CMHC Mortgage Loan Insurance Overview

Mortgage loan insurance is typically required when homebuyers make a down payment of less than 20% of the purchase price. Mortgage loan insurance helps protect lenders against mortgage default, and enables consumers to purchase homes with a minimum down payment of 5%. In Canada, mortgage loan insurance is available from CMHC (a Crown corporation) and from private mortgage loan insurers and is backed by the Government of Canada. The Minister of Finance sets the parameters related to the government guarantee of mortgage loan insurance. Since government-backing applies to all insurers, CMHC and private sector insurers must operate within these parameters.

Since 1954, CMHC's role in providing mortgage loan insurance products and tools has helped shape Canada's housing market and has contributed to its stability in both good and bad economic times. CMHC provides qualified Canadian buyers across the country with better access to loans to help them meet their housing needs.

CMHC's mortgage loan insurance activity is comprised of transactional homeowner insurance (high ratio and low ratio homeowner mortgage loans), portfolio insurance and multi-unit residential insurance. Mandated to operate on a commercial basis, this activity is self-sustaining and does not receive funding, in whole or in part, from parliamentary appropriations. The premiums and fees it collects and interest it earns must cover related claims and other expenses and also provide a reasonable return to the Government.

Serving Gaps in the Marketplace

CMHC is the only insurer of loans for large multi-unit properties (greater than four units) including rental, nursing homes, and a significant percentage of our insured high ratio homeowner loans are in rural areas and smaller communities that are less served by the private sector.

Managing Within the Total Outstanding Insured Loans Limit

CMHC's insurance in-force has a legislated $600 billion limit. At the end of the second quarter of 2016, CMHC's total insurance-in-force was $523 billion; $3 billion lower than the insurance-in-force at year-end 2015. New loans insured were $41 billion, while estimated loan amortization and pay-downs were $44 billion.

DID YOU KNOW?

OVERVIEW OF CMHC'S INSURANCE-IN-FORCE[1]

Average amortization period at origination (transactional homeowner)	26.7 years
Average insured loan amount	$174,163
Average loan-to-value (LTV) based on updated property value[2] (transactional homeowner and portfolio)	53.2%
Average credit score at origination (transactional homeowner)	734
Average borrower GDS (transactional homeowner)	23.7%

[1] Overall, for all insurance products, unless otherwise noted.

[2] LTV calculated on the basis of updated property values reflecting changes in local resale prices.

More information on CMHC's insurance-in-force is available in CMHC's most recent Quarterly Financial Report (as at June 30, 2016).

Ensuring Overall Portfolio Quality

CMHC is able to positively influence the functioning of the residential mortgage market by implementing stringent underwriting standards and promoting consistency, quality assurance, fairness and due diligence across the lending industry.

All applications for insurance are initially reviewed and assessed by lenders prior to submission to CMHC. Upon receipt of an application for mortgage loan insurance, CMHC assesses the risks presented by the borrower, property, market in which the property is located, and the application as a whole. Key borrower risk factors include the level and source of down payment and stringent credit requirements that demonstrate the borrower's ability to manage financial obligations.

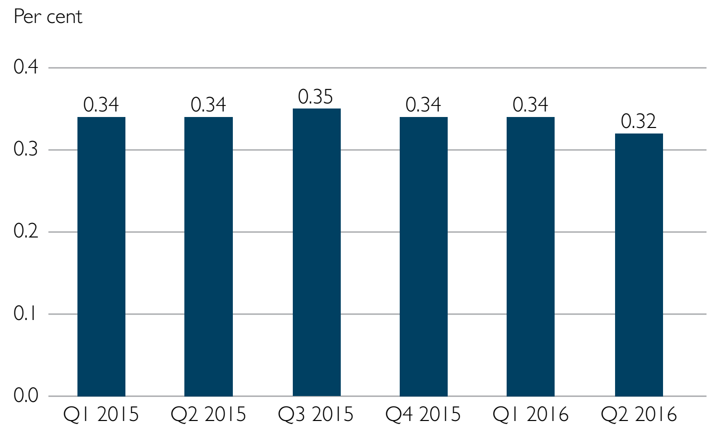
Arrears and Claims Paid

The profile of CMHC's insurance-in-force demonstrates the nature and level of risk associated with the Corporation's mortgage loan insurance business. As at 30 June 2016, the rate of arrears (loans that are more than 90 days past due over the number of outstanding insured loans) was 0.32%, a decrease from year-end 2015. With respect to transactional homeowner, portfolio and multi-unit residential arrears rate, there was a decrease from year-end primarily due to the number of delinquent loans.

It is important to note that not all mortgages in arrears result in a claim to CMHC, as lenders are required to work with borrowers who are experiencing difficulty to help bring their mortgage back into good standing and resume regular payments.

Claims paid during the second quarter of 2016 totalled $91 million, an increase of $2 million (2.3%) from the same quarter last year primarily due to the transactional homeowner product. There was an increase in payments related to the new claims payment process where claims are paid based on gross dollar values and are occurring earlier when compared to the same quarter last year.

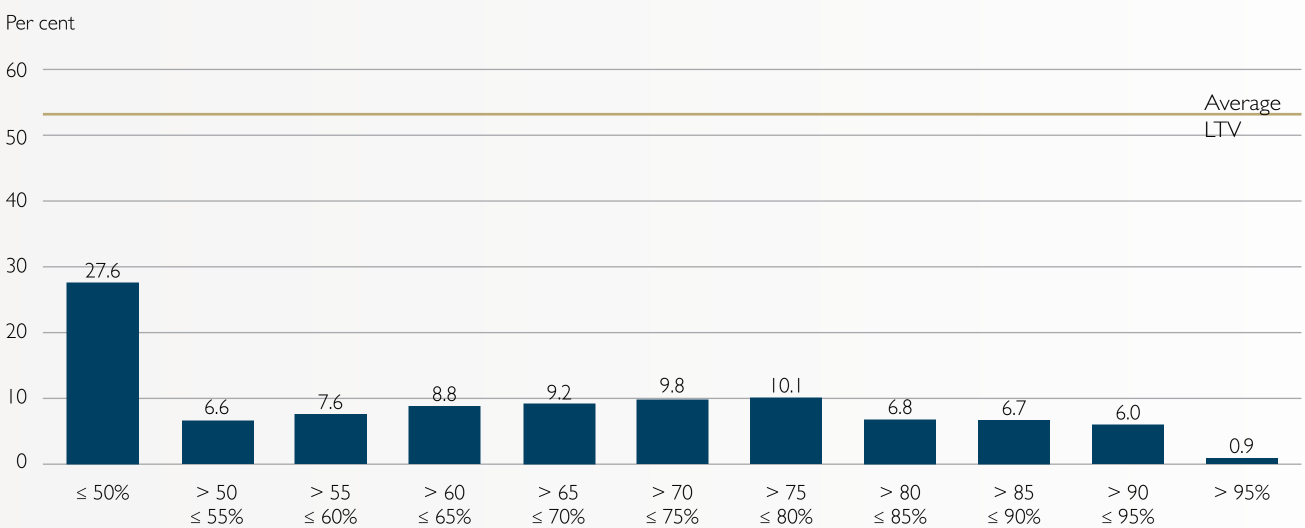
CMHC Arrears Rates (%)



Distribution of CMHC's Insurance-in-Force

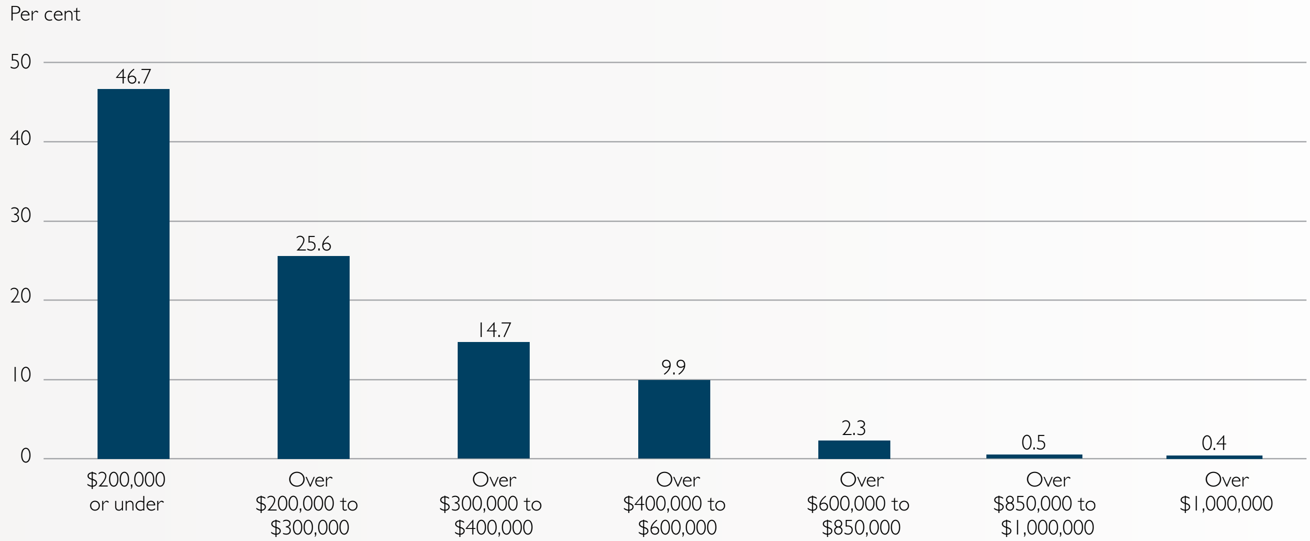
Below, you will find information about various characteristics of CMHC's mortgage loan insurance in force, as reported in CMHC's most recent Mortgage Loan Insurance Business Supplement (as at 30 June 2016).

Distribution of Transactional Homeowner and Portfolio Insurance-in-Force by Loan-to-Value (LTV) Ratio Based on Updated Property Values[1] (%)



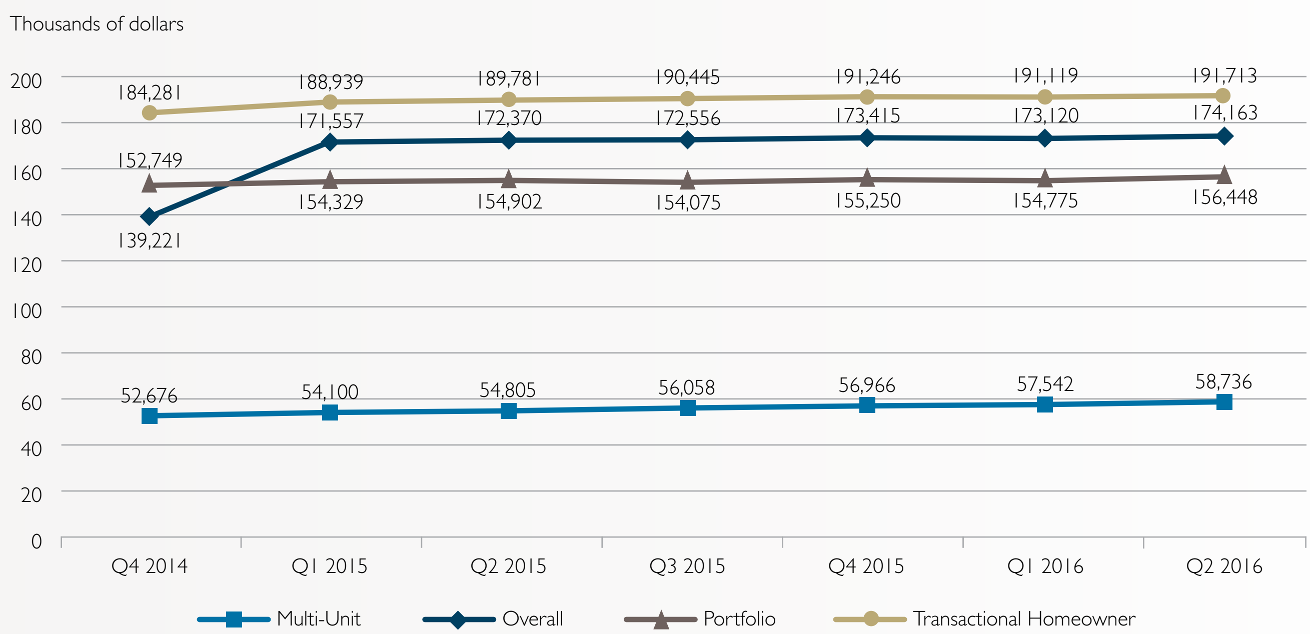
[1] LTV calculated on the basis of updated property values reflecting changes in local resale prices.

Distribution of Insurance-in-Force by Outstanding Loan Amount[2] (%)

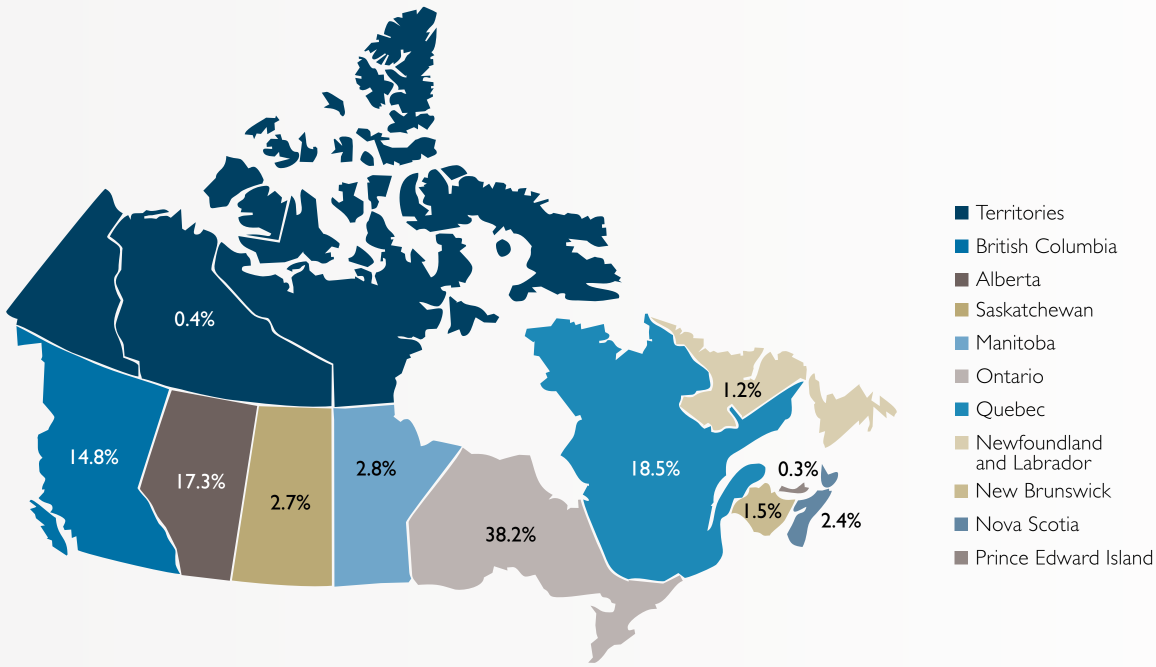


[2] Distribution based on units.

Average outstanding loan amount ($)

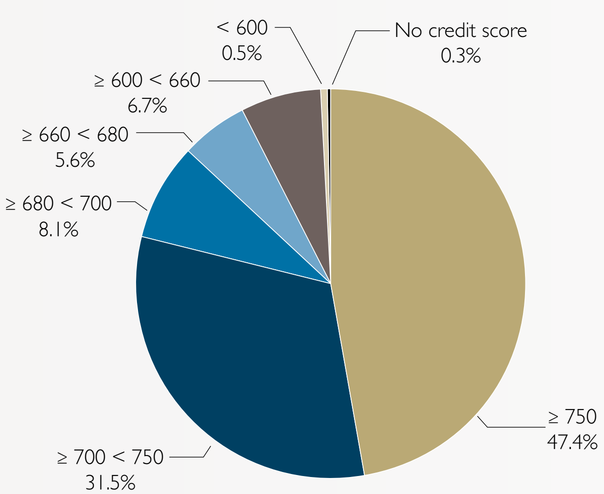


Distribution of Insurance-in-Force by Province/Territory[3]

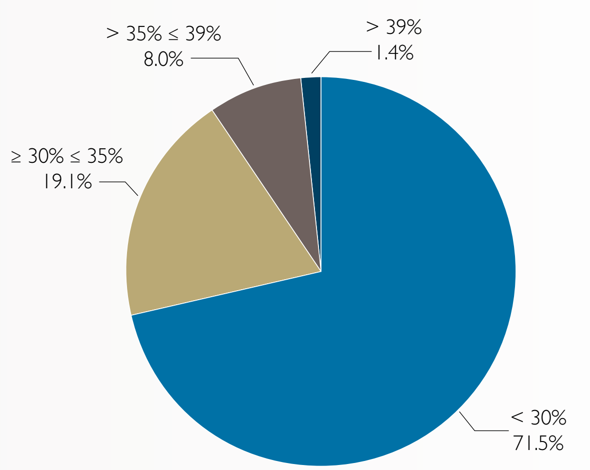


[3] Distribution based on dollars, not number of loans.

Distribution of Transactional Homeowner Insurance-in-Force by Credit Score at Origination



Distribution of Transactional Homeowner Insurance-in-Force by Gross Debt Service Ratios[4]



[4] Distribution based on loan amounts, not number of loans.