

CMHC's Role in Canada's Credit Crisis Recovery

Think back to the fall of 2008 ... Banks failing ... credit getting tight ... the stock market crashing. Most of this was blamed on sub prime mortgages. What would you have thought if your pension manager or RRSP administrator had chosen that moment to invest your money into mortgages? You probably would have tried to have them arrested!

That's the dilemma that banks and mortgage lenders faced. For the most part, the money that Banks lend as mortgages is raised from investors' money in RRSP's, pensions and non-registered investments. ALL those investors were justifiably refusing to put any new money into mortgage investments. No money ... no new mortgages. No new mortgages and our housing industry would come to a complete halt ... prices would fall and foreclosures would begin to rise.

The solution ... the government of Canada expanded the role of CMHC to allow them to insure much larger numbers of mortgages. CMHC insurance protects the lender against a loss in the event the borrower fails to pay. Because CMHC is backed by the government, the lender is sure of recovering all funds. With that in place, investors can now allow their funds to be invested in mortgages safely. For a period of time, lenders were so careful about mortgages, that nearly all new mortgages were insured with CMHC, even mortgages that were for a small percentage of the value of the property. Naturally, this caused sharp increase in the number of mortgages insured.

Recognizing we were entering a recession, CMHC tightened the rules banks must follow for qualification, thus avoiding much of the trouble facing the USA, where loose lending practices were a big factor in triggering the whole mess.

The result? Today we have strong solvent banks, relatively low mortgage delinquency and a housing market that has cooled down without destroying millions of people's lives and investments. Was it the right thing to do? Compare Canada to the rest of the world and the massive public bailouts that were necessary to save banks. CMHC's increased role suddenly looks like an awfully good alternative!

Elizabeth Prins

Mortgage Consultant

Mortgage Depot

250.475.1166