The Honourable
Stewart McInnes, Minister
Responsible for
Canada Mortgage
and Housing Corporation

L'honorable
Stewart McInnes, ministre
responsable de la
Société canadienne
d'hypothèques et de logement

CMHC SCHL

NEW DIRECTIONS IN PUBLIC MORTGAGE LOAN INSURANCE

NOUVELLES ORIENTATIONS EN MATIÈRE D'ASSURANCE — PRÊT HYPOTHÉCAIRE PUBLIQUE

News Release / Communiqué

Honourable
Stewart McInnes
Minister

L'honorable
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ministre

FOR IMMEDIATE RELEASE

IMPROVED MORTGAGE OPTIONS ANNOUNCED

TORONTO, March 24, 1987 - A number of changes designed to strengthen the Federal Government's Mortgage Insurance Fund and to reaffirm equal access to mortgage funding at the lowest possible cost for consumers in every part of Canada was unveiled here today by the Honourable Stewart McInnes, Minister responsible for Canada Mortgage and Housing Corporation.

These changes, some of which require legislative action, include:

A reduction in some underwriting premiums and fees to encourage greater use of mortgage loan insurance and improve access to homeownership.

For the first time, second mortgage insurance is offered to fund renovation work or additional mortgage requirements. By providing this insurance, and reducing risk to the lenders, consumers will be able to obtain the necessary financing at the lower first mortgage interest rates.

Legislative changes will be sought to provide insurance on chattel mortgages to assist homeownership of mobile homes used as residences on short-term leases.

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To further encourage the supply of money for mortgages, insurance will now be provided for pools of existing low risk, non-NHA insured mortgages for the purpose of issuing mortgage-backed securities.

Other features of the changes announced today requiring legislation include streamlining claims settlements and default procedures and the introduction of techniques to reduce claim losses.

"The private and public sectors have an important role to play in the mortgage insurance business", said Mr. McInnes. "Services and price will be competitive with the private sector and the consumer will benefit. The private insurer must meet his financial goals and the government, through CMHC, must continue to ensure that financing for mortgage loans is available, on an equal basis, for all Canadians no matter where they live", said the Minister.

According to the Minister the key to reducing consumer costs is CMHC's ability to balance its insurance portfolio between high and low-risk activities. This will be achieved by seeking a greater penetration of the non-insured mortgage market, through the introduction of portfolio insurance and more competitively priced low-risk insurance.

The Minister added that he will undertake negotiations with industry and the provinces to find ways of sharing the additional risk on NHA insured loans for resource-based communities.

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"These changes, which were developed from a special review of NHA insurance by CMHC in 1986, will go a long way to ensure the long-term viability of the Mortgage Insurance Fund and guarantee that Canadians can obtain mortgage financing at a reasonable cost -- particularly where that financing is not available under normal market conditions", said Mr. McInnes.

"At the same time, these new initiatives demonstrate the government's commitment to a fiscally-responsible public mortgage loan insurance program, to healthy competition within the industry, and to the needs of consumers, lenders and builders".

"For many Canadians," said Mr. McInnes, "the National Housing Act made the difference between owning a home and not. It has served this country well and the initiatives we are taking here today will ensure that it will continue to do so for many years to come".

No changes are scheduled to take effect until at least 1 May.

The Minister also noted that the Federal Government would continue to work with provincial and municipal initiatives to provide shelter for low-income groups within the limits of federal government spending constraints.

In conducting its review of mortgage insurance, CMHC officials consulted directly with all provincial and territorial governments as well as some 24 special interest groups, including housing industry associations, financial institutions, and municipal, economic and consumer organizations.

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Mortgage loan insurance in Canada traces its roots back to 1935, when a joint loan program was established to provide mortgage loans of up to 80 per cent of a property's appraised value based on a 25/75 per cent split between the federal government and the participating financial institution.

This program was replaced in 1954 by the National Housing Act, which was based on the U.S. Federal Housing Administration insured mortgage program and adapted to Canadian needs. Private insurers entered the field in 1963.

Since its introduction 34 years ago, CMHC has provided mortgage loan insurance on $90 billion worth of real estate and enabled nearly 2.6 million Canadians to purchase homes at up to 90 per cent of market value at lowest possible interest rates.

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Remarks by the Honourable Stewart McInnes

Discours de l'honorable Stewart McInnes

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et de logement

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STATEMENT BY THE

HONOURABLE STEWART MCINNES

MINISTER RESPONSIBLE FOR

CANADA MORTGAGE AND HOUSING CORPORATION

MARCH 24, 1987

CMHC SCHL

I AM PLEASED TO BE ABLE TO OUTLINE THIS MORNING NEW INITIATIVES IN PUBLIC MORTGAGE LOAN INSURANCE. THE CHANGES I AM MAKING TO PUBLIC MORTGAGE LOAN INSURANCE ARE CONSISTENT WITH THE NATIONAL DIRECTION FOR HOUSING SOLUTIONS SET OUT BY MY PREDECESSOR IN DECEMBER 1985. THEY ARE THE RESULT OF AN OPEN AND EXTENSIVE CONSULTATION WITH CANADIANS. SOME CHANGES WILL TAKE EFFECT FROM MAY 1ST ONWARDS.

OVER TIME, MORTGAGE LOAN INSURANCE HAS ENABLED CANADIANS TO OBTAIN MORTGAGE FINANCING AT PREFERRED INTEREST RATES AND UP TO 90 PER CENT OF THE MARKET VALUE TO PURCHASE HOUSING. LOW DOWNPAYMENTS AND LOW BORROWING COSTS MAKE HOME OWNERSHIP MORE ACCESSIBLE TO MODERATE INCOME HOUSEHOLDS.

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MORTGAGE LOAN INSURANCE HAS ALSO ENCOURAGED THE CONSTRUCTION OF RENTAL HOUSING. SINCE ITS INCEPTION MORE THAN 30 YEARS AGO, PUBLIC MORTGAGE LOAN INSURANCE HAS FACILITATED THE FINANCING OF NEARLY 2.6 MILLION HOUSING UNITS. THAT IS AN IMPRESSIVE RECORD OF ACHIEVEMENT. IT IS THE FOUNDATION ON WHICH I WANT TO BUILD.

IN MAY OF LAST YEAR, ON BEHALF OF THE GOVERNMENT, CANADA MORTGAGE AND HOUSING CORPORATION INITIATED A CONSULTATIVE REVIEW OF PUBLIC MORTGAGE LOAN INSURANCE THROUGH THE RELEASE OF A DISCUSSION PAPER. MEETINGS WERE THEN HELD WITH ALL PROVINCIAL AND TERRITORIAL GOVERNMENTS AS WELL AS INTEREST GROUPS REPRESENTING FINANCIAL INSTITUTIONS, THE HOUSING INDUSTRY, AND CONSUMERS.

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VIEWS FROM DIFFERENT PERSPECTIVES WERE EXPRESSED IN THE CONSULTATIONS. ABOVE ALL, PARTICIPANTS IN THE CONSULTATIONS UNANIMOUSLY ENDORSED THE CONTINUATION OF PUBLIC MORTGAGE LOAN INSURANCE AS A MEANS TO ACHIEVE FEDERAL HOUSING GOALS OF SUPPORTING ACCESS TO HOME OWNERSHIP AND FACILITATING RENTAL PRODUCTION THROUGHOUT CANADA.

THE NEW DIRECTIONS AND NEW INITIATIVES IN PUBLIC MORTGAGE LOAN INSURANCE REFLECT THE CONSENSUS WHICH EMERGED IN THE CONSULTATIONS.

ENSURING THAT BORROWERS IN ALL PARTS OF CANADA HAVE EQUAL ACCESS TO MORTGAGE FINANCING HAS BEEN THE PRIME PUBLIC POLICY OBJECTIVE OF PUBLIC MORTGAGE LOAN INSURANCE. I WANT TO REAFFIRM THIS POLICY.

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MORTGAGE LOAN INSURANCE MUST EVOLVE IN ACCORDANCE WITH CHANGING NEEDS. TO THAT END, I PROPOSE TO INTRODUCE NEW INSURANCE PRODUCTS UNDER THE NATIONAL HOUSING ACT.

THE MORTGAGE-BACKED SECURITIES INITIATIVE, DESIGNED TO ENCOURAGE THE RETURN OF LONG-TERM MORTGAGE MONEY, HAS HAD CONSIDERABLE INITIAL SUCCESS. TO ACCELERATE DEVELOPMENT IN THE MARKET, A NEW MORTGAGE PORTFOLIO INSURANCE PRODUCT WILL BE INTRODUCED TO ENABLE THE PACKAGING OF EXISTING CONVENTIONALLY-FINANCED MORTGAGES INTO MBS.

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THERE HAVE BEEN 5 MBS ISSUES FOR A TOTAL OF ABOUT $80 MILLION TO-DATE. AT THIS PACE, IT IS LIKELY THAT THE VOLUME COULD REACH $400 MILLION BY YEAR-END, CONSIDERABLY MORE THAN WAS ORIGINALLY ANTICIPATED. I AM PARTICULARLY PLEASED THAT ONE OF THE UPCOMING ISSUES WILL BE BASED ON 10-YEAR TERM MORTGAGES.

SECOND-MORTGAGE FINANCING HAS BECOME INCREASINGLY POPULAR IN CANADA. HOWEVER, INTEREST RATES ARE USUALLY HIGHER. THE AVAILABILITY OF INSURANCE FOR SECOND MORTGAGES WILL ENABLE CANADIANS TO OBTAIN THIS FINANCING WITH LOWER BORROWING COSTS.

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SOME BORROWERS MAY USE INSURED SECOND MORTGAGES TO FACILITATE THE ASSUMPTION OF LOW-INTEREST RATE FIRST MORTGAGES. THIS WILL HAVE THE EFFECT OF REDUCING OVERALL FINANCING COSTS. OTHERS MAY USE IT TO FINANCE RENOVATION. THIS WILL IMPROVE THE QUALITY OF THE HOUSING STOCK IN CANADA. STILL OTHERS MAY USE IT TO EFFECT THE TRANSFER OF RRSP HOLDINGS INTO THEIR OWN SECOND MORTGAGES. THIS WILL ADD FLEXIBILITY TO RRSP INVESTMENT DECISIONS.

PUBLIC MORTGAGE LOAN INSURANCE IS NOW AVAILABLE FOR MOVEABLE HOMES BUT ON A RESTRICTED BASIS.

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THE CANADIAN MANUFACTURED HOUSING INSTITUTE HAS FOR A NUMBER OF YEARS SOUGHT CHANGES TO MAKE HOMES WHICH ARE MOVEABLE EQUAL TO CONVENTIONALLY-BUILT HOUSES FOR MORTGAGE LOAN INSURANCE PURPOSES. I WILL BE INTRODUCING LEGISLATION WHICH WILL PROVIDE CHATTEL MORTGAGE INSURANCE TO FACILITATE THE AVAILABILITY OF THIS LESS EXPENSIVE ALTERNATIVE HOUSING FORM.

IN ADDITION, THERE WILL BE REDUCTIONS IN THE APPLICATION FEE SCHEDULE. SOME INSURANCE PREMIUMS WILL BE LOWERED. LOAN LIMITS WILL BE INCREASED. A MORE EQUITABLE REFUND POLICY AND VOLUME DISCOUNTS WILL BE IMPLEMENTED. I BELIEVE THESE ACTIONS IN COMBINATION WITH THE INTRODUCTION OF NEW INSURANCE PRODUCTS WILL RAISE OVERALL DEMAND FOR MORTGAGE LOAN INSURANCE.

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THIS WOULD RENEW PUBLIC/PRIVATE COMPETITION IN THE MORTGAGE LOAN INSURANCE MARKET. CONSUMERS WILL BENEFIT FROM THE BEST POSSIBLE SERVICE AND LOWEST FEASIBLE PRICE THAT INCREASED COMPETITION CAN POTENTIALLY BRING. I WANT TO EMPHASIZE THAT CMHC INTENDS TO COMPETE FAIRLY WITH THE PRIVATE SECTOR FOR EXISTING BUSINESS AS WELL AS NEW MARKET OPPORTUNITIES.

IN THE INTEREST OF ENHANCING COST EFFICIENCY, I WANT TO STREAMLINE EXISTING CLAIMS SETTLEMENT AND DEFAULT MANAGEMENT PROCEDURES. I ALSO WANT TO INTRODUCE NEW CLAIMS SETTLEMENT TECHNIQUES WHICH WOULD REDUCE CLAIM LOSSES. LEGISLATIVE CHANGES WILL BE REQUIRED FOR THIS.

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DURING THE CONSULTATION PROCESS BOTH LIMITED LIABILITY AND DEDUCTIBILITY WERE PROPOSED AS MEANS OF BOTH REDUCING LOSSES TO THE FUND AND ENSURING LENDER DISCIPLINE. THESE OPTIONS WERE REJECTED ON THE BASIS THEY WOULD ULTIMATELY WORK AGAINST THE PUBLIC POLICY OBJECTIVE AND THAT LENDER DISCIPLINE COULD ADEQUATELY BE PURSUED THROUGH A MORE EFFECTIVE MONITORING PROCEDURE.

IT SHOULD ALSO BE NOTED THAT PUBLIC MORTGAGE INSURANCE HAS BEEN USED FOR OTHER PURPOSES IN THE PAST. IT HAS FACILITATED MORTGAGE INNOVATIONS. IT HAS ASSISTED THE MORTGAGE MARKET TO ADJUST TO CHANGING ECONOMIC CONDITIONS. IT HAS SUPPORTED OTHER GOVERNMENT INITIATIVES.

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TO THE EXTENT THAT MORTGAGES UNDER THESE INITIATIVES PRESENT RISKS THAT ARE SUPPORTABLE BY MARKETABLE PREMIUM LEVELS, PUBLIC MORTGAGE LOAN INSURANCE WILL CONTINUE TO BE MADE AVAILABLE. TO THE EXTENT THAT THEY ARE NOT, SPECIAL MEASURES TO PROTECT THE SOLVENCY OF THE MORTGAGE INSURANCE FUND WILL BE REQUIRED.

PARTICIPANTS IN THE CONSULTATIONS ALSO BELIEVED THAT IT IS INAPPROPRIATE FOR THE MORTGAGE INSURANCE FUND TO RETAIN ALL THE RISKS OF PROVIDING ADEQUATE FINANCING FOR HOUSING IN RESOURCE TOWNS.

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THEY EMPHASIZED THAT FEDERAL, PROVINCIAL AND TERRITORIAL GOVERNMENTS HAVE EQUAL INTEREST AND RESPONSIBILITY IN FOSTERING ECONOMIC AND COMMUNITY DEVELOPMENT. I AM PLEASED THAT SEVERAL OF MY PROVINCIAL AND TERRITORIAL COUNTERPARTS HAVE EXPRESSED SUPPORT FOR THIS CONCEPT.

THEREFORE, I INTEND TO NEGOTIATE WITH THE PROVINCES AND TERRITORIES FOR THEIR PARTICIPATION IN THE SHARING OF LENDING RISKS WITH THE MORTGAGE INSURANCE FUND AND WITH COMPANIES OPERATING IN RESOURCE TOWNS. PROVINCES AND TERRITORIES WILL HAVE THE OPPORTUNITY TO INCREASE OVERALL ACCESS TO MORTGAGE FINANCING IN RESOURCE TOWNS, AND TO ENSURE THAT BORROWERS LIVING IN THOSE AREAS OBTAIN THE SAME FINANCING TERMS AS BORROWERS LIVING ELSEWHERE.

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IN CONCLUSION, THE NEW DIRECTIONS AND NEW INITIATIVES IN PUBLIC MORTGAGE LOAN INSURANCE I HAVE DESCRIBED REPRESENT A CAREFUL BALANCE BETWEEN RESPONSIBLE SOCIAL POLICY AND SOUND FISCAL MANAGEMENT. I BELIEVE THEY REPRESENT CHANGES THAT CANADIANS WILL SUPPORT.

Information

CANADA MORTGAGE AND HOUSING CORPORATION

MORTGAGE INSURANCE

FACT SHEETS

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NHA 5884

IMPROVEMENTS TO NHA MORTGAGE INSURANCE - FACT SHEET

INTRODUCTION

Under the National Housing Act (NHA), Canada Mortgage and Housing Corporation (CMHC) undertakes to insure mortgage loans against specific losses arising out of default. CMHC provides insurance under the NHA for a situation where the borrower fails to repay the mortgage loan amount lent to him/her by a lender on the agreed terms.

CMHC is introducing significant improvements to the NHA mortgage insurance program, particularly for lower risk new and existing homeowner loans. Following is a list of the improvements.

PREMIUMS:

- Premiums for new and existing homeowner business which has a loan to value ratio of less than 80% have been reduced to the following levels:

Loan to value ratio	PREVIOUS PREMIUM One Advance	PREVIOUS PREMIUM More than one advance	NEW PREMIUM One Advance	NEW PREMIUM More than one advance
Up to and including 65%	1.0%	1.5%	0.5%	1.0%
Up to and including 75%	1.0	1.50	0.75	1.25
Up to and including 80%	1.5	2.00	1.25	1.75

- The premium surcharge of 1 per cent for condominiums has been removed.
- Premiums on new units have been reduced by 0.5% when the loan is a take-out or completion loan and does not require NHA insured advances.

UNDERWRITING FEES:

- Underwriting fees on all lines of business have been reduced to the following levels:

	Previous fee	Revised fee
New homeowner units		
Basic service * (per unit)	$150	$ 75
Full service (per unit)	$350	$235
Existing homeowner units		
Basic service * (per unit)	$100	$ 75
Full service (per unit)	$250	$235

	Previous fee	Revised fee
New condominium		
First 15 units (per unit)	$350	$150
Each additional unit	$250	$150
Existing Rental		
One unit	$350	$235
Project up to 50 units (per unit)	$250	$125
Each additional unit	$250	$ 50
New Rental		
One Unit	$350	$235
Project up to 50 units (per unit)	$250-$350	$150
Each additional unit	$250	$ 75

* Appraisal provided by the lender

INCREASED FLEXIBILITY:

- Mortgage loan insurance premiums are no longer required up front. For most lines of business the premium will be paid progressively as the mortgage funds are advanced.

- CMHC is introducing a special application fee on condominiums and new homeowner subdivisions. Subdivision and condominium units will be eligible for NHA insurance when take-out mortgages are resquested if an amount equal to 20% of the fees for the total number of units being constructed is paid at the start of the project. The 20% eligibility fee will be credited towards any actual applications on take-out.

- Up to 100% of the underwriting fee may be refunded on homeownership units if the application is rejected, withdrawn by the lender before commitment or cancelled due to reduction in the loan.

- On new homeowner units, commitments may be allowed to be extended up to 12 months from the date of the undertaking to insure.

- Loan limits have been extended to 90% of the first $125,000 (from the previous level of $80,000) of lending value plus 80% of the remainder for equal payment mortgages. For variable rate mortgages, the loan limit is extended to 85% of the first $125,000 plus 80% of the remainder.

Example: Existing Homeownership

1. Purchase price: $80,000
2. Mortgage loan requested: $64,000
3. Loan to value ratio: 80%

	Previous	New
Mortgage Insurance Premium:	$960	$800
Application fees	$100	$ 75
Total Costs	$1 060	$875

NHA SECOND MORTGAGE INSURANCE

FACTS AND HIGHLIGHTS

The Program is specifically targeted and appealing to:

- the individuals improving their properties who don't want to disturb favourable first mortgage financing

- individuals purchasing properties with appealing assumable first mortgage financing in place, who require additional funds to bridge the difference between their equity and the assumable first mortgage

- it is considered timely given the surge in the rehabilitation market of the building industry, particularly in many major high priced markets where renovation can be a viable alternative to "trading-up"

- would allow another avenue for the application of self administered R.R.S.P.'s

- may contribute to revitalization of areas through facilitating the availability of reasonable priced mortgage financing on a secondary basis.

Criteria of the Program:

- available for homeowner occupied single and duplex structures to facilitate purchase and/or the financing of renovations only

- maximum total loan ratios of 1st and 2nd mortgages are as per those applicable to NHA insured 1st mortgage financing

- mortgage rates are to be within the same acceptable range as per CMHC insured 1st mortgages

- the minimum insured loan amount is $10,000

- the mortgage in 1st position must have been on repayment for at least one year; and must have been made and currently administered by an NHA Approved Lender (but not necessarily NHA insured)

- are available as completion or "take-out" loans only, without an insured instalment provision.

PORTFOLIO INSURANCE - FACT SHEET

Since CMHC introduced mortgage loan insurance, in 1954, the insurance has only been available on mortgages if applications were submitted in advance of the mortgage being registered. With the introduction of Portfolio Insurance, CMHC will insure low risk mortgage loans on a postfacto basis.

This change in CMHC policy was undertaken to ensure that there would be an adequate supply of NHA insured mortgages for the Mortgage Backed Securities Program. The portfolio insurance program will permit lenders who have a better than average claims record with CMHC to assemble pools of low risk non-NHA insured mortgages for the purpose of issuing mortgage backed securities.

In order to apply for mortgage loan insurance under the Portfolio Insurance Program, lenders must be able to demonstrate a better than average track record with respect to levels of NHA activity and claims ratios over both the long and short term.

To be eligible for inclusion in the insured portfolio, loans must meet the general requirements for loan insurance under the National Housing Act, the specific requirements for Mortgage Backed Securities as well as the following specific requirements:

1. the loan must be a first mortgage in good standing with no arrears;

2. the mortgage must be on a single detached, semi-detached, row or condominium unit intended for owner occupancy;

3. at least two full years must have expired since: a) the interest adjustment date, b) all money was advanced and c) loan repayment started;

4. the mortgage must have been approved and made by the lender making the application; and

5. the loan-to-value ratio of the mortgage when made must be equal to or less than 75% as supported by a qualified appraisal.

CMHC will review individual loans in the portfolio to ensure that they were made in compliance with the National Housing Act and Loan Regulations. Notwithstanding CMHC's review, lenders remain fully responsible for the quality of their initial underwriting of both the property and the borrower.

As the portfolio will be considered as an Mortgage Backed Security pool, portfolios must be at least $2,000,000.

CHATTEL MORTGAGE INSURANCE - FACT SHEET

NHA Mortgage loan insurance is now available* for readily moveable homes such as house-boats and mobile homes on locations with short-term leases.

This new program has been introduced in order to facilitate the availability of cheaper alternative housing forms and therefore will improve access to homeownership without involving direct government expenditures and thereby lessening the demand for government assisted housing.

However, because of lack of prior experience regarding these type of loans safeguards have been put in place, such as:

- restricted to new homes
- Z-240 construction standard
- security of land tenure

The Chattel mortgage insurance program will be implemented on a five year experimental basis.

* pending legislative changes