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## **Standing Committee on Finance**

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**EVIDENCE**

**Wednesday, June 15, 2011**

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**Chair**

**Mr. James Rajotte**



## Standing Committee on Finance

Wednesday, June 15, 2011

• (1825)

[English]

**The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)):** I call this meeting to order.

Seeing as the time is very short, I think we should go right to the questions.

Perhaps we'll just have our witnesses introduce themselves first.

Ms. Pearse, would you and your colleague introduce yourselves?

**Ms. Jane Pearse (Director, Financial Institutions Division, Department of Finance):** I am Jane Pearse, and I am the director of the financial institutions division at the Department of Finance.

**Ms. Ling Wang (Executive Advisor, Financial Sector Policy Branch, Department of Finance):** I am Ling Wang, and I am the chief of the housing finance section at the financial institutions division at the Department of Finance.

**The Chair:** Thank you.

Ms. Nash will begin the questions. Please keep your answers as brief as possible. She has only five minutes.

Ms. Nash.

**Ms. Peggy Nash (Parkdale—High Park, NDP):** First of all, thank you for being here and waiting with uncertainty as to whether we were going to get to ask you questions.

My question about part 7 of the Budget Implementation Act is around the mortgage insurance. Why is this section needed, and why can't CMHC, which exists now, and is, as I understand it, a crown corporation, where Canadians have a window on its functioning...? It has steered us in good stead through the ups and downs of the market. What is it that CMHC cannot do that requires these private insurers to come in to perform this function for Canadians?

**Ms. Jane Pearse:** We have had a situation in Canada for a number of years now, probably back to the 1980s, where we've had private mortgage insurance offered within Canada. There was a decision to give CMHC a commercial mandate to offer mortgage insurance and to allow private mortgage insurers to enter the market. So a number of private mortgage insurers have entered the Canadian marketplace over the last 20 or 30 years.

This piece of legislation converts the existing contracts that exist between the government and each individual private mortgage insurer into a piece of legislation. It abrogates those existing outstanding contracts; rather, it brings those private mortgage insurers into a legislative framework. It will be clearer to Canadians

and clearer to the private mortgage insurers the framework that exists for them to do business in Canada. It doesn't alter the share of private mortgage insurance offered in Canada vis-à-vis the public or of CMHC mortgage insurance. Currently there is a sharing of that mortgage insurance pie, if you will, between CMHC and the private mortgage insurers.

So it doesn't alter that distribution; it just pulls the existing private contracts into a piece of legislation.

**Ms. Peggy Nash:** But some specific companies are named here. Are they the only private companies that...?

You're saying that in effect this is no change. It's codifying what already takes place.

**Ms. Jane Pearse:** Yes.

**Ms. Peggy Nash:** Are these the only two companies, or three companies, that are—

**Ms. Jane Pearse:** There are actually more companies named in this piece of legislation than currently are offering business as private mortgage insurers in Canada. A contract had been written in the past, and this section of the legislation makes sure that all of the contracts that have ever been written are abrogated.

There are currently two companies that are offering private mortgage insurance in Canada.

**Ms. Peggy Nash:** What are the two companies?

**Ms. Jane Pearse:** One is Genworth Canada and the other is Canada Guaranty.

**Ms. Peggy Nash:** Okay. They're the ones that are named here, under the interpretation.

What kind of liability would Canadians have for the operations of these private insurers? As I understand it, they're American-based. What liability would Canadians have for their operations should there be an overextension of insurance operated by these companies?

• (1830)

**Ms. Jane Pearse:** The government, as part of this legislation, will be offering a 90% guarantee to backstop the failure. If there were to be a failure in a private mortgage insurer, the government would provide a 90% backstop for the mortgage insurance that had been guaranteed by that company. That would be the outstanding liability.

To back that liability, the government, through the Office of the Superintendent of Financial Institutions, requires every financial institution in Canada to hold capital against its risks. That capital is required from the private mortgage insurers.

In addition, this legislation provides for the Minister of Finance to require an additional layer of capital to be held by the private mortgage insurers that recognizes explicitly the guarantee the government is providing.

So there are a number of different layers of protection, if you will, or buffers. There is never a guarantee, but it would provide buffers so that if that financial institution were under pressure from the market, it would have that level of capital to eat through, effectively, before it went into failure.

**The Chair:** As chair I will just say that unless there's unanimous consent, we are obligated to suspend, because the bells have started ringing.

I'm seeking guidance from the committee. Do we want to continue questioning for another five or ten minutes now, or do we want to come back after the vote?

**Ms. Peggy Nash:** We can take five minutes. We're right nearby.

**The Chair:** It's a 15-minute bell. Okay, I have consent then.

I have Ms. McLeod and Mr. Marston.

Ms. McLeod, go ahead very briefly, please.

**Mrs. Cathy McLeod (Kamloops—Thompson—Cariboo, CPC):** I think essentially you're looking to increase transparency. Maybe you could speak briefly to that.

Would this be the first time in Canada that such contracts have been made fully transparent by public legislation? Is that accurate?

**Ms. Jane Pearse:** Contracts are usually private between the two contracting parties. Unless the other party decided to make their contract available to a third party, it would be a private document.

And, yes, the outcome of having this piece of legislation to replace the private contracts is that there will be more clarity in terms of what the individual arrangements are with the two current private mortgage insurers. It could provide clarity for lenders and borrowers to know what stands behind that guarantee.

**The Chair:** Thank you, Ms. McLeod.

We'll go to Mr. Marston, please.

**Mr. Wayne Marston (Hamilton East—Stoney Creek, NDP):** I have a few quick points.

One, are the two companies operating under the same regulations as was CMHC?

Two, does this not increase public liability compared to what it was when CMHC was out there on its own?

Three, was either one of these two companies involved in the mortgage defaults in the U.S.?

**Ms. Jane Pearse:** Your first question was whether the legislation is the same for the private mortgage insurers as it was for CMHC.

**Mr. Wayne Marston:** That's right. It's whether they function under the same regulations.

**Ms. Jane Pearse:** CMHC currently has a piece of legislation. Actually there are several, but you'll see at the very end of part 7 that there are consequential amendments. Those consequential amend-

ments are to the National Housing Act. That act is what CMHC is obligated to follow.

**Mr. Wayne Marston:** Are the other two obligated to follow those?

**Ms. Jane Pearse:** No.

**Mr. Wayne Marston:** Okay. The next question then is whether or not having these two in, if they're not following the same regulation, increases the liability to Canadians. Also, was either of these companies involved in the defaults in the U.S.?

**Ms. Jane Pearse:** We do not anticipate that there would be any change in liability. The companies are currently active within the Canadian marketplace pursuant to a contract with the government. As I said, this legislation is basically transforming that contract into a piece of legislation, so we're not anticipating that the playing field will be altered in any way.

One of the most important features of that framework is the qualifying criteria for the underlying mortgages. Both the private mortgage insurance companies and CMHC have been following a set of criteria established by the Minister of Finance for the last three or four years. We don't see that changing in this piece of legislation.

• (1835)

**Mr. Wayne Marston:** The final question, of course, is this: was either of these companies involved with the defaults in the U.S.?

**Ms. Jane Pearse:** Genworth is Genworth Canada, so its parent is—

**Mr. Wayne Marston:** Yes. Is it solely owned Canadian...?

**Ms. Ling Wang:** It has a parent company, which is a U.S. company, but it is a Canadian company that is listed on the Toronto Stock Exchange. It's regulated by the Office of the Superintendent of Financial Institutions.

The other active company, Canada Guaranty, was previously AIG, the Canadian subsidiary, but it has since been acquired by Canadian owners. It's a privately held company.

**The Chair:** Ms. Glover, do you have a brief question?

**Mrs. Shelly Glover (Saint Boniface, CPC):** Thanks, Mr. Chair. I have two for clarification.

Ms. Nash brought up the 90% level. It is my understanding that the 90% level existed before now. Is that not correct?

**Ms. Jane Pearse:** Yes.

**Mrs. Shelly Glover:** So that's not a change.

With regard to Mr. Marston's question, when we're talking about liability, what would be the consequence if we didn't proceed the way we are? Is there an alternative?

**Ms. Jane Pearse:** They are currently existing contracts, so if this legislation didn't move forward, the existing contracts would continue to live.

**Mrs. Shelly Glover:** So whatever liability would exist, would exist anyway...?

**Ms. Jane Pearse:** That's right.

**Mrs. Shelly Glover:** Very good.

Thank you.

**The Chair:** Ms. Sgro, please.

**Hon. Judy Sgro (York West, Lib.):** How long have those two companies been interested in the same issue? Are there still only two or are there any others that have been interested in the issue?

**Ms. Jane Pearse:** Numbers of companies and permutations of companies have come in and out of the Canadian marketplace over the past 10 to 15 years. As Ling explained, what we currently call Canada Guaranty used to be AIG, and what is currently Genworth used to be the Mortgage Insurance Company of Canada. So there have been permutations, entrants, and exits, which speaks to the competitiveness of the market.

**The Chair:** Thank you.

Thank you, colleagues.

I thank Ms. Pearse and Ms. Wang for answering our questions here today.

Colleagues, I will adjourn, but I will just let you know that we are meeting Monday morning at 10 a.m. We'll try to meet in this room, but watch for the notice.

Thanks, everyone. The meeting is adjourned.

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