Efforts to cool housing market sparked drop in CMHC insurance

By Janet McFarland
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New mortgage insurance rules introduced by the federal government last fall to cool the housing market have led to a sharp drop in insurance volumes for Canada Mortgage and Housing Corp. as fewer home buyers qualify for mortgage insurance.

CMHC said total insured volumes fell 41 per cent in the first quarter of 2017, including a 23-per-cent drop in homeowner insurance volumes and an 87-per-cent decline in the volume of portfolio insurance, which is bulk insurance purchased by financial institutions for their portfolios of uninsured mortgages.

The numbers unveiled Tuesday offer a window into the impact of the government's new rules, suggesting they have led to a significant decline in the number of people qualifying for insured mortgages under the tougher standards. Among the changes announced in October, the federal government increased "stress testing" standards for people taking out fixed-rate loans of five years or more to ensure they could still afford their mortgages at higher interest rates than they are currently paying.

CMHC said it insured 48,746 housing units in the first quarter, down 41 per cent from 82,834 units in the same period last year. Homeowners insured 18,624 units with CMHC in the quarter, a 23-per-cent drop from 24,162 units last year, while institutions bought portfolio insurance for just 4,662 units, down 87 per cent from 36,690 units last year, after CMHC hiked premiums on that insurance category.

The declines were somewhat offset by increases in insurance volumes for multi-unit residential buildings, such as apartment buildings, where the number of units insured rose by 16 per cent to 25,460 from 21,982 last year.

The total value of new loans insured in the first quarter dropped 42 per cent to $8.3-billion from $14.3-billion last year, CMHC said. The Crown corporation's total portfolio of insurance-in-force stood at $502-billion as of March 31, down 2 per cent from $512-billion at the end of December, 2016.

Portfolio insurance for financial institutions, which took the biggest hit in the first quarter, was impacted by new federal rules last fall that restricted the types of mortgages eligible to be insured. Lenders can no longer insure mortgages on homes with a purchase price over $1-million, for example, and cannot insure mortgages on homes that are purchased for rental or as investments.

Steven Mennill, CMHC's senior vice-president of insurance, said most of the drop in demand for portfolio insurance in the first quarter was the result of a premium hike CMHC introduced on Jan. 1 because of new capital requirements for mortgage insurers that were introduced by Canada's financial regulator.

Mr. Mennill said CMHC doesn't know yet whether the drop in portfolio insurance signals a permanent shift in its business model, or whether demand for the insurance product will swing back again.

"It's not clear at this point whether either of these changes will be sustained over the long term," he said. "Portfolio insurance [demand] is largely a function of the overall sources of capital and liquidity and funding available to lenders in the system, which is affected by a wide range of factors. The cost of portfolio insurance is just one of them."

The declining insurance volumes led to an 8.1-per-cent drop in premiums and fees earned by

CMHC on new mortgage insurance written in the first quarter, but the agency posted a 2.4-per-cent increase in premiums and fees earned on its entire insurance portfolio.

CMHC reported its total revenue soared in the first quarter to $2.25-billion from $1.2-billion last year, while profit climbed to $370-million from $313-million.

Most of the increase in revenue is due to the federal government's rapid expansion to assisted housing programs under the National Housing Strategy, which is aimed at expanding affordable and assisted housing programs in communities across the country. The Trudeau government announced new federal investments of $11.2-billion over 11 years in its 2017 budget, on top of other spending under the strategy.

CMHC is delivering much of the spending under the program, but the money is passing through the agency and is not revenue it is earning from business activity. CMHC chief financial officer Wojo Zielonka said the organization still anticipates that mortgage insurance will account for a majority of its business going forward.

"As the national housing strategy rolls out, that is going to become more important as an activity, but in terms of relative size it is still going to be smaller than our insurance activity," he said.

CMHC has historically kept all the income it has earned as capital for its operations, but will start paying a dividend this year, reporting Tuesday it will transfer $145-million to federal government. Mr. Zielonka said CMHC also expects to declare a further one-time special dividend this year of excess capital.