

## **Securitization Available for Canadian Uninsured Conventional Residential Mortgages?**

February 6, 2012 by [Peter Milligan](#)

At the American Securitization Forum annual conference last month, a panel discussed the future of U.S. mortgage finance. Following the 2007 financial crisis and the collapse in U.S. housing values, there has been a transfer of U.S. mortgage funding from private sources of capital to government sources. At a basic level, the panel discussion was about the prospects for the return of private (as opposed to government) risk capital to the U.S. mortgage funding market. There was very little optimism that this transformation would take place in the foreseeable future.

Although with less intensity and clarity, the same debate is under way in Canada. Last month, [CMHC announced limits](#) on the amount of portfolio mortgage insurance it will provide. Portfolio mortgage insurance is used by Canadian banks and other mortgage lenders to insure conventional residential mortgages. The use of portfolio mortgage insurance for mortgages that are otherwise very low on the risk scale has been encouraged because of the favourable capital treatment it gives to regulated financial institutions holding mortgages and because it is a requirement for access to the federal government sponsored residential mortgage securitization programs. Directly or indirectly, portfolio mortgage insurance has been used to transfer mortgage funding risk to the federal government. This risk transference will now be reduced.

If this channel of mortgage funding is reduced, will other channels open up? One question to be answered is whether uninsured conventional residential mortgages will again be privately securitized in Canada? Will credit rating agencies, which operate globally, be willing to isolate Canadian experience from their world-wide experience? Should they? Questions that will be answered in the next year or so.