



*Submission to the House of Commons Standing
Committee on Finance Concerning New Participants in
the Mortgage Insurance Business*

CREDIT UNION CENTRAL OF CANADA

- May 2006 -

Credit Union Central of Canada (Canadian Central) is writing to provide the House of Commons Standing Committee on Finance with a credit union system perspective on proposals set out in Bill C-13 that aim to open the mortgage insurance market to more private sector participants.

As you may know, Canadian Central is the national trade association for credit unions in Canada outside of Quebec. Through their ownership of Canadian Central, our 9 provincial credit union central members are able to provide their direct credit union members with national services that include the last tier of system liquidity, participation in the clearing and settlement of payment items through the Canadian Payments Association, participation in the INTERAC debit network and government relations.

The Canadian Central family of credit unions numbers 526, with nearly 1,800 locations. Together, they serve nearly 4.9 million members, and employ over 20,000 people. Altogether, these 526 credit unions serve 951 communities across Canada. In 330 smaller towns, credit unions are the only financial institution. Assets of the 526 credit unions total approximately \$87 billion.

It is our understanding that Part 9 of Bill C-13 aims to increase competition in the mortgage insurance market by allowing more private sector insurers to enter the market and receive the same guarantee facility that Genworth currently receives from the Federal Government.¹¹

Canadian Central has followed the Committee debate around this proposal. We appreciate that some Committee members have raised concerns that the Government of Canada has proposed these changes seemingly without adequate consultation with stakeholders and that Committee hearings around this proposal aim to remedy this

11. The proposed legislation, if passed, will allow the Minister to guarantee payment to holders of mortgages insured by Office of the Superintendent of Financial Institutions (OSFI) approved private insurers of an amount not more than 90% of the net claims of the holders of insured mortgages in the event of the insolvency or liquidation of a private insurer. This guarantee is to be subject to a cap of \$200,000,000,000 on the aggregate outstanding principal.

shortcoming. Canadian Central appreciates this opportunity to comment publicly on the proposed changes the mortgage insurance regime in Canada.

In principle, Canadian Central supports the Federal Government's efforts to introduce greater competition into the mortgage insurance market. Our reasons are twofold:

1. Canadian Central believes that greater competition in the market will, over time, boost product and process innovation in the mortgage insurance market and possibly lead to reduced premiums. This should benefit consumers in the long run and make housing more affordable for Canadians. The entrance of Genworth Financial into the market in 1995 is evidence that this is likely to happen as Genworth has been responsible for introducing many innovative products over the past few years and has pressured the CMHC to compete more effectively.
2. Canadian Central is also of the view that if the Federal Government is to make a guarantee facility available to a private sector insurer like Genworth then it is only appropriate that it make the same facilities available to other OSFI licensed mortgage insurance providers.

At previous Finance Committee hearings some Committee members have raised concerns that the proposed changes could be opening the Government of Canada to large liabilities if the Canadian real estate market unwinds and leaves some mortgage insurers insolvent. Canadian Central acknowledges these concerns, however, we base our support for the proposed changes on the understanding that OSFI will subject all future applicants to a vigorous approval process and that they will be subject to effective prudential regulation. As Committee members no doubt know, OSFI has a very strong record in terms of protecting the safety and soundness of Canadian financial institutions.

Having expressed support in principle for the government's proposals Canadian Central would like to make two further comments in regard to the mortgage insurance issue.

First of all, if it is the aim of the Federal Government to promote competition in the mortgage insurance sector it may, in the future, wish to reconsider the policy rationale for providing CMHC with a 100% guarantee on its mortgage insurance obligations while private insurers receive only a 90% guarantee. Canadian Central understands that CMHC's 100% guarantee flows out of international banking rules relating to Crown corporations, however, the 10% difference in guarantee levels likely makes it relatively more costly for private sector providers to compete in the market. If the Government intends to create a truly competitive mortgage insurance market it may wish to consider extending the 100% guarantee to private sector mortgage insurers.

Secondly, the Federal Government may wish to clarify how the proposals to open the mortgage insurance market found in C-13 relate to previous Department of Finance proposals that consider removing the statutory requirement for mortgage insurance on residential mortgages where the loan-to-value exceeds 75%. These proposals were found in Finance Canada's Consultation Document for the 2006 Review of Financial Institutions Legislation issued in March 2005.

To conclude this brief submission, Credit Union Central of Canada wishes to express its appreciation for the opportunity to provide comments to the House of Commons Standing Committee on Finance in regard to the proposed reforms to the mortgage insurance legislative framework. If you have questions please feel free to contact Hugh Scott, Director of Government Relations at Credit Union Central of Canada (613-238-6747 ext. 218) if you have any further questions.