

CANADA MORTGAGE AND HOUSING CORPORATION

FIFTY YEARS

50

OF SUCCESS

ANNUAL REPORT

95

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## CHAIRMAN'S MESSAGE

In my years in Canada's housing industry, I have viewed from a number of perspectives CMHC's beneficial effect on Canadian housing and communities. What I have seen has convinced me that CMHC has thrived for 50 years because the Corporation has

been able to adapt quickly to changing needs, add value and relevance, and anticipate future needs. I believe these qualities will continue to serve Canadians well.

Sharing information and ideas has always been critical to CMHC's effectiveness. In

the years to come, I look forward to the opportunity of drawing on the broad range of perspectives within Canada's housing sector on how best to meet Canada's housing challenges.

Peter R. Smith

## REPORT OF THE PRESIDENT

It is an honour to be President of the Canada Mortgage and Housing Corporation in the year that CMHC marks fifty years of helping to house Canadians.

The Corporation has worked closely with the building industry, the provinces and territories, the non-profit housing sector and consumers to find ways to make housing more affordable and efficient. In a time of great change in the public sector, this record of adaptability and innovation is a strong foundation for meeting the challenges of a new era.

When the Corporation was founded in 1946, Canada's housing industry was stretched to the limit. As Canadian soldiers returned from the war, followed by waves of newcomers to this country, CMHC's immediate concern was to help the industry meet an unprecedented housing demand.

Today, Canada's standard of housing is among the highest in the world, and Canada's housing sector is one of the world's strongest and most dynamic. CMHC has played a key role in this evolution, and continues to

exercise leadership in housing research, financing, and information and technology transfer. The Corporation has a strong record of federal-provincial cooperation. Housing is a universal concern, and CMHC is proud to have achieved excellence in collaboration with the provinces and territories.

The Corporation's history of success is ample cause for our employees to feel pride. Both in Canada and abroad, CMHC has earned a reputation for excellence in housing systems. Now it is time to create a new CMHC, a



Corporation that builds on past successes by adapting to challenges and opportunities.

Canadians have clearly signalled that they expect government to be flexible and to operate as efficiently and effectively as possible. At the same time, they are demanding that the federal government remain committed to meeting its deficit-reduction targets, to encourage conditions leading to sustained economic growth. These requirements are the context within which CMHC's future directions lie.

In 1996, the provincial and territorial government will be given the opportunity to take over management of existing federal government social housing resources, provided that federal subsidies for existing housing continue to be used for housing assistance to low-income households. This new arrangement should considerably simplify administration of social housing, maximizing the impact of taxpayers' dollars while improving service to social housing clients.

Within the Corporation's insurance business, the Mortgage Insurance Fund and

the Mortgage-backed Securities Fund will be operated on a more commercial basis. This will allow CMHC to respond quickly to changing market conditions, to improve efficiency, and to foster a more competitive marketplace. Canadians will benefit through increased mortgage insurance choice, both in vendors and in products and services. At the same time, the Mortgage Insurance Fund will continue to ensure that mortgage financing is available through Approved Lenders in every region of Canada.

Paralleling and contributing to these changes, CMHC will take full advantage of the power of computer automation in the Corporation's business and information systems. For CMHC clients, this will mean faster, more responsive service. For the Corporation, it will mean a highly efficient use of resources.

Throughout this period of renewal, CMHC will continue to maintain a standard of excellence in human resource management. CMHC employees have a unique perspective on Canada: they know this

country's physical environment and people well. Indeed, they have helped shape communities across the country. As this annual report demonstrates, in 1995 these experienced, committed people continued to strive to find innovative approaches to meeting Canadians' housing needs, today and tomorrow.

Marc Rochon

## **CMHC OBJECTIVES**

### **Market Housing**

To assist in developing a climate of stability for the private market so that it can function effectively, and to promote security of tenure through home ownership and cooperative housing.

### **Social Housing**

To assist households in need who cannot obtain affordable, suitable and adequate housing in the private market.

### **Housing Support**

To pursue a comprehensive and coordinated approach to research, development and application to maintain national housing standards.

To promote housing quality improvements, and to provide other ancillary services to support the Corporation's mandate.

# FIFTY YEARS OF HELPING TO HOUSE CANADIANS

## Canadian Homes — 50 Years of Change

In the 50 years since CMHC's inception, the quality and quantity of houses built in Canada have increased at an impressive rate.

In the late 1940s, at the height of Canada's postwar housing crisis, the typical single family home was a 75 square metre (800 square foot) bungalow with minimal insulation and a dirt-floor cellar, notorious for dampness. Workers took about 30 weeks to construct such a house.

Today, the typical home is 50 percent larger than in the 1940s, and incomparably more comfortable and energy efficient. Yet it takes about a third as many weeks to construct.

At the end of World War II, more than a million Canadians in the armed forces were ready to return to peacetime life — creating a housing demand the private sector could not meet. The federal government responded in 1946 by creating Canada Mortgage and Housing Corporation (CMHC), a Crown corporation with the authority to act for the Government of Canada in all matters prescribed by housing legislation, principally the National Housing Act (NHA).

In the 50 years since then, CMHC has helped Canada's housing sector become one of the world's strongest and most dynamic. The Corporation has played a pivotal role in developing the standards and practices required by a growing housing industry, found new ways to help Canadians finance home purchases, introduced countless innovations in housing systems, and created social housing programs to help those most in need. As a

result of this half century of dedication and innovation, Canadians are among the best

*CMHC's Mission, as embodied in the National Housing Act, is to promote the construction of new houses, the repair and modernization of existing houses, and the improvement of housing and living conditions.*

housed people in the world, and a majority own their homes.

CMHC's programs are delivered and administered by some 2 800 employees at the National Office in Ottawa and in 28 branch and five regional offices across Canada.

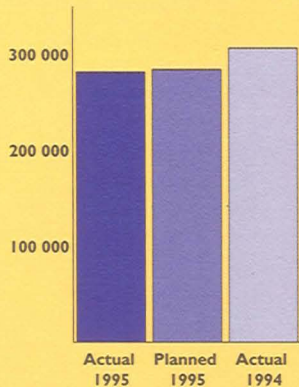


# CORPORATE PERFORMANCE MEASURES

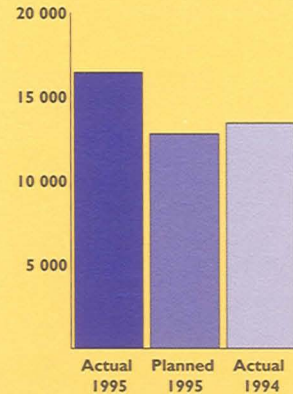
	1995		1994
	Actual	Planned	Actual
<b>Corporate Account</b>			
Net Income (Loss) (\$m)	(8.6)	(5.8)	(6.3)
Real Estate Sales (\$m)	11.8	59.6	19.4
Gain on Real Estate (\$m)	1.6	17.5	13.7
Direct Lending (growth in current year) (\$m)	2 092.8	2 069.0	1 685.6
<b>Minister's Account</b>			
Social Housing Units Committed	16 427	12 768	13 741
Units under Administration	664 235	667 000	661 481
Grants, Contributions, Subsidies (\$m)	2001.9	2153.5	1 868.0
<b>Insurance and Guarantee Funds</b>			
Mortgage Insurance Fund			
Units Insured	274 834	283 969	306 356
Claims Paid (\$m)	546.1	368.0	512.9
Net Income (Loss) (\$m)	86.1	146.5	(93.4)
Surplus (Deficit) (\$m)	8.1	68.5	(78.0)
Insurance in Force (\$b)	113.3	112.2	102.2
Mortgage-backed Securities Guarantee Fund			
Securities Issued (\$m)	1 557.3	5 082.0	3 719.7
<b>Corporate Resources</b>			
Staff Years	2 824	3 001	3 032
Operating Budget (\$m)	249.2	255.2	257.1

# HIGHLIGHTS

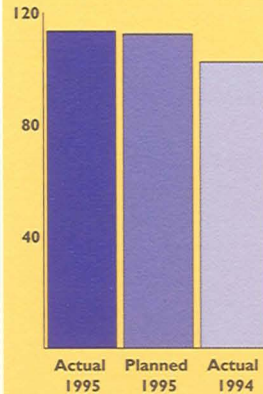
**Mortgage Loan Insurance  
Units Insured**



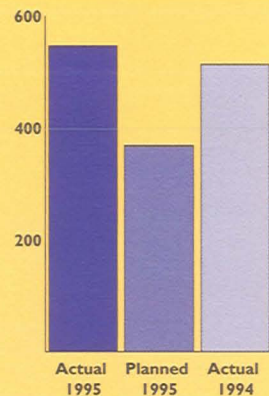
**Social Housing Units  
Committed**



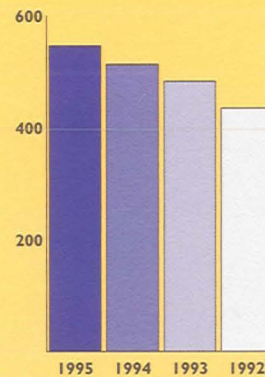
**Mortgage Loan Insurance  
~ Insurance in Force (\$b)**



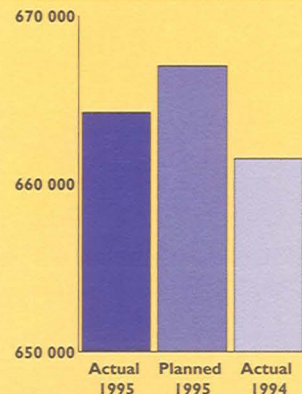
**Mortgage Loan Insurance  
Claims Paid (\$m)**



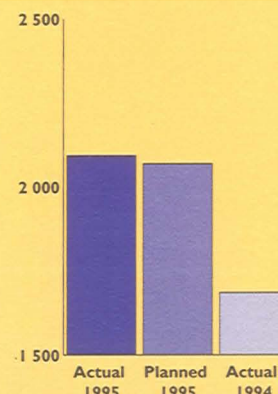
**Mortgage-backed  
Securities Issued (\$m)**



**Housing Units Under  
Administration**



**Direct Lending (\$m)  
(growth in current year)**



- Following three successive record years, the number of units insured under CMHC's NHA mortgage loan insurance was down slightly in 1995 to 274 834. However, the continuing popularity of CMHC's First Home Loan Insurance (FHLI) program and the federal government's RRSP Homebuyer's Plan helped to sustain a healthy demand.
- To improve service to clients while using resources more efficiently, CMHC is automating key business functions. Projects in development include computer-based underwriting, increased electronic data transfer capability between CMHC and its Approved Lender clients, and improved claims payment capabilities.



## Impact of the 1995 Federal Budget on CMHC

- In the 1995 annual CMHC survey of Approved Lender clients, 91 percent of respondents said they were either "satisfied" or "very satisfied" with CMHC's service.
- The Corporation's second year in international capital markets was marked by raising \$1.9 billion in medium-term financing on international and domestic bond markets to finance Direct Lending. This program enables CMHC to act as a break-even lender to non-profit and cooperative projects and to provincially and privately financed public housing projects, thus lowering the federal government's cost of social housing. Direct Lending has consistently offered mortgage rates half a percentage point lower than market rates.
- 1995 was the second year of a two-year, \$100 million re-introduction of the Emergency Repair Program (ERP) and the Residential Rehabilitation Assistance Program (RRAP). These programs have helped 20 148 low-income and disabled homeowners upgrade their homes to acceptable health and safety standards over the two-year period. Introduced in 1995, Rental and Rooming House RRAP upgraded 4 983 substandard rental units to minimum health and safety standards.
- CMHC worked in partnership with aboriginal peoples to strengthen their capacity to plan, deliver and administer housing programs. The Corporation negotiated Rural and Native Housing Property

Management Agreements (PMAs) with 12 aboriginal groups in 1995.

- CMHC led housing trade missions to China, Japan, the Czech Republic and Germany. In China, participants signed contracts worth \$112 million.
- From 1993 to 1995, CMHC's Healthy House exhibit was visited by close to 100 000 Canadians at 30 venues across the country. The exhibit is now on display at the National Museum of Science and Technology in Ottawa.

The federal budget announcement of February 27, 1995 called for spending reductions to overall government operations, and outlined specific measures that apply to CMHC. As a result, CMHC has made reductions in operating budgets, programs and staff, including:

- Over three years, a \$306 million saving achieved through increased efficiency in the Corporation's social housing, research and program administration budgets, with these savings contributing to federal deficit reduction. Of this total, \$270 million will be reduced from the social housing budget and \$36 million from the research and program administration budget.
- Closure of 20 local branch offices across Canada. However, 25 mobile CMHC representatives now service 15 communities. This change results in annual rent savings of \$684 500.
- Reduction in the Corporation's workforce of some 200 employees through early retirement and release.
- Termination of the Scholarship program.

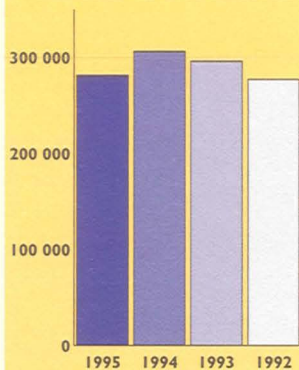
## Objectives

To give all Canadians equal access to mortgage financing, and to promote an effective mortgage market by delivering CMHC's NHA mortgage loan insurance to as many Canadians as possible.

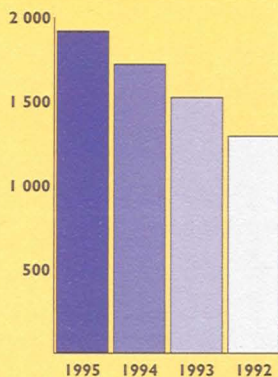
## Key Strategies

To attract clients with new products and services and to adopt marketing strategies closely attuned to client needs.

**Mortgage Loan Insurance Units Insured**



**Mortgage Insurance Fund Liquidity (\$m)**



# OPERATIONS

## MARKET HOUSING — PURSUING EFFECTIVE MORTGAGE AND HOUSING MARKETS

### MORTGAGE LOAN INSURANCE (MLI)

#### DEMAND DOWN SLIGHTLY IN 1995

Following three successive record years, the total number of units insured under CMHC's NHA mortgage loan insurance was down slightly in 1995 to 274 834, compared to a planned figure of 283 969. This total includes 11 660 social housing units. Continuing job uncertainties, government budgetary constraint, and slowly rising interest rates during the first half of 1995 lowered the overall demand for house purchases, even though house prices were fairly stable.

For first-time homebuyers, however, the federal government's RRSP Homebuyer's Plan and the continuing popularity of CMHC's First Home Loan Insurance (FHLI) program

helped to sustain demand. In 1995, a total of 97 837 mortgages were insured under the FHLI program, nearly 54 percent (up from 49 percent in 1994) of all homeowner mortgages underwritten by CMHC during the year.

The FHLI program reduces the minimum downpayment requirement for federally insured mortgages from 10 percent to 5 percent for first-time homebuyers. Since its inception in 1992, a total of 340 380 units have been insured.

Overall, CMHC provided loan insurance for approximately 41 percent of all mort-

gages in Canada in 1995, compared to 40 percent in 1994. New units accounted for approximately 15 percent of housing purchased in 1995 with CMHC homeowner mortgage insurance. These purchases contributed significantly to job creation in construction and related industries.

### HIGH LEVEL OF CLIENT SATISFACTION

Responsive, timely and high-quality service is a trademark of CMHC's mortgage loan insurance. In the 1995 annual

*CMHC's mortgage loan insurance makes it easier for Canadians to buy homes by reducing the size of the downpayment to as little as ten percent of the purchase price, or just five percent for first-time buyers.*



CMHC survey of Approved Lender clients, 91 percent of respondents indicated that they were either "satisfied" or "very satisfied" with CMHC's service.

## INNOVATIVE MORTGAGE INSTRUMENTS

CMHC is constantly modifying its products, services and business operations to meet the changing needs of business clients and consumers. New products and services are developed from ideas proposed by Approved Lenders and stakeholders, as well as through research on the needs of Canadian home buyers. Recent product and service launches include Prime Plus Processing Service. This service provides Approved Lenders assurance, before submitting the mortgage loan to CMHC, that

lower-risk mortgage loans meeting the Prime Plus criteria will be approved.

The Chattel Loan Insurance Program (CLIP) was expanded in 1995 to allow more manufactured homes to qualify for low downpayments on federally-insured mortgages. Chattel loan insurance is now available for existing units as well as new ones. In 1995, over 3 193 loans were insured under CLIP.

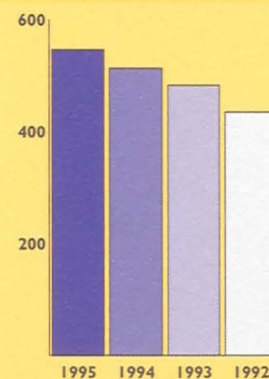
## SYSTEM IMPROVEMENTS

CMHC's new computer-based underwriting system, called **emili**, will allow the Corporation to process applications electronically for NHA mortgage loan insurance more quickly and at lower cost. The system will

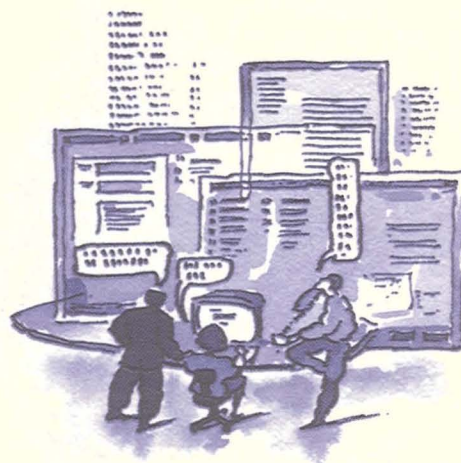
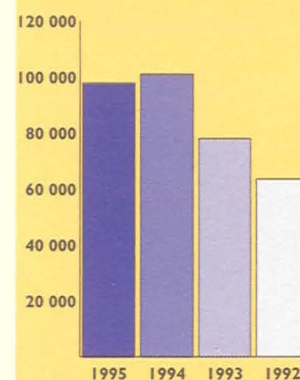
also include risk assessment; monitoring and reporting facilities; personal computer access for small Approved Lenders; and electronic access to insurance activity information for Approved Lenders. As well as enhancing an already high level of client service, **emili** will improve the quality of CMHC's Mortgage Loan Insurance portfolio and reduce operating costs for both the Corporation and Approved Lenders. The system will achieve its full potential within three to five years.

CMHC's new Direct Deposit Option (DDO) is now being used by a number of Approved Lenders. DDO electronically transfers premiums and fees between Approved Lenders and

Claims paid (\$m)



FHLI — # of households that have bought homes under the program



CMHC. In 1995, 61 000 cash receipts were processed using DDO, equivalent to 16 per cent of the total Mortgage Insurance Fund receipts.

*To improve service to clients while using resources more efficiently, CMHC is automating key business functions.*

Continuing development and expansion of DDO in 1996 will significantly increase the number of electronic transactions.

The expansion of the Accelerated Claims Payment Plan (ACPP) program from ten to twenty Approved Lenders has improved the efficiency of the claims payment process. Overall claims costs have been reduced through automated funds transfer, training enhancements and streamlining of claims payment procedures.

CMHC is improving service to clients through new marketing tools such as the Business Development Support System (B-DEV). This system gives CMHC business development officers on-line access to up-to-date information, allowing them to quickly assess Approved Lenders' business performance.

#### DEALING WITH SITE CONTAMINATION

Liability for clean up of contaminated sites continues to be a significant concern in CMHC's mortgage insurance operations. CMHC is working with key clients and other affected groups to identify ways to amend the NHA to ensure effective management of environmental issues, in keeping with federal government objectives.



NHA-MBS offers a unique degree of mortgage security. It is the only product that guarantees timely payment backed by the Government of Canada. Since 1987, CMHC has provided timely payment guarantees on \$26.3 billion of NHA-MBS issues.

### Objective

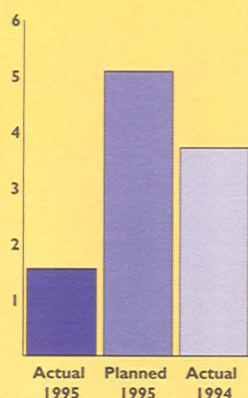
To promote a healthy liquid secondary mortgage market that encourages competition in the marketplace.

### Key Strategies

To continually improve NHA-MBS products and services to attract more issuers and investors.

To streamline administrative procedures, reduce costs, and expand the supply of eligible mortgages for NHA-MBS securitization.

**MBS Issuance (\$b)**



### NHA-MORTGAGE-BACKED SECURITIES

CMHC National Housing Act Mortgage-backed Securities (NHA-MBS) is a risk-free investment in a pool of residential first mortgages insured by CMHC and backed by the Government of Canada. CMHC regularly consults with NHA-MBS stakeholders to continually improve MBS products and services.

### ISSUANCE DECLINES

In 1995, NHA-MBS volume declined to \$1.557 billion from \$3.719 billion in 1994. The planned target for 1995 was \$5.082 billion. The 1995 decline was the result of the small interest rate differential between equivalent term Government of Canada bonds (on which MBS are priced) and mortgage rates. As well, consumers in 1995 tended to select mortgage terms of less than three years, which are less attractive for MBS pooling. MBS net earnings were \$6.6 million. The planned figure was \$8.1 million.

### CANADIAN CENTRE FOR PUBLIC-PRIVATE PARTNERSHIPS IN HOUSING

CMHC's Centre for Public-Private Partnerships in Housing helps to develop affordable public-private housing partnership projects without the need for government subsidies. In 1995, the Centre reviewed 62 proposals and approved 39 projects representing 2 143 units, compared to a planned figure of 2 000.

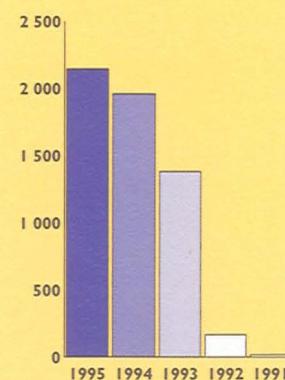
### Objective

To foster the production of additional affordable housing options that do not require government assistance.

### Key Strategy

To draw on the complementary strengths of government and business partners, particularly seeking out partnerships at the grass-roots level — church and cultural groups, charitable organizations, builders and developers.

**Units/Beds Approved**



# SOCIAL HOUSING — HELPING HOUSEHOLDS IN NEED

## Objective

To help provide social housing, an important component of Canada's social security system, to Canadian households in need who cannot obtain suitable housing in the private market.

## Key Strategies

To work with CMHC's many partners to provide social housing to those households most in need, and to cost-effectively manage Canada's stock of more than 664 000 social housing units.

## REPAIR AND REHABILITATION ASSISTANCE EXTENDED

Expenditure reductions announced in the 1993 federal budget eliminated all new funding for social housing commitments, except for on-reserve programs and special initiatives.

In 1994 the federal government announced a two-year, \$100 million re-introduction of the Emergency Repair Program (ERP) and the Residential Rehabilitation Assistance

Program (RRAP). These programs help low-income and disabled homeowners upgrade their homes to acceptable health and safety standards. Introduced in 1995, the Rental and Rooming House RRAP program upgraded 4 983 substandard rental units to minimum health and safety standards. This program's funding for 1995 was \$16 million.

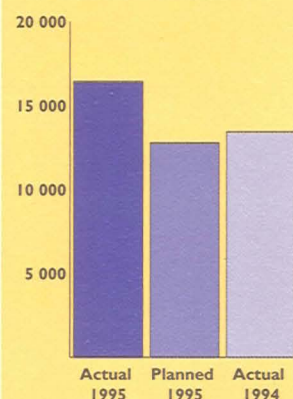
In December 1995, the federal government announced that ERP and the various RRAP components

would be extended to March 31, 1997, with funding coming from \$50 million in social housing savings achieved through increased efficiency.

The maximum RRAP loan and loan forgiveness amounts were increased in 1995. As well, the scale for determining loan forgiveness relative to a client's income was revised to account for variations in regional repair costs, and in clients' abilities to repay.

## PROGRAM DELIVERY

**Social Housing Unit Commitments**



	Number of Units		
	1995		1994
	Actual	Planned	Actual
<b>Subsidy Programs</b>			
On-Reserve Non-profit	1 100	615	1 348
<b>Repair Programs</b>			
Residential Rehabilitation Assistance Program (RRAP)			
Homeowner	7 241	6 904	8 194
Disabled Homeowner	1 308	1 106	1 552
Rental and Rooming House	4 983	2 523	—
On-Reserve	842	581	1 257
Emergency Repair Program	953	1 039	900
<b>Remote Housing</b>	—	—	165
<b>Total</b>	<b>16 427</b>	<b>12 768</b>	<b>13 416</b>



## FUNDING CONTINUES FOR FAMILY VIOLENCE INITIATIVE

To ensure that victims of family violence continue to have access to emergency shelter, the federal government approved additional funding for a one-year extension to March 31, 1996 of the Family Violence Initiative. The funding will be used to develop new shelter spaces, to rehabilitate and improve existing spaces, and to make these accessible to persons

*Since 1988, the Family Violence Initiative has funded the construction or acquisition of 767 shelter spaces for victims of family violence.*

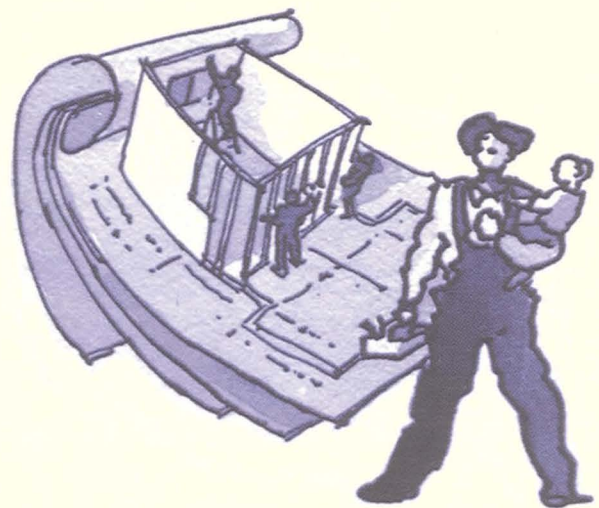
with disabilities. In New Brunswick and Quebec, the initiative is cost-shared and delivered by the province.

## HELPING COMMUNITIES HELP THEMSELVES

In partnership with a number of housing sector associations and groups, CMHC announced the Homegrown Solutions initiative, which will help community groups to develop strategies and solutions for meeting their

housing needs. This two-year initiative, scheduled to end in March 1997, comes at a time when government funding for large-scale initiatives is limited. A proposal call is planned for early 1996.

Homegrown Solutions is a joint initiative of the Canadian Housing and Renewal Association, Co-operative Housing Federation of Canada, Canadian Home Builders' Association, Federation of Canadian Municipalities and Canada Mortgage and Housing Corporation.



*In 1995, CMHC introduced Quality Assurance reviews, which assess the Corporation's administration of project operating agreements with social housing sponsors, identifying specific problems and recommending how to resolve them.*

### Objective

To preserve Canada's stock of more than 664 000 social housing units so that it can continue to be a valuable social asset that improves the quality of life for households in need.

### Key Strategies

To develop an integrated portfolio management approach that links a unit's financial integrity and physical condition with clients' needs and their ability to improve their living conditions.

To harmonize and simplify program design and administration, and to enhance the project management skills of staff and volunteers.

## PORTFOLIO MANAGEMENT

Canada's stock of social housing in some 50 000 projects is managed by provincial and municipal housing agencies, or by local non-profit organizations, coopera-

tives, Urban Native groups and First Nations. This valuable national resource has been built up across the country over five decades from a broad range of federally-assisted social housing

programs. CMHC supports social housing by subsidizing social housing units on behalf of the federal government unilaterally, and on a cost-shared basis with provincial housing agencies.

## CMHC PORTFOLIO MANAGEMENT

Category	Number of Units		
	CMHC-administered	Provincially-Territorially-administered	Total
<b>Social Housing</b>			
Public	1 075	204 452	205 527
Rent Supplement	451	46 831	47 282
Non-profit	58 517	108 603	167 120
Low Rental	107 475	—	107 475
Cooperative	46 520	5 524	52 044
On-Reserve	17 134	—	17 134
Urban Native	9 383	1 200	10 583
Rural and Native	8 512	15 250	23 762
<b>Rental Residential</b>			
Rehabilitation Assistance	10 734	7 873	18 607
<b>Market Housing</b>			
Federal Cooperative	14 701	—	14 701
<b>Total</b>	<b>274 502</b>	<b>389 733</b>	<b>664 235</b>



## ABORIGINAL HOUSING

### INCREASING ABORIGINAL SELF-SUFFICIENCY

To help give rural aboriginal groups a lead role in managing their own housing portfolios, CMHC negotiated Rural and Native Housing Property Management Agreements (PMAs) with 12 aboriginal groups in 1995. In British Columbia and Ontario, CMHC issued Requests for Proposals to aboriginal peoples for the management of the Rural and Native Housing portfolio through PMAs.

CMHC funded aboriginal training and capacity development to increase aboriginal involvement in delivering and administering housing programs.

CMHC presented workshops for Urban Native sponsor groups on basic property management skills, maintenance, tendering, contract administration and management plans. CMHC also trained Sponsor Group Tenant Counsellors in negotiating skills, counselling skills and arrears counselling.

### Objective

To work in partnership with aboriginal peoples to strengthen their capacity to plan, deliver and administer housing programs.

### Key Strategies

To work with Aboriginal people towards self-sufficiency in housing, and towards greater community control of housing.

To expand agreements with Aboriginal housing agencies to manage existing Aboriginal program housing stock.



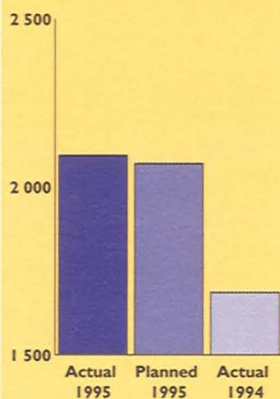
### Objective

To reduce the federal government's subsidy by lowering the average financing cost of the social housing portfolio.

### Key Strategy

To enter the capital markets to fund corporate requirements for Direct Lending.

**Direct Lending Volume  
(growth in current year)  
(\$m)**



## DIRECT LENDING

CMHC continues to offer below-market lending rates for social housing project financing, reducing the federal government's subsidy expenditures. Response to Direct Lending from social housing sponsors has been very strong — 97.7 percent have participated, for a total of \$4.56 billion by the end of 1995.

CMHC's Direct Lending partnership with the provinces was strengthened in 1995 when Newfoundland entered into a partnership agreement with the federal government. Debenture financing has begun in both Newfoundland and Quebec.

## FEDERAL/PROVINCIAL/TERRITORIAL PARTNERSHIPS

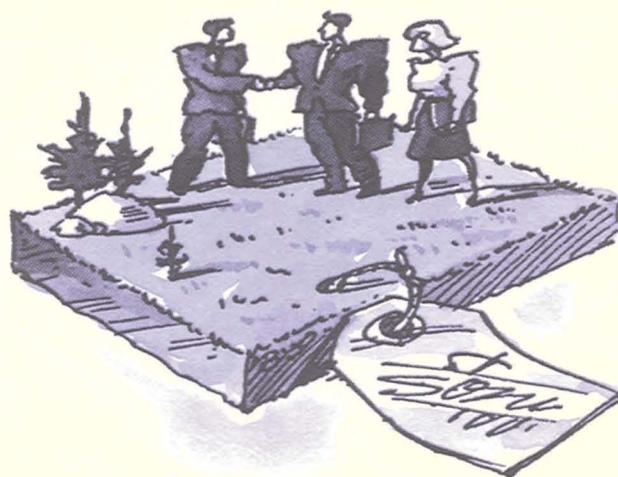
In a time of fiscal restraint in government, finding creative ways to maximize the impact of social housing resources is critical. CMHC works in partnership with the provinces and territories to identify opportunities for eliminating duplication and overlap and simplifying program design, while maintaining accountability and a high level of service.

### Objective

To work with the provinces and territories to improve the efficiency and effectiveness of social housing administration.

### Key Strategies

To pursue opportunities to harmonize program designs and to simplify administrative and reporting requirements.





# HOUSING SUPPORT — PROMOTING GOOD LIVING ENVIRONMENTS

## INNOVATIVE HOUSING RESEARCH

Canada is recognized world-wide for the high quality of its housing. One of the key reasons for this reputation is CMHC's research on improving the technical, economic, environmental and social aspects of housing. Working with the National Housing Research Committee and numerous public-sector and private-sector partners, CMHC ensures that the results of this work are widely shared.

## RESEARCH PROGRAM REVIEWED

In 1995, an evaluation of CMHC's Research, Information and Communication (RIC) program found that it was achieving its objectives. The review did result, however, in termination of three programs targeted to specific needs: the Scholarship Program, the Housing Technology Incentives Program and the Job Site Innovators Awards Program. In addition, long-term agreements for institutional support to universities were not renewed, and CMHC redirected the External Research Program to focus on priority housing research areas.

## HEALTHY HOUSING — A SUSTAINABLE APPROACH

Healthy Housing is a vision that housing should provide a healthy indoor living environment while protecting our natural environment and preserving natural resources. Healthy Housing is clean, efficient and affordable.

From 1993 to 1995, CMHC's Healthy House exhibit was visited by close to 100 000 Canadians at 30 venues across the country. The exhibit is now on display at the National Museum of Science and Technology in Ottawa.

*In Toronto, construction began on a demonstration Healthy House that will be self-sufficient in harvesting its own energy, collecting rainfall and purifying it for drinking and biologically treating its own waste.*

## Objectives

To help ensure that Canadians are well housed by working closely with the Corporation's many housing partners to find new ways to make Canadian housing more efficient and affordable, and to help Canada's housing sector adapt to changing technologies, needs and international conditions to benefit consumers and Canada's economy.

## Key Strategies

To pursue and encourage housing research and innovation, to act as a focal point for the transfer of housing information and technologies and to develop national housing policies in concert with provincial and territorial partners, the housing industry and non-profit groups.

### **The Canadian Housing Information Centre**

Located at the CMHC National Office in Ottawa, the Canadian Housing Information Centre (CHIC) is Canada's most extensive housing information source for consumers, builders, developers and academics. The Centre contains more than 75 000 publications on housing, building and community development, as well as many "how to" videos. To better meet clients' evolving needs, CHIC has entered Internet's World Wide Web with a national homepage. The page provides access to national, regional and local CMHC information resources and links to housing information on the Internet. The address is <http://www.cmhc-schl.gc.ca>.

### **INDUSTRY SUPPORT**

CMHC continued to share its findings from research in healthy housing and building technology through seminars, demonstrations, trade shows and industry publications. For example, CMHC seminars on acoustics, air barriers and IDEAS Challenge technology drew more than 1 000 attendees across the country.

To encourage the professionalization of the renovation industry, CMHC made a National Renovator Training Program available to provincial home builder associations. The program was developed in partnership with the Canadian Home Builders' Association and Human Resources Development Canada with the objective of improving participants' business skills. It will be a mandatory component of renovator certification programs in most provinces.

### **MARKET ANALYSIS CENTRE**

CMHC's Market Analysis Centre helps improve decision making in Canada's housing markets by providing timely and accurate information, analyses and forecasts through publications, press releases and presentations.

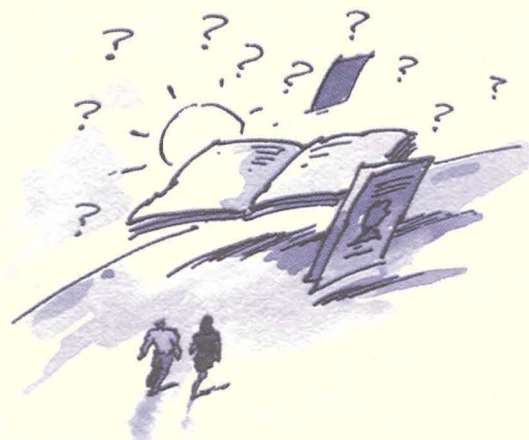
The Market Analysis Centre responded to client needs in 1995 by introducing highly targeted products and services. Through the sales of regular national publications and special studies, Market Analysis activities also made a significant contribution to CMHC's revenue.

CMHC's landmark study, "Consumer Housing Preferences in the 1990s," helped the housing industry adapt to changes in the market. Prepared in cooperation with the Canadian Home

Builders' Association and Natural Resources Canada, the study identifies the lifestyle housing preferences that will be most in demand in the second half of the 1990s.

On the local level, a series of housing outlook conferences provided clients with timely and comprehensive analyses and forecasts in their markets. The conferences were very successful in generating revenue for CMHC.

The Centre also completed research in 1995 which will guide the pricing of all market analysis products and services in the future. Of particular importance will be the electronic means, such as fax and on-line, by which CMHC disseminates market information.





## INTERNATIONAL RELATIONS

In an ever more globalized economy, the ability to compete internationally requires partnership between the public and private sectors. By representing Canada in international forums and on trade missions, CMHC exchanges housing information and raises the international profile of Canada's housing sector.

## HOUSING EXPORTS

As a member of Trade Team Canada, CMHC helped develop and implement Canada's International Business Strategy. Pursuant to commitments made during housing export consultations with all segments of the industry in 1994, the Minister Responsible for CMHC announced the National Strategic Framework for Canada's Housing Exports. The Framework establishes the context within which housing export-related initiatives will be developed.

CMHC led housing trade missions to China, Japan, the Czech Republic and Germany. These missions gave partici-

pants direct access to major markets for housing technology, products and services, and allowed them to make invaluable contacts. In China, participants signed contracts worth \$112 million.

As well as promoting Canadian housing exports, the mission to China established a joint Steering Committee on housing between CMHC and the Ministry of Construction for the People's Republic of China. This was a requirement under the Memorandum of Understanding (MOU) between China and Canada signed in 1994. At the joint Steering Committee, both countries agreed to focus on low-cost housing. The Committee also identified joint venture opportunities to showcase Canadian housing products, technologies and services in China. These are now being explored by CMHC and the Canadian housing industry.

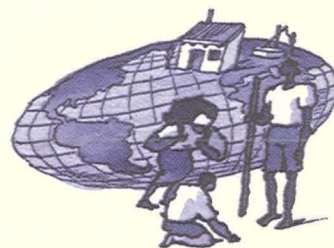
In October 1995, CMHC signed an MOU with the Russian Ministry of Construction concerning housing and urban development.

## DRAWING ON CANADIAN EXPERTISE

With a growing number of countries moving from centralized to more market-driven economies, CMHC has had many requests to help establish the basis of a sound housing finance system. The Corporation has been involved in a study to determine the feasibility of establishing a mortgage insurance program in Mali, based on the Canadian program. With CMHC's assistance, the Korea Housing Bank is also creating a mortgage insurance system modeled after the Canadian program, and a complementary mortgage-backed security system.

## PREPARING FOR THE UN HABITAT II CONFERENCE

CMHC is organizing the Canadian consultation and preparatory process for the UN Habitat II Conference to be held in Istanbul, Turkey, in June 1996. The goal of this conference is to chart a new course "to make the world's cities, towns, and villages healthy, safe, equitable and sustainable" by the 21st century.



Objective

To offer leadership in residential land-use planning and development of well-located lands for new communities, while optimizing returns.

Key Strategy

To offer to the federal government CMHC's expertise in developing communities, as an alternative to selling surplus real estate assets on an "as is" basis.

CMHC's Affordability and Choice Today (ACT) program encourages the housing industry and municipalities to work in partnership to change outdated regulations. ACT projects are developing a wide range of practical approaches to streamlining approval processes, developing new forms of affordable housing, facilitating infill and conversion and adopting alternative development and building standards.

LAND MANAGEMENT

CMHC develops lands to create well-planned communities and to optimize financial returns. Some of these lands are owned by CMHC itself, and some are surplus federal lands from other departments. CMHC also works in partnership with the provinces to develop lands

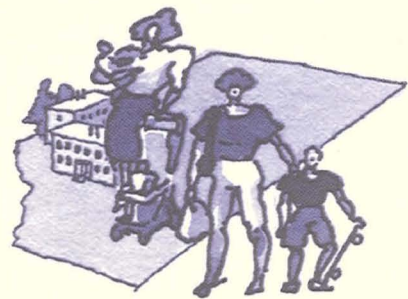
acquired in prior years to create new communities.

CMHC's approach is to deliver integrated communities with housing suitable for a wide range of income levels and household types, and including community services and commercial development. The portfolio currently comprises 2 100 hectares.

Revenues were below planned targets in 1995 for several reasons. Soft market conditions delayed marketing of project sites in Mount Pearl, Newfoundland, Peterborough, Ontario, and the Woodroffe project in the National Capital Region; sales in Kitsilano, British Columbia, and Vaughan, Ontario, did not close until early 1996; and projected future losses for projects in Montreal, Québec City and the National Capital Region were booked in 1995.

Land Management Performance

	1995		1996
(in millions of dollars)	Actual	Planned	Projections
Revenues	11.8	59.8	57.3
Net Gains	1.6	16.1	17.8





# ORGANIZATION EFFECTIVENESS

## HUMAN RESOURCES MANAGEMENT

In 1995, CMHC's priority in human resources management shifted temporarily from long-term strategies to dealing with re-organization and downsizing (resulting from federal budgetary constraints and changes in the Corporation's business needs and volumes) and its impact on employees. Since 1994, the Corporation has closed 20 offices and reduced its workforce by some 200 employees.

In May 1995, the Corporation introduced, for an initial period of one year, special Workforce Realignment Measures to facilitate the redeployment and release of staff. The program, which compares to the one introduced in the federal public service, includes Special Staffing

Measures to ease the redeployment process, and a Departure Package. Another key feature is the Early Retirement Allowance, which offers an alternative to the Departure Package for employees aged 50 or older and with at least 10 years of service.

## IMPLEMENTING TOTAL QUALITY MANAGEMENT

CMHC has been a leader within the federal government in implementing Total Quality Management (TQM) principles and techniques. In 1995, the Corporation developed TQM strategies and action plans tailored to the specific needs of each business line. CMHC will regularly monitor and report on progress against these plans.

## ENVIRONMENTAL LEADERSHIP

CMHC's leadership in waste reduction was confirmed by the findings of a 1995 waste audit of the National Office. The audit found that CMHC's 3 R's program diverts 57.9 percent of National Office waste. This exceeds the Ontario Ministry of Environment and Energy's target of 50 percent by the year 2000 for buildings in the National Office's size category.

### Objective

To optimize CMHC's resources to achieve corporate goals, improve efficiency and service to clients, and respond effectively to opportunities as they arise.

### Key Strategies

To implement Total Quality Management principles and techniques in pursuit of a corporate Quality Vision.

To pursue opportunities to increase electronic commerce and electronic communications with partners and clients, and to use technology to improve operations.

To develop and foster a skilled and flexible workforce.

To create a working environment that promotes and sustains motivated, productive and healthy employees.

### **CMHC's Quality Vision**

To accomplish our mandate of helping to house Canadians, CMHC is client-focused. This means we are proactive and listen to our clients, both internal and external, strive to anticipate their needs and continuously seek opportunities to improve and to exceed their expectations. Three basic elements are important to realize this Quality Vision: commitment, empowerment and measurement.

### **EFFICIENCY THROUGH INFORMATION TECHNOLOGY**

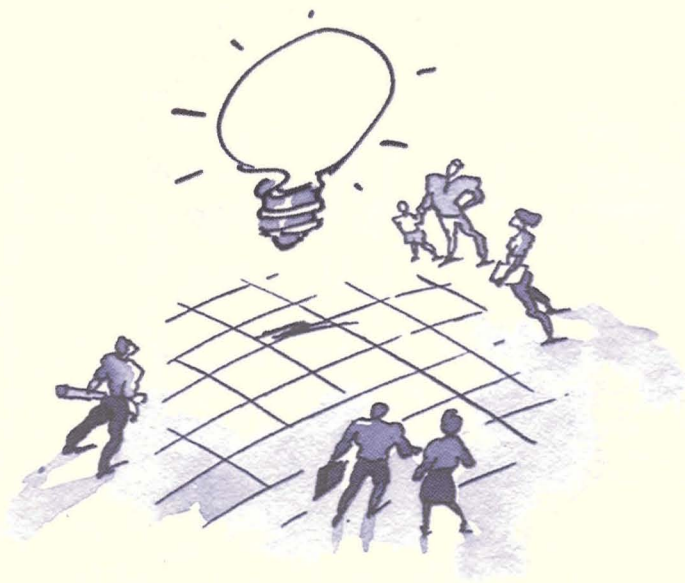
In 1995, CMHC updated its information technology facilities. Older equipment and software were replaced with more powerful workstations and staff were trained in working with the new integrated software suite. This update enabled staff to work more efficiently and effectively.

A second comparative benchmarking study of the Data Centre operations found that CMHC remains in the top 10 percent of all the companies in an international database. Performed by an independent company, the study assessed the data centre's efficiency, costs and quality of operations.

### **CORPORATE SECURITY AND EMERGENCY PREPAREDNESS**

The Corporation continued to meet its emergency preparedness and security legislation obligations. Initiatives included tests of business resumption plans, and a review and redefinition of CMHC's emergency preparedness roles and responsibilities.

*CMHC's progressive management practices are founded on quality services and products, effective human resources management, clear communications, advanced information technologies, accountability, and environmental responsibility.*





# MANAGEMENT DISCUSSION AND ANALYSIS — FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

*This section is a discussion and interpretation from management's perspective of CMHC's corporate strategy, how the Corporation manages risk, its financial performance against the Corporate Plan for the year ended 31 December 1995, and its prospects for the future.*

## THE CORPORATE ACCOUNTING FRAME- WORK

CMHC maintains separate accounting records for each of its three areas of responsibility.

### CORPORATE ACCOUNT

Within this area of responsibility, the Corporation makes loans and other investments under various provisions of the National Housing Act (NHA), develops and sells land holdings and provides housing-related services. Funding comes from borrowings from the Government of Canada and the private sector. Functions affecting all three CMHC planning

elements — Market Housing, Social Housing and Housing Support — are included within the Corporate Account framework.

### MINISTER'S ACCOUNT

The Corporation administers housing programs under provisions of the NHA with funding from the Government of Canada through annual parliamentary appropriations. CMHC is reimbursed for related operating expenses. Expenditures within the Minister's Account pertain to all three planning elements, although Social Housing accounts for 92 percent of the total.

## INSURANCE AND GUARANTEE FUNDS

The Corporation administers insurance and guarantee funds under provisions of the NHA. The Mortgage Insurance Fund issues insurance against borrower default on residential mortgage loans. The Mortgage-backed Securities Guarantee Fund guarantees timely payment of the principal and interest for investors of securities based on insured mortgages. Functions accounted for within the Insurance and Guarantee Funds relate directly to Market Housing and indirectly to Social Housing.

## CORPORATE ENVIRONMENT

In 1995, rising interest rates, slower economic growth, continuing job uncertainties, unprecedented cuts in government expenditures and a declining demand for housing all contributed to an extremely difficult year for Canada's housing markets. Housing starts fell 28 percent to 110 933 units, the lowest level since 1960, while sales of existing homes dropped 13 percent, to 262 249 units.

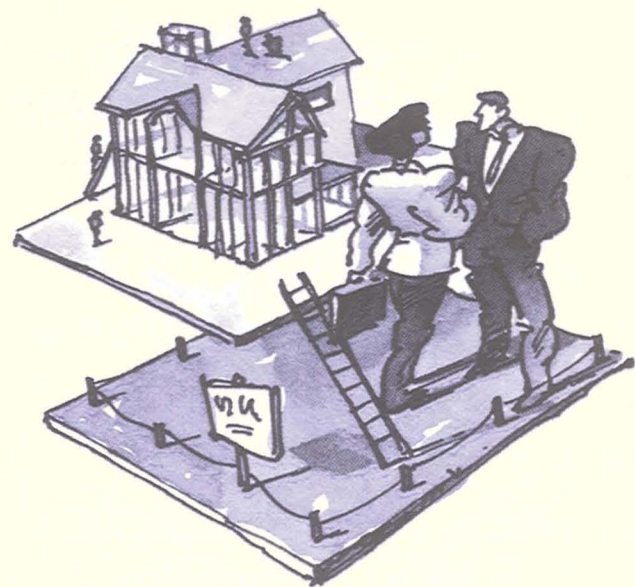
Canada's GDP growth declined in 1995 to 2.2 percent from 4.2 percent in 1994. Job creation also slowed, to 88 000 from almost 400 000 in 1994. Income gains in 1995 were minimal. Inflation remained low at 1.7 percent, compared to 0.2 percent in 1994.

Several demographic factors contributed to lower demand for housing. Over the short term, immigration was down to 205 000 in fiscal 1994/95 from 222 000 in 1993/94 and 267 000 in 1992/93. Over the longer term, young adults with limited job prospects or job security in the 1990's are delaying forming households, lowering demand for housing purchases and rentals.

Housing markets are expected to improve in 1996 and 1997 because of favourable mortgage rates, but

this will be tempered by only moderate GDP growth and relatively low demand.

Housing starts are expected to stay at the low 1995 level in 1996, rising slightly in 1997. Sales of existing homes should be up slightly in both years.





## CORPORATE ACCOUNT

### LOANS ADMINISTRATION

CMHC's loans administration includes the Corporation's own mortgage portfolio (including mortgages resulting from CMHC's Direct Lending for social housing projects) and mortgages administered for others, for which CMHC has agreements with investors.

CMHC's mortgage portfolio, with the exception of mortgages recently acquired through the Direct Lending initiative, has been declining since the late seventies. As the older segment of the portfolio declines and ages, the profit margin, which covers the cost of administration and contributes to the Corporation's income, decreases.

CMHC acts as a direct lender to finance and re-finance social housing projects. The Direct Lending segment of the portfolio operates on a break-even basis.

## CORPORATE ACCOUNT RESULTS

The margin on financing operations is the net of interest earnings from the loans and investments portfolio plus interest from short-term investments, less interest expense on borrowings from the Consolidated Revenue Fund and capital markets.

Fluctuation in interest rates on renewals or repricing of existing assets exposes CMHC to interest rate risk, as many of the repricing assets are already funded with long-term, fixed-rate borrowings. In 1995, the Corporate Account recorded a loss of \$8.6 million. This was mainly due to a \$28.8 million reduction in interest earnings, a consequence of loans with certain provinces being renegotiated at lower rates during 1993 and 1994. Before 1991, the Government of Canada absorbed any losses associated with these prepayments; however, in 1991 this interest rate risk became the responsibility of CMHC. From 1994 onward, the Corporation may retain after-tax earnings to offset possible future losses.

As a result of CMHC's Direct Lending initiative, \$2.1 billion was added to the loans and investment portfolio in 1995. In 1995, CMHC entered the capital markets to fund these loans, raising medium-term financing at spreads ranging from 12.2 to 16 basis points over the benchmark Government of Canada bond.

By the year 2000, CMHC expects to refinance \$13.1 billion of the social housing mortgage portfolio currently financed privately. Direct Lending mortgages are non-prepayable and each mortgage pool is fully funded with fixed-rate Canadian dollars or U.S. dollars converted to Canadian dollars on a matched maturity basis. Basis swaps, fixed to floating and cross currency swaps are used to manage any difference in asset and liability cash flows, to reduce interest rate risk on this portfolio to a negligible amount and to eliminate any foreign currency conversion loss exposure.

## GAINS ON REAL ESTATE

The Corporate Owned Real Estate (CORE) portfolio was acquired as a result of defaults on uninsured CMHC loans and former NHA programs. CMHC continues to examine disposal and redevelopment options as market conditions permit, taking into account the needs of occupants. In 1995, 573 CORE units were sold, compared to a planned figure of 1 167.

## MINISTER'S ACCOUNT

Expenditures on grants, contributions and subsidies (including related administration and delivery costs) were \$2 001.9 million, 93 percent of plan, compared to

\$1 868.0 million in 1994.

Expenditures were below plan primarily as a result of the impact of the expenditure reductions announced in the 1995 federal budget, following Program Review. The 1995 expenditures also reflect lower interest rates in 1994 and 1995, project management operational efficiencies and lower subsidy requirements resulting from the increase, in several provinces, of rent geared to income scales.

## INSURANCE AND GUARANTEE FUNDS

The Corporation administers insurance and guarantee funds under provisions of the NHA. The Mortgage Insurance Fund issues insurance against borrower default on residential mortgage loans. The Mortgage-backed Securities Guarantee Fund guarantees timely payment of the principal and interest for investors of securities based on insured mortgages.

The combined assets of the Insurance and Guarantee Funds increased by \$0.2 billion in 1995 to \$2.3 billion. Income of nearly \$153.0 million was generated through return on investments. CMHC is an active investor in capital markets: for the Insurance and Guarantee Funds, transactions in 1995 exceeded \$6.4 billion.

At the request of the federal government, CMHC reviewed the mandate of the Mortgage Insurance Fund and the Mortgage-backed Securities Guarantee Fund in 1995. In 1996, the Corporation will submit for federal government approval recommended amendments to the National Housing Act to implement mandate changes. These changes will help the Corporation respond quickly to Canada's changing housing needs and priorities, and develop new and better ways of helping to house Canadians.





## MORTGAGE INSURANCE FUND

Mortgage Insurance Fund (MIF) operations resulted in pre-tax earnings of \$91.6 million, compared to a planned figure of \$214.2 million. Continued difficulty in real estate markets resulted in a high volume of claims, but this was mitigated by strong bond markets that have contributed to exceptional returns on the Investment Portfolio. An actuarial valuation of the MIF as of September 30, 1995 has confirmed its long-term solvency.

The \$546.1 million paid in claims exceeded the planned target of \$368.0 million. Increased consumer bankruptcies and mortgage debt during Canada's unusually slow recovery from the recession that began in 1990 prolonged the claims peak predicted for 1993 into 1995. A larger base of insured loans in force, an unanticipated

increase in multiple unit claims and three years of record levels of initiation were also factors.

Insurance policies in force totaled \$113.3 billion. Under the NHA as amended in December 1995, the aggregate outstanding amount of all loans for which insurance policies are issued may not exceed \$150 billion.

Sales of properties acquired through default under the Mortgage Insurance Fund and through CMHC's property management function totaled \$229.1 million in 1995, compared to a planned figure of \$154.8 million.

With lower interest rates in the second half of 1995, the Corporation pursued strategies to maximize the return on the portfolio, resulting in a yield of 8.35 percent. The market value of the portfolio at December 31, 1995 exceeded book value by \$92.1 million.

The average annual total return on the MIF investment

portfolio from January 1990 to December 1995 was 10.84 percent, compared to 10.00 percent for the market index. This benchmark index represents the Scotia McLeod bond market index modified to more closely match the policy objectives and constraints that apply to CMHC's portfolio.

Emphasis on the collection of judgments associated with MIF claims continued in 1995. Judgments are the recoverable legal amounts for any outstanding shortfall after the sale or transfer of title to the mortgaged property. Revenues from judgment collections are expected to increase in 1996.

## MORTGAGE CLAIMS AND ARREARS

The average arrears rate for CMHC-insured mortgages remained unchanged from 1994. The rate has steadily declined since its peak in 1991. Based on the substantial increase in mortgages underwritten in the 1990's, the higher level of claims in 1995 is consistent with this larger volume.

To address problems in multiple unit rental business, CMHC introduced several key initiatives (such as the introduction of multiple underwriting desks) for more efficient delivery of multiple

units. CMHC also introduced methods to reduce risks associated with this line of business.

CMHC comprehensively reviewed multiple unit default and claims procedures in 1995. Resulting changes will streamline the process and reduce the costs of default management and claims.

## RENTAL GUARANTEE FUND

CMHC disposed of the last remaining rental project in the Rental Guarantee Fund in 1995. The Fund now has a surplus of \$12.7 million, which will be returned to the Government of Canada in April 1996.

## TREASURY OPERATIONS

### TREASURY POLICIES AND STRATEGIES

Statutory amendments to the CMHC Act and the National Housing Act in 1992 led to an evolution in corporate activities. New powers allowed CMHC to implement effective asset/liability management and to manage its funding and investment operations effectively.

Treasury policies, processes and core systems are in place and continuously under review for enhancements. Treasury management objectives are to finance the Corporation, ensure liquidity, manage interest rate risk exposure, enhance investment performance and safeguard the Corporation's assets through effective and prudent treasury management. The Treasury Operations is not a profit centre and carries out its activities in pursuit of the Corporation's mandate.





## RISK MANAGEMENT

The Corporation manages its Treasury Operations through well-established policies and processes. Treasury activities encompass several levels of risk:

### **Credit/Counterparty Risk:**

The Corporation follows the guidelines set out by the Department of Finance for a material adverse change in credit risk. These guidelines are included in all new master swap agreements with financial institutions.

### **Liquidity Risk:** The

Corporation ensures that it maintains a liquidity level sufficient to cover cash requirements and contingencies.

### **Operational Risk:** The

Corporation manages interest rate risk positions, spread basis risk, planning risk and asset/liability positions.

### **Market Risks:** The

Corporation generally matches the term and interest rate structure of its assets and liabilities. It

enters into funding and interest rate hedging transactions to minimize interest rate risk. Specifically, the Corporation's interest rate risk position is subject to internal and Department of Finance guidelines. It is also CMHC's policy to have no foreign exchange exposure. Presently, all Canadian dollar assets are either funded with Canadian dollar borrowings or fully hedged in Canadian dollars.

Account that were announced in the 1995 federal budget.

Operating expenses were \$249.2 million, \$2.2 million less than the budget.

Operating expenses in 1994 were \$257.1 million.

## CAPITAL EXPENDITURES

The 1995 capital budget for furniture, equipment and business premises, planned at \$5.4 million, was fully committed by year end.

## RESOURCE REQUIREMENTS

### OPERATING BUDGET

The Corporation's operating budget for 1995 was originally approved at \$255.1 million.

This was subsequently reduced to \$251.4 million to reach the 1995-96 target reductions for the Minister's

# FIVE YEAR FINANCIAL HIGHLIGHTS

## AT AND FOR THE YEARS ENDED 31 DECEMBER

(in millions of dollars)	1995	1994	1993	1992	1991
<b>Corporate Account</b>					
Total Assets	13 849	11 769	10 014	8 943	9 025
Portfolio of Loans and Investments					
Loans	5 832	5 034	4 257	3 912	4 154
Federal-Provincial Agreements	6 443	5 332	4 691	4 496	4 476
Real Estate	126	111	90	75	59
Total Loans and Investments	12 401	10 477	9 038	8 483	8 689
Government of Canada Borrowings	7 505	7 958	8 295	8 486	8 619
Margin on Financing Operations	20	15	33	45	54
Gain (Loss) on Real Estate	2	14	8	(3)	3
Net Income (Loss)	(9)	(6)	6	12	17
<b>Minister's Account</b>					
Expenditures for CMHC-administered Housing Programs on Behalf of the Government of Canada					
Grants, Contributions and Subsidies	1 896	1 751	1 804	1 807	1 866
Fees Paid to Delivery Agents	14	19	26	29	30
Operating Expenses	92	98	105	114	110
<b>Insurance and Guarantee Funds</b>					
Mortgage Insurance Fund					
Total Assets	2 258	2 038	1 795	1 551	1 339
Surplus (Deficit)	8	(78)	15	78	149
Premiums and Application Fees Received	480	579	487	459	275
Investment Income Received	151	93	176	139	106
Net Income (Loss)	86	(93)	(63)	(16)	(15)
Insurance Claims Paid	546	513	482	435	161
Insurance in Force	113 300	102 200	86 500	72 000	58 300
Mortgage-backed Securities Guarantee Fund					
Total Assets	47	42	36	31	19
Surplus	23	17	10	10	6
Guarantee and Application Fees Received	3	8	15	14	7
Investment Income Received	3	5	3	2	1
Net Income	7	6	6	4	2
Guarantees in Force	17 100	17 500	16 300	12 000	7 700



# BOARD OF DIRECTORS AND PRINCIPAL OFFICERS

CMHC is headed by a Board of Directors, consisting of the Chairman of the Board, the President, a designated Senior Vice-President, five members from the public at large, and two senior public servants — all appointed by the Governor in Council.

## BOARD OF DIRECTORS

Peter R. Smith  
Mississauga, Ontario  
Chairman of the Board  
(since September 1995)

Claude F. Bennett  
Ottawa, Ontario  
Chairman of the Board  
(until the end of August 1995)

Marc Rochon  
Ottawa, Ontario  
President and Chief Executive Officer (since mid-August 1995)

Eugene A. Flichel  
Ottawa, Ontario  
President and Chief Executive Officer (until mid-August 1995)

Gilles E. Girard  
Ottawa, Ontario  
Senior Vice-President,  
Insurance, Land and Asset  
Administration

Renate Bublick  
Vancouver, British Columbia

Janice Cochrane  
Ottawa, Ontario  
Deputy Minister, Citizenship  
and Immigration  
(since October 1995)

Gregory Fyffe  
Ottawa, Ontario  
Canadian Centre for  
Management Development

Robert Gibeau  
Laval, Quebec  
Treasurer, National Home  
Warranty Council (until the  
end of June 1995)

Dan Goodleaf  
Ottawa, Ontario  
Deputy Minister, Department  
of Indian Affairs and  
Northern Development (until  
July 1995)

Claude Hallé  
Québec, Quebec  
Vice-President, Market  
Development, Groupe TS Inc.  
(since the end of June 1995)

Cuckoo Kochar  
Ottawa, Ontario  
President and CEO,  
DCR/Phoenix Development  
Corporation Ltd.

Ritchie E. Twa  
Edmonton, Alberta  
President, Denwood  
Enterprises Ltd. and Vice-  
President, Twa Panel Systems  
Inc.

C. Anne Windsor  
Lewisporte, Newfoundland  
President, H.A. Sceviour &  
Associates

## EXECUTIVE OFFICERS

Marc Rochon  
President and Chief Executive  
Officer (since mid-August  
1995)

Eugene A. Flichel  
President and Chief Executive  
Officer (until mid-August  
1995)

Peter C. Connolly  
Senior Vice-President,  
Corporate Resources

Gilles E. Girard  
Senior Vice-President,  
Insurance, Land and Asset  
Administration

Robert Lajoie  
Senior Vice-President,  
Policy, Research and  
Communications

## CORPORATE OFFICERS

Karen A. Kinsley  
Vice-President, Finance and  
since October 1995 Vice-  
President, Finance and  
Treasurer

James T. Lynch  
Vice-President, Insurance  
Operations and Land  
Management

Claude Poirier-Defoy  
Vice-President, Programs,  
General Counsel and  
Corporate Secretary

Douglas A. Stewart  
Vice-President, Policy and  
Research

Peter D. Anderson  
General Manager, British  
Columbia and Yukon  
Regional Office

John Black  
General Manager, Atlantic  
Regional Office

Brian Dornan  
General Manager, Prairie and  
Northwest Territories  
Regional Office

William G. Mulvihill  
General Manager, Ontario  
Regional Office

Denis St-Onge  
General Manager, Quebec  
Regional Office

George Hendela  
Treasurer and General  
Manager, Pension Fund (until  
the end of September 1995)

# CMHC OFFICES

## REGIONAL OFFICES

Atlantic  
Quebec  
Ontario  
Prairie and Northwest Territories  
British Columbia and Yukon

### ATLANTIC REGION

Branch Offices	Mobile Representatives*
Charlottetown	Moncton
Fredericton	Saint John
Halifax	Sydney
St. John's	

### QUEBEC REGION

Branch Offices	Mobile Representatives*
Chicoutimi	Rimouski
Hull	Sept-Îles
Laval	Trois-Rivières
Montréal	Val-d'Or
Québec	
Sherbrooke	

### ONTARIO REGION

Branch Offices	Mobile Representatives*
Hamilton	Barrie
London	Kingston
Oshawa	Kitchener
Ottawa	Sault Ste-Marie
Sudbury	Windsor
Thunder Bay	
Toronto	
Resident Inspector: Owen Sound	

## PRAIRIE & NORTHWEST TERRITORIES REGION

Branch Offices	Mobile Representatives*
Calgary	
Edmonton	
Regina	
Saskatoon	
Winnipeg	
Yellowknife	

## BRITISH COLUMBIA & YUKON REGION

Branch Offices	Mobile Representatives*
Kelowna	Courtenay
Prince George	Cranbrook
Vancouver	Kamloops
Victoria	
Whitehorse	

\* A Mobile Representative is a corporate employee, located in a specific community, who is responsible for providing client service to that community and its surrounding territory. This individual works from his/her home.



# FINANCIAL STATEMENTS

Canada Mortgage and Housing Corporation

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 1995

### Management's Responsibility for Financial Reporting

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CMHC management is responsible for establishing and maintaining a system of books, records, internal controls and management practices to provide reasonable assurance that: reliable financial information is produced; the assets of the Corporation are safeguarded and controlled; the transactions of the Corporation are in accordance with the relevant legislation, regulations and by-laws of the Corporation; the resources of the Corporation are managed efficiently and economically; and the operations of the Corporation are carried out effectively.

Management is also responsible for the integrity and objectivity of the financial statements of the Corporation. The accompanying financial statements for the year ended 31 December 1995 were prepared in accordance with generally accepted accounting principles in Canada. The financial information contained elsewhere in this report is consistent with that in the financial statements.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee, which includes a majority of members who are not officers of the Corporation. The Committee meets from time to time with management, internal audit staff, and independent external auditors to review the manner in which these groups are performing their responsibilities, and to discuss auditing, internal controls, and other relevant financial matters. The Audit Committee has reviewed the financial statements with the external auditors and has submitted its report to the Board of Directors which has approved the financial statements.

The financial statements have been examined by the joint external auditors, J. Colin Potts, FCA, of the firm Deloitte & Touche, and Wm. F. Radburn, FCA, for the Auditor General of Canada. Their report offers an independent opinion on the financial statements to the Minister Responsible for Canada Mortgage and Housing Corporation.

**Marc Rochon**  
President and Chief Executive Officer

**Karen A. Kinsley**  
Vice-President, Finance and Treasurer

## AUDITORS' REPORT

### To the Minister Responsible for Canada Mortgage and Housing Corporation

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We have audited the balance sheets of the Canada Mortgage and Housing Corporation for the Corporate Account and Insurance and Guarantee Funds as at 31 December 1995, and the related statements of operations and reserve fund, operations and surplus, and changes in financial position, and the Minister's Account statement of expenses and recoveries for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at 31 December 1995 and the results of its operations and the changes in its financial position for the year then ended in accordance with the generally accepted accounting principles in Canada. As required by the Financial Administration Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Canada Mortgage and Housing Corporation Act, the National Housing Act and the by-laws of the Corporation.

**For the Auditor General  
of Canada,**

**Wm. F. Radburn, FCA  
Assistant Auditor General**

**J. Colin Potts, FCA  
of the firm Deloitte & Touche**

**Ottawa, Canada  
25 March 1996**

**Ottawa, Canada  
25 March 1996**



# Corporate Account

## Balance Sheet

### As at 31 December

in thousands of dollars

<b>Assets</b>	<b>Notes</b>	<b>1995</b>	<b>1994</b>
Loans and Investments	3, 4	12 400 774	10 476 748
Cash and Short-term Investments	5	722 083	565 755
Deferred Recoveries from the Minister's Account		254 711	325 534
Due from the Minister's Account	7	301 605	252 271
Assets Under Capital Lease	8	28 892	30 822
Business Premises and Equipment	9	32 236	32 024
Accounts Receivable		71 923	40 624
Deferred Income Taxes		14 810	11 863
Other Assets	5	18 518	33 294
Due from Insurance and Guarantee Funds		3 882	—
		<b>13 849 434</b>	<b>11 768 935</b>
<b>Liabilities</b>			
Borrowings from the Government of Canada	3, 10	7 504 816	7 957 663
Capital Market Borrowings	10	5 965 875	3 409 540
Obligation Under Capital Lease	11	33 940	35 144
Accounts Payable and Accrued Liabilities		301 801	304 262
Due to the Receiver General for Canada		7 854	14 526
Due to Insurance and Guarantee Funds		—	4 070
		<b>13 814 286</b>	<b>11 725 205</b>
<b>Capital and Reserve Fund</b>			
Capital			
Authorized and fully paid by the Government of Canada		25 000	25 000
Reserve Fund	12	10 148	18 730
		<b>13 849 434</b>	<b>11 768 935</b>

The accompanying notes are an integral part of the financial statements

**Corporate Account****Statement of Operations and Reserve Fund****Year Ended****31 December**

in thousands of dollars

	<b>Notes</b>	<b>1995</b>	<b>1994</b>
Interest Earned	3, 13	<b>1 022 731</b>	857 533
Interest Expense	10	<b>1 002 401</b>	842 477
Margin on Financing Operations		<b>20 330</b>	15 056
Real Estate Sales		<b>11 775</b>	19 357
Cost of Real Estate Sold		<b>(4 286)</b>	(5 623)
Holding Costs	4	<b>(5 885)</b>	—
Gain on Real Estate		<b>1 604</b>	13 734
Other Income		<b>1 099</b>	611
Income before Operating Expenses		<b>23 033</b>	29 401
Operating Expenses	14	<b>35 538</b>	35 661
Loss before Taxes		<b>(12 505)</b>	(6 260)
Taxes	15	<b>(3 923)</b>	10
Net Loss		<b>(8 582)</b>	(6 270)
Reserve Fund, Beginning of Year		<b>18 730</b>	25 000
Reserve Fund, End of Year		<b>10 148</b>	18 730

The accompanying notes are an integral part of the financial statements



**Corporate Account**
**Statement of Changes in Financial Position**  
**Year Ended**  
**31 December**

in thousands of dollars

	1995	1994
<b>Operating Activities</b>		
Net Loss	(8 582)	(6 270)
Add (Deduct)		
Amortization	4 769	4 747
Deferred Income Taxes	(2 947)	(882)
	(6 760)	(2 405)
Changes in		
Due to/from		
the Receiver General for Canada	(6 672)	3 684
Insurance and Guarantee Funds	(7 952)	(6 432)
the Minister's Account	(49 334)	11 541
Accounts Receivable	(31 299)	(34 936)
Accounts Payable and Accrued Liabilities	(2 461)	2 509
Accrued Interest Payable	35 346	35 652
Accrued Interest Receivable	(8 514)	14 044
Other Assets	14 776	(24 876)
	(62 870)	(1 219)
<b>Investment Activities</b>		
Loans and Investments		
Repayments	298 742	353 450
Additions	(2 214 254)	(1 806 656)
Change in Deferred Recoveries from the Minister's Account	70 823	(87 826)
Additions to Business Premises and Equipment	(3 051)	(5 842)
	(1 847 740)	(1 546 874)
<b>Financing Activities</b>		
Repayments of Borrowings from the Government of Canada	(447 372)	(334 247)
Capital Market Borrowings	2 515 514	2 061 546
Repayment of Obligation Under Capital Lease	(1 204)	(1 075)
	2 066 938	1 726 224
<b>Increase in Cash Position</b>	156 328	178 131
Cash and Short-term Investments		
Beginning of Year	565 755	387 624
End of Year	722 083	565 755

The accompanying notes are an integral part of the financial statements

## Minister's Account

### Statement of Expenses and Recoveries Year Ended 31 December

in thousands of dollars

	Notes	1995	1994
<b>Expenses</b>			
Market Housing		47 924	48 257
Social Housing		1 839 089	1 696 327
Housing Support		8 296	6 539
Fees Paid to Delivery Agents		14 448	18 620
Operating Expenses	14	92 102	98 302
Expenses Recoverable	7	2 001 859	1 868 045

The accompanying notes are an integral part of the financial statements



# Insurance and Guarantee Funds

## Balance Sheet

### As at 31 December

in thousands of dollars

<b>Assets</b>	<b>Notes 22</b>	<b>1995</b>	<b>1994</b>
Investment in Securities	16	1 976 982	1 761 057
Real Estate		306 398	289 572
Mortgages		15 791	16 343
Accounts Receivable and Other Assets		4 397	699
Deferred Income Taxes		14 262	21 341
Due from Corporate Account		—	4 070
		<u>2 317 830</u>	<u>2 093 082</u>
<b>Liabilities</b>			
Unearned Premiums and Guarantee Fees		1 525 888	1 430 925
Provision for Claims		721 807	649 809
Premium Deficiency		—	55 062
Accounts Payable and Accrued Liabilities		8 959	6 084
Due to Receiver General for Canada		13 308	—
Due to Corporate Account		3 882	—
		<u>2 273 844</u>	<u>2 141 880</u>
<b>Surplus (Deficit)</b>		<u>43 986</u>	<u>(48 798)</u>
		<u>2 317 830</u>	<u>2 093 082</u>

The accompanying notes are an integral part of the financial statements

**Insurance and Guarantee Funds****Statement of Operations and Surplus (Deficit)****Year Ended****31 December**

in thousands of dollars

	Notes 22	1995	1994
<b>Revenues</b>			
Earned Premiums and Guarantee Fees		352 559	300 542
Application Fees		36 324	41 276
Income from Investments	16	152 924	86 707
Other		3 093	3 456
		<u>544 900</u>	<u>431 981</u>
<b>Expenses</b>			
Loss on Claims		305 280	301 476
Operating Expenses	14	120 403	119 500
Adjustment to Provision for Claims		71 998	55 682
		<u>497 681</u>	<u>476 658</u>
Income (Loss) before the Undernoted		47 219	(44 677)
Adjustment to Premium Deficiency		55 062	(34 571)
Income (Loss) before Taxes		102 281	(79 248)
Taxes	15	9 497	7 979
Net Income (Loss)		92 784	(87 227)
<b>Unappropriated Surplus (Deficit)</b>			
Balance, Beginning of Year		(48 798)	28 429
Transfer from Appropriated Surplus		—	10 000
Balance, End of Year		<u>43 986</u>	<u>(48 798)</u>
<b>Appropriated Surplus</b>			
Balance, Beginning of Year		—	10 000
Transfer to Unappropriated Surplus		—	(10 000)
Balance, End of Year		<u>—</u>	<u>—</u>
Surplus (Deficit), End of Year		<u>43 986</u>	<u>(48 798)</u>

The accompanying notes are an integral part of the financial statements



**Insurance and Guarantee Funds****Statement of Changes in Financial Position****Year Ended  
31 December**

in thousands of dollars:

	Note 22	1995	1994
<b>Operating Activities</b>			
Premiums and Guarantee Fees Received		447 522	546 063
Application Fees Received		36 324	41 276
Investment Income Received		154 043	97 397
Claims Paid		(546 115)	(512 927)
Proceeds from Sales of Real Estate		237 832	188 382
Operating Expenses Paid		(120 403)	(119 500)
Taxes Paid		11 047	(12 080)
Other		(12 885)	(15 661)
		<b>207 365</b>	<b>212 950</b>
<b>Investment Activities</b>			
Investment in Securities		(215 317)	(219 382)
Decrease in Due from Corporate Account		<b>7 952</b>	<b>6 432</b>

The accompanying notes are an integral part of the financial statements

## Notes to Financial Statements

### Year Ended 31 December 1995

#### 1. BASIS OF PRESENTATION

Canada Mortgage and Housing Corporation was incorporated as a Crown Corporation 1 January 1946. The Corporation is regulated by the Canada Mortgage and Housing Corporation Act. The Corporation's mandate, as stated in the National Housing Act, is "to promote the construction of new houses, the repair and modernization of existing houses and the improvement of housing and living conditions." The Corporation is for all purposes an agent of Her Majesty in the right of Canada.

The Corporation has three separate responsibilities under its mandate and maintains separate accounting records for each. Separate financial statements are presented in order to preserve the separate identities of the assets, liabilities, capital, reserve fund, surpluses or deficits.

Together, these statements constitute the financial statements of the Corporation and reflect all of the transactions of the Corporation for the year ended 31 December 1995.

*In total, the Corporation manages:*

in thousands of dollars	1995	1994
Assets	16 163 382	13 857 947
Liabilities	16 084 248	13 863 015
Portion Payable to Government of Canada	7 504 816	7 957 663
Minister's Account Expenses Recoverable from Parliamentary Appropriations	2 001 859	1 868 045
Operating Expenses	248 043	253 463

Operating Expenses are allocated to the three separate areas of responsibility as disclosed in Note 14.

#### Corporate Account

Within this responsibility, the Corporation makes loans and other investments under various provisions of the National Housing Act, develops and sells land holdings, and provides services in housing related areas. Funding is provided by borrowings from the Government of Canada and capital markets.

#### Minister's Account

The Corporation administers housing programs under provisions of the National Housing Act with funding provided by the Government of Canada through annual Parliamentary appropriations. The Corporation is reimbursed for the related operating expenses.

#### Insurance and Guarantee Funds

The Corporation administers insurance and guarantee funds under provisions of the National Housing Act. The Mortgage Insurance Fund provides insurance against borrower default on residential mortgages. The Mortgage-backed Securities Guarantee Fund guarantees the principal and interest for investors of securities based on insured mortgages.



## 2. SUMMARY OF ACCOUNTING POLICIES

These financial statements are prepared in accordance with generally accepted accounting principles in Canada.

### a. Loans

#### Corporate Account

No provisions are made for possible losses on loans. Losses on insured loans are recoverable from the Mortgage Insurance Fund. Property acquired upon default of uninsured loans is subject to loss recovery as described under Real Estate. Other losses on uninsured loans are recoverable from the Government of Canada through the Minister's Account.

If loans contain forgiveness clauses, such forgiveness is recorded and recovered from the Government of Canada through the Minister's Account when the loans are advanced.

Loans under certain programs give rise to interest rate losses that are recoverable from the Government of Canada through the Minister's Account.

#### Insurance and Guarantee Funds

Mortgages are valued at cost less a provision for estimated loss.

### b. Federal-Provincial Agreements

Loans and investments are made under various cost-sharing agreements with the provinces and territories to encourage the development of rental housing, land assembly, co-operative housing, rural and native housing, and housing rehabilitation.

Only the Corporation's share of costs plus capitalized interest are reflected in these statements.

The Corporation's share of subsidies and losses related to these agreements is recovered from the Government of Canada through the Minister's Account.

Gains on the sale of land assembly projects are recognized as income in the Corporate Account.

### c. Real Estate

#### Corporate Account

Real estate includes vacant land and properties acquired directly by the Corporation, or through the Government of Canada at no cost, or through default on uninsured loans.

All real estate is recorded at cost, which includes acquisition costs and any modernization and improvement costs.

Holding costs, including interest, on land acquired directly by the Corporation are capitalized up to appraised value after which the costs are expensed in the Corporate Account. Gains or losses on disposal are recognized in the Corporate Account.

Holding costs, including interest, on real estate acquired through the Government of Canada at no cost, or through default on uninsured loans, are capitalized. Gains or losses on the disposal of these properties are paid to or recovered from the Government of Canada through the Minister's Account. All net operating losses on real estate are recovered from the Government of Canada through the Minister's Account.

Buildings included as real estate in Loans and Investments are amortized and charged to the Government of Canada through the Minister's Account on a straight-line basis over the same term as the related borrowings.

#### Insurance and Guarantee Funds

Real estate acquired upon the payment of a claim resulting from a loan default is valued at the lower of cost or net realizable value. Net realizable value is calculated as the current appraised value of the property, as determined by the Corporation, less the discounted value of estimated holding and disposal costs. Amortization is not recorded on the real estate.

### d. Deferred Recoveries from the Government of Canada through the Minister's Account

Effective 1 April 1991, expenditures to modernize and improve certain properties are recovered from the Government of Canada through the Minister's Account over a period not exceeding 10 years.

### e. Amortization

Assets under Capital Lease, Business Premises and Equipment are amortized on a diminishing balance basis over the estimated useful life of the asset. Leasehold improvements are amortized on a straight-line basis.

### f. Derivative Financial Instruments

The Corporation enters into interest rate swap contracts, forward rate agreements and cross currency swaps as hedges in conjunction with overall risk and liability management activities within guidelines set by the Department of Finance. These contracts are not marked to market.

Gains and losses resulting from termination of these contracts transacted to manage risk exposure are deferred and amortized on a straight-line basis to interest income or expense over the term of the exposure.

### g. Short-term Investments

Investments are carried at amortized cost plus accrued interest.

Premiums and discounts on investments are amortized to income over the period to maturity of the related investments. Gains or losses on investments not designated as hedges are recognized in the period realized.

The Corporation has a policy of matching the maturity structure of its assets with that of its liabilities. In those cases where funds are raised in advance of the investment in loans, the Corporation holds short-term investments as hedges of the anticipated investment in loans. The term to maturity of the short-term investments matches the term of the borrowing, so that the Corporation is hedged against movements in the interest rates between the date of borrowing, and the date that the short-term investments are sold and loans made.

For investments designated as hedges as part of the Corporation's Asset/Liability management strategy, interest earned on the short-term investments is recognized as income in the current period, whereas gains and losses at disposal of the investments are deferred and amortized on a straight-line basis over the term of the corresponding loan assets. Deferred gains or losses are included in Other Assets.

### h. Investment in Securities

Investments are carried at amortized cost plus accrued interest.

Premiums and discounts on investments are amortized to income over the period to maturity of the related securities. Gains or losses on investments not designated as hedges are recognized in the period realized.

Investments are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Securities are written down to their fair value when declines in value are other than temporary. Gains and losses realized on disposal of



securities and write-downs to reflect other than temporary impairment in value are included in interest income from the securities in the year in which they occur.

Gains or losses on disposal are based on the average cost of the securities sold.

**i. Provision for Claims**

This provision represents the estimated loss on claims in process of payment and the estimated loss on loans, where defaults have occurred, but for which claims have not yet been received by the Corporation.

**j. Premiums**

Premiums are deferred and are taken into income over the life of the related policies based on the risk of default in each year.

**k. Premium Deficiency**

Annually, the Corporation compares the amount of its unearned premiums by line of business to the discounted costs of claims that have not yet occurred on insurance policies in force. Whenever it is determined that the unearned premiums on a line of business are inadequate to meet the expected net costs of future claims, a premium deficiency is charged to operations. Subsequently, it is taken into income on the same basis as unearned premiums.

**l. Guarantee Fees**

Guarantee fees are deferred and are taken into income over the term of the relative Mortgage-backed Security issue on a straight-line basis. Issues currently exist with maturities up to the year 2019.

**m. Application Fees**

Application fees are recognized as income when received.

**n. Insurance Issuance Costs**

Issuance costs are expensed as incurred.

**o. Pension Costs and Obligations**

The cost of pension benefits earned by employees is charged to income as services are rendered. Adjustments arising from pension plan amendments, experience gains and losses, and changes in assumptions are amortized over the expected average remaining service life of the employee group.

**p. Post-Retirement Benefits**

Post-Retirement benefits are expensed as incurred.

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**3. INTEREST RATE RISK - PREFERENTIAL LENDING AND BORROWING ARRANGEMENTS**

In 1991 the Government of Canada discontinued the Corporation's right of prepayment without penalty on its borrowings from the Consolidated Revenue Fund.

Of the borrowings, \$3.2 billion was for loans made by the Corporation prior to 1986 under various sections of the National Housing Act which have prepayment without penalty privileges. These loans have original terms of up to 50 years. As a result, the Corporation assumed the interest rate risk which was previously borne by the Government of Canada.

During 1993 and 1994 some borrowers renegotiated terms at lower rates in lieu of exercising their prepayment rights. No further renegotiations occurred during 1995.

*Annual reductions on margin pertaining to renegotiated loans to the next repricing dates are:*

in thousands of dollars	1994	1995	1996	1997	1998	1999	2000
	26 500	28 800	28 900	29 000	22 300	3 600	900

The effect of the Government of Canada transferring its interest rate risk to the Corporation resulted in the interest earnings of the Corporate Account being reduced in 1995 by \$28.8 million (1994 - \$26.5 million) and a consequential Net Loss for the year of \$8.6 million (1994 - \$6.3 million), net of income tax credits of \$10.9 million (1994 - \$10.0 million).

This transfer also exposes the Corporation to losses in future years which could be material and significant in relation to the Corporate Account Capital and Reserve Fund.

The renegotiated loans have resulted in a cumulative reduction in interest earnings of \$61.3 million to 31 December 1995 and will result in a further reduction in interest earnings of \$84.7 million between 1 January 1996 and the next repricing date.

Management estimates that the potential additional reduction on margin on loans not yet renegotiated, depending on prevailing interest rates will be approximately \$7.0 million per annum during each of the next five years.

The renegotiated loans together with others which may yet be renegotiated could result in an accumulated reduction of interest earnings of approximately \$181.0 million for the period to the next repricing date.

The fact that some of the loans renegotiated in 1993 are eligible for repricing in 1998 and the uncertainty in forecasting future interest rates precludes reasonable estimation of impacts beyond those quoted above.

The Corporation is engaged in discussions of this interest rate risk issue with the Government of Canada.



#### 4. LOANS AND INVESTMENTS

in thousands of dollars	1995	1994
Loans	5 832 205	5 033 621
Federal-Provincial Agreements		
Loans	4 694 032	3 545 288
Investments in Housing Projects	1 712 134	1 755 487
Land Assembly Projects	36 327	31 669
	6 442 493	5 332 444
Real Estate		
Investments in Housing Projects	33 438	32 307
Land	92 638	78 376
	126 076	110 683
Total Loans and Investments	12 400 774	10 476 748

The amount of interest capitalized on real estate in 1995 was \$2.3 million (1994 - \$4.8 million). Holding costs of \$5.9 million (1994 - \$0.0) on land acquired directly by the Corporation have been expensed in the Corporate Account.

#### 5. CASH AND SHORT-TERM INVESTMENTS

	1995		1994	
in thousands of dollars	Book Value	Market Value	Book Value	Market Value
Cash	24 800	24 800	(3 806)	(3 806)
Short-term Investments	697 283	702 492	569 561	567 540
Total	722 083	727 292	565 755	563 734

The Short-term Investments have maturities which range up to five years.

Net gains of \$0.4 million (1994 - \$18.2 million loss) on sale of Short-term Investments used as hedges have been deferred and are included in Other Assets. These gains or losses are offset by the fluctuation on subsequent lending rates on mortgage funds advanced.

## 6. OFF-BALANCE SHEET DERIVATIVE FINANCIAL INSTRUMENTS

The Corporation employs derivative contracts to manage its interest rate risk and foreign exchange exposure. These contracts include:

Interest rate basis swaps, in which the Corporation exchanges the monthly interest receipts on a notional amount of loans for the receipt of an equivalent amount of interest determined on a semi-annual basis. These swaps convert the Corporation's interest income on loans to the same basis as the interest expense on the debt that finances the loans;

Floating to fixed and fixed to floating interest rate swaps, exchange a fixed monthly payment on a notional amount in exchange for a floating interest

rate on the same notional amount. These swaps convert the floating rate portion of debt that finances fixed rate assets to the same fixed interest rate basis as the assets;

Forward rate agreements, in which the Corporation fixes in advance the interest it will pay on a notional amount of floating rate debt. These agreements permit the Corporation to fix the interest rate on floating rate instruments it issues to a rate consistent with the assets that such instruments fund.

Cross currency swaps are agreements to exchange payments in different currencies over predetermined periods of time. These swaps convert foreign currency interest and principal repayments to Canadian dollars.

*The amortized notional amounts of the derivative instruments are:*

in thousands of dollars	1995	1994
Interest Rate Basis Swaps	3 280 519	1 371 812
Interest Rate Swaps	2 146 973	1 922 191
Forward Rate Agreements	—	52 696
Cross Currency Swaps	410 000	—
Total	5 837 492	3 346 699

The Corporation's credit risk on these instruments is based on the present value of the net stream of payments it contracts to pay and receive, and not the notional amounts on which such payments are based.

*Using international accepted ratings, the following is a breakdown of the notional amounts of counterparty exposure:*

in thousands of dollars	1995	1994
<b>Credit Rating</b>		
AAA	246 587	514
AA+	2 292 851	1 193 686
AA-	3 298 054	2 152 499
Total	5 837 492	3 346 699

## 7. DUE FROM THE MINISTER'S ACCOUNT

in thousands of dollars	1995	1994
Receivable, Beginning of Year	252 271	263 812
Minister's Account Expenses	2 001 859	1 868 045
Recovered from the Minister	(1 952 525)	(1 879 586)
Receivable, End of Year	301 605	252 271



## 8. ASSETS UNDER CAPITAL LEASE

in thousands of dollars	Amortization Rate	Cost	Accumulated Amortization	Net Book Value 1995	Net Book Value 1994
Building	4%	29 809	5 504	24 305	25 319
Leasehold Improvements	10%	9 172	4 585	4 587	5 503
Total		<u>38 981</u>	<u>10 089</u>	<u>28 892</u>	<u>30 822</u>

Amortization in 1995 was \$1.9 million (1994 - \$2.0 million).

## 9. BUSINESS PREMISES AND EQUIPMENT

in thousands of dollars	Amortization Rate	Cost	Accumulated Amortization	Net Book Value 1995	Net Book Value 1994
Land	—	166	—	166	166
Buildings	4% or 5%	34 913	10 295	24 618	24 239
Leasehold Improvements	20%	1 609	937	672	626
Equipment	8%, 20% or 30%	34 981	28 201	6 780	6 993
Total		<u>71 669</u>	<u>39 433</u>	<u>32 236</u>	<u>32 024</u>

Amortization in 1995 was \$2.8 million (1994 - \$2.7 million).

## 10. BORROWINGS

The Corporation borrows from the Government of Canada and from capital markets under provisions of the Canada Mortgage and Housing Corporation Act and the National Housing Act to finance loans and investments.

	1995			1994
in thousands of dollars		Interest Rate	Term	
Government of Canada	7 504 816	2.00 to 17.96%	up to 2039	7 957 663
Capital Market				
Commercial Paper	987 017	average 5.69%	less than a year	375 343
Long-term Bonds	4 978 858	6.11% to 8.92%	up to 2001	3 034 197
Total	<u>13 470 691</u>			<u>11 367 203</u>

Commercial Paper includes US\$25 million carried at \$33.6 million which matures on 16 January 1996. Long-term Bonds include US\$300 million carried at \$410 million which matures on 1 December 2000. All foreign exchange exposure risk is fully hedged for the interest and principal repayments. There were no foreign currency borrowings in the prior year.

Repayments are scheduled as follows:

	Government of Canada	Capital Market		Total
		Commercial Paper	Long-term Bonds	
in thousands of dollars				
1996	262 675	987 017	68 858	1 318 550
1997	193 892	—	—	193 892
1998	196 981	—	1 000 000	1 196 981
1999	191 999	—	1 500 000	1 691 999
2000	185 033	—	1 910 000	2 095 033
Thereafter	6 474 236	—	500 000	6 974 236
Total	<u>7 504 816</u>	<u>987 017</u>	<u>4 978 858</u>	<u>13 470 691</u>

The interest paid to the Government of Canada in 1995 was \$680.1 million (1994 - \$708.3 million).

Capital Market Borrowing is limited by legislation to \$15 billion.

## 11. OBLIGATION UNDER CAPITAL LEASE

The Corporation financed additions and improvements to the National Office building in 1990 with a long-term lease that is accounted for as a capital lease. The Corporation assumes ownership of the building for a cost of one dollar at the termination of the lease in 2015.

The annual lease payments are \$5.2 million for the first 10 years and \$3.6 million for the remaining 15 years.

*The minimum lease payments are:*

in thousands of dollars	
1996 to 2000	25 460
2001 to 2015	53 598
Total future minimum lease payments	79 058
Less interest at 11.77 and 11.57%	45 118
Present value of minimum lease payments	<u>33 940</u>

Interest expense in 1995 was \$4.0 million (1994 - \$4.1 million).

## 12. RESERVE FUND

The Reserve Fund is limited by Order-in-Council to \$25 million.



### 13. RELATED PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Canada created departments, agencies and Crown corporations. The Corporation enters into transactions with certain of these entities in the normal course of business. All material related party transactions are either disclosed below or in relevant notes.

The Corporation was authorized by the Government of Canada to approve certain loans and investments at a negative interest margin and to recover the loss from the Government of Canada through the Minister's Account. The interest loss recovered is included in interest income.

*The recoveries by program are:*

in thousands of dollars	1995	1994
Market Housing	12 747	11 575
Social Housing	15 886	16 804
Total	28 633	28 379

In accordance with Fee for Service agreements between the Corporation and Treasury Board, the Corporation is developing parcels of surplus government lands for residential housing projects. Development costs are capitalized and deducted from sales proceeds; the net of which is returned to the Government of Canada, \$1.3 million in 1995 (1994 - \$3.9 million).

Fees earned in 1995 amounting to \$0.3 million (1994 - \$0.2 million) are reported in Other Income.

### 14. OPERATING EXPENSES

*The operating expenses of the Corporation are allocated on the basis of staff utilization as follows:*

in thousands of dollars	1995		1994	
		%		%
Corporate Account	35 538	14.3	35 661	14.0
Minister's Account	92 102	37.1	98 302	38.8
Insurance and Guarantee Funds	120 403	48.6	119 500	47.2
Total	248 043	100.0	253 463	100.0

### 15. TAXES

Taxes include income tax and Large Corporations Tax (LCT).

The tax rate on income is 38%. The Large Corporations Tax levied on certain capital amounts was increased from a rate of 0.2% to 0.225% effective 28 February 1995.

*Taxes are:*

in thousands of dollars	1995			1994		
	Income Tax	LCT	Total	Income Tax	LCT	Total
Corporate Account	(4 358)	435	(3 923)	(363)	373	10
Insurance and Guarantee Funds	8 427	1 070	9 497	3 856	4 123	7 979
Total	4 069	1 505	5 574	3 493	4 496	7 989

## 16. INVESTMENT IN SECURITIES

	1995						1994	
	Within 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total Book Value	Estimated Market Value	Total Book Value	Estimated Market Value
in millions of dollars								
<b>Mortgage Insurance Fund</b>								
Short-term Investments								
Canada Treasury Bills	123.8	—	—	—	123.8	123.9	327.9	325.2
Other	7.8	—	—	—	7.8	8.3	95.7	95.7
Government of Canada Bonds	20.3	—	6.6	956.8	983.7	1 035.8	638.0	608.3
Provincial Bonds	6.0	—	159.2	107.6	272.8	286.5	296.1	275.5
Corporate Bonds	2.0	—	13.0	206.9	221.9	232.4	67.1	65.0
Mortgage-backed Securities	1.7	138.8	112.0	55.4	307.9	323.2	290.9	277.4
<b>Total</b>	<b>161.6</b>	<b>138.8</b>	<b>290.8</b>	<b>1 326.7</b>	<b>1 917.9</b>	<b>2 010.1</b>	<b>1 715.7</b>	<b>1 647.1</b>
<b>Other Funds</b>								
Short-term Investments								
Canada Treasury Bills	11.3	—	—	—	11.3	11.3	11.1	11.1
Other	0.8	—	—	—	0.8	0.7	1.1	1.1
Government of Canada Bonds	12.3	—	2.3	12.6	27.2	29.0	15.8	15.7
Provincial Bonds	0.1	—	6.9	12.8	19.8	20.7	17.3	15.9
<b>Total</b>	<b>24.5</b>	<b>—</b>	<b>9.2</b>	<b>25.4</b>	<b>59.1</b>	<b>61.7</b>	<b>45.3</b>	<b>43.8</b>
<b>Total</b>	<b>186.1</b>	<b>138.8</b>	<b>300.0</b>	<b>1 352.1</b>	<b>1 977.0</b>	<b>2 071.8</b>	<b>1 761.0</b>	<b>1 690.9</b>

Sales to acquire more attractive alternative investments during 1995 resulted in a gain of \$13.0 million (1994 - loss of \$35.5 million). These totals are included in Income from Investments in the current year.

## 17. COMMITMENTS

### a. Loans and Investments

Commitments outstanding for loans and investments amounted to \$162.6 million at 31 December 1995 (1994 - \$367.8 million).

### b. Operating Leases

Minimum rental payments scheduled over the next five years on business premises and equipment under long-term non-cancellable leases are:

	1996	1997	1998	1999	2000
	in thousands of dollars				
Business Premises	9 328	7 788	6 537	5 242	3 683
Equipment	14 547	9 048	5 940	180	160
<b>Total</b>	<b>23 875</b>	<b>16 836</b>	<b>12 477</b>	<b>5 422</b>	<b>3 843</b>



### c. Future Contractual Obligations

Total financial obligations under contracts for the Minister's Account, Social Housing programs, extend for periods up to 40 years. Uncertainty in forecasting the economic factors used to calculate the financial obligations precludes reasonable estimation beyond five years.

*Estimated obligations for the next five years are:*

in millions of dollars	1996	1997	1998	1999	2000
	1 805	1 791	1 795	1 834	1 876

### 18. CONTINGENT LIABILITIES

In the Notes to Financial Statements for previous years, there was reference to legal claims regarding urea-formaldehyde foam insulation totalling approximately \$32.7 million. This amount has now been retained notwithstanding a recent Quebec Court of Appeal decision dismissing the claim of homeowners in six representative cases, in one of which the Corporation was a party. The time for appeal to the Supreme Court of Canada expired in December 1995. The practical consequences of this decision is to extinguish all claims regarding urea-formaldehyde foam insulation before the Quebec courts. There, however, remain outstanding claims before the Federal Court and the courts in other provinces. Once the disposition of these claims is determined, any contingent liability for this matter will be eliminated. It is uncertain if costs arising from the legal claims regarding

urea-formaldehyde foam insulation would be charged to the Corporate Account or the Government of Canada through the Minister's Account. There are no other legal claims against the Corporate Account at the end of 1995 (1994 - nil).

There were other legal claims of \$2.8 million at the end of 1995 (1994 - \$3.8 million), which if successfully held against the Corporation, could result in charges to the Government of Canada through the Minister's Account.

Legal claims of \$81.5 million (1994 - \$67.6 million) are pending against the Mortgage Insurance Fund.

Due to the uncertainty of the outcome of these events, no provision for loss has been made. Costs arising as a result of these actions would be expensed when determined.

### 19. PENSION PLAN

The Corporation maintains an indexed, defined benefit pension plan. Retirement benefits are based on the average salary in any best five-year period and the number of years of service.

The accrued pension benefits are determined using the projected benefits method prorated on service.

The Corporation's funding policy is to contribute the amount required to provide for current benefits attributed to service and to pay the unfunded pension plan liabilities over periods permitted by regulatory authorities.

*Based on an actuarial valuation at 1 January 1993, and using management's best estimates, the status of the plan at 31 December is:*

in thousands of dollars	1995	1994
Net assets available for benefits	653 773	572 424
Actuarial value of accrued pension benefits	589 676	568 091
Excess of net assets over actuarial value of accrued pension benefits	64 097	4 333
Annual Pension Cost		
Current service costs	18 477	10 724
Government pension plans	2 386	2 356
Amortization of experience gains and losses	(692)	(693)
Total	20 171	12 387

Work is underway to complete an actuarial valuation at 1 January 1996.

## 20. ACTUARIAL VALUATION

### Mortgage Insurance Fund

An actuarial study of the Fund as at 30 September 1995 disclosed that the Fund had a pre-tax deficit of \$23.8 million (30 September 1994 - \$85.7 million pre-tax deficit).

## 21. INSURANCE AND GUARANTEES IN FORCE

### a. Mortgage Insurance Fund

Under Section 21 of the National Housing Act, the aggregate outstanding amount of all loans for which the insurance policies are issued may not exceed \$150 billion. As at 31 December 1995, insurance policies in force totalled approximately \$113.3 billion (1994 - \$102.2 billion).

### b. Mortgage-backed Securities Guarantee Fund

At 31 December 1995, guarantees in force totalled approximately \$17.1 billion (1994 - \$17.5 billion).

## 22. INSURANCE AND GUARANTEE FUNDS

### Balance Sheet

	Mortgage Insurance Fund		Mortgage-backed Securities Guarantee Fund		Rental Guarantee Fund	
	1995	1994	1995	1994	1995	1994
in thousands of dollars						
<b>Assets</b>						
Investment in Securities	1 917 877	1 715 697	46 564	42 233	12 541	3 127
Real Estate	306 398	280 572	—	—	—	9 000
Mortgages	15 791	16 343	—	—	—	—
Accounts Receivable and Other Assets	4 397	699	—	—	—	—
Deferred Income Taxes	14 035	20 854	227	329	—	158
Due from (to) Corporate Account	—	4 255	—	(537)	—	352
	<b>2 258 498</b>	<b>2 038 420</b>	<b>46 791</b>	<b>42 025</b>	<b>12 541</b>	<b>12 637</b>
<b>Liabilities</b>						
Unearned Premiums and Guarantee Fees	1 505 839	1 405 483	20 049	25 442	—	—
Provision for Claims	721 807	649 809	—	—	—	—
Premium Deficiency	—	55 062	—	—	—	—
Accounts Payable and Accrued Liabilities	8 863	6 034	—	—	96	50
Due to (from) the Receiver General for Canada	13 446	—	(125)	—	(13)	—
Due to (from) Corporate Account	436	—	3 734	—	(288)	—
	<b>2 250 391</b>	<b>2 116 388</b>	<b>23 658</b>	<b>25 442</b>	<b>(205)</b>	<b>50</b>
<b>Surplus (Deficit)</b>	<b>8 107</b>	<b>(77 968)</b>	<b>23 133</b>	<b>16 583</b>	<b>12 746</b>	<b>12 587</b>
	<b>2 258 498</b>	<b>2 038 420</b>	<b>46 791</b>	<b>42 025</b>	<b>12 541</b>	<b>12 637</b>



## 22. INSURANCE AND GUARANTEE FUNDS

### Statement of Operations and Surplus (Deficit)

	Mortgage Insurance Fund		Mortgage-backed Securities Guarantee Fund		Rental Guarantee Fund	
	1995	1994	1995	1994	1995	1994
in thousands of dollars						
<b>Revenues</b>						
Earned Premiums and Guarantee Fees	344 092	292 212	8 467	8 330	—	—
Application Fees	35 895	40 334	429	942	—	—
Income from Investments	149 217	83 679	3 344	2 813	363	215
Other	2 563	2 858	—	—	530	598
	<b>531 767</b>	<b>419 083</b>	<b>12 240</b>	<b>12 085</b>	<b>893</b>	<b>813</b>
<b>Expenses</b>						
Loss on Claims	304 578	300 584	263	—	439	892
Operating Expenses	118 699	117 640	1 530	1 620	174	240
Adjustment to Provision for Claims	71 998	55 682	—	—	—	—
	<b>495 275</b>	<b>473 906</b>	<b>1 793</b>	<b>1 620</b>	<b>613</b>	<b>1 132</b>
Income (Loss) before the Undernoted	<b>36 492</b>	<b>(54 823)</b>	<b>10 447</b>	<b>10 465</b>	<b>280</b>	<b>(319)</b>
Adjustment to Premium Deficiency	<b>55 062</b>	<b>(34 571)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
Income (Loss) before Taxes	<b>91 554</b>	<b>(89 394)</b>	<b>10 447</b>	<b>10 465</b>	<b>280</b>	<b>(319)</b>
Taxes	<b>5 479</b>	<b>3 990</b>	<b>3 897</b>	<b>4 062</b>	<b>121</b>	<b>(73)</b>
Net Income (Loss)	<b>86 075</b>	<b>(93 384)</b>	<b>6 550</b>	<b>6 403</b>	<b>159</b>	<b>(246)</b>
<b>Unappropriated Surplus (Deficit)</b>						
Balance, Beginning of Year	(77 968)	5 416	16 583	10 180	12 587	12 833
Transfer from Appropriated Surplus	—	10 000	—	—	—	—
Balance, End of Year	<b>8 107</b>	<b>(77 968)</b>	<b>23 133</b>	<b>16 583</b>	<b>12 746</b>	<b>12 587</b>
<b>Appropriated Surplus</b>						
Balance, Beginning of Year	—	10 000	—	—	—	—
Transfer to Unappropriated Surplus	—	(10 000)	—	—	—	—
Balance, End of Year	—	—	—	—	—	—
Surplus (Deficit), End of Year	<b>8 107</b>	<b>(77 968)</b>	<b>23 133</b>	<b>16 583</b>	<b>12 746</b>	<b>12 587</b>

## 22. INSURANCE AND GUARANTEE FUNDS

### Statement of Changes in Financial Position

	Mortgage Insurance Fund		Mortgage-backed Securities Guarantee Fund		Rental Guarantee Fund	
in thousands of dollars	1995	1994	1995	1994	1995	1994
<b>Operating Activities</b>						
Premiums and Guarantee Fees Received	444 448	538 605	3 074	7 458	—	—
Application Fees Received	35 895	40 334	429	942	—	—
Investment Income Received	150 660	92 591	3 052	4 589	331	217
Claims Paid	(546 115)	(512 927)	—	—	—	—
Proceeds from Sales of Real Estate	229 132	188 382	—	—	8 700	—
Operating Expenses Paid	(118 699)	(117 640)	(1 530)	(1 620)	(174)	(240)
Taxes Paid	14 943	(7 987)	(3 920)	(4 045)	24	(48)
Other	(13 060)	(16 152)	(263)	—	438	491
	<b>197 204</b>	<b>205 206</b>	<b>842</b>	<b>7 324</b>	<b>9 319</b>	<b>420</b>
<b>Investment Activities</b>						
Investment in Securities	(201 895)	(211 293)	(4 039)	(7 471)	(9 383)	(618)
Decrease in Due from Corporate Account	<b>4 691</b>	<b>6 087</b>	<b>3 197</b>	<b>147</b>	<b>64</b>	<b>198</b>

The Rental Guarantee program is no longer active.