manage future claims and adverse economic and market conditions.
- First-rate technology platform that facilitates fast and effective underwriting practices.

### RISKS AND CHALLENGES

- Balancing the introduction of responsible products that support different borrower circumstances while ensuring that Canadians continue to be able to repay their mortgage debt.
- Maintaining competitive position with the entry of new competitors.
- Preparing for transformational change in the housing finance industry while increasing the value of mortgage insurance to lenders and consumers in the short-term.





To help make homeownership more accessible and affordable, CMHC also eliminated its application fees for high-ratio homeowner insurance products, building on earlier premium reductions announced in 2003 and 2005. Today, borrowers with a 5 per cent down payment pay 30 per cent less for mortgage insurance than they would have before the reductions.

As always, CMHC will ensure that its existing and new product offerings do not push borrowers beyond their ability and willingness to repay their mortgage debt. As Canada's national housing agency with a public policy mandate extending well beyond bottom line considerations, CMHC is currently well positioned to continue this leadership role in the interest of Canadians.

### **What does CMHC want to accomplish over the longer-term?**

CMHC wants to ensure all Canadians have access to housing finance costs that are as low as possible, allowing more Canadians to be able to afford to own or rent their home.

### **Focus over the planning period**

Over the planning period, CMHC will work to maintain and improve the efficiency and effectiveness of the Canadian housing system, building on the success of its existing suite of mortgage insurance products and services, and introducing new flexibilities and enhancements as appropriate to ensure that the housing industry and the Canadian public have the right mix of products and services to meet changing needs. The Corporation will continue to focus on better serving relatively under-served borrower populations and ensuring competitive prices for all its products.

CMHC will also continue to develop tailored approved lender and broker strategies in order to manage and strengthen relationships with key clients. CMHC's leadership role in the industry will also be maintained through its training initiatives to enhance the professionalism and skills within the housing finance sector, for example in areas such as mortgage fraud detection and mitigation.

Finally, CMHC will place greater emphasis on explaining to housing stakeholders and consumers alike, the public policy benefits of both its housing finance activities and the regulatory environment in which it operates. CMHC will examine its housing finance activities over the planning period, identifying new opportunities that may exist through the provision of specialized products, and developing new tools and technologies.

### **Issues affecting CMHC's direction**

CMHC's planned activities are being driven by the need for the Corporation to maintain the public policy benefits associated with its mortgage insurance operations and its ability to influence trends in the mortgage marketplace. Several trends in the Corporation's operating environment are converging that will impact CMHC over the planning period.

### **Increasing competition on the horizon**

CMHC remains the market leader in Canada for mortgage insurance. Moving forward, the Corporation will need to continue to innovate as it will experience increased competition in its mortgage insurance business. In addition to the existing competition, three more U.S.-based mortgage insurance players may be entering the Canadian mortgage insurance marketplace.



### Competing on a level playing field

CMHC's private sector competition has been lobbying the government for years, arguing that the 90 per cent government guarantee it receives is a business impediment and that it should be increased to 100 per cent in order to level the playing field between public and private mortgage insurance providers in Canada (CMHC receives a 100 per cent guarantee). The competition has recently stepped up its lobbying considerably and new entrants are expected to follow suit. At the meeting of the House of Commons Standing Committee on Finance on May 29, 2006 CMHC expressed general support for increased competition in the Canadian mortgage insurance marketplace provided that the 10 per cent differential in the government guarantee that exists between public and private sector mortgage insurance providers is maintained. The differential reflects the fact that CMHC accepts risks in areas and at levels not borne by the private sector. CMHC is held accountable by government for its public policy commitments while private mortgage insurers are not subject to such accountability.

### Changing regulatory environment

The coming changes associated with Basel II will align capital requirements more closely to the risk of credit loss and move away from the idea of a common framework, thus allowing banks to use more sophisticated capitalization approaches according to the underlying risk. The changes are expected to be implemented in 2007 and may alter the value of mortgage insurance products in terms of capital relief.

On June 15, 2006, the Department of Finance released its report arising from the 2005 consultations "2006 Financial Institutions Legislation Review: Proposals for an Effective and Efficient Financial Services Framework". The proposed change with the most immediate impact on CMHC's mortgage insurance operations is the recommendation to increase the threshold triggering the requirement for mortgage insurance to 80 per cent loan-to-value ratio (LTV) from the current 75 per cent.

### Evolving housing finance industry

While Canada's mortgage marketplace continues to be dominated by large, federally regulated domestic banks, securitization, industry unbundling and the reduction of other barriers to entry are making it easier for foreign competitors to enter the Canadian market. U.S.-based lenders already in Canada are not subject to the Bank Act, the Basel Accord or OSFI (Office of the Superintendent of Financial Institutions) supervision as they are not involved with consumer deposits. These financial institutions have long histories of involvement in the risk-based mortgage market in the U.S., as well as tools for assessing risk, originating loans and linking with other players in the mortgage chain. Currently focusing primarily on the Canadian sub-prime market, they are positioned to begin offering their services to the broader borrower population.

**Housing market activity expected to ease in 2007**

	2005	2006 (f)	2007 (f)
Single housing starts	120,463	116,700	105,600
MLS® sales	483,233	478,400	460,200
MLS Price	\$249,311	\$277,200	\$290,600
Mortgage Rates			
1 yr	5.06%	6.27%	6.41%
5 yr	5.99%	6.78%	6.93%

**Core Activities (ongoing)**

- Providing mortgage loan insurance products and services in all parts of Canada;
- Enhancing CMHC's competitive position as the insurer of choice and ensuring the longer-term profitability of mortgage loan insurance;
- Providing innovative mortgage loan insurance products to improve housing choice and affordability for Canadians;
- Continue to emphasize and evolve effective Key Account Management strategies to support CMHC's operational and strategic competitive advantage;
- Continue industry leadership in mortgage fraud awareness and management;
- Continue to assess the effect of the changing regulatory environment on CMHC's mortgage insurance business.

**Key initiatives (new activities)**

- Explore and develop as appropriate, specific insurance product, service and policy opportunities to better serve the needs of financial institutions and Canadians in general;
- Focus efforts on better serving the needs of relatively underserved borrower populations;
- Promote awareness and understanding among housing stakeholders and to Canadians of the public policy benefits of the Canadian housing finance system, the value proposition of mortgage insurance and of CMHC's products and services in particular, which seek to maximize positive housing-related societal outcomes in all parts of the country.

**Ensure mortgage insurance products and tools continue to serve Canadians well****INDICATORS OF PROGRESS**

These activities will generate a number of immediate outcomes that support progress against the intermediate and longer-term outcomes.

Core Activities	Performance Measures	2005 Actual	2006 Target	2006 mid-year result	2006 mid-year plan	2007 Target
Provide mortgage loan insurance products and services in all parts of Canada	Total mortgage insurance approved in units	746,157	574,633	356,503	307,142	603,061
	% of total mortgage insurance units approved to address less served markets and/or support specific government priorities	33.7%	33%	32%	33%	33%
	Short-term profitability: Operating expense ratio for mortgage insurance	11.6%	13.4%	11.1%	13.4%	10.2%

### Longer-term indicators of progress

Over the planning period, there are a number of outcomes and associated indicators that can demonstrate progress in ensuring that mortgage insurance products and tools serve Canadians well. CMHC's activities generate a number of immediate outcomes that support progress against the intermediate and longer-term outcomes.

#### Examples of CMHC's contribution to date towards achieving longer-term outcomes

- Since 1954, CMHC has provided mortgage loan insurance affecting approximately one third of Canadian households, making it possible for millions of Canadians to buy a home sooner or find affordable rental accommodation.
- Approximately 1 in 3 loans insured by CMHC are in areas where the private sector is less active or not active at all—areas such as: rental housing, nursing and retirement homes and smaller geographic centres.

Intermediate Outcome	Performance Measure
Canadians have greater choice and improved access to low-cost housing finance options that meet their changing needs.	Percentage of total mortgage insurance units approved to address less served markets and/or support specific government priorities.
	Volume of business serving “underserved” borrower populations, increases. Canadians have greater choice and improved access to low-cost housing finance options that meet their changing needs.
	High ratio NHA insured mortgage rates are lower than or equal to conventional rates.
Long-term Outcome	Performance Measure
All Canadians have access to housing finance costs that are as low as possible, allowing more Canadians to be able to afford to own or rent their home.	Percentage of Canadian borrowers eligible to access mortgage financing at rates equivalent to conventional borrowers increases, without significant impact to mortgage default rates in Canada.

**Note:** Intermediate and long-term outcomes can be affected by a variety of factors outside of CMHC's control. The associated indicators are for monitoring purposes only. They are designed to help ensure that CMHC's activities remain well aligned with the desired outcomes.

## 2-2 - ENHANCE THE SUPPLY OF LOW-COST FUNDS FOR MORTGAGE LENDING BY EXPANDING THE SECURITIZATION PROGRAMS

CMHC facilitates a steady flow of low-cost funds for mortgage lending through the guarantee of mortgage-related securities, namely National Housing Act Mortgage-Backed Securities issued by Canadian financial institutions and Canada Mortgage Bonds issued by the Canada Housing Trust. As mortgages are transferred from the mortgage lenders' portfolio into these instruments, additional funds are then made available for mortgage lending to consumers. CMHC helps create a secure and liquid market at a lower-cost for the securities by guaranteeing the timely payment of interest and principal and by increasing investor awareness and participation in the issuances.

### Recent Progress

#### Helping mortgage markets work efficiently

Continued strength in both bond and housing markets, as well as the introduction of new mortgage originators, is driving demand by both investors and issuers for securitization product offerings. As a result, CMHC is again on-track to guarantee record volumes of securities in 2006. Total guarantees of \$16.5 billion were recorded for the first six months of the year, exceeding the target by 10 per cent and bringing the total guarantees in force to \$114 billion.

The maturity of the first CMB bond originally issued in June 2001 in the amount of \$2.2 billion, which was considered the most complex and largest single tranche bond maturity in Canada, was successfully completed in June 2006. This represented the first time that the entire cycle of a debt issue has been completed under the CMB program.

### STRENGTHS

- Leader in secondary mortgage markets in Canada providing a steady supply of low-cost funding to Canadian financial institutions.
- Well-designed securitization programs that minimize risks to CMHC while providing access to low-cost funding for both large and small financial institutions.
- Close ties to the Canadian financial community and good understanding of mortgage originator and investor needs.

### RISKS AND CHALLENGES

- Changing housing finance landscape will likely result in increased demand for more sophisticated securitization products and, as a result, an expanded securitization market.
- Developing innovative ways for financial institutions to securitize a wider range of mortgages to continue to help lower the cost of homeownership for Canadians.



### Assessing progress in improving accessibility and affordable mortgage funds

In 2006, a CMB Program evaluation was initiated to measure the success of the CMB Program in achieving its stated goals of contributing to lower mortgage costs for Canadian borrowers and to enhanced competitiveness in the Canadian mortgage market. The evaluation will assess the impacts of the CMB Program separate and apart from the effects of the NHA MBS Program. The final evaluation report is anticipated to be completed in 2007. CMB spreads relative to Canada bonds have tightened since the inception of the program, resulting in a more cost-effective source of funds for mortgage lenders. In 2001, the average all-in spread to the Canada curve was 20.7 basis points. For the first six months of 2006, the all-in spread at which the CMB were issued averaged 15.2 basis points to the Canada curve for the five-year fixed rate issues. CMB issues have been underwritten and distributed to investors on a syndicated basis and have generated broad investor interest with approximately 40 per cent of CMB being sold outside Canada.

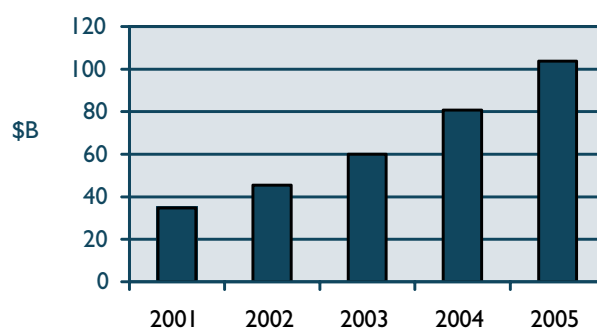
### What does CMHC want to accomplish over the longer-term?

CMHC wants to facilitate a steady supply of lower-cost mortgage funding and improve the competitiveness of the mortgage market, providing consumers with more affordable access and choice to meet their housing finance needs.

### Focus over the planning period

CMHC will focus on identifying efficiencies and new approaches to ensure that the steady supply of low-cost mortgage funds continues to benefit Canadians. CMHC will also make preparations to deal with regulatory changes that may affect securitization activities.

#### Guarantees in force



### Issues affecting CMHC's direction

#### Exponential growth in securitization over the last decade

NHA MBS and CMB have seen growth from \$34 billion of guarantees in force to more than \$100 billion over the last five years. Despite this growth, the potential for securitization within the residential mortgage market remains strong as just over 15 per cent of the \$650 billion residential market is currently securitized.

### **Evolving regulatory landscape may limit growth in securitization**

The federal Department of Finance recently issued a White Paper that proposes increasing the maximum loan-to-value ratio for uninsured mortgages to 80 per cent from 75 per cent. Since only insured mortgages are currently eligible for CMHC's Securitization programs, any changes to the Bank Act may impact the supply of insured mortgages available for NHA MBS and CMB.

The Basel II accord will align capital requirements more closely to the risk of credit loss and move away from the idea of a common framework, allowing more sophisticated financial institutions to hold less capital for the same types of activities as their counterparts. These changes may have an impact on the NHA MBS and the CMB Programs.

Following up on an external evaluation by management consultants KPMG of the borrowing framework of Crown Corporations, the Department of Finance developed a prototype for the centralization of Crown borrowings. Analysis and discussion of the prototype is taking place with the affected Crown corporations. Following the evaluation of the CMB Program, consideration will be given to assessing the pros and cons of including CHT borrowing as part of the centralized borrowing framework.

### **Continued Evolution in Mortgage Industry**

The Canadian mortgage market will continue to evolve as the "unbundling" of mortgage services leads to the emergence of new mortgage competitors that provide more specialized mortgage services. As many of these new competitors are smaller than traditional mortgage lenders, their ability to compete requires access to a reliable source of low-cost mortgage funds that securitization helps provide.

### **Core activities (ongoing)**

- Facilitating competition in the mortgage market by helping new lenders enter the market and assisting smaller financial institutions access low-cost mortgage funding through securitization in order to benefit Canadians.
- Ensure an adequate supply of low-cost mortgage financing.

### **Key Initiatives (new activities)**

- Develop innovative approaches and operational efficiencies for CMHC's securitization programs to ensure that Canadians continue to enjoy a timely supply of low-cost mortgage funds.
- Evaluate the criteria for financial institutions to participate in CMHC's securitization programs in response to "unbundling" in the mortgage industry and the emergence of new participants operating under different regulatory environments.
- Expand the eligibility of mortgage products that can be securitized through CMHC's programs in response to increased demand from innovative mortgage lenders.
- Assess changes required to the NHA MBS Program to improve the cost effectiveness of the program and its ability to provide a larger supply of low-cost funding.
- Explore the securitization of uninsured residential mortgages to maximize the benefits of lower-cost funding to more consumers.



## Enhance the supply of low-cost funds for mortgage lending by expanding the securitization program

### INDICATORS OF PROGRESS

These activities will generate a number of immediate outcomes that support progress against the intermediate and longer-term outcomes.

Core Activities	Performance Measures	2005 Actual	2006 Target	2006 mid-year results	2006 mid-year plan	2007 Target
Ensure an adequate supply of low-cost mortgage financing.	Annual securities guaranteed	\$30,374M	\$30,000M	\$16,544M	\$15,000M	\$30,500M
	Short-term profitability: Operating expense ratio for securitization	8.4%	11.7%	8.0%	11.7%	11.7%

### Longer-term indicators of progress

Over the planning period, there are a number of outcomes and associated indicators that can demonstrate progress in helping to ensure that a reliable supply of low-cost mortgage financing is available for Canadians to help them afford their homes. CMHC's activities generate a number of immediate outcomes that support progress against the intermediate and longer-term outcomes.

### Examples of CMHC's contribution to date towards achieving longer-term outcomes

- Facilitated the supply of more than \$100 billion in mortgage funds since 2001.
- Expanded the range of housing finance products that are eligible for securitization to include adjustable rate and shorter-term mortgages.
- Facilitated competition in the mortgage market by helping new lenders enter the mortgage market and assisting smaller financial institutions access low-cost mortgage funding through securitization in order to benefit Canadians.

Intermediate Outcome	Performance Measure
A reliable supply of low-cost funding allows financial institutions to offer Canadians lower-cost housing funding.	The percentage of residential mortgages securitized increases.
	The cost of funds to financial institutions through MBS/CMB securitization is less than the alternate sources of funds such as deposit notes.*
Canadians have increased choice in housing finance products.	The range of housing finance products available to Canadians improves.
	The number of new mortgage originators in CMHC's securitization programs (including those facilitated by investment bankers), increases.
Long-term Outcome	Performance Measure
Facilitate a steady supply of lower-cost mortgage funding and improve the competitiveness of the mortgage market allowing consumers more choice to meet their changing needs.	Mortgage interest rates are lower as a result of securitization (as determined through periodic program evaluations).

\* a deposit note is senior unsecured debt issued by a chartered bank.

**Note:** Intermediate and long-term outcomes can be affected by a variety of factors outside of CMHC's control. The associated indicators are for monitoring purposes only. They are designed to help ensure that CMHC's activities remain well aligned with the desired outcomes.



## **2-3 - PROVIDE COMPREHENSIVE, TIMELY AND RELEVANT INFORMATION TO ENABLE THE HOUSING SECTOR AND CONSUMERS TO MAKE INFORMED BUSINESS DECISIONS**

### **Recent Progress**

#### **Providing important housing research and market analysis to Canadians, government and the housing sector**

As Canada's housing expert, CMHC provides a wide range of objective and reliable housing information to help industry and consumers make informed choices. CMHC's research and market analysis data also benefit a wide variety of government organizations and non-government housing stakeholders reliant on the Corporation's information products for policy and planning purposes.

CMHC's market analysis products and services continued to be exceptionally well received in the opening half of 2006. During this time, Housing Outlook Conferences and Seminars were held in the Atlantic, Quebec and Prairie & Territories Regions, representing 8 out of 17 planned events for the year. In a survey following the event, 100 per cent of respondents found the events to be useful or very useful.

In the first half of 2006, survey results indicate that 68 per cent of recipients of CMHC's Research Highlights found them to be useful. For the information transfer seminars, 93 per cent of 223 survey respondents from 11 seminars (10 Sustainable Planning for Small Communities and one Build and Renovate to Avoid Mold) found the seminars to be useful or very useful.

### **STRENGTHS**

- Premier source of reliable and objective housing information in Canada.
- Extensive knowledge gathered over 60 years of collecting housing data and researching housing issues.
- Ability to inform consumers, provincial and municipal governments and other industry stakeholders on key issues related to housing.

### **RISKS AND CHALLENGES**

- Promoting the array of CMHC resources and products to the general public and targeting consumers with specific needs.
- Effectively sharing our expertise to increase awareness of key housing-related issues among industry participants.



### **What does CMHC want to accomplish over the longer-term?**

CMHC wants to strengthen the competitiveness and innovation of the housing sector by providing better housing information to Canadians.

### **Focus over the planning period**

CMHC will continue to focus on improving its information products offered to the housing industry and consumers.

### **Issues affecting CMHC's direction**

Housing is a key component of the Canadian economy with investment in the residential sector on an upward trend. In 2005, residential construction investment reached \$74 billion, an increase of 5.7 per cent from 2004. Employment continues to grow in the construction, finance, insurance and real estate sectors and home renovation activity continues to grow as well.

### **Confidence in housing remains high**

Over 55 per cent of respondents to the Conference Board of Canada's index of consumer attitudes survey (April 2006) indicated that the time is right to make a major purchase. In the five major centres surveyed, over 380,000 households or an average of eight per cent of all households indicated that they were ready to buy a home this year, according to a recent CMHC survey (Consumer Intentions to Buy or Renovate a Home, released May 2006). Home renovations will remain strong this year, with 13 per cent of surveyed homeowners reporting they were ready to undertake renovations this year of \$1,000 or more.

### **Good quality housing leads to improved quality of life**

Affordable and good quality housing is a major contributor to the overall health and well being of society. Research and development in the housing sector helps improve the quality, affordability, durability, and energy efficiency of new and existing homes. Through ongoing research, it is possible to study current trends, materials, practices, and processes used in homebuilding; analyze data collected through study; and thereby discover areas for improvement. Supporting and carrying out housing research and information transfer helps industry and consumers make better housing decisions.

### **Core activities (ongoing)**

- Undertaking housing research.
- Providing information that meets the needs of industry and consumers.
- Providing housing market analyses and forecasts that meet the needs of industry and consumers.

### **Key Initiatives (new activities)**

- Continue to publish the Canadian Housing Observer as a foundation for a forward-looking discussion of housing matters in Canada, and expand the web-based dissemination of data to support evidence-based decision making.

- Implement recommendations stemming from the Market Analysis Product and Services Review. The enhanced product offering will include the communication and analysis of the results of the recently approved data gaps survey initiatives, such as the annual Secondary Rental Market Surveys and the addition of a Spring Rental Market Survey.
- Expand the use of Geographic Information Systems (GIS) to other CMHC business lines.

### Longer-term indicators of progress

Over the planning period, there are a number of outcomes and associated indicators that can demonstrate progress in helping improve the competitiveness and innovation of the Canadian housing sector. CMHC will monitor the following indicators to determine progress against the longer-term key outcome.

## Provide comprehensive, timely and relevant information to enable the housing sector and consumers to make informed business decisions

### INDICATORS OF PROGRESS

These activities will generate a number of immediate outcomes that support progress against the intermediate and longer-term outcomes.

Core Activities	Performance Measures	2005 Actual	2006 Target	2006 mid-year results	2006 mid-year plan	2007 Target
Provide research, housing market analysis and forecasts that meet the needs of industry and other clients.	% of subscribers to market analysis publications who found them useful	94.8%	70%	Results available in 4th quarter		70%
	% of attendees at Housing Outlook Conferences who found them useful	99%	90%	100%	90%	90%
	Forecast accuracy for housing starts	-6.8%	Within 10% of actual	Results available in 4th quarter		Within 10% of actual
	Ranking of housing starts forecast accuracy among forecasters	2nd	CMHC rank within the top quartile	Results available in 4th quarter		CMHC rank within the top quartile
	% of information transfer seminar attendees who found them useful	93%	80%	93%	80%	85%
	% of recipients of newly published Research Highlights who found them useful	69%	70%	68%	70%	70%
	% of recipients of newly published About your House fact sheets who found them useful	83%	80%	Not yet available		80%

Intermediate	Outcome Performance Measure
Consumers and the housing industry benefit from CMHC's high quality products and services and use the information to make sound decisions related to housing and community development.	Users of CMHC research and market analysis products and services find the information useful.
Long-term Outcome	Performance Measure
A more competitive and innovative housing sector better meets the needs of Canadians.	Productivity measure for the housing sector will be developed over the planning period.

**Note:** Intermediate and long-term outcomes can be affected by a variety of factors outside of CMHC's control. The associated indicators are for monitoring purposes only. They are designed to help ensure that CMHC's activities remain well aligned with the desired outcomes.

# Objective 3

ENSURE THE CANADIAN HOUSING SYSTEM REMAINS ONE OF THE BEST IN THE WORLD

By continually evolving to meet the changing needs of Canadians, CMHC plays a lead role in ensuring that the Canadian housing system remains one of the best in the world. Continuous examination of the gaps and opportunities in the housing system ensures that Canadians gain access to healthy, sustainable and affordable housing through government, community and industry partners.



## RESOURCES

CMHC dedicates the following resources to ensure that Canada's housing system remains among the best in the world:

- \$22.9M operating expenses
- \$3.6M government appropriations
- 119.9 staff-years



### 3-1 - LEAD THE DEVELOPMENT AND IMPLEMENTATION OF FEDERAL HOUSING POLICY IN SUPPORT OF GOVERNMENT OF CANADA PRIORITIES AND OBJECTIVES

#### Recent Progress

##### Working to support government objectives

During the first half of 2006, CMHC reviewed its priorities to ensure that they remain consistent with government objectives. Policy options for CMHC's renovation programs are under development and will be presented to government later in 2006. CMHC is also working to ensure housing aspects of the climate change policy are adequately addressed. Finally, CMHC is engaged in developing policy options available to federal, provincial and territorial governments relating to the aging of social housing and the expiry of social housing agreements.

##### What does CMHC want to accomplish over the longer-term?

CMHC wants to maintain a housing system that is responsive to the changing needs of Canadians.

##### Focus over the planning period

In support of the Government of Canada's directions and priorities, CMHC will provide housing policy advice and support through intergovernmental collaboration, analysis and research as well as information to the housing industry and consumers.

#### Factors affecting CMHC's direction

##### Review of Federal Spending Power

Budget 2006 stated that the combined effect of increased federal spending power in areas of provincial responsibility, and a lack of focus on areas of clear federal responsibility, has been to raise concerns over increasingly blurred lines of accountability that make it more difficult for Canadians to determine which

order of government should be held accountable for specific policies and initiatives. Over time, it has been common practice for both orders of government to spend in areas over which they do not exercise legislative jurisdiction. Transfer payments from the federal government to provinces and territories in support of programs such as health care, post-secondary education, training, housing or child care constitute prime examples. Federal spending on housing and homelessness was cited as an example of the use of federal spending power in areas of provincial responsibility.

##### Examining Canada's existing social housing stock

The Government of Canada, through CMHC, provides approximately \$1.7 billion in on-going subsidies through long-term agreements with private and public non-profit housing providers and provincial and territorial governments. These programs provide longer-term sustainable funding, with terms of 25 to 50 years, and ensure projects are well managed and well maintained through a strong accountability framework built into the agreements.

#### STRENGTHS

- Recognized experience in housing policy development.
- Extensive well-organized community delivery network to effect positive outcomes.

#### RISKS AND CHALLENGES

- Evolving federal role in housing.





These commitments have begun to expire and will expire altogether in the 2030's, necessitating a discussion of policy options available to federal, provincial and territorial governments relating to the aging of the social housing and the expiry of the social housing agreements.

### Core activities (ongoing)

- Provide policy advice and support for the implementation of the Government of Canada's direction

### Key Initiatives (new activities)

- Provide policy advice and support for the implementation of the Government of Canada's direction coming out of Budget 2006 discussions on the use of spending power as required.
- Support and make recommendations with respect to the implementation of the Government of Canada's climate change directions as it relates to housing.
- Undertake analysis and make recommendations to ensure the supply of and access to affordable housing finance.
- Develop policy options and engage provinces, territories and other stakeholders in discussions related to the aging of the social housing stock and the expiry of the agreements.
- In coordination with federal stakeholders and National Aboriginal Organizations, pursue research and develop analysis and policy proposals to improve living conditions of Aboriginal Peoples, primarily on-reserve.

### Examples of CMHC's contribution to date towards achieving longer-term outcomes

- CMHC has worked with other members of the federal family to address the needs of priority groups such as persons with disabilities, seniors and victims of family violence.
- Housing export support and international activities have enhanced Canada's economic performance and Canadian foreign relations.
- Support for Aboriginal housing has furthered broader government objectives with respect to improving living conditions for Aboriginal people and involving Aboriginal people directly in solutions.
- Support for access to housing finance has facilitated economic development in resource communities and in general.
- Research and information transfer has supported broader government objectives in areas such as energy conservation and environmental sustainability.



## 3-2 - PROMOTE SUSTAINABLE HOUSING AND COMMUNITIES

### Recent Progress

#### Helping redevelop brownfields

During the first half of 2006, CMHC worked to make it easier to develop brownfields. In close co-operation with stakeholders, the Corporation implemented risk sharing pilot projects in Orillia, Ontario and Sydney, Nova Scotia. These agreements helped mitigate environmental risks associated with brownfield properties and took advantage of CMHC's underwriting flexibilities to make it easier for developers to obtain financing.

#### Promoting environmental sustainability

Through Canada's EQuilibrium Healthy Housing initiative, CMHC has invited builders and developers to demonstrate their capabilities to develop innovative solutions and best practices that will demonstrate that housing can be built to meet societal and environmental needs, and set a new standard for Canadian, and international housing in the near future.

The Corporation also introduced flexibilities to its 10 per cent energy efficiency refund on mortgage insurance premiums, and extended program eligibility to include all types of condominiums and rental housing. Rental owners who have undertaken energy-efficient upgrades are also eligible for CMHC underwriting flexibilities in the valuation of the property. In addition, CMHC is also working with the Ontario Social Housing Services Corporation to develop and implement an energy management program for social housing.

### Contributing to sustainable development internationally

Canada hosted the World Urban Forum III in Vancouver in June. It provided a common platform to discuss urban issues in formal and informal ways and come up with action-oriented proposals to create sustainable cities. CMHC presented a number of sessions designed to highlight some best practices in the Canadian housing system including: a training

#### STRENGTHS

- Expertise arising from over 60 years as Canada's national housing agency.
- Experience in applying research knowledge to stimulate the development of designs and technologies.
- Recognized leadership in the development of innovative solutions and their adoption by industry.
- Influence on consumer behaviour through recognized information transfer role.

#### RISKS AND CHALLENGES

- Making the link between housing and key policy matters such as the environment and infrastructure.
- Ensuring a better understanding of the environmental performance of housing.



session on sustainable community design; a workshop on Super-E housing; a workshop on Canadian involvement in new sustainable communities in China; CMHC Housing Awards: Best Practices in Affordable Housing; guided tours of Granville Island to profile CMHC's revitalization of this former industrial site; and how to set up and run a local urban observatory to support city planning.

### **Granville Island**

As part of its stewardship role, in 2005 CMHC embarked on a systematic review of all Granville Island infrastructure and services. The cost, estimated at approximately \$800,000 is being funded through the operating budget of Granville Island. The systematic review includes the following studies: underground services review, docks and seawalls conditions study, transportation and circulation study, leasing study, building conditions review, urban design and land use study, sustainability analysis and guidelines. It is anticipated that all studies with the exception of the urban design and land use study and the sustainability analysis and guidelines will be completed in 2006, with the other two being completed in 2007.

### **What does CMHC want to accomplish over the longer-term?**

CMHC wants to see that sustainable practices and standards are increasingly adopted by industry and consumers, leading to improved environmental sustainability of housing and communities.

### **Focus over the planning period**

CMHC will focus on demonstrating the use of existing technology to reduce the impact of housing on the environment. CMHC will also promote sustainable housing and communities by working closely with interested partners to demonstrate improved residential design, new construction and renewal techniques.

### **Factors affecting CMHC's direction**

#### **Climate change agenda to focus on Canadian solutions**

In support of the Government of Canada's priorities and objectives, CMHC will provide housing policy advice and, through intergovernmental collaboration, support analysis and research as well as provide information to the housing industry and consumers. This includes support and recommendations with respect to the implementation of the Government of Canada's approach to tackle air pollution and greenhouse gas emissions as it relates to housing.

#### **Communities look to limit urban impact on the environment**

Many municipalities across North America are taking steps to influence development patterns to minimize the impact of urban sprawl and traffic congestion on the environment. A great deal of research has been done by government and academics and is being adopted to encourage increased density and more transit-oriented development.

**Core activities (ongoing)**

- Promoting sustainable housing and communities by working with academia, industry, governments and other housing stakeholders to develop and share examples of best practices in housing design, community development and industry standards.

**Key initiatives (new activities)**

- Promote environmental sustainability that supports the government's climate change agenda by illustrating practical actions and results (eg: EQUilibrium Healthy Housing).
- Pursue and apply leadership on environmental and sustainable housing and communities in the priority areas of patterns of new residential development and resource conservation.
- In the context of the 2010 Olympics, promote sustainable building practices and development using the range of CMHC tools and programs that are available.
- Undertake an assessment of the physical condition of Granville Island, including the

financial abilities of Granville Island to support any needed infrastructure improvements which will be required over a 20 year planning horizon.

**Longer-term indicators of progress**

Over the planning period, there are a number of outcomes and associated indicators that can demonstrate progress in improving the environmental sustainability of housing and communities. CMHC's activities generate a number of immediate outcomes that support progress against the intermediate and longer-term outcomes.

**Examples of CMHC's contribution to date towards achieving longer-term outcomes**

- CMHC's sustained work in the field of indoor air quality, healthy housing and flex-housing has contributed substantially to the increased awareness of these issues among industry professionals, decision-makers and Canadians.
- Sustainable building practices make a difference: new Canadian homes use half the amount of energy as those built in 1946.

Intermediate Outcome	Performance Measure
Knowledge and awareness of sustainable practices and standards and their impact on the environment is increased.	Participants in CMHC's sustainability workshops find them useful.
	Adoption of new technologies.
Long-term Outcome	Performance Measure
Sustainable practices and standards are increasingly adopted by industry and consumers, leading to improved environmental sustainability of housing and communities.	The total greenhouse gas emissions per household are lower than in 2005.
	Average new house energy consumption is reduced.

**Note:** Intermediate and long-term outcomes can be affected by a variety of factors outside of CMHC's control. The associated indicators are for monitoring purposes only. They are designed to help ensure that CMHC's activities remain well aligned with the desired outcomes.

### 3-3 - SUPPORT AND PROMOTE CANADA'S WORLD CLASS HOUSING PRODUCTS, SERVICES AND SYSTEM INTERNATIONALLY

CMHC continues to raise the profile of Canadian housing systems and products abroad and increase the competitiveness of the Canadian housing industry. Priority export markets include NAFTA partners (the US and Mexico) plus many of the key markets identified by Foreign Affairs Canada as having strong potential for growth (China, The European Union, South Korea, Japan and Russia).

#### Recent Progress

##### Helping Canadian housing exporters to diversify their markets

As of June 30th, 65 per cent of the annual target for CMHC facilitated sales reported by export clients has been achieved. CMHC has had exceptional success with its export clients targeting the Mexican market, a NAFTA partner, with sales in the first half of the year exceeding the annual target by almost 240 per cent. CMHC facilitated activity in US and Russian markets have also been strong in 2006, reaching 80 per cent of their respective annual targets by June 30, 2006. There has been strong activity in UK/Ireland, Russia and Germany, and sales in China have picked up since the first quarter. Sales in South Korea, however, continue to lag.

##### Offering housing solutions around the world

Many housing and housing finance projects on which CMHC provides consulting services are supported by multilateral organizations - such as the World Bank and International Finance Corporation in which Canada is a member - as well as the Canadian International Development Agency. As of June 30th, 2006, CMHC had earned 70 per cent of the full year target of \$1.5M in consulting revenue.

More than 250 business leaders and officials from more than 40 countries attended the International Union for Housing Finance (IUHF) 26th World Congress that began on September 19th, 2006. This was the first time in the 92-year history of IUHF that the World Congress was held in Canada. There were 213 paid participants at the World Congress, well exceeding the target of 125 by 170 per cent. Almost all respondents to a survey conducted at the World Congress were very satisfied (54 per cent) or satisfied (42 per cent) with the Congress, and 98 per cent of respondents reported they would recommend the Congress to others.

#### STRENGTHS

- Excellent international reputation as a reliable and knowledgeable partner.
- Strong relationships and partnerships with key international players such as the World Bank and the IFC.

#### RISKS AND CHALLENGES

- Helping relatively small Canadian housing export companies compete in the highly competitive world market.
- Overcoming a strong Canadian dollar and potential economic weakness within some key markets.
- Working with developing countries and emerging economies that are experiencing a degree of political and economic instability.



### **What does CMHC want to accomplish over the longer-term?**

CMHC wants to further Canada's foreign policy objectives through the development of a better functioning housing market enabling foreign governments to better target their resources to take care of needs and, in the end, contributing to the broader objectives of citizen involvement, social stability and economic prosperity.

In addition to helping develop housing systems around the world, CMHC will also help Canadian housing systems, products, technologies and know-how remain world leaders by contributing to better houses for Canadians and a more competitive industry.

### **Focus over the planning period**

CMHC International will focus on providing customized services to key domestic and international clients and pursue high impact opportunities that have the greatest potential to support the desired outcomes.

### **Factors affecting CMHC's direction**

#### **Global economies becoming increasingly integrated**

Developing countries recognize that countries such as Canada have well-established housing systems and are looking to emulate elements of the Canadian system.

#### **Exporters challenged by rising costs**

Rising energy costs globally have increased the cost of getting Canadian products to market. This, in combination with the rapid rise in the Canadian dollar, makes it more difficult for Canadian exporters to be competitive outside Canada, and ultimately threatens the sale of both products and services

internationally. In the U.S., which remains the primary destination for Canadian exports, gasoline prices dropped in October. Contrary to expectations, the drop did not boost consumer confidence. There is still some anxiety among consumers about how sharp of a slowdown will occur in the housing market, and the magnitude of the cooling in the overall economy.

### **Core activities (ongoing)**

- Selling CMHC's expertise abroad and helping clients to expand their businesses internationally;
- Promoting awareness of, and access to, Canadian housing products and services abroad.

### **Key Initiatives (new activities)**

- Identify potential international opportunities and an approach for CMHC in support of sustainable housing and community development.
- Deliver a program of customized marketing services for exporters to the U.S. ("U.S. Platinum" program).
- Coordinate Canadian involvement in the development of new sustainable communities in Shanghai.
- Pursue opportunities for Canadian industry to supply hurricane and other reconstruction work.
- Consider opportunities for supplying CMHC expertise for high-rise projects in select international markets where demand or interest is strong.
- Support Government of Canada foreign policy objectives by signing new consulting contracts with foreign public and/or private institutions, in select countries, seeking to develop or improve their housing finance products or strategies.

## Support and promote Canada's world-class housing products, services and system internationally

### INDICATORS OF PROGRESS

These activities will generate a number of immediate outcomes that support progress against the intermediate and longer-term outcomes.

Core Activities	Performance Measures	2005 Actual	2006 Target	2006 mid-year results	2006 mid-year plan	2007 Target
Sell CMHC's expertise abroad.	Revenues from selling CMHC's expertise abroad	\$1.3M	\$1.5M	\$1.05M	\$0.75M	\$1.95M
Assist clients to expand their business internationally.	Overall satisfaction rate of key clients	84%	75%	N/A	N/A	75%
	Value of CMHC facilitated sales reported by key export clients	\$66.7M	\$71.4M	\$46.5M	\$35.7M	\$92.8M

### Longer-term indicators of progress

Over the planning period, there are a number of outcomes and associated indicators that can demonstrate progress in improving the functioning of housing systems

around the world and improving the competitiveness of Canadian housing exporters. CMHC will monitor the following indicators to determine progress against the longer-term key outcomes.

Intermediate Outcome	Performance Measure
Institutions supported by CMHC in select countries improve the performance of housing finance and enable market-based reforms to enhance housing affordability and housing choice.	More people in these markets can access mortgage financing as measured by the size of the mortgage market.
CMHC works with Canadian banks and companies to mutually strengthen our competitive advantage in an increasingly global market.	Number of partnerships successfully completed in select countries.
Increased employment in the domestic housing sector.	Person-years of employment created or maintained is higher than in the baseline year 2006
CMHC's export activities achieve a positive economic return for Canada.	Incremental revenues to government (income tax + corporate tax) > program cost.
Long-term Outcome	Performance Measure
Canada's foreign policy objectives are furthered through the development of a better functioning housing market enabling governments to better target their resources to take care of needs, and in the end contributing to the broader objectives of citizen involvement, social stability and economic prosperity.	Numbers of jobs created in the housing sector in select countries.
Canadian housing systems, products, technologies and knowhow are world leaders, contributing to better houses for Canadians and a more competitive industry	Canadian housing exporters are successful at diversifying their markets.

**Note:** Intermediate and long-term outcomes can be affected by a variety of factors outside of CMHC's control. The associated indicators are for monitoring purposes only. They are designed to help ensure that CMHC's activities remain well aligned with the desired outcomes.



**Examples of CMHC's contribution to date towards achieving longer-term outcomes**

- CMHC provides consulting services in client countries, helping to improve housing conditions and systems, and ultimately contributing to a higher quality of life in these areas.
- CMHC's consulting services have been offered in countries as diverse as Mexico, Latvia, Serbia, Algeria, Egypt, Jordan, West Bank / Gaza, Mali, Thailand, India, China, and South Korea.
- Assisting Canadian industry to become a more global player creates jobs in Canada, offsets domestic market cycles, and indirectly supports the industry's capacity and capability, which ultimately helps create quality jobs and a vibrant Canadian economy.
- Between 2001 and 2005, CMHC's work with client companies has led to \$298.3M in facilitated sales by these Canadian businesses, creating 3,281 jobs for Canadians.



### 3-4 - ENSURE THAT CMHC REMAINS A STRONG ORGANIZATION THAT IS ABLE TO FULFILL ITS MANDATE

#### Recent Progress

##### Continuing to strengthen our governance and accountability framework

Good corporate governance is at the heart of all of CMHC's activities and success. To continue to promote effective corporate accountability, the Corporation is further enhancing its process to ensure all elements of the Treasury Board review of the governance structure of Crown corporations are addressed. The publication of CMHC's governance framework is scheduled to be available on the CMHC website by year-end.

##### Investing in our human resources

CMHC's succession management plan continues to proceed as planned and development plans for potential successors to critical and vulnerable positions will be finalized by the end of 2006.

Always looking to build its capacity for the future, the Corporation remained committed to developing and strengthening its greatest competitive advantage, its people. CMHC continued to develop its talent management framework to ensure the achievement of the Corporation's business strategies and objectives. Talent management will allow CMHC employees to orient their career paths and place themselves in the best position to maximize their potential. This will ensure that the best people are in the right place at the right time, to execute the Corporation's business strategy.

#### What does CMHC want to accomplish over the longer-term?

Ensure that CMHC has the right management practices, employees and tools to support a well-functioning Canadian housing system.

#### STRENGTHS

- Public recognition of CMHC's governance practices.
- Strong well-accepted values that guide all activities.
- Enhanced priority setting exercise ensures alignment of priorities and resources.
- Comprehensive risk framework and extensive business performance reporting against corporate objectives and targets.
- Corporate wide ethics awareness program.
- Strong commitment to diversity as demonstrated in top employer rating for progress on employment equity.

#### RISKS AND CHALLENGES

- Managing talent through a period of strong demand for skilled workers.
- Developing enhanced methodologies and metrics to better demonstrate the value that CMHC's suite of products and services bring to Canadians.



### Focus over the planning period

CMHC will focus on keeping our governance systems up to date; building on the progress in succession management to establish a full talent management framework; and investing in appropriate technologies that allow for better creation, analysis and management of information.

### Factors affecting CMHC's direction

#### Rising expectations for accountability and transparency

Corporate governance has become increasingly important in recent years. In the wake of corporate scandals such as Enron in the private sector and the sponsorship scandal in the public sector, stakeholders are holding corporations and government increasingly accountable for their decisions. In response to this trend, the Government of Canada has introduced the Accountability Act to help strengthen accountability and increase transparency and oversight in government operations. In addition, Budget 2006 contained a number of elements that are expected to lead to a more transparent framework for budget planning. The Government is reviewing its expenditure management

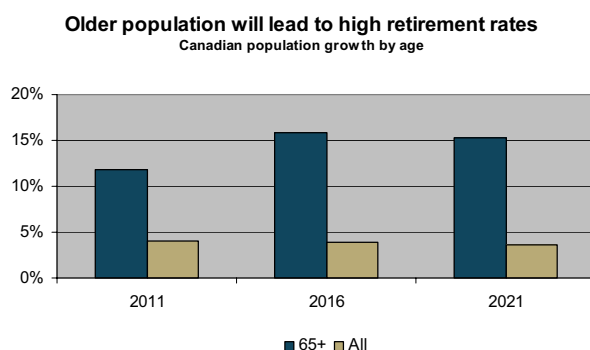
systems to ensure that government programs focus on results and value for money, and are consistent with government priorities and responsibilities. The Government has also committed to following through with the recommendations of the Auditor General of Canada to improve financial reporting.

#### Retirements will require new supply of workers

CMHC is experiencing many of the same trends in employment demographics as other Canadian organizations. The competition for skilled workers will intensify with the loss of experienced older workers to retirement and younger workers will become more difficult to attract and retain. Employers that can attract staff from Canada's increasingly diverse population will be best positioned to replace the large number of workers retiring.

#### Technology challenged to meet increasing business efficiency and compliance regulations

In this age of electronic communication, businesses and, more specifically, government departments are facing challenges in maintaining control over the production, consumption, distribution and management of information content. Accelerated business velocities, exponential growth of business content, delivery of content in a variety of formats through various channels and, dealing with compliance regulations are all drivers to integrate and improve content management systems. Organizations are looking to technology to integrate content with business processes to increase process efficiency, employee effectiveness, and customer service. The Enterprise Content Management approach also strengthens an organization's record management practices and compliance with regulations.



**Core activities (ongoing)**

- CMHC's support functions undertake a variety of activities related to: Policy development, Human Resources, Legal, Corporate Services, Marketing, Communications, IT, Finance, and Treasury.

**Key Initiatives (new activities)**

- Integrate the talent management framework with existing succession management initiative.
- Strengthen CMHC's capacity to create, analyze and publish information, both internally and externally, through the implementation of strategic enterprise content management technology.

**Examples of CMHC's contribution to date towards achieving longer-term outcomes**

- CMHC ensures that it remains a strong, responsible and progressive organization while drawing on 60 years of experience in serving the Canadian housing industry.
- CMHC won the 2003 National Award in Governance, awarded by the Conference Board of Canada and Spencer Stuart. This award recognizes innovations in governance that enhance governance and yield tangible results.
- Demonstrated effective management of resources and efficient operations as seen by four consecutive clean opinions offered by external auditors during the statutorily required Special Examination.

**Ensure that CMHC remains a strong organization that is able to fulfill its mandate****INDICATORS OF PROGRESS**

These activities will generate a number of immediate outcomes that support progress against the intermediate and longer-term outcomes.

Core Activities	Performance Measures	2005 Actual	2006 Target	2006 mid-year results	2006 mid-year plan	2007 Target
Manage risks and opportunities to ensure continued financial viability and corporate accountability.	% of planned net income achieved	122.6%	95%	105%	95%	95%
Leverage technology for operational efficiencies.	Technology index for key systems	99.8%	99.7%	99.8%	99.7%	99.8%
	Operating budget spent on information technology	15.9%	16%	15.8%	16.0%	16.5%
Enhance CMHC's visibility as Canada's national housing agency and key provider of housing solutions.	% of overall awareness of CMHC/ unaided awareness of CMHC	81% / 27%	76% / 18%		76% / 18%	80% / 21%



# FINANCIAL PLAN

The Financial Plan presents the overall results achieved in 2005 and those anticipated in 2006 and over the planning horizon, 2007 through 2011.

Effective January 1, 2005, the Corporation adopted Accounting Guideline 15: Consolidation of Variable Interest Entities (AcG 15). Therefore, for accounting purposes, Canada Housing Trust (CHT) is consolidated with the financial statements of CMHC for the first time in the 2007-2011 Corporate Plan.

## HIGHLIGHTS

Highlights of the financial plan, together with actual results for 2005 and an estimate for 2006, are outlined in the following table.

Key elements of the 2007 financial plan, broken down by CMHC business segment and the Canada Housing Trust (CHT), are presented in the table following on the next page.

Financial Plan								
(\$ millions)	Actual 2005	Plan 2006	Estimate 2006	Plan 2007	2008	2009	2010	2011
Revenues	7,334	7,891	7,836	8,137	8,342	9,188	9,846	10,407
Expenses	5,870	6,461	6,477	6,606	6,715	7,470	8,047	8,528
Net Income before Income Taxes	1,464	1,430	1,359	1,531	1,627	1,718	1,799	1,879
Net Income after Income Taxes	1,002	965	917	1,033	1,131	1,202	1,277	1,334
Other Comprehensive Income	n.a.	n.a.	n.a.	65	13	65	20	88
Total Comprehensive Income	1,002	965	917	1,098	1,144	1,267	1,297	1,422
Total Assets	101,093	107,111	117,188	127,548	132,282	145,776	155,541	161,578
Total Liabilities	96,665	101,802	111,843	120,752	124,342	136,569	145,036	149,651
Total Equity	4,428	5,309	5,345	6,796	7,940	9,207	10,505	11,927
Operating Expenses	303	384	353	362	380	402	424	467
Staff-Years	1,804	1,936	1,936	1,897	1,859	1,851	1,851	1,842

2007 Plan							
\$ Millions	Housing Programs	Lending	Insurance	Securitization	CHT	Intersegment Eliminations	Total
Revenues	2,043.4	821.5	1,781.9	79.4	3,459.0	-48.0	8,137.2
Expenses	2,043.4	825.2	791.1	33.5	3,459.0	-48.0	7,104.2
Comprehensive Income	0.0	-3.7	1,051.2	50.0	0.0	0.0	1,097.5
Assets	0.0	14,161.5	14,001.8	477.3	99,866.0	-959.1	127,547.5
Liabilities	0.0	13,985.7	7,681.8	177.3	99,866.0	-959.1	120,751.7
Equity	0.0	175.8	6,320.0	300.0	0.0	0.0	6,795.8

The Corporation's Housing Programs and Lending Activity are operated on a break-even basis, as is the Canada Housing Trust. The Insurance and Securitization Activities, operated on a commercial basis as required by CMHC's mandate, are the main sources of the Corporation's Net Income.

### Accounting Changes

This plan reflects the impact of three new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA). The new standards are:

- Section 3855-Financial Instruments-states that financial assets must be classified within one of four categories and financial liabilities must be classified within one of two categories. It further states that all derivatives must be measured at fair value.
- Section 1530-Comprehensive Income-introduces the concept of "Other Comprehensive Income" which results from fair valuing certain financial assets and financial liabilities and adds a new line (Accumulated Other Comprehensive Income) to the Equity section of the Balance Sheet. Net income continues to flow to Retained Earnings, however, Other Comprehensive Income will now flow to Accumulated Other Comprehensive Income in the Equity section.
- Section 3865-Hedges-replaces AcG 13 and states that hedges must be classified within one of two categories. The Corporation has chosen not to use hedge accounting as similar effects can be achieved by applying the provisions of Section 3855.

## FINANCIAL PLAN BY CORPORATE OBJECTIVE

### OBJECTIVE 1: HELPING CANADIANS IN NEED

Through initiatives carried out under its Housing Programs, CMHC provides direct assistance via housing program subsidies and contributions; under the Lending Activity, loans are provided at below-market interest rates and investments are made in social housing stock.

The Corporation devotes about 26 per cent of its resources to helping Canadians in need.

#### B.1 HOUSING PROGRAMS

Under its *Housing Programs*, CMHC assists Canadians in core housing need, including those with distinct needs such as Aboriginal people and seniors. The Corporation supports Canada's social housing stock, provides targeted housing assistance through special housing initiatives and supports the creation of affordable housing. Approximately 97 per cent of Housing Program expenditures are devoted to helping Canadians in lower income households.

Actual expenditures under *Housing Programs* on grants, contributions, and subsidies (including related administration and delivery costs) were \$2.1 billion in 2005/06, against the plan of \$2.2 billion. Of this amount, approximately \$2 billion was spent on helping Canadians in need.

CMHC will spend approximately \$2.0 billion each year for 2007/08 to 2010/11.

In 2007/08, approximately \$1.94 billion will be spent on helping Canadians in Need, representing 97 per cent of total planned Housing Program expenditures of \$2.0 billion, in line with the percentage spent in 2005/06.

CMHC, unilaterally and in conjunction with the provinces and territories, subsidizes approximately 633,000 units of social housing. Approximately 90 per cent of Housing Program expenditures relate to commitments made in prior years; these are nondiscretionary, ongoing expenditures.

The plan takes into account the transfer of the administration of social housing under the ten agreements signed to date, including the BC agreement signed in 2006. No specific dates have been assumed for the signing of transfer agreements with the remaining provinces, namely, PEI, Quebec and Alberta.

The plan also takes into account new commitment funding of \$4 million per year for the On-Reserve Non-Profit and renovation programs.

Within current Reference Levels, temporary funding is provided for the following:



### ■ ***Renovation Programs***

In November 2005 the federal government announced a one-year extension to CMHC's Renovation Programs including the Renovation Rehabilitation Assistance Program (RRAP), the Emergency Repair Program (ERP), the Shelter Enhancement Program (SEP) and the Home Adaptations for Seniors' Independence (HASI) program. The one-year extension is for the fiscal year ending March 31, 2007 in the amount of \$128.1 million.

### ■ ***Affordable Housing Initiative***

Pursuant to the Affordable Housing agreement reached in November 2001 between the provincial, territorial and federal governments, total funding of \$680 million was provided starting in 2002/2003. An additional \$320 million was announced for the Affordable Housing Initiative in the February 2003 Federal Budget. Agreements related to these funds have been signed with all provinces and territories.

### ■ ***On-Reserve Housing Programs***

In the February 2005 Budget, the federal government announced additional funding of \$295.0 million over five years for housing

construction and renovation on-reserve. The funding is being shared between INAC and CMHC. Of the \$295.0 million, CMHC is receiving \$83.0 million over five years to facilitate the construction of up to 4,400 new non-profit housing units, all to be occupied by March 31, 2008, and \$20 million over 2 years to facilitate the renovation of approximately 1,100 existing housing units by March 31, 2007. In addition, ongoing funding, for up to 25 years, will be provided for the non-profit housing units.

CMHC has provided start-up assistance and began providing ongoing assistance to the Agency for Co-operative Housing in June 2006. The transfer of administration of cooperatives in PEI and Ontario has been completed. Alberta and BC will be transferred in the fall of 2006. CMHC will continue to have policy responsibility and will still be the organization disbursing federal funds.

In 2006, the federal government initiated an Expenditure Restraint exercise. CMHC's contribution to this exercise is \$45 million consisting of \$30 million in 2006/2007 and \$15 million in 2007/2008.

## **Lending Activity**

Under the Lending Activity, the Corporation assists Canadians in Need by supporting housing choice and affordability through loans and investments in housing programs. Until 1993, these loans and investments were funded through borrowings from the Government of Canada; since then, new funding has been through the capital markets.

The margin on CMHC's financing operations reflects the interest earnings on loans and investments in housing programs plus interest from short-term investments, less interest expense on borrowings.

Under CMHC's Direct Lending program, the Corporation provides low-cost financing for social housing under the non-profit, co-operative and public housing programs, thus lowering the federal government's cost of subsidizing social housing. CMHC's direct lending rate forecasts are based on its cost of funds plus a small margin to cover administrative expenses.

Since 1991, CMHC has assumed the interest rate risk exposure from the Government of Canada on all loans financed with borrowings from the Government of Canada. Some borrowers have the right to prepay, without penalty, certain high interest cost borrowings they have outstanding with CMHC; the Corporation, however, no longer has the ability to prepay, without penalty, its corresponding debt with the CRF. This has resulted in asset/liability mismatches, and a significant interest rate risk.

The Reserve Fund constitutes the retained earnings of the Lending Activity, and fluctuates annually by the amount of income recorded under Generally Accepted Accounting Principles (GAAP). The authorized limit to the Reserve Fund is \$175 million. A maximum of up to \$125 million is intended to guard against losses arising from general operations and prepayment/repricing risk. The authorized remaining \$50 million is intended to accommodate fluctuations in earnings resulting from new accounting guidelines.

In 2005, assets totalled \$15.9 billion, including adjustments to fair value of many derivatives, as a result of AcG-13. Both assets and liabilities were over plan by \$1 billion and variances are largely attributable to short-term investment and repurchase transactions.

The Lending Activity's interest margin was \$11 million, compared to the plan of \$23 million. This reflects the impact of AcG-13.

Loans and Investments in Housing Programs are expected to continue to decline as repayments on existing loans exceed new lending activity. This decline is projected to be \$2.1 billion from 2006 to 2011.

It is difficult to accurately estimate fair values of financial instruments going forward as their values are derived from market interest rates. The projected financial statements are subject to change due to fluctuating market conditions.

Lending - Financial Forecast Results								
(\$ millions)	Actual 2005	Plan 2006	Estimate 2006	Plan 2007	2008	2009	2010	2011
Margin on Financing	11.0	20.2	14.0	19.8	18.6	18.8	20.3	21.3
Gain (Loss) on Real Estate	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total Comprehensive Income	9.1	1.4	-0.1	-3.7	-4.1	-8.5	-11.2	-5.6
Loans and Investments	13,170.1	13,185.8	13,029.4	12,642.5	12,272.8	11,783.3	11,343.2	10,910.5
Retained Earnings	142.5	139.3	142.4	150.8	146.7	138.2	127.0	121.4

## OBJECTIVE 2: FACILITATING ACCESS TO MORE AFFORDABLE, BETTER QUALITY HOUSING

CMHC helps lead the way to more affordable, better quality housing by providing information under its Housing Programs to consumers and to the housing sector to assist in the making of informed housing choices and business decisions. It further helps the housing sector by promoting the export of housing products and services. Through its Insurance and Securitization Activities, the Corporation ensures the availability of an abundant supply of low-cost funds in the residential mortgage market and it provides Canadians with greater access to mortgage financing. Under this objective, it also ensures that housing is durable, energy efficient and matched to Canadians' needs.

Approximately 67 per cent of the Corporation's resources are devoted to achieving this objective.

### Housing Programs

Under its *Housing Programs*, CMHC promotes more affordable, better quality housing through its Research and Information Transfer activities, providing reliable and objective housing information through directed and responsive research programs, as well as housing

surveys, data and extensive analysis and forecasting of economic, housing, and mortgage market trends and conditions. Of the \$2.1 billion spent in 2005/06, approximately \$30 million was spent facilitating access to more affordable, better quality housing for Canadians.

In 2007/08, approximately \$34.9 million will be spent on strengthening competitiveness and innovation of the housing sector, representing 2 per cent, of total planned Housing Programs' expenditures of \$2.0 billion, in line with the percentage noted in 2005/06. Activities supported by these funds are:

- Canadian housing market research and analysis;
- Research and Information Dissemination to promote desirable housing market outcomes and improve building performance.

### Insurance

Net income of \$950.4 million was recorded in 2005 which was \$68.8 million higher than projected in the 2006-2010 Plan. At year-end 2005, the Insurance activity held retained earnings of \$4,062.8 million, compared to the 2006-2010 Plan estimate of

\$3,994.0 million. An actuarial valuation of the Insurance activity as of September 30, 2005 confirmed its long-term solvency.

Insurance-in-force is forecast to increase to just under \$300 billion by the end of 2006, mainly due to high Portfolio insurance product volumes. Under the NHA, the aggregate outstanding amount of all loans for which insurance policies are issued is currently limited to \$300 billion. Treasury Board approval is being sought to raise the limit to \$350 billion.

CMHC's main source of revenue is insurance premiums. CMHC ensures that its premiums are fair and has not hesitated to pass savings resulting from good economic conditions back to Canadians. Since 2003, CMHC has lowered its homebuyer's mortgage loan insurance premiums by 30 per cent and eliminated the application fee for homeowner high-ratio loans.

CMHC plans to continue its leadership and encourage industry dialogue on other fronts to address challenges such as fraud, including identity theft and predictable, timely recourse mechanisms, which protect Canadian homebuyers.

CMHC follows the guidelines of the Office of the Superintendent of Financial Institutions (OSFI) for capitalization for prudent management and in order to maintain a level playing field with private mortgage insurers. The reserves required by OSFI serve to protect the Canadian taxpayer from potential future costs arising from mortgage defaults. As at December 2005, CMHC has set aside \$3.4 billion for capitalization. This represents 1.2 per cent of the outstanding mortgages of \$274 billion. Future capitalization requirements will fluctuate depending on changes in outstanding mortgage insurance and changes to OSFI guidelines. CMHC's retained earnings at December 2005 totalled \$4.4 billion. This forms part of the Government of Canada's accounts and is included in the calculation of the Government's surplus or deficit position. CMHC's retained earnings have served to reduce the Government's accumulated deficit over time.

Insurance - Financial Forecast Results								
(\$ millions)	Actual 2005	Plan 2006	Estimate 2006	Plan 2007	2008	2009	2010	2011
Revenues	1,645.9	1,714.3	1,662.9	1,781.9	1,907.4	2,018.6	2,107.8	2,208.9
Expenses	695.5	786.8	786.3	791.1	826.4	867.6	885.5	938.7
Total Comprehensive Income	950.4	927.5	876.6	1,051.2	1,096.1	1,210.2	1,244.5	1,351.6
Unappropriated Retained Earnings	656.5	1,273.5	922.3	1,607.6	2,314.4	3,235.1	4,267.3	5,431.7

## Securitization

Issuance of securitized pools of insured mortgages during 2005 was \$30.4 billion, nearly double the anticipated amount of \$18 billion in the 2006-2010 Corporate Plan. Exceptionally strong demand for CMB along with NHA MBS was the result of continued demand for access to low-cost funding by Financial Institutions, in response to more buoyant housing markets across Canada than originally anticipated. Accordingly, revenues of \$67.4 million were higher than expectations and net income totalled \$43.1 million, \$13.2 million higher than planned. The year-end Retained Earnings was \$197.4 million.

Mortgage lenders will continue to actively target CMHC programs for securitized funding of NHA insured mortgages. Issuance volumes related to guarantee fees are now projected to increase to \$30.5 billion in 2007 and rise to \$38.5 billion by 2011. Of this amount, \$8.5 billion will be issued through the Mortgage Backed Securities (MBS) program. The balance will be issued through the Canada Mortgage Bond (CMB) program, now firmly established as a premier supplier of affordable mortgage funding. Key factors affecting this forecast will be the available supply of mortgage products on the books of CMHC approved issuers and sellers and bond market conditions.

The retained earnings of the Insurance and Securitization Activities are included in the Public Accounts of Canada.

## Canada Housing Trust (CHT)

CHT, a special purpose Trust established without share capital, was created in April 2001, to acquire and securitize mortgages through Canada Mortgage Bonds (CMB). CMHC's role is to act as Financial Services Advisor (FSA) and Guarantor. As FSA, CMHC is responsible for providing advisory services to CHT with respect to the Trust's activities and the issuance and distribution of the bonds. As Guarantor, CMHC provides a timely payment guarantee of principal and interest carrying the full faith and credit of Canada. In order to ensure that CMB achieve sovereign debt status, the Guarantee has been structured as a direct irrevocable, unconditional obligation of both CMHC and the Government of Canada.

The securitization of the mortgages, in combination with the guarantee of the CMB, promotes two objectives: a) to reduce mortgage costs for Canadian homebuyers by increasing the supply of lower-cost mortgage funds to financial institutions and increasing the liquidity of the secondary mortgage market, and b) to enhance the competitiveness of the mortgage market through increased participation of small lenders and new entrants in mortgage financing. The CMB Program provides for enhanced investment in the Canadian residential mortgage market through the supply of high quality, liquid, government guaranteed investments for both retail and institutional investors.

**Securitization- Financial Forecast Results**

(\$ millions)	Actual 2005	Plan 2006	Estimate 2006	Plan 2007	2008	2009	2010	2011
Total Comprehensive Income	43.1	36.2	40.3	50.0	52.4	65.4	64.0	75.8
Retained Earnings	197.4	223.4	237.8	288.4	342.5	402.6	469.1	538.3

CMBs eliminate the prepayment and cashflow risks inherent in typical mortgage investments as they offer regular coupon payments and a single repayment of principal at maturity.

Since the inception of the CMB Program CMHC has guaranteed all CMB issuance.

The CMB Program is expected to continue to follow a quarterly issuance strategy with transactions in March, June, September and December. Typically, CMHC has guaranteed issue sizes ranging from \$3 billion to \$5.5 billion for fixed rate issues and \$700 million to \$1.2 billion for floating rate issues. The size and timing of the issues is dependent on originator volumes, investor demand and market conditions.

Going forward, CMHC, in its role as Guarantor, will be investigating additional ways to provide Canada's mortgage lenders with the added flexibility to the CMB Program and potential cost advantages of CMB issuance. Volumes have increased throughout the life of the Program with outstanding bonds totaling \$80.9 billion as at June 30, 2006. As at the same date, \$10.6 billion in fixed rate bonds had been issued in 2006. On June 15, 2006 the inaugural CMB issue of \$2.2 billion matured.

It is anticipated that guaranteed CMB issuance will rise by \$2 billion per year over the planning horizon, reaching \$30 billion in 2011.

Canada Housing Trust Financial Forecast Results								
(\$ millions)	Actual 2005	Plan 2006	Estimate 2006	Plan 2007	2008	2009	2010	2011
Revenues	2,675.0	3,127.4	3,057.8	3,459.0	3,591.4	4,326.1	4,933.2	5,400.9
Expenses	2,675.0	3,127.4	3,057.8	3,459.0	3,591.4	4,326.1	4,933.2	5,400.9
Total Comprehensive Income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retained Earnings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0



### **OBJECTIVE 3: ENSURING THE CANADIAN HOUSING SYSTEM REMAINS ONE OF THE BEST IN THE WORLD**

The Corporation conducts and disseminates research to support the continued evolution of the country's housing markets and housing finance system and it shares its expertise with other countries.

CMHC devotes about 7 per cent of its resources to this objective, most of which supports domestic activities.

CMHC also focuses on efficiency, cost-effectiveness and prudent resource management in the interest of ensuring that the Corporation remains a strong and viable entity.

Under its *Housing Programs*, CMHC carries out a number of International activities that support forward-looking activities of Canadian housing exporters, including the promotion of Canadian products, services and know-how in foreign markets. The Corporation also provides housing finance and other expertise to developing countries and countries in transition. In 2005/06, approximately \$20 million was spent ensuring the Canadian Housing System remains one of the best in the world.

In 2007/08, approximately \$24.7 million will be spent. Activities supported by these funds are described below.

- International Activities
- Housing sector well-being is further promoted through support to the industry, which enables Canadian companies to secure international business opportunities and diversify their share of housing export markets.

- Research and Information Dissemination to promote sustainable housing and communities, as well as lead the development and implementation of federal housing policy.

#### **Granville Island**

Granville Island is a cultural, recreational and commercial development initiated by the Government of Canada in 1972, and managed by CMHC. The Island is home to approximately 275 businesses and facilities which employ more than 2,500 people and generate in excess of \$130 million in economic activity annually. There are 12 million visits annually to Granville Island.

In 1979, Granville Island was created from an industrial landfill site with a capital infusion of \$25 million from the federal government. CMHC was asked to assume the property management function at that time. Since 1982, the Island has been self sufficient with capital maintenance financed through funds generated from operations, contributions and/or from funds received through the disposal of capital property. Due to aging infrastructure, CMHC is currently developing an updated long-term plan.

#### **Operating Budget**

The Corporation's 2005 operating budget was approved at \$295.8 million and was under spent by \$32.1 million. The \$263.7 million actual expenditures were lower than plan due to savings attributable to a delay in the implementation of new initiatives, a lesser need for pay-in-lieu of notice and recruitment funding, savings in business premises costs, and a reduction in pension costs following an actuarial review.

Operating Budget Requirements				
	2005 Actual	2006 Approved	2006 Projected	2007 Proposed
Staff-Years	1,804.4	1,935.6	1,935.6	1,896.5
\$ Million				
Personnel	156.9	176.8	176.8	182.4
Non-Personnel	106.8	125.6	125.6	130.2
Sub-total CMHC	263.7	302.4	302.4	312.6
Canada Housing Trust	79.0	84.0	81.3	89.5
Inter-Entity Eliminations	-41	0 0.0	-33.0	-48.0
Total	301.7	386.4	350.7	354.1

For 2006, \$1.5 million was added to the approved base of \$300.9 million in support of the extension of the Renovation Programs to March 31, 2007. It is expected that operating expenses for 2006 will be within the revised budget authority of \$302.4 million.

The 2007 operating budget for CMHC has been based on the business volumes planned for 2007 and the performance standards approved for the respective programs. The 2007 budget reflects an increase of \$10.2 million over the 2006 budget.

Operating Expenses for CHT, estimated to be about \$90 million in 2007, excluding inter-entity eliminations, are reimbursed by financial institutions that use CHT as a funding source for their mortgage funding operations. CHT contracts out all of its activities and, accordingly, does not have any staff-years.

Staff-years for Insurance and Securitization, which represent about 53 per cent of total planned 2007 staff-years, increase into 2007 over 2005 primarily because of additional Insurance issuance activity, including additional resources in business development to address the increasing

competitive pressure in mortgage loan insurance. Additional staff-years are also being invested in Securitization to sustain the growth in this business line. Beyond 2007, Insurance initiation volumes are expected to taper slightly. This will be partially offset by increasing volumes in default management, claims settlement and property administration toward the end of the planning horizon.

Staff-years in Housing Programs which account for approximately 41 per cent of the total planned for 2007, reflect the recently approved one-year extension of the Renovation Programs to March 31, 2007, and the additional funding for Aboriginal On-Reserve programs. The recent signing of the Social Housing Agreement in BC and the transfer of administration for the Co-operative Programs to the Co-op Agency result in a decline in staff-years in 2007 over 2006. Additional investment in CMHC International will partly offset these reductions. For the remainder of the planning period, staff-year requirements remain relatively constant.

In the Lending Activity, where 6 per cent of staff-years are planned for 2007, fluctuations over the planning period are the result of projected volumes in direct lending activity.

## CAPITAL BUDGET FOR FURNITURE, EQUIPMENT AND BUSINESS PREMISES

CMHC's capital budget for furniture, equipment and business premises provides for the fit-up of CMHC's office space, ongoing repair and replacement of worn out assets, the acquisition of new assets, and the principal portion of the long-term lease payments for the National Office "C" Building.

Commitments against the capital budget for 2005 were \$4.2 million as planned. The projected requirements of \$3.9 million in 2006 are in line with the approved budget.

Capital requirement projections for 2007 are \$3.9 million. Fluctuations from 2006 and 2007 budget levels reflect changing needs as office leases expire and furniture and equipment need replacing. Additionally, the principal portion of the National Office lease increases over time.

The Canada Housing Trust contracts out all of its activities and accordingly does not require furniture, equipment or business premises.

## CAPITAL BUDGET FOR LOANS AND INVESTMENTS

The Corporation's capital budget for loans and investments provides for borrowings from the capital markets for loans to acquire, construct or renovate housing under the various programs of the National Housing Act, to help Canadians in need to access suitable and affordable housing. Since 1993 the capital budget authority has also been used to refinance privately financed social housing projects under the Direct Lending initiative. The current Capital Budget Authorities for the RRAP, ERP, and HASI programs are scheduled to end March 31, 2007.

The 2007 Capital Budget for Loans and Investments represents commitment requirements for 2007 and totals \$236.7 million. This revised estimate is \$5.7 million lower than the reference level of \$242.4 million, established in last year's plan.

**Summary of Commitments for Furniture, Equipment and Business Premises \$(000s)**

	<b>2005 Actual</b>	<b>2006 Approved</b>	<b>2006 Projected</b>	<b>2007 Proposed</b>
Furniture & Equipment	1,232	779	779	906
Business Premises	1,875	1,878	1,878	1,556
Obligations under Capital Lease	1,121	1,256	1,256	1,408
<b>Total</b>	<b>4,228</b>	<b>3,913</b>	<b>3,913</b>	<b>3,870</b>

Summary of Commitments for Loans and Investments - \$ (000s)				
	2005 Actuals	2006 Plan	2006 Estimate	2007 Plan
Total	324.9	492.2	574.9	236.7

The decrease in requirements is mainly due to elimination of commitments for Modernization and Improvements and lower Direct Lending activity related to Quebec debentures. This is offset by increased requirements under the Renovation Programs to reflect the one-year extension ending March 31, 2007. The on-reserve non-profit program which reflects higher planned activities for new construction and delays in delivery of the First Nations Housing on-reserve program from 2006 also offset the decrease.

CMHC continues to fund all of its new and renewing capital requirements from the private market. There have been no borrowings from the CRF since 1993. The Corporation will continue to repay its past borrowings from the CRF at approximately \$200 million annually.

The Canada Housing Trust is not subject to the Financial Administration Act and, does not require capital budget authority for loans and investments.

### **Borrowing and Investment Plan**

CMHC is active in the capital markets both as a borrower and as an investor. Borrowings in the domestic and international capital markets support the Corporation's Lending activities. Investments are primarily related to CMHC's Insurance and Securitization activities, through which fee income and premiums are collected and invested.

Borrowings from the capital markets and the Consolidated Revenue Fund (CRF) support various Lending activities, including the Direct Social Housing Lending (Direct Lending or DL) initiative which has provided loans on a planned break-even basis since 1993.

All borrowing, investing, and risk management activities are subject to CMHC's Funding, Investment and Risk Management Policy which is reviewed and approved annually by the Board of Directors.

The objective of the Insurance and Securitization investment portfolios is to maximize investment returns while maintaining sufficient liquidity to meet projected business requirements, including potential future claims and other liabilities, subject to appropriate risk considerations and to the constraints outlined in CMHC's Funding, Investment and Risk Management Policies. Investments under management totalled \$10,190 million (market value) as at June 30, 2006, (\$9,335 million as at June 30, 2005). The majority of these investments, \$9,829 million, relate to Insurance activity while the remaining \$361 million relates to Securitization activity.

CMHC also invests for cash management and hedging purposes in relation to its Lending activities. These investments totalled \$1,107 million, par value, as at June 30, 2006, (\$802 million as at June 30, 2005).

**Table I**  
**Consolidated Financial Statements**  
**Balance Sheet (In Millions of Dollars)**

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
<b><u>Assets</u></b>							
Investment in NHA Mortgage-Backed Securities	63,931	75,144	81,745	85,579	93,388	99,876	105,194
Loans and Investments in Housing Programs	13,170	13,029	12,643	12,273	11,783	11,343	10,911
Investments	11,242	14,198	16,233	17,615	19,392	21,030	22,511
Cash and Cash Equivalents	6,975	5,115	6,033	6,065	7,006	7,694	7,761
Derivative-related amounts	74	57	46	51	223	24	19
Other Assets	5,701	9,645	10,848	10,699	13,984	15,574	15,182
<b>Total Assets</b>	<b>101,093</b>	<b>117,188</b>	<b>127,548</b>	<b>132,282</b>	<b>145,776</b>	<b>155,541</b>	<b>161,578</b>
<b><u>Liabilities</u></b>							
Canada Mortgage Bonds	72,075	90,350	99,442	102,926	116,068	124,783	130,000
Borrowings from Capital Markets	9,467	7,992	7,735	7,736	7,352	7,024	6,633
Borrowings from the Government of Canada	4,899	4,701	4,446	4,235	4,025	3,822	3,675
Unearned Premiums and Fees	4,694	5,139	5,388	5,560	5,694	5,806	5,910
Derivative-related amounts	14	4	507	448	16	169	2
Other Liabilities	5,516	3,657	3,234	3,437	3,414	3,432	3,431
<b>Total Liabilities</b>	<b>96,665</b>	<b>111,843</b>	<b>120,752</b>	<b>124,342</b>	<b>136,569</b>	<b>145,036</b>	<b>149,651</b>
<b><u>Equity of Canada</u></b>							
Contributed Capital	25	25	25	25	25	25	25
Accumulated Other Comprehensive Income	n/a	n/a	291	305	369	389	477
Retained Earnings	4,403	5,320	6,480	7,610	8,813	10,091	11,425
	4,428	5,345	6,796	7,940	9,207	10,505	11,927
<b>Total Liabilities &amp; Equity</b>	<b>101,093</b>	<b>117,188</b>	<b>127,548</b>	<b>132,282</b>	<b>145,776</b>	<b>155,541</b>	<b>161,578</b>

**Table 2**  
Consolidated Financial Statements  
Statement of Income and Comprehensive Income (In Millions of Dollars)

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Revenues	7,334	7,836	8,137	8,342	9,188	9,846	10,407
Expenses	5,870	6,477	6,606	6,715	7,470	8,047	8,528
Income Before Taxes	1,464	1,359	1,531	1,627	1,718	1,799	1,879
Taxes	462	442	498	496	516	522	545
Net Income	1,002	917	1,033	1,131	1,202	1,277	1,334
Other Comprehensive Income	n/a	n/a	65	13	65	20	88
Comprehensive Income	1,002	917	1,098	1,144	1,267	1,297	1,422

**Table 3**  
Consolidated Financial Statements  
Statement of Equity (In Millions of Dollars)

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Unappropriated	854	1,160	1,896	2,657	3,638	4,737	5,970
Appropriated	3,406	4,017	4,433	4,807	5,037	5,227	5,333
Reserve Fund	143	143	151	147	138	127	121
Accumulated Other Comprehensive Income	n/a	n/a	291	304	369	389	477
Contributed Capital	25	25	25	25	25	25	25
Total Equity	4,428	5,345	6,796	7,940	9,207	10,505	11,926

**Table 4**  
Consolidated Financial Statements  
Statement of Cash Flows (In Millions of Dollars)

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Cash Flows provided by (used in) Operating Activities	1,195	1,677	1,756	1,022	1,337	1,319	1,513
Cash Flows provided by (used in) Investment Activities	-17,111	-19,161	-9,704	-4,632	-13,004	-8,786	-11,016
Cash Flows provided by (used in) Financing Activities	17,628	15,624	8,866	3,644	12,610	8,158	9,574
Increase (Decrease) in Cash and Cash Equivalents	1,712	-1,860	918	34	943	691	71



**Table 5**  
**Housing Programs**  
**Statement of Expenditures and Recoveries (In Millions of Dollars)**

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Cash Flow Requirements - Contributions							
Increased availability of suitable and affordable housing for Canadians in need, including Aboriginal Canadians							
Assisted Housing Programs	1,575.7	1,680.7	1,626.0	1,661.0	1,669.2	1,663.0	1,659.6
Affordable Housing Initiative	175.0	174.3	82.0	75.6	62.6	27.1	9.3
On-Reserve Housing Programs	101.1	124.9	131.5	134.8	143.7	150.7	153.6
Housing Repair and Improvement Programs	112.3	147.0	80.4	2.5	2.4	2.4	2.3
Research and Information Dissemination that addresses distinct housing needs, including those of Aboriginal peoples	2.4	2.1	2.1	2.1	2.1	2.1	2.1
Strengthened competitiveness and innovation of the housing sector in order to meet the housing needs of Canadians.							
Canadian Housing Market Research and Analysis	0.4	0.0	0.0	0.0	0.0	0.4	0.5
Research and information dissemination to promote desirable housing market outcomes and improve building performance.	3.1	3.9	4.1	4.0	3.9	3.9	3.9
The Canadian housing system remains one of the best in the world.							
International Activities	-1.4	0.0	0.0	0.0	0.0	0.0	0.0
Research and information dissemination to promote sustainable housing and communities, as well as lead the development and implementation of federal housing policy.	3.9	3.5	3.6	3.5	3.5	3.5	3.5
Subtotal - Contributions	1,972.5	2,136.4	1,929.7	1,883.5	1,887.4	1,853.1	1,834.8
Operating Expenses	103.5	112.0	113.7	112.2	114.2	117.0	130.3
Total Cash Flow Requirements	2,076.0	2,248.4	2,043.4	1,995.7	2,001.6	1,970.1	1,965.1

**Table 6**  
**Lending Activity - Financial Statements**  
**Balance Sheet (In Millions of Dollars)**

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
<b><u>Assets</u></b>							
Loans and Investments in Housing Programs	13,170	13,029	12,643	12,273	11,783	11,343	10,911
Cash and Cash Equivalents and Investment in Securities	1,895	889	868	854	830	811	792
Other Assets	817	688	651	669	672	650	647
<b>Total Assets</b>	<b>15,882</b>	<b>14,606</b>	<b>14,162</b>	<b>13,796</b>	<b>13,285</b>	<b>12,804</b>	<b>12,350</b>
<b><u>Liabilities</u></b>							
Capital Market Borrowings	9,467	8,834	8,694	8,773	8,502	8,263	7,975
Borrowings from the Government of Canada	4,899	4,701	4,446	4,235	4,025	3,822	3,675
Accounts Payable and Other Liabilities	1,348	903	846	616	595	567	554
<b>Total Liabilities</b>	<b>15,714</b>	<b>14,438</b>	<b>13,986</b>	<b>13,624</b>	<b>13,122</b>	<b>12,652</b>	<b>12,204</b>
<b><u>Equity</u></b>							
Capital authorized and fully paid by the Government of Canada	25	25	25	25	25	25	25
Accumulated Other Comprehensive Earnings	n/a	n/a	n/a	n/a		n/a	n/a
Reserve Fund	143	143	151	147	138	127	121
<b>Total Liabilities and Equity</b>	<b>15,882</b>	<b>14,606</b>	<b>14,162</b>	<b>13,796</b>	<b>13,285</b>	<b>12,804</b>	<b>12,350</b>

**Table 7****Lending Activity - Financial Statements****Statement of Income, Comprehensive Income and Retained Earnings (In Millions of Dollars)**

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Net Interest Income	11	14	20	18	18	20	21
Gain (Loss) on Real Estate	0	0	0	0	0	0	0
Other Income	22	7	-6	-4	-10	-14	-6
Income Before Operating Expenses	33	21	14	14	8	6	15
Operating Expenses	18	21	20	20	20	22	23
Income Before Taxes	15	0	-6	-6	-12	-16	-8
Taxes	6	0	-2	-2	-3	-5	-2
Net Income	9	0	-4	-4	-9	-11	-6
Retained Earnings, Beginning of Year	134	143	143	151	147	138	127
Effect of accounting policy change at January 1, 2007	n/a	n/a	12	0	0	0	0
Retained Earnings, End of Year	143	143	151	147	138	127	121

**Table 8**  
**Lending Activity - Financial Statements**  
**Statement of Cash Flows (In Millions of Dollars)**

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Cash Flows provided by (used in) Operating Activities	155	4	212	-213	-12	-3	-14
Cash Flows provided by (used in) Investment Activities	194	766	462	362	490	435	431
Cash Flows provided by (used in) Financing Activities	222	-1,263	-684	-156	-490	-442	-426
Increase (Decrease) in Cash and Cash Equivalents	571	-493	-10	-7	-12	-10	-9

**Table 9**  
**Insurance - Financial Statements**  
**Balance Sheet(In Millions of Dollars)**

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Assets							
Investments/Cash and Cash Equivalents/Real Estate	11,813	12,091	13,815	15,144	16,533	17,881	19,358
Other Assets	321	363	187	302	358	375	397
Total Assets	12,134	12,454	14,002	15,446	16,891	18,256	19,755
Liabilities							
Unearned Premiums and Provision for Claims	5,027	5,461	5,618	5,805	5,952	6,072	6,186
Other Liabilities	3,044	2,054	2,064	2,225	2,313	2,313	2,347
Total Liabilities	8,071	7,515	7,682	8,030	8,265	8,385	8,533
Equity							
Accumulated Other Comprehensive Income	n/a	n/a	280	295	354	376	457
Unappropriated Retained Earnings	657	922	1,608	2,314	3,235	4,267	5,432
Appropriated Retained Earnings	3,406	4,017	4,432	4,807	5,037	5,228	5,333
Total Equity	4,063	4,939	6,320	7,416	8,626	9,871	11,222
Total Liabilities & Equity	12,134	12,454	14,002	15,446	16,891	18,256	19,755

**Table 10****Insurance - Financial Statements****Statement of Income, Comprehensive Income and Equity (In Millions of Dollars)**

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Revenues	1,646	1,663	1,782	1,907	2,019	2,108	2,209
Expenses	256	365	314	352	375	386	420
Income Before Taxes	1,390	1,298	1,468	1,555	1,644	1,722	1,789
Taxes	439	422	477	474	493	499	519
Net Income	951	876	991	1,081	1,151	1,223	1,270
Other Comprehensive Income	n/a	n/a	60	15	59	22	81
Effect of accounting policy change at January 1, 2007	0	0	330	0	0	0	0
Total Equity, Beginning of Year	3,112	4,063	4,939	6,320	7,416	8,626	9,871
Total Equity, End of Year	4,063	4,939	6,320	7,416	8,626	9,871	11,222

**Table 11****Insurance - Financial Statements****Statement of Cash Flows (In Millions of Dollars)**

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Cash Flows provided by (used in) Operating Activities	1,094	1,104	1,007	1,132	1,041	1,201	1,218
Cash Flows provided by (used in) Investment Activities	-1,915	-212	-1,157	-1,282	-1,191	-1,201	-1,218
Cash Flows provided by (used in) Financing Activities	869	-913	150	150	150	0	0
Increase (Decrease) in Due from (to) Lending Activity	48	-21	0	0	0	0	0

**Table 12**  
**Securitization - Financial Statements**  
**Balance Sheet (In Millions of Dollars)**

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Assets							
Investments	314	374	447	505	577	643	726
Other Assets	36	34	30	32	33	36	38
Total Assets	350	408	477	537	610	679	764
Liabilities							
Unearned Guarantee Fees	147	161	170	176	181	185	192
Deferred Gains on Disposal of Securities	8	0	n/a	n/a	n/a	n/a	n/a
Other Liabilities	-2	9	7	8	11	12	14
Total Liabilities	153	170	177	184	192	197	206
Accumulated Other Comprehensive Income	n/a	n/a	12	10	15	13	19
Retained Earnings	197	238	288	343	403	469	539
Total Liabilities & Equity	350	408	477	537	610	679	764



**Table 13**

## Securitization - Financial Statements

## Statement of Income, Comprehensive Income and Equity (In Millions of Dollars)

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Revenues	67	70	79	90	99	108	112
Expenses	8	10	11	12	13	14	15
Income Before Taxes	59	60	68	78	86	94	97
Taxes	17	19	22	24	26	27	28
Net Income	42	41	46	54	60	67	69
Other Comprehensive Income	n/a	n/a	4	-1	5	-3	7
Effect of accounting policy change at January 1, 2007	0	0	12	0	0	0	0
Total Equity, Beginning of Year	155	197	238	300	353	418	482
Total Equity, End of Year	197	238	300	353	418	482	558

**Table 14**

## Securitization - Financial Statements

## Statement of Cash Flows (In Millions of Dollars)

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Cash Flows provided by (used in) Operating Activities	54	56	57	60	66	70	76
Cash Flows provided by (used in) Investment Activities	-54	-60	-57	-60	-66	-70	-76
Increase (Decrease) in Due from (to) Lending Activity	0	-3	0	0	0	0	0

**Table 15**  
**Canada Housing Trust - Financial Statements**  
**Balance Sheet (In Millions of Dollars)**

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Assets							
Investments in Mortgage-Backed Securities	63,931	75,144	81,745	85,579	93,388	99,876	105,194
Other Assets	9,277	15,418	18,121	17,962	22,752	25,166	24,857
Total Assets	73,208	90,562	99,866	103,541	116,140	125,042	130,051
Liabilities							
Canada Mortgage Bonds	72,526	90,350	99,442	102,926	116,068	124,783	130,000
Other Liabilities	682	212	424	615	72	259	51
Total Liabilities	73,208	90,562	99,866	103,541	116,140	125,042	130,051
Accumulated Other Comprehensive Income	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Retained Earnings	0	0	0	0	0	0	0
Total Liabilities & Equity	73,208	90,562	99,866	103,541	116,140	125,042	130,051

**Table 16**  
**Canada Housing Trust - Financial Statements**  
**Statement of Income, Comprehensive Income and Equity (In Millions of Dollars)**

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Revenues	2,675	3,058	3,459	3,591	4,326	4,933	5,401
Expenses	2,675	3,058	3,459	3,591	4,326	4,933	5,401
Income Before Taxes	0	0	0	0	0	0	0
Taxes	0	0	0	0	0	0	0
Net Income	0	0	0	0	0	0	0
Other Comprehensive Income	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Effect of accounting policy change at January 1, 2007	0	0	0	0	0	0	0
Total Equity, Beginning of Year	0	0	0	0	0	0	0
Total Equity, End of Year	0	0	0	0	0	0	0

**Table 17**  
**Canada Housing Trust - Financial Statements**  
**Statement of Cash Flows (In Millions of Dollars)**

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Cash Flows provided by (used in) Operating Activities	-54	416	-37	-65	37	-92	-34
Cash Flows provided by (used in) Investment Activities	-17,416	-16,557	-8,434	-3,546	-12,035	-7,810	-9,890
Cash Flows provided by (used in) Financing Activities	18,055	17,800	9,400	3,650	12,950	8,600	10,000
Increase (Decrease) in Cash and Cash Equivalents	585	1,659	929	39	952	698	76

**Table 18**  
**Statement of Transactions with the Consolidated Revenue Fund (CRF) -**  
**Years Ended 31 December (In Millions of Dollars)**

Description	2005 Actual	2006 Estimate	2007	2008	2009	2010	2011
Cash Drawn from CRF							
Grants, Contributions and Subsidies	2,076	2,248	2,044	1,996	2,002	1,970	1,965
Total Cash Drawn from CRF	2,076	2,248	2,044	1,996	2,002	1,970	1,965
Cash Paid to CRF							
Repayment of Borrowings, Lending Activity	146	199	255	211	210	204	147
Interest Paid on Borrowings	451	441	538	401	381	363	249
Other	518	557	446	563	619	510	532
Total Cash Paid to CRF	1,115	1,197	1,239	1,175	1,210	1,077	928
Net Cash Drawn from CRF	961	1,051	805	821	792	893	1,037

**Table 19**

Statement of Transactions with the Consolidated Revenue Fund (CRF) -  
Fiscal Years Ended 31 March (In Millions of Dollars)

Description	2005/06 Actual	2006/07 Estimate	2007/08	2008/09	2009/10	2010/11	2011/12
Cash Drawn from CRF							
Grants, Contributions and Subsidies	2,119	2,220	2,000	2,008	2,001	1,962	1,960
Total Cash Drawn from CRF	2,119	2,220	2,000	2,008	2,001	1,962	1,960
Cash Paid to CRF							
Repayment of Borrowings, Lending Activity	200	148	258	210	206	202	216
Interest Paid on Borrowings	449	337	510	396	377	359	268
Other	545	558	446	563	619	510	532
Total Cash Paid to CRF	1,194	1,043	1,214	1,169	1,202	1,071	1,016
Net Cash Drawn from CRF	925	1,177	786	839	799	891	944