

MORTGAGE NEWS



“The Canadian (Ontario) Real estate Market for the most part is solid and still appreciating although, at a slightly slower pace than previous years.”



We are pleased to announce a new contributor to our quarterly newsletter - Wayne Sudsbury President of Homeguard Funding Ltd. Wayne specializes in mortgage financing for self-employed and "stated income applicants". Wayne is embarking on his 30th year of independent mortgage practice he has also held positions as the past-president of IMBA - Independent Mortgage Brokers Association of Ontario. We are happy to be able to draw upon his years of experience in the mortgage field.

Recently we had an opportunity to talk with Wayne about the current status of the mortgage market and draw upon his years of experience to shed some light on the US Subprime and Asset Backed Commercial Paper (ABCPS) stressors. These were some of the valuable points raised in our discussion.

The Status of the Current Mortgage Market in Canada

The Canadian (Ontario) Real estate Market for the most part is solid and still appreciating although, at a slightly

slower pace than previous years. Some exceptions are Windsor, Chatham, Kent, and small rural villages in Ontario like Smiths falls. The growing concerns stem from the impact of the Canadian dollar on manufacturing based communities. Lay-offs pending at Hershey and others plants are creating longer marketing cycles, in the region of 180-365 days on point-of-sale real estate.

Evidence of this can be seen in the Durham/Oshawa area, where 1200 jobs at GM will be lost, with a further impact on 7,000 peripheral positions, may cause potential issues in market there.

Lenders are reporting on a broad based basis only marginally higher delinquency rates and well below acceptable standards considered healthy in marketplace.

Rates have come off at the Federal Reserve (the central bank in the US) and will likely continue to soften further throughout the remainder of the year, until volatility in the capital markets has set-

tled down. North of the border, the hawkish tone that once echoed in the halls of The Bank of Canada has subsided and been replaced with a cautious tone that could reflect an extended period of softening in the prime rate. The 'R word' – Recession, has been mentioned often by US executives and CEOs.

In many cases this can become a self-fulfilling prophecy and will further give reason for lower interest rates in the near and mid-term in order to stimulate commerce on both sides of the 49th. Sub-prime equivalent in the Canadian market (the high risk Canadian lenders otherwise known as Non Conforming Lenders) have suspended or modified their lending operations.

Companies like; MCAP Sub-prime, NBROOK and GMAC.RFC in particular, have had a major impact on the market given their 'loose' lending practices based on softer beacon scores which has effected the DBRS rated ABCPS marketplace creating liquidity problems. Companies such as Coven-tree are feeling the full brunt of the lack of liquidity, however, newly implemented solutions derived from the



“Consumers will have to become more reliant upon the mortgage brokerage industry professional to review their options and counsel borrower’s, taking into account all factors in reliable mortgage placement.”



Wayne Sudsbury
President, AMP, CPMB
Homeguard Funding
Ltd.

Chartered Banks emergency meetings are pending and the marketplace is likely creative enough to see itself through this period with solutions to commercial short term paper. These major banks have also shouldered much of the burden and have infused liquidity into this sector to create a sense of positive outcome.

Previously the pre-packaging of various short-term quality debt was, in part, a catalyst to the drying up of liquidity for these securities. With growing uncertainty in relation to the general debt quality of these pools few institutions ventured in acquiring a position in these assets and hence the liquidity crunch ensued. Subsequently, a strong call for sub-prime pools to be more closely defined has resulted and even the highly revered debt rating agencies like Dominion Bond Rating Service (DBRS) haven’t come away unscathed, with consensus calling for a higher degree of scrutiny on the ratings applied to ABCP and sub-prime pools. The eventual outcome will be downgrades and higher yields on ABCP. The resulting spread between prime and non-prime will likely grow, which will increase rates that the end consumer can expect on borrowing for their mortgage or commercial loans. These higher rates will be counteracted by the Mortgage Insurance industry’s fierce competition to grow market share.

Furthermore, there may be as many as 3 more insurers coming on stream in Canada in the next 12-18 months, which will lead to further competition and a benefit to the end consumer in the amount of premiums needing to be paid and the number of mortgage solutions for higher risk borrowers.

There are significant residuals in The Canadian Mortgage and Housing Corporation (CMHC) and Genworth as a result of insuring high risk lending, so clearly this will continue to be an area of concentration for insurers and lenders. The end result will be that more industry participants and a growing concentration on high risk lending.

Once the insurers wrap mortgage pools with insurance their ratings should go up and these products will become more palatable to the low credit risk marketplace. In the short-term, however, new mortgage banker companies may have some difficulty finding wholesale lines and investor equity until there is a clear resolution to the liquidity issue.

Consumers will have to become more reliant upon the mortgage brokerage industry professional to review their options and counsel borrower’s, taking into account all factors in reliable mortgage placement. There will be more opportunities for brokers and agents who are led by management teams that have experienced a down cycle or two in their careers.

There will be more opportunity for direct private investor mortgage placements as policies from lenders tighten on leverage to value (LTV) ratios, credit scores, debt servicing and geographic/marketability factors.

