



FINANCIAL FACTS

The evolution of mortgage lending in Canada

Evolution Timeline

Prior to 1935, 5-year term mortgages were the norm. Loan payments were usually made once or twice a year. Quarterly payments were possible, but rather uncommon. These payments had two components, token principal and accrued interest.

Institutional lenders, such as life insurance, loan, and trust companies, were restricted by statute to lend up to 60 per cent of the lending value of the property. Consequently, the average loan ratio in practice was about 50 per cent.

Banks were not allowed to invest in mortgages because they were chartered to meet the borrowing needs of the business community.

The Dominion Housing Act of 1935 was Canada's first major piece of housing and through economic leveraging, accelerate the recovery from the Great Depression. Under the Act, the minimum down payment was cut by one-half from 40 per cent to 20 per cent. The term of the loan was doubled from 5 to 10 years, coupled with a right of the borrower to renew the mortgage for a further 10 years. Blended equal monthly payments of interest and principal were provided under the

legislation, therefore establishing amortizing mortgages as the benchmark.

Joint Public-Private Lending was established under the Dominion Housing Act of 1935. Non-bank, federally-regulated financial institutions were authorized to make loans on new residential dwellings, jointly with the federal government, up to 80 per cent of the lending value.

CMHC was created in 1946 as the administrator of the joint loans and other new federal housing initiatives.

By the early 1950s, the renewable 10-year loan term was replaced with the longer 30-year loan term. This eliminated the need to renew the loan before it was paid off. The borrower was given the right to repay the loan in full on the third or any subsequent anniversary date of the loan.

Banks needed to be brought into the mortgage market. The federal role in housing finance also had to continue without requiring direct or indirect public funds. The answer: CMHC-insured financing. The federal government provided mortgage default insurance through CMHC on a self-financing basis.

CMHC insurance compensated the lender for default losses. This made mortgages with less borrower equity as

safe as those with more. Together with a change in the Bank Act, CMHC insurance expanded the supply of funds by enabling banks to make CMHC-insured mortgages. In addition, pension funds, individuals and others could invest in CMHC-insured mortgages.

Before the 1970s, mortgages behaved like a residual investment. More funds were available to finance house-building when the demand for business loans decreased during an economic slowdown, and the opposite was also true. The integration of the mortgage market with the larger capital market was achieved by using CMHC-insured financing to lever a change from fixed-rate mortgages to a more market-driven renewable-rate regime. The CMHC interest-rate ceiling was also removed and the Bank Act amended to allow banks to make uninsured mortgages.

From a market share of less than 1 per cent in the mid 1960s, banks' share of the mortgage business grew to over 30 per cent in the early 1980s. Banks' share of the mortgage business doubled over the next 20 years, reaching 62 per cent by the end of 2000.

*Taken from the speech "The Canadian System of Housing Finance: Past, Present and Future," delivered by Jean-Claude Villiard, President, Canada Mortgage and Housing Corporation, November 8, 2001.



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