

THE NEW MORTGAGE LANDSCAPE

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DISCLAIMER

- This presentation is speculative
- Circumstances can change at any time
- Don't shoot the messenger

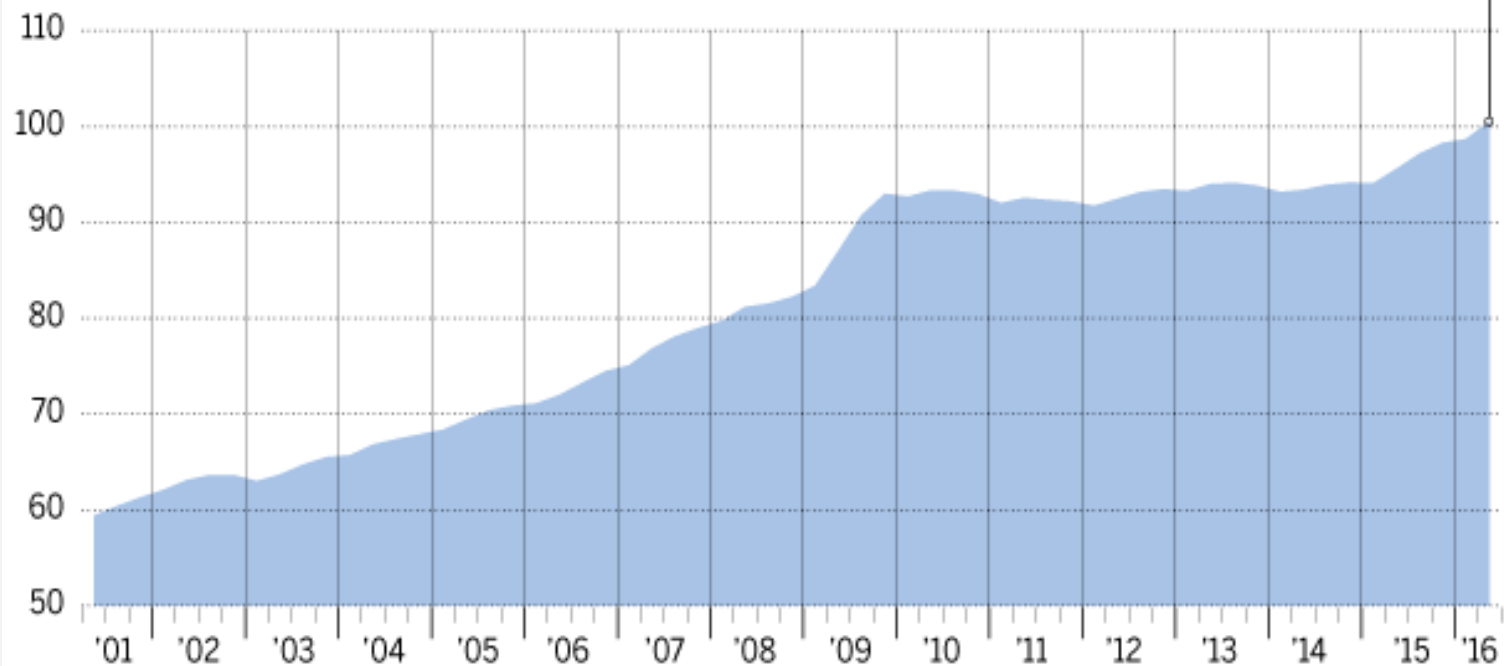
HIGH DEBT

BIGGER THAN THE ECONOMY

CANADA'S HOUSEHOLD DEBT NOW EXCEEDS ITS GDP

CANADA DEBT TO GDP RATIO

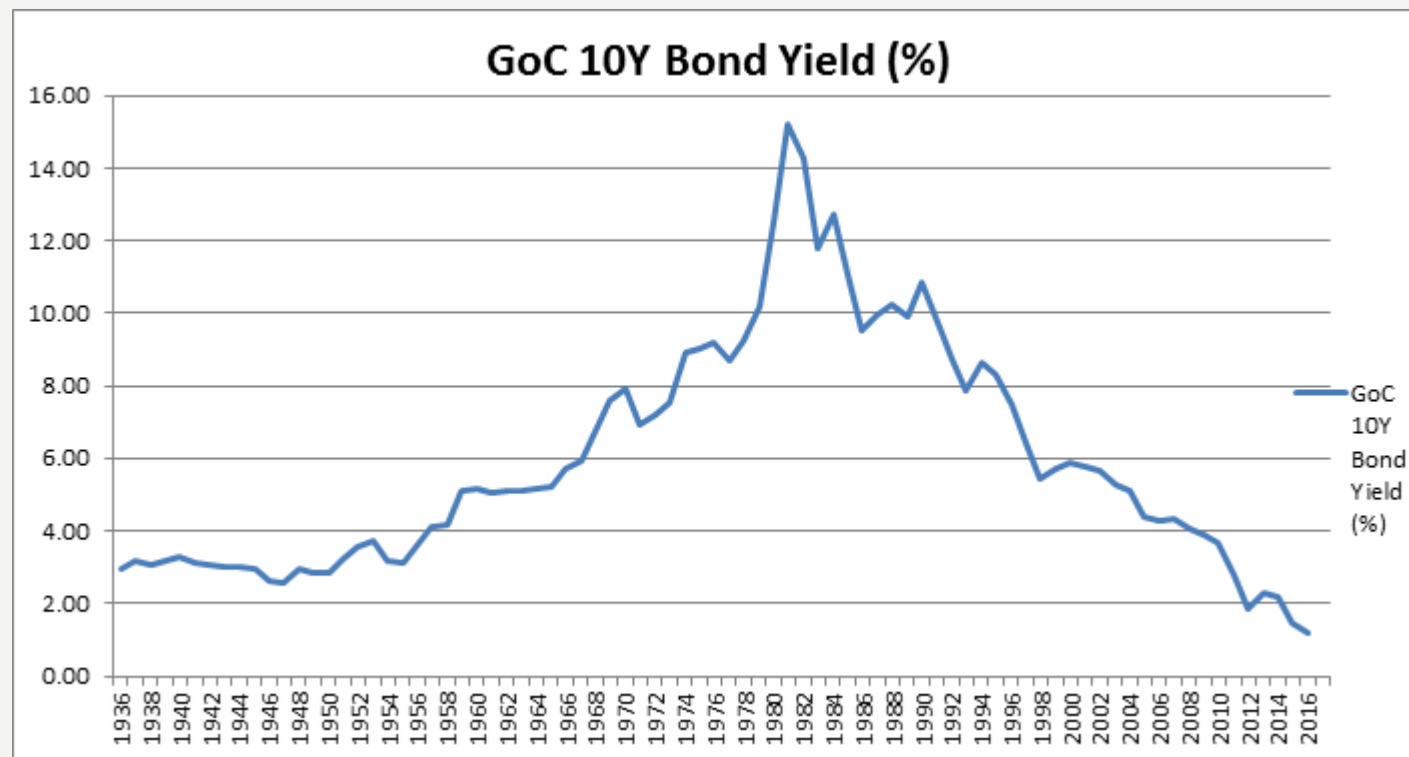
Q2 2016: 100.54



SOURCE: BLOOMBERG NEWS

NATIONAL POST

LOW RATES



NEW QUALIFYING RULES

- As of October 17th, the Bank of Canada qualification rate applies to all low-ratio insured mortgages
- Today (November 30th), it applies to all insured low-LTV as well

NEW QUALIFYING RULES

- Not unreasonable. No one wins if rates rise and people lose their houses
- If you were CMHC and on the hook for a loss, wouldn't you be worried?
- The government is trying to create stability. Instability isn't good for anyone
- This is a Canadian issue, not just Toronto and Vancouver's

NEW RISK RULES

- Effective today (November 30th), a wide array of mortgages are banned from being insured (including rental properties, refinances and multi-unit)
- This will have a disproportionate effect on non-deposit taking lenders
- Starting in January, OSFI is proposing that where housing prices are high relative to borrower income, more capital be allocated to mortgages (this includes Edmonton and Calgary)

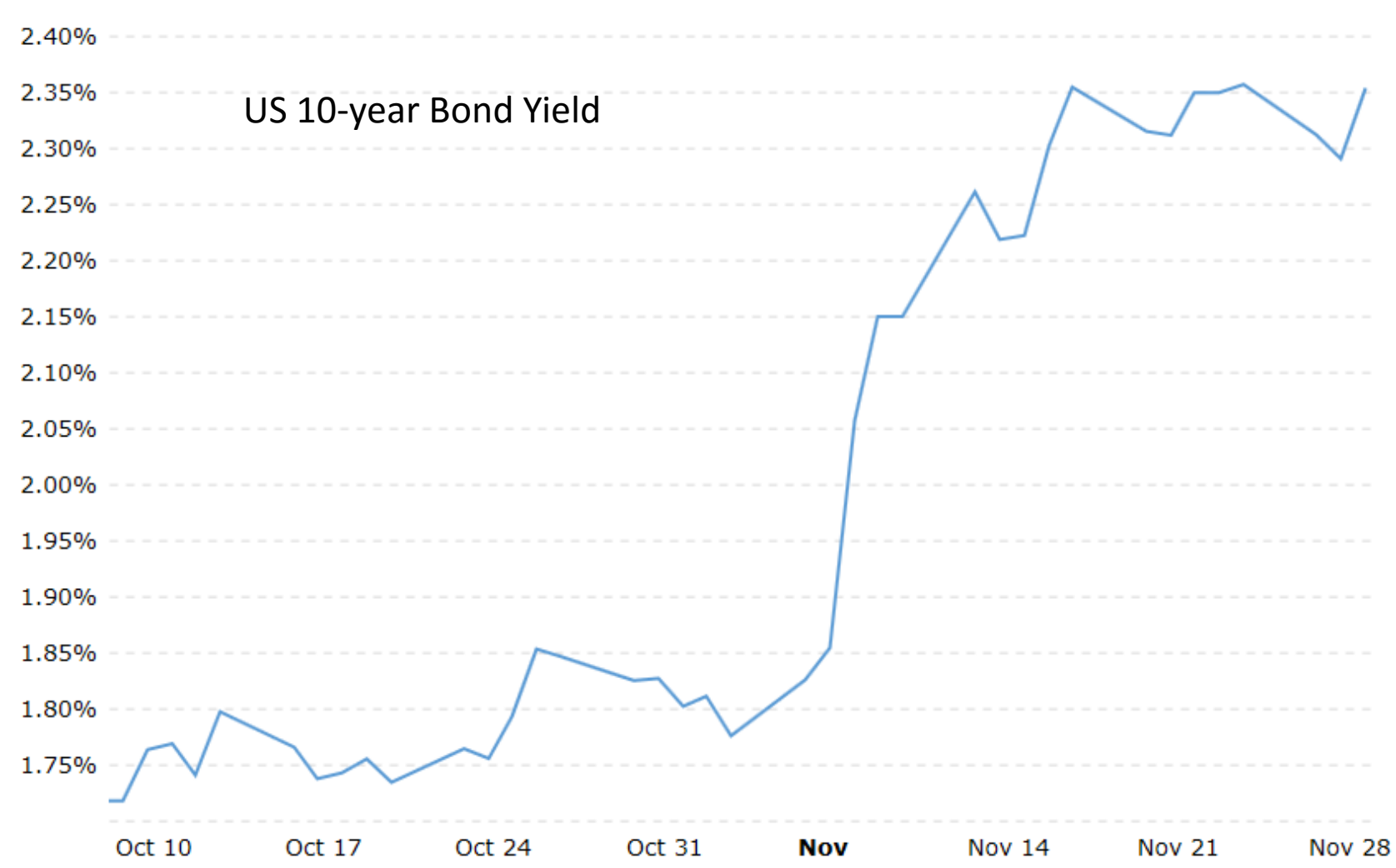
LOSS SHARING RULE

- Lenders may take the first 5% to 10% of any loss
- Still being worked on, likely to be implemented
- Will have a much greater impact than qualifying rules
- Origination for sale model will have a tough time
- Could affect things like rural lending

THE TRUMP EFFECT



THE TRUMP EFFECT



TAKE A MOMENT TO BREATHE



WHAT DOES IT MEAN?

- Housing is likely to slow
- Unlikely it will trigger a collapse
- The next few years' rate environment will be uncharted territory
- Some good news: CMHC projects modest growth in 2017 for Edmonton, despite the changes

WHAT TO EXPECT

- Despite lower profile, new risk rules and loss sharing likely to have a larger impact than qualification rules
- Cost of mortgage likely to rise
- Some lending models (see: origination for sale) will struggle
- New models may emerge
- Bank of Canada rate will remain the same, possibly even drop

WHAT CAN YOU DO?

- Get a pre-approval with a big bank to hedge against rising rates
- Shop competitively once you have an offer in place
- This is not the time to gamble on rates
- Ensure you work with a mortgage professional who understands the shifting landscape
- Consider an early renewal or blend option on existing fixed-rate mortgages

FINAL COMMENTS

- While Government-backed mortgages are impacted, there may be some opportunity for Canada's private insurers (Genworth and Canada Guaranty) to innovate
- If Canadian mortgages are seen as an attractive investment relative to alternatives, the private market may step in to fill some of the voids left from the new rule changes



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