Impact of COVID-19 on Canada's Housing System and Financial Stability

CMHC President's Update, 19 May 2020

The combination of higher mortgage debt, declining house prices and increased unemployment is cause for concern for Canada's longer-term financial stability.

J. David Hulchanski, University of Toronto

22 May 2020

What might happen to Canada’s Housing System? It is not pretty.

CMHC’s President appeared before the Housing of Commons Standing Committee on Finance on May 19. He noted that the following are happening *while* household debt in Canada is among the highest compared to similar Western nations.

- historically high unemployment and long term job loss
- high mortgage debt
- high rates of mortgage payment deferrals
- declining house prices
- mortgage defaults
- major Mortgage Insurance Fund (MIF) bailouts
- insufficient supply of rental housing

Summary

- Average house prices: CMHC forecasts a decline of 9% to 18% in the coming 12 months
- Mortgage payment deferral option: 12% have; 20% might by Sept.
- Household debt as a ratio of gross household debt to GDP: was 100%; might rise to 130%
- Household debt as multiples of disposable income: was 175%; might rise to “well over” 200% in 2021
- Insured Mortgage Purchase Program: purchase up to $150 billion of insured mortgages
- Canada Emergency Commercial Rent Assistance for small businesses: 75% temporary rent reduction if landlords participate
- Promotion of homeownership: Housing demand is far easier to stimulate than supply and the result is ever-increasing prices.

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Speaking Notes for Evan Siddall

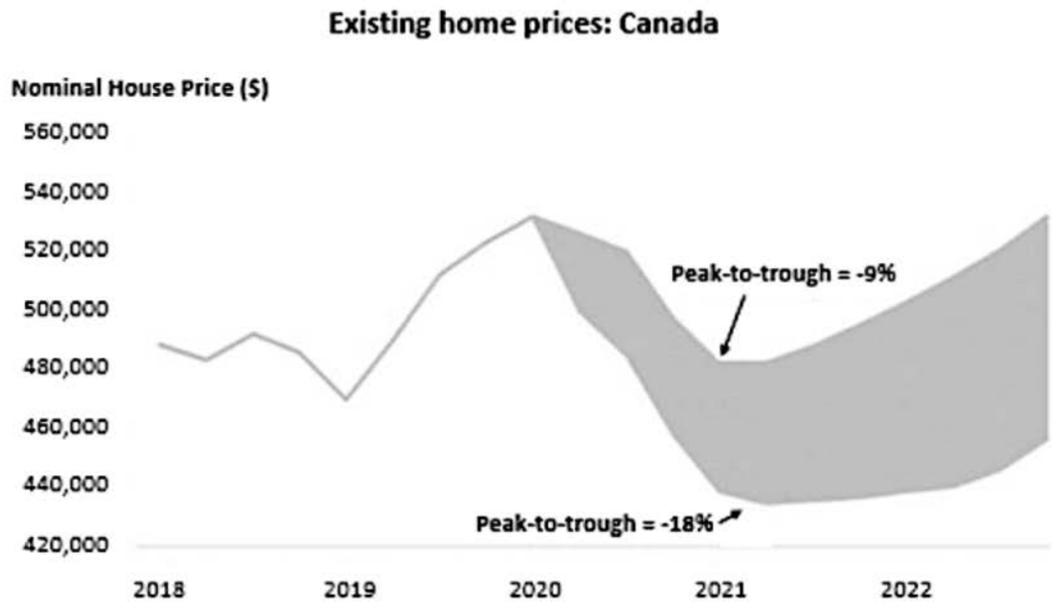
Standing Committee on Finance

https://www.cmhc-schl.gc.ca/en/media-newsroom/speeches/2020/supporting-financial-stability-during-covid19-pandemic

Testimony of the President of CMHC, House of Commons, Standing Committee on Finance, 19 May 2020.
https://parlvu.parl.gc.ca/Harmony/en/PowerBrowser/PowerBrowserV2/20200519/-1/33255?Language=English&Stream=Video

House Price Forecast

Down 9-18% peak to trough



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Falling House Prices = Defaults harming owners and taxpayers

- "We feel we need to avoid exposing young people (and through CMHC, Canadian taxpayers) to the amplified losses that result from falling house prices. Unless we act, a first time homebuyer purchasing a $300,000 home with a 5 per cent down payment stands to lose over $45,000 on their $15,000 investment if prices fall by 10 per cent. (Our calculations include the mortgage insurance premium and the costs of selling the home if forced to do so because of unemployment or any other reason.) In comparison, a 10 per cent down payment offers more of a cushion against possible losses.
- "If there is an insurance claim, CMHC will be called upon to cover these losses. We are therefore evaluating whether we should change our underwriting policies in light of these market conditions.
- "Our support for homeownership cannot be unlimited. Homeownership is like blood pressure: you can have too much of it. Housing demand is far easier to stimulate than supply and the result, as we've seen, is Economics 101: ever-increasing prices. So if housing affordability is our aim, as surely it must be, then there must be a limit to the demand we help to create, especially when supply isn't keeping up.

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Accelerate the supply of rental housing

- “In addition to restraining our underwriting practices to limit excessive borrowing, we must also take decisive, urgent action to accelerate the supply of rental housing.
- “CMHC has already taken steps to accelerate the delivery of funding under the National Housing Strategy, which is very much focused on creating more affordable rental housing for Canadians.
- “The federal government is contributing *[mainly loans for expensive private sector rentals]* billions of dollars to housing, along with provinces and territories.
- “Municipalities can continue to help by accelerating affordable housing approvals, contributing land and/or waiving fees and taxes to support the development of affordable housing — as well as revising property tax regimes through a lens of impacts on housing affordability.

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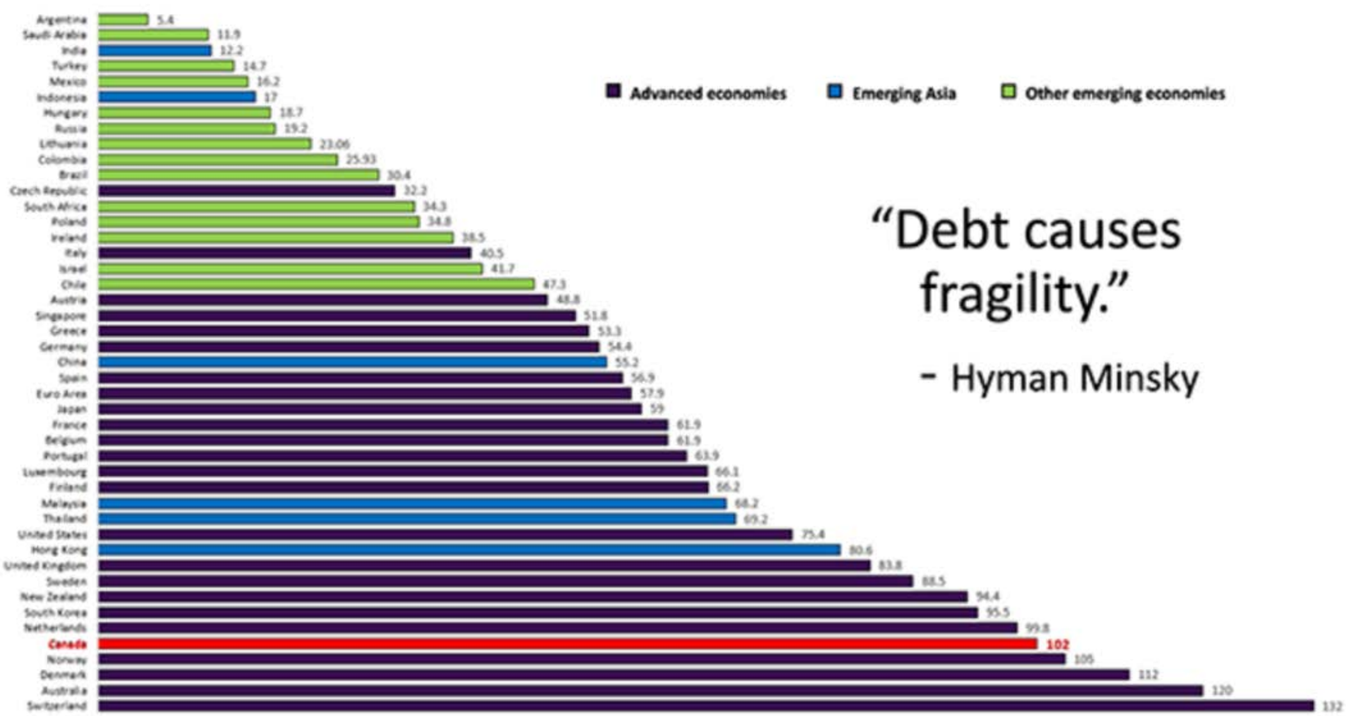
Household debt as percentage of GDP

As of December 2019



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Very High Household Debt

- "However, as the Committee is no doubt aware, almost everything we have done in response to the crisis involves borrowing. Just as governments are taking on more debt to finance the COVID-19 response, mortgage deferrals are adding to already historic levels of household indebtedness.
- "Canadians are among world leaders in household debt. Pre-COVID, the ratio of gross debt to GDP for Canada was at 99 per cent. Due in part to increased borrowing but even more so to declines in GDP, we estimate it will increase to above 115 per cent in Q2 2020 and reach 130 per cent in Q3, before declining. These ratios are well in excess of the 80 per cent threshold above which the Bank for International Settlements has shown that national debt intensifies the drag on GDP growth.
- "Looking at debt multiples of disposable income, that measure will climb from 176 per cent in late 2019 to well over 200 per cent through 2021. Moreover, CMHC is now forecasting a decline in average house prices of 9 – 18 per cent in the coming 12 months. The resulting combination of higher mortgage debt, declining house prices and increased unemployment is cause for concern for Canada's longer-term financial stability.

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Mortgage Deferral: 12% have; 20% by Sept

- “In addition, we acted quickly to help Canadians who are having difficulty paying their mortgages or rent due to income loss because of COVID-19. In co-ordination with private mortgage insurers, we are offering temporary deferral of mortgage payments for up to six months. We estimate that 12 per cent of mortgage holders have elected to defer payments so far, and that figure could reach nearly 20 per cent by September.
- “The same mortgage deferral relief is available to our multi-unit clients in order to facilitate rent relief for their lower-income tenants. And we have taken steps to ensure that non-profit and co-operative housing providers continue to receive federal rent subsidies for low-income tenants, even if their current agreements with us have expired. In both cases, we have insisted that recipients of federal support refrain from evictions during the crisis.

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Homeownership: $340,000 tax free capital gain over 20 years offset by $300,000 additional household debt

- “People believe that owning a home is essential for retirement savings. Indeed, over the past 20 years, the average Canadian homeowner has had a tax-free gain of $340,000 in the value of their home. That sounds great, until we add in the fact that $300,000 of that gain has been created by increased borrowing. These house prices and debt levels are increasingly out of reach for young people. Homeownership actually tends to be lower in countries with higher incomes.


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Mortgage Debt "Deferral Cliff" – when still unemployed owners must begin paying the mortgage again; perhaps 20%+ of all mortgages will be in arrears

- "A team is at work within CMHC to help manage a growing debt "deferral cliff" that looms in the fall, when some unemployed people will need to start paying their mortgages again. As much as one fifth of all mortgages could be in arrears if our economy has not recovered sufficiently."

Province/Territory (Share of Total IIF and Total Deferrals)

P/T	Deferrals	IIF
NL	2.0	1.2
PE	0.0	0.3
NS	3.0	2.7
NB	5.0	1.6
QC	27.0	21.6
ON	21.0	34.8
MB	4.0	3.2
SK	5.0	2.9
AB	26.0	18.2
BC	7.0	13.2
Territories		0.4

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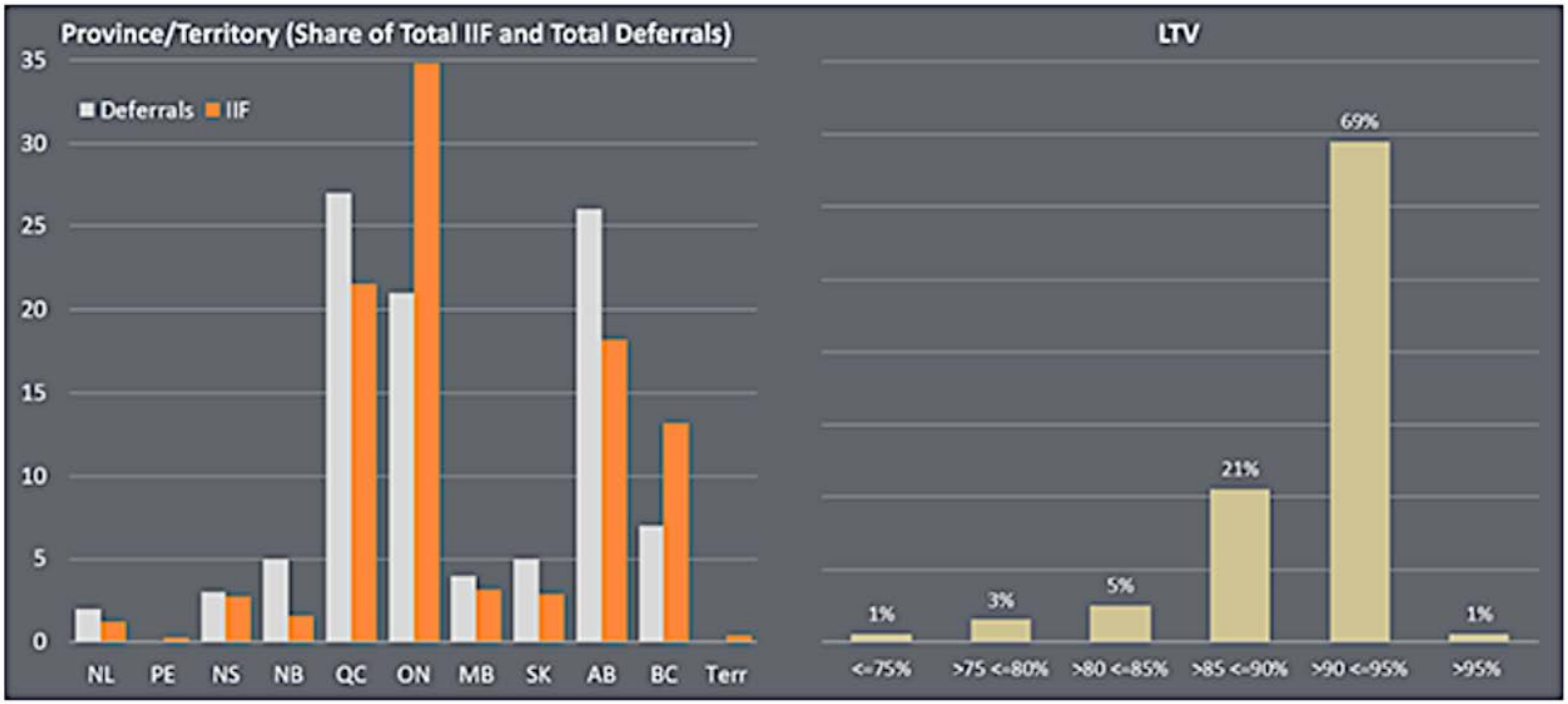
Emerging Mortgage "Deferral Cliff"



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Relaunched Insured Mortgage Purchase Program

- Early in the crisis, in co-ordinated action with the Bank of Canada and the Department of Finance, we relaunched the Insured Mortgage Purchase Program. This tool helps ensure that banks have access to reliable term funding so they can continue their lending activities and housing markets remain functional.
- Under the current revised program, we stand ready to purchase up to $150 billion of insured mortgages. We are also prepared to expand the issuance of conventional securitization programs, as needed.

Bank Liquidity Measures

IMPP is priced vs. market alternatives and to benefit smaller lenders.

Program	IMPP	NHS MBS	CMB	Covered Bonds (USD)	Covered Bonds (EURO)	BOC 2YR Repo	Deposit Notes (CAD)
Funding Cost Comparison							
Term	5	5	5	5	5	2	5
All-in Funding Cost (w/o Portfolio Insurance)	1.46% - 1.63%	1.27% - 1.49%	1.29% - 1.30%	1.66%	1.63%	0.63%	2.15%
All-in Funding Cost (w/Portfolio Insurance)	1.71% - 1.88%	1.52% - 1.74%	1.54% - 1.55%	1.66%	1.63%	0.63%	2.15%

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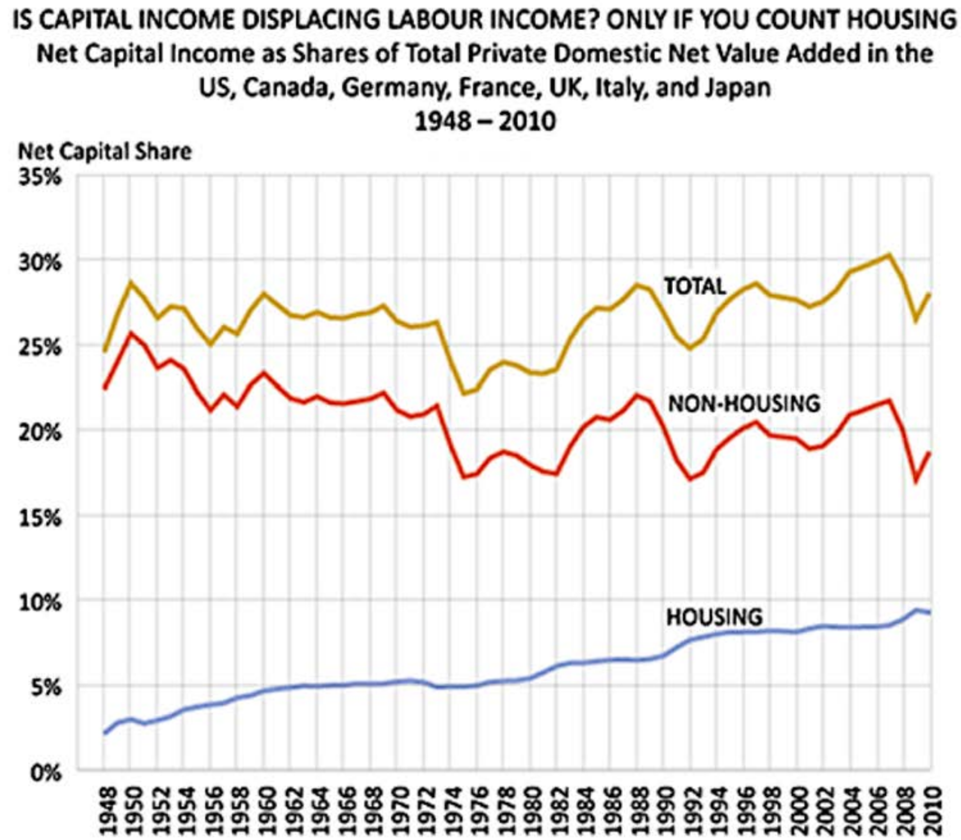
Housing's Haves and Have-nots



Is Capital Income displacing labour income? Only if you count housing
Net Capital Income as Shares of Total Private Domestic Net Value Added in the US, Canada, Germany, France, UK, Italy, and Japan - 1948 – 2010
Chart shows that housing accounts for a growing portion of Net Capital Income in the U.S., Canada, Germany, France, the U.K., Italy and Japan.

Source: Matthew Rognlie, "Deciphering the Fall and Rise in the Net Capital Share," Brookings Papers on Economic Activity, Spring 2015

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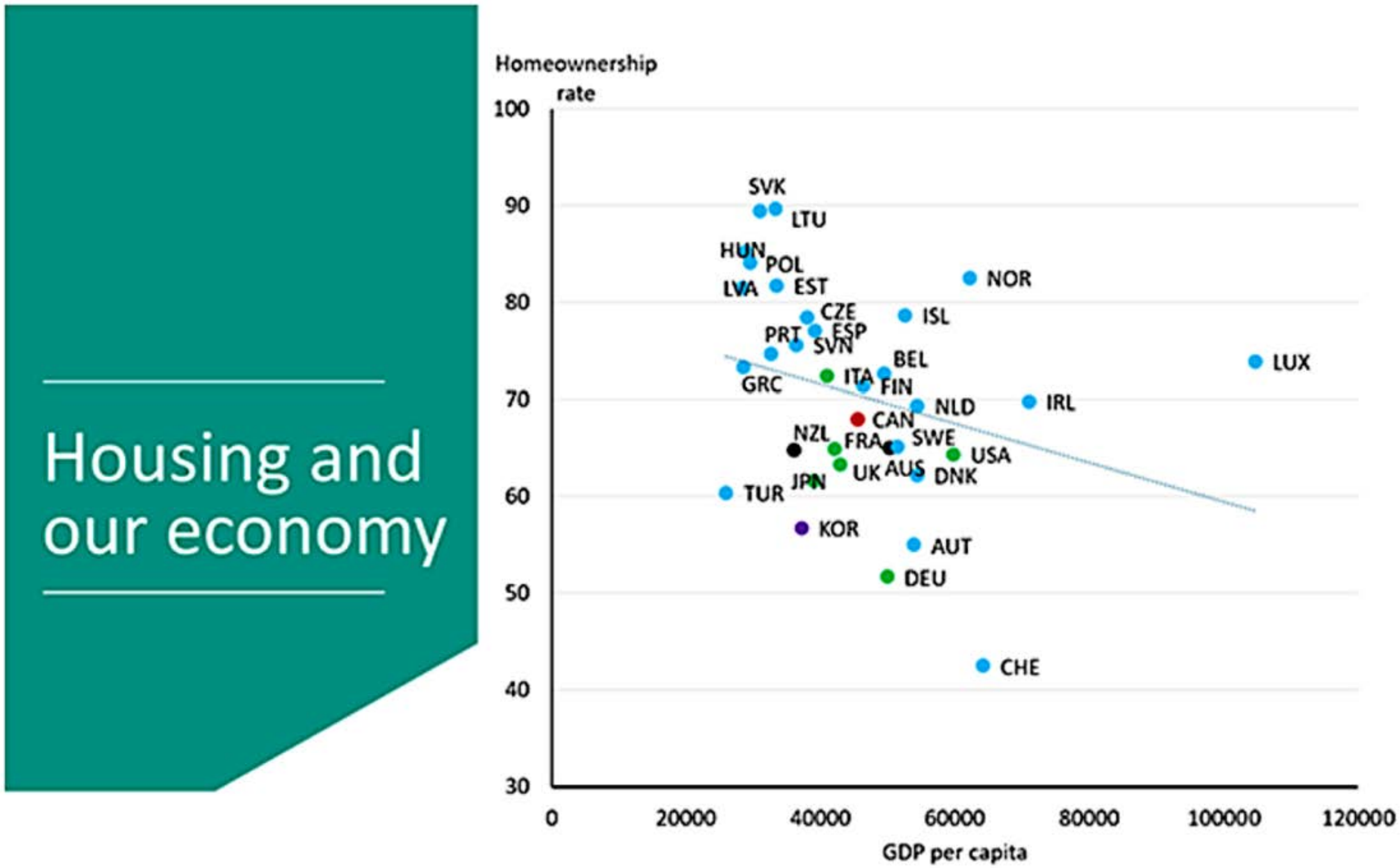
Housing and Our Economy



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Canada Emergency Commercial Rent Assistance

- “Most recently, the Prime Minister announced that CMHC will administer the Canada Emergency Commercial Rent Assistance for small businesses. The program will lower rent by 75 per cent for small businesses affected by COVID-19. While the program is not housing related, we are pleased to use our real estate expertise to help struggling entrepreneurs.

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CMHC Expands Insured Mortgage Purchase Program

Ottawa, March 26, 2020

The Government of Canada is expanding its revised Insured Mortgage Purchase Program (IMPP) to further bolster the financial system and the Canadian economy. This expansion is part of a suite of measures passed in the Emergency Response Act.

As a result of additional authorities granted by the Minister of Finance, the government stands ready to purchase up to $150 billion of insured mortgage pools through CMHC, an increase of $100 billion from the $50 billion announced on March 16, 2020. This action will expand the stable funding available to banks and mortgage lenders in order to ensure continued lending to Canadian consumers and businesses.

Details for the Purchase Operations are available online. In addition to the access to liquidity provided through the IMPP, CMHC is also ready to expand the issuance of Canada Mortgage Bonds, which is part of our standard mortgage-funding suite of products, to a total annual issuance amount of up to $60 billion. This additional issuance would depend on market conditions and investor demand.

NHA MBS Purchase Operation Call for Purchase Offers

	May	June
Purchase Operation Date	May 21, 2020	TBD
Settlement Date	May 28, 2020	TBD
Term	5-year fixed	TBD
Maturity Date	May 15, 2025	TBD
Monthly Purchase Amount	Up to $20B	TBD
Final Purchase Amount	$0	TBD
Yield	1.148%	TBD

*This is a tentative schedule. CMHC reserves the right to change the details provided above.

COVID-19: What does the IMPP Emergency Measure do?

April 14, 2020

We are facing an unprecedented challenge because of the COVID-19 outbreak. Everyone in Canada has felt the impact — from individuals and businesses to our economy. Many of us are facing financial hardship as a result.

The Government of Canada is taking action to help people living in Canada directly impacted by the COVID-19 outbreak. It is also taking important steps to support and stabilize the economy and financial system with programs like the Insured Mortgage Purchase Program (IMPP).

What is the IMPP?

The IMPP is an emergency program. It allows CMHC to purchase up to $150 billion of insured mortgages pooled into *National Housing Act Mortgage Backed Securities (NHA MBS)* directly from financial institutions. This provides financial institutions with funding so that they can continue to offer loans to businesses and Canadians that may require access to credit during the COVID-19 crisis.

Note: We are buying insured mortgages that are pooled into securities that carry guarantees from CMHC. This means there's no additional risk to taxpayers or CMHC.

Can you access the IMPP?

The IMPP is not a program that you — a homeowner in Canada — can access directly.

The measure has been put in place to ensure your financial institutions can continue to serve you — as a consumer or business owner who may need access to credit — during the COVID pandemic. This provides confidence in the 'whole of government approach' to stabilize our financial system and ensure banks can continue to offer loans.