

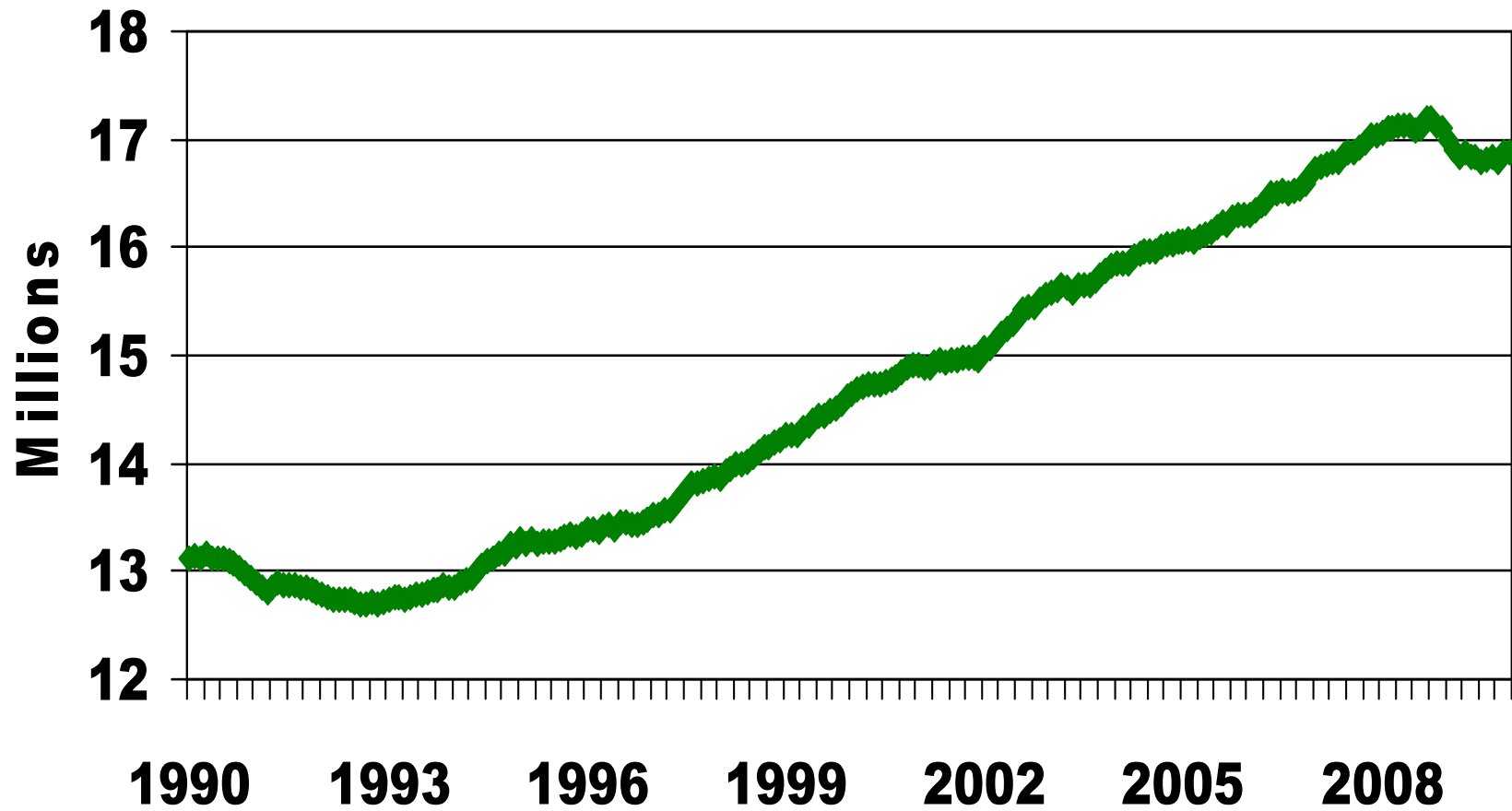
Genworth Annual Employee Conference

Will Dunning
January 18, 2010

My Agenda

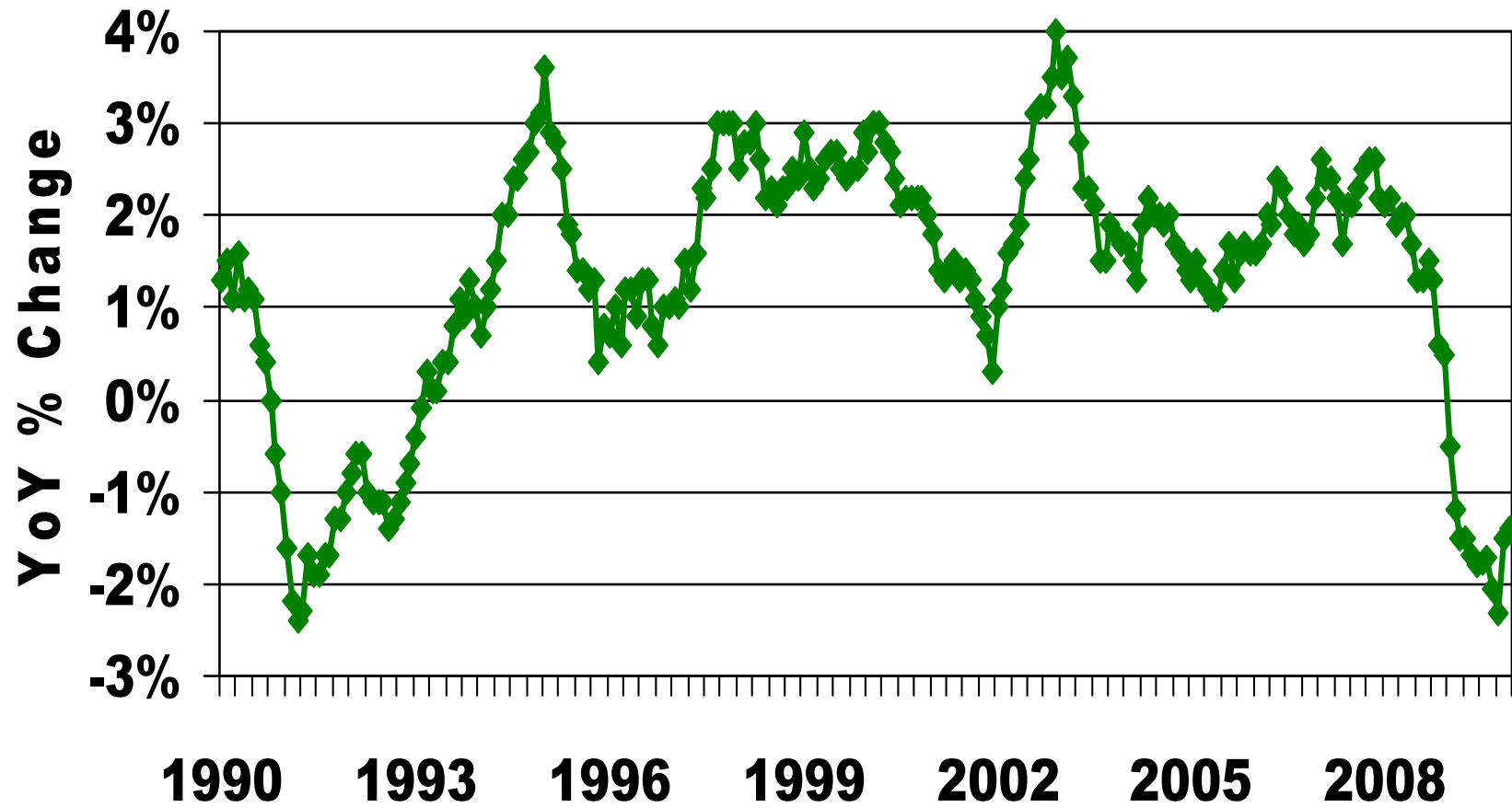
- Overview of Canadian housing market, including economic influences
- Forecasts
- New CAAMP report
- CAAMP Fall 2009 report

Employment in Canada (Millions)



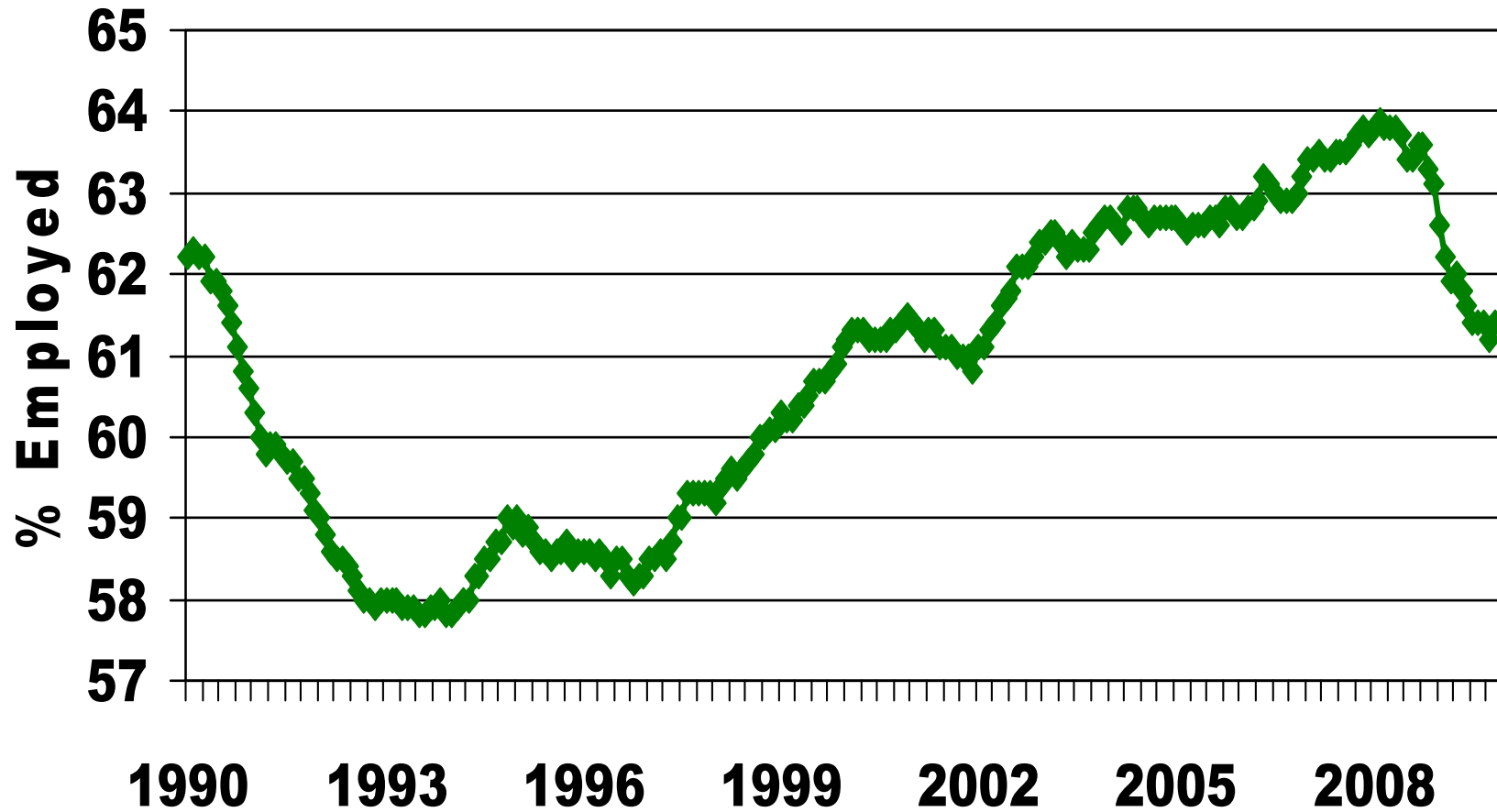
Source: Statistics Canada

Job Growth in Canada



Source: Statistics Canada

Employment Rate in Canada

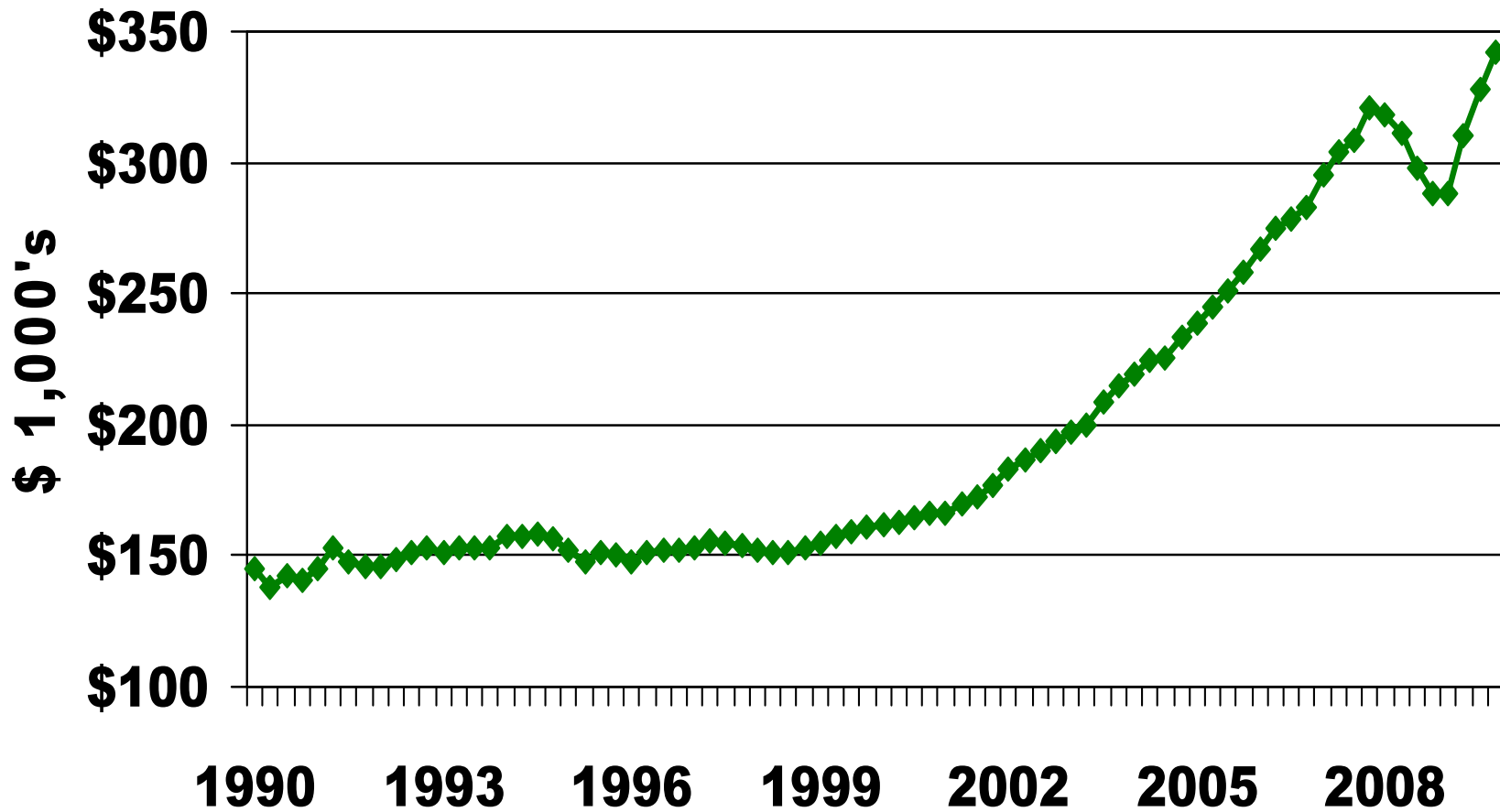


Source: Statistics Canada

Economic Drivers Are Mixed and Volatile

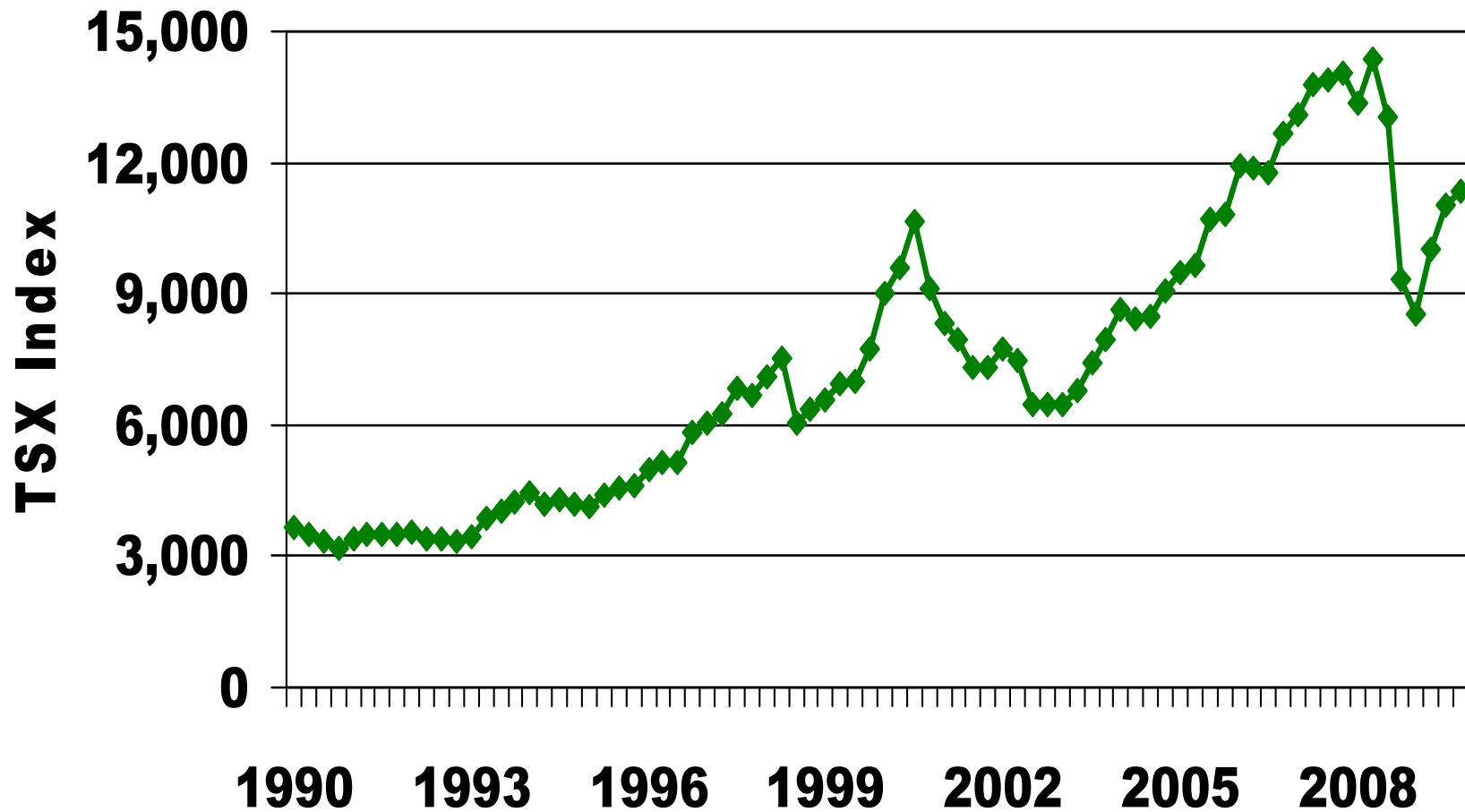
<u>Factor</u>	<u>Impact</u>
Wealth Effect – Housing	Returned to Positive
Wealth Effect – Stocks	Much Less Scary
Interest Rates	Strongly Positive
Canadian Dollar	Strongly Negative
Commodity Prices	Positive for Producers Negative for Consumers

Enormous "Wealth Effect" From House Values



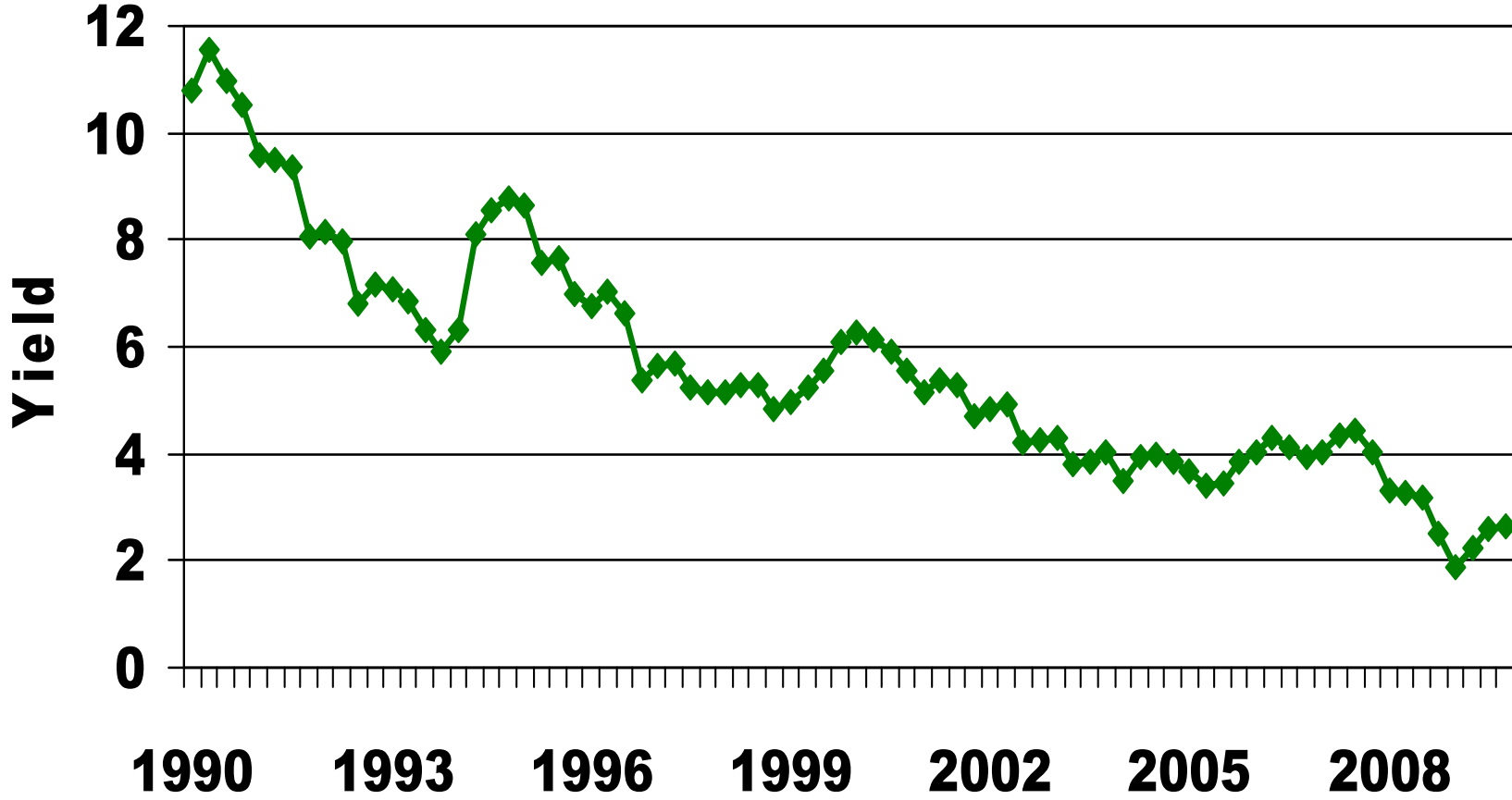
Source: CREA

Volatile Stock Markets



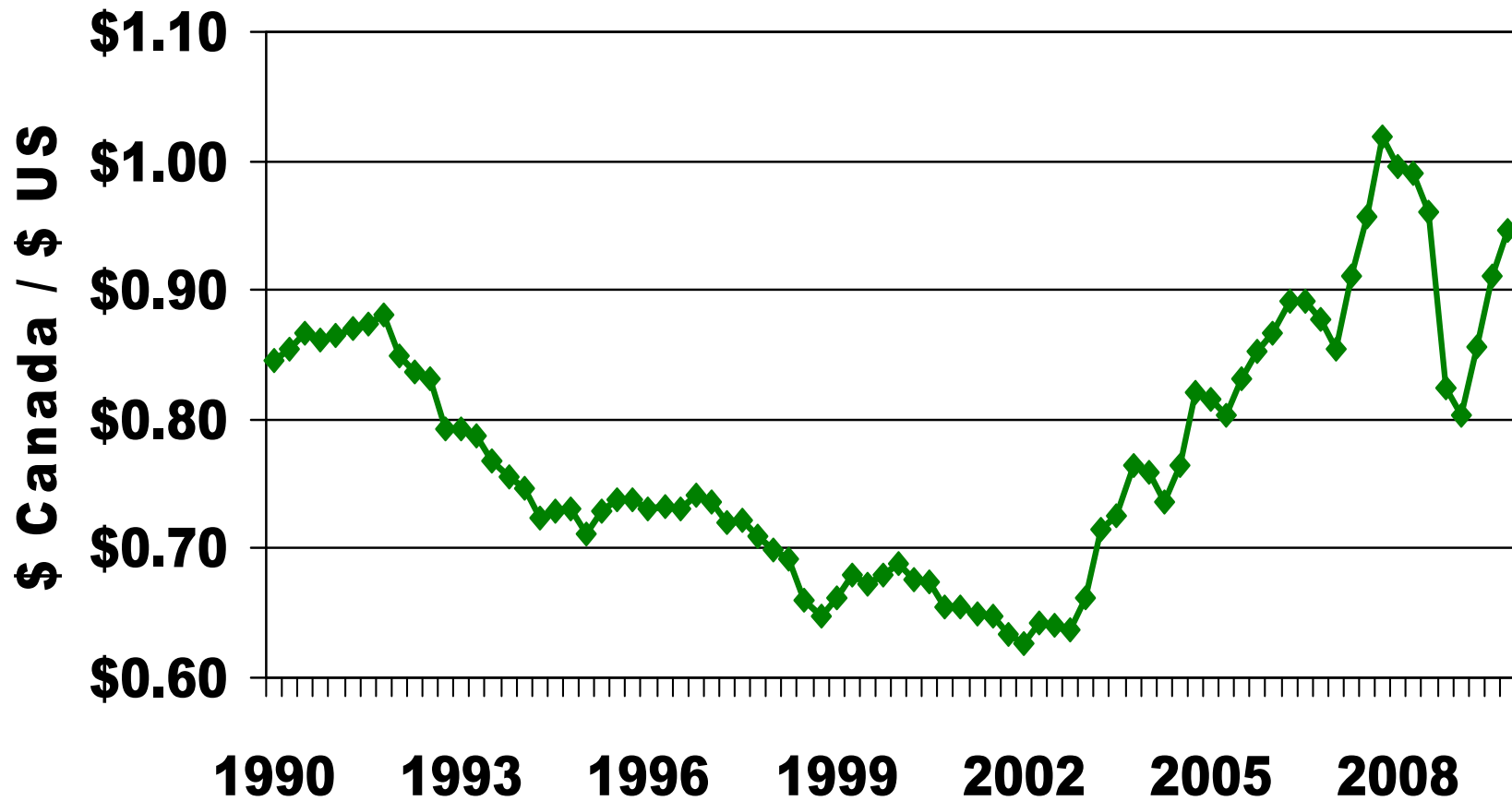
Source: Statistics Canada

Low Yields on 5 Year GoC Bonds



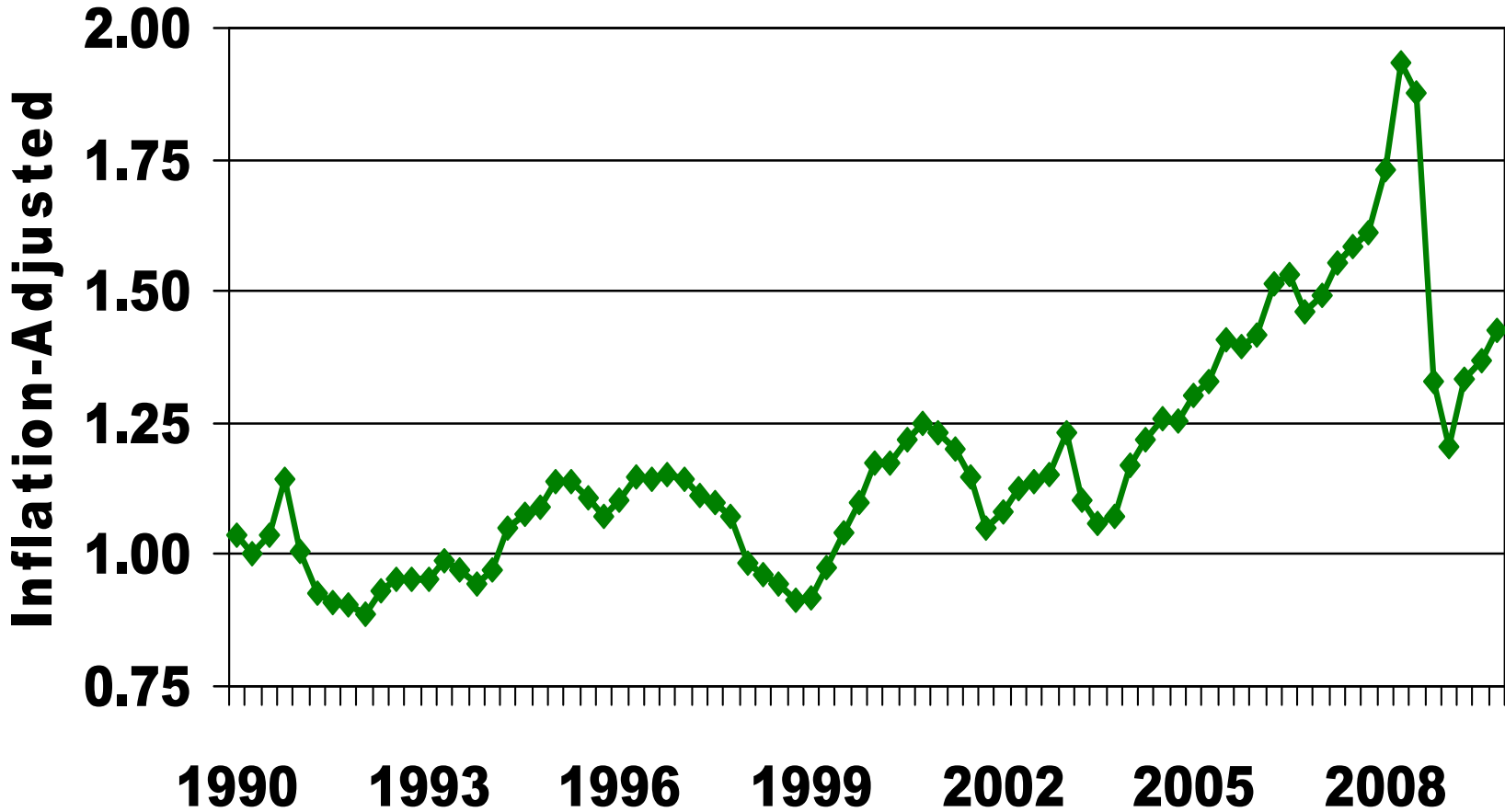
Source: Bank of Canada

Canadian Dollar is a Huge Negative Factor



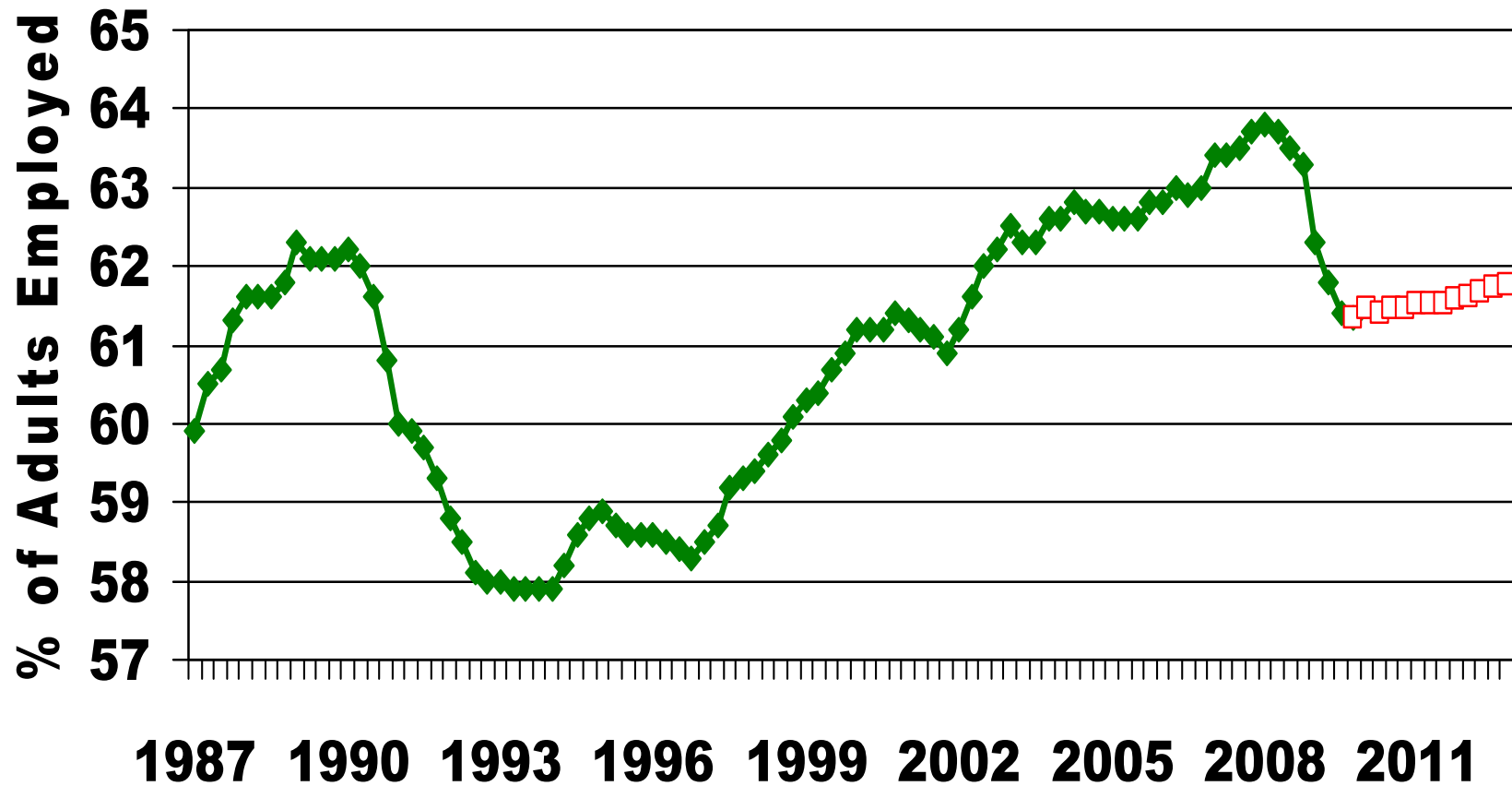
Source: Bank of Canada

High Commodity Prices Benefit the West



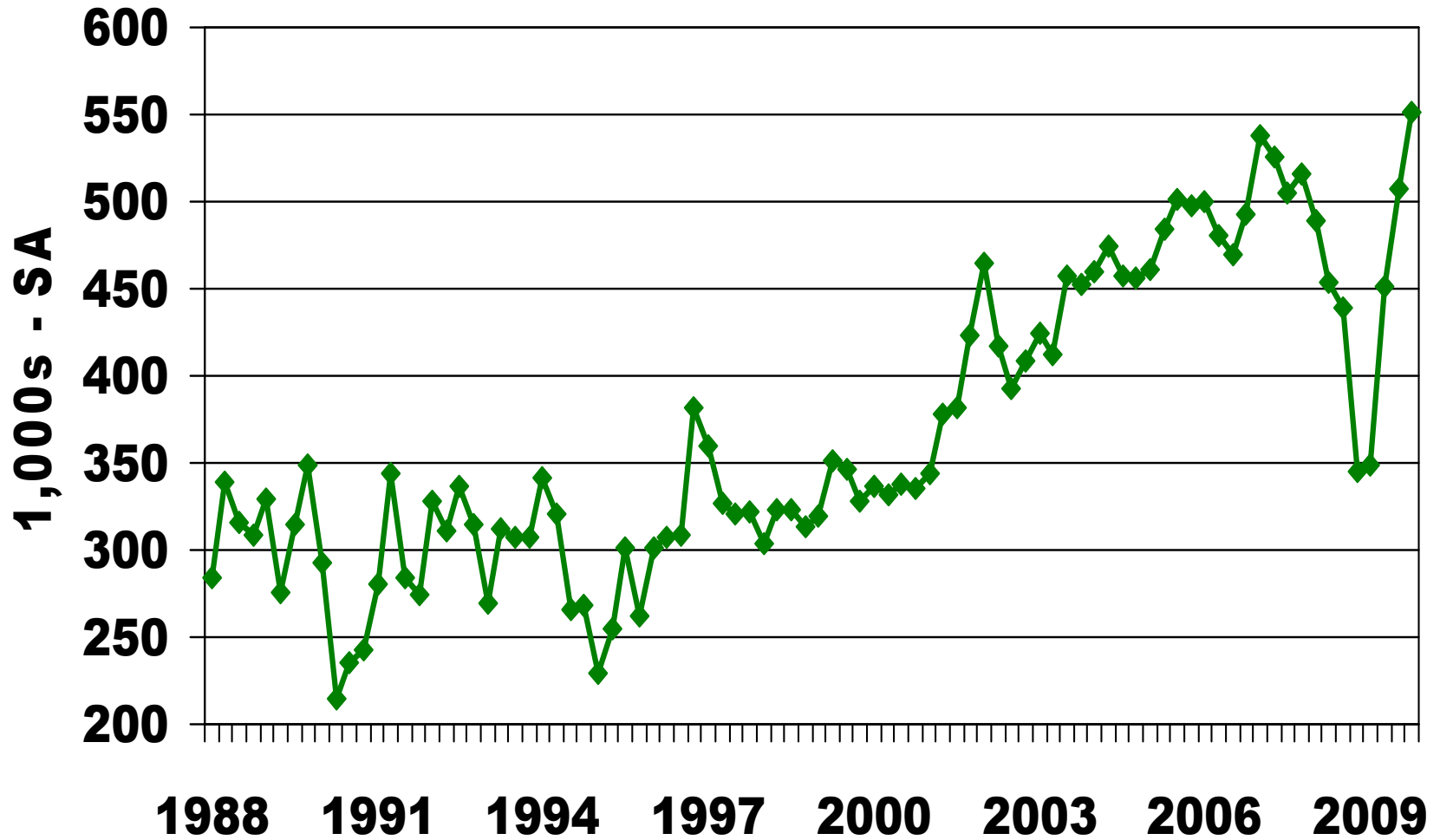
Source: Statistics Canada

Employment Rate Forecast Suggests Moderate Recovery



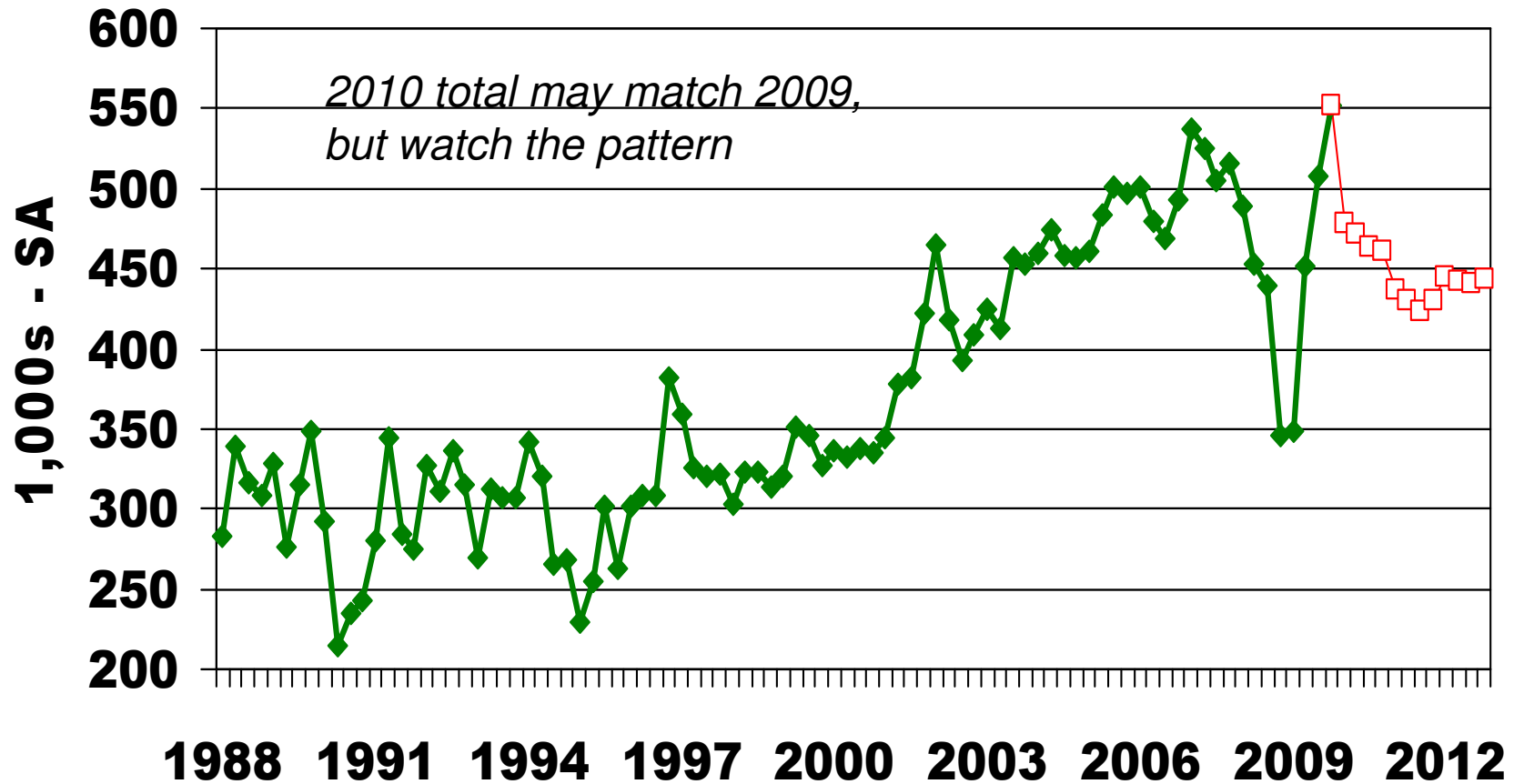
Source: Statistics Canada / Will Dunning Inc.

Canadian Resales Rebound



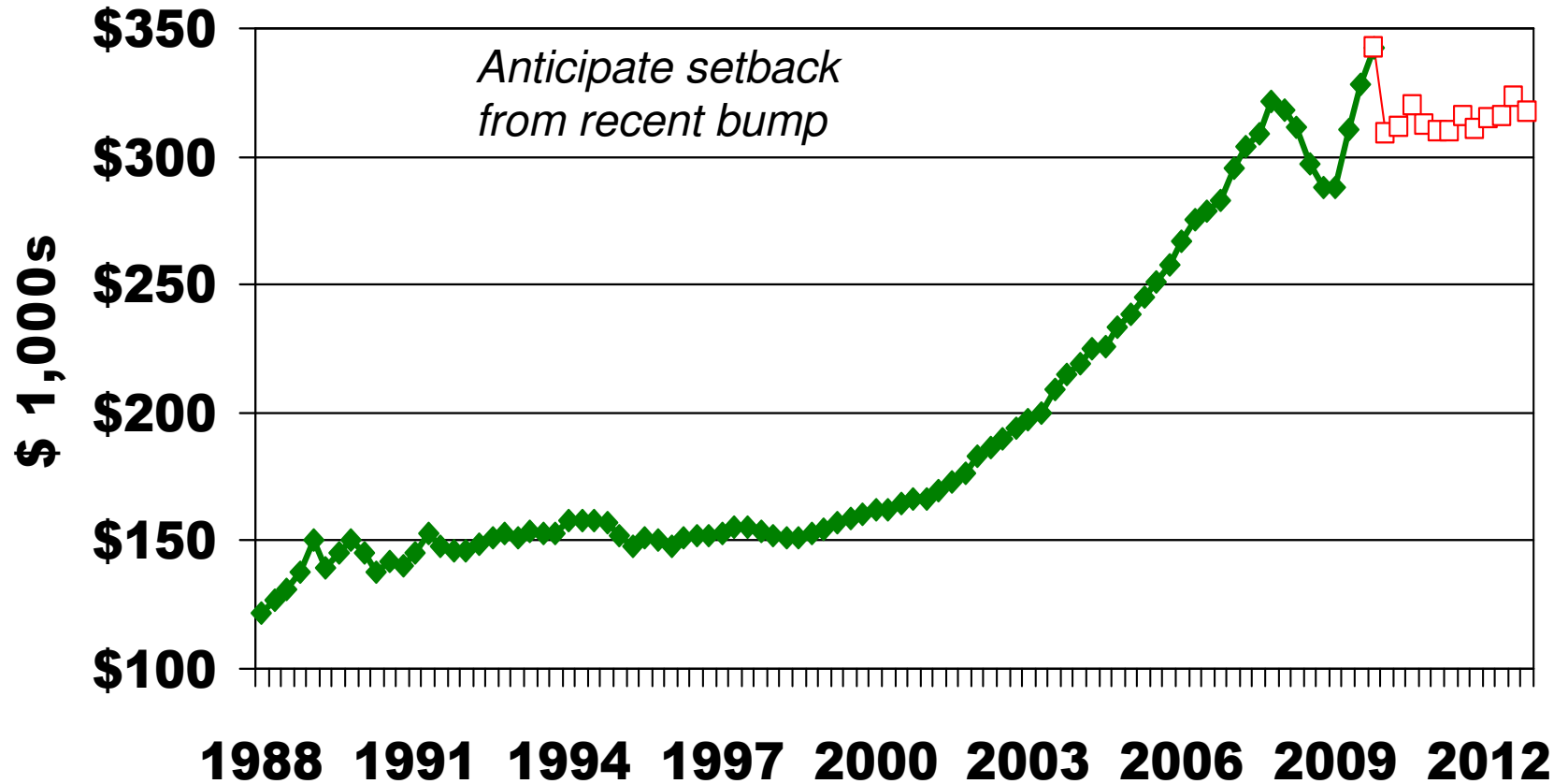
Source: CREA

Canadian Resale Activity May Weaken in 2010/11



Source: CREA / Will Dunning Inc.

Modest Growth Forecast for Canadian House Prices



Source: CREA / Will Dunning Inc.

Summing Up

- Housing demand appears to be ahead of economic fundamentals
- Response to low interest rates and uncertainty
- Continued economic improvement should support gradual deceleration of housing markets
- Keep an eye on wealth effects

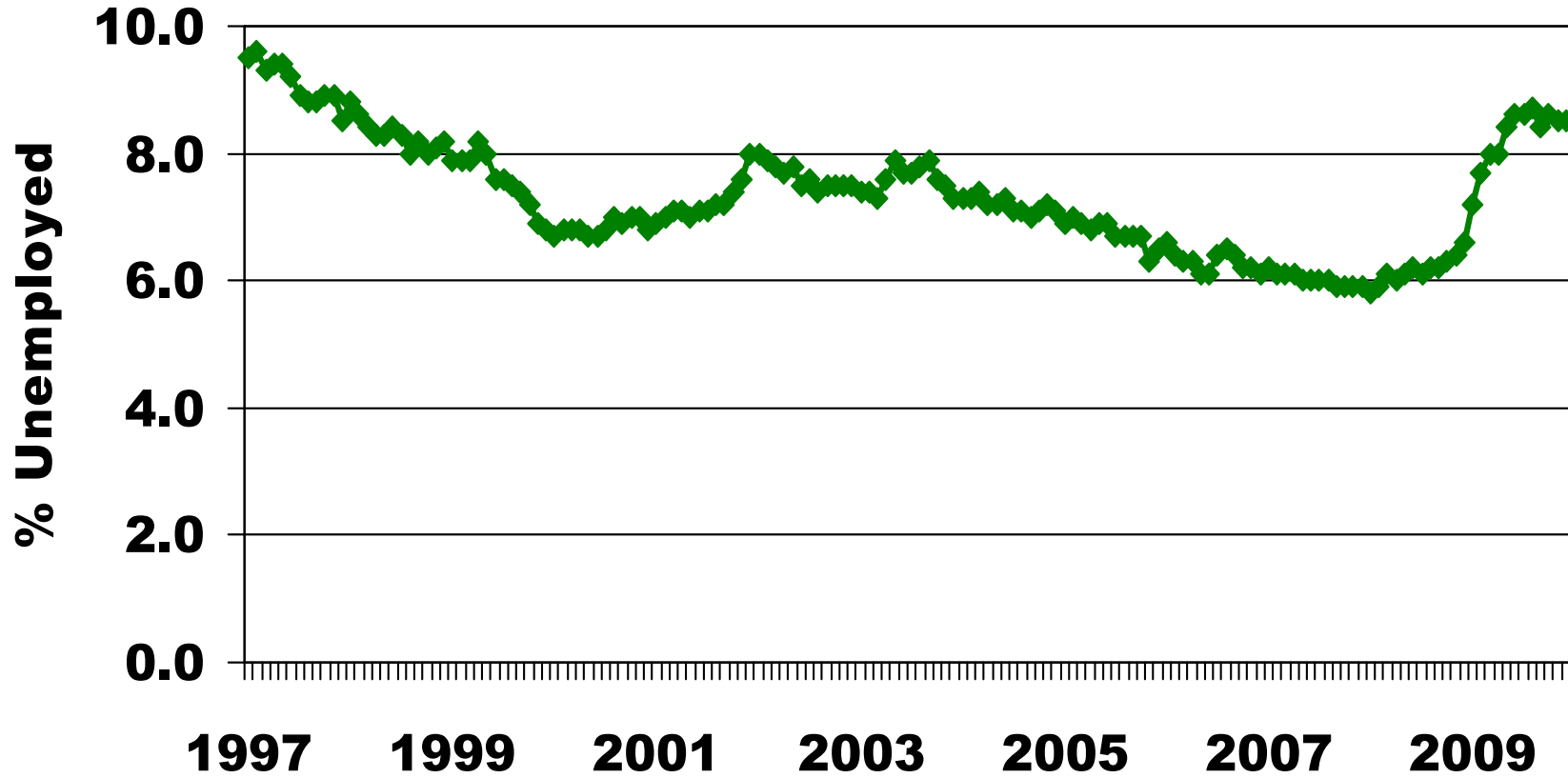
“Revisiting the Canadian Mortgage Market – Risk is Small and Contained”

- CAAMP report responds to concerns expressed (by the Bank of Canada and Minister of Finance) that Canadian home buyers are taking on too much mortgage risk and in particular are not prepared for future interest rate increases.
- There has been speculation that home buyers have switched to adjustable rates and leveraged to the max.
- Research is based on a dataset provided by CAAMP members.

Background

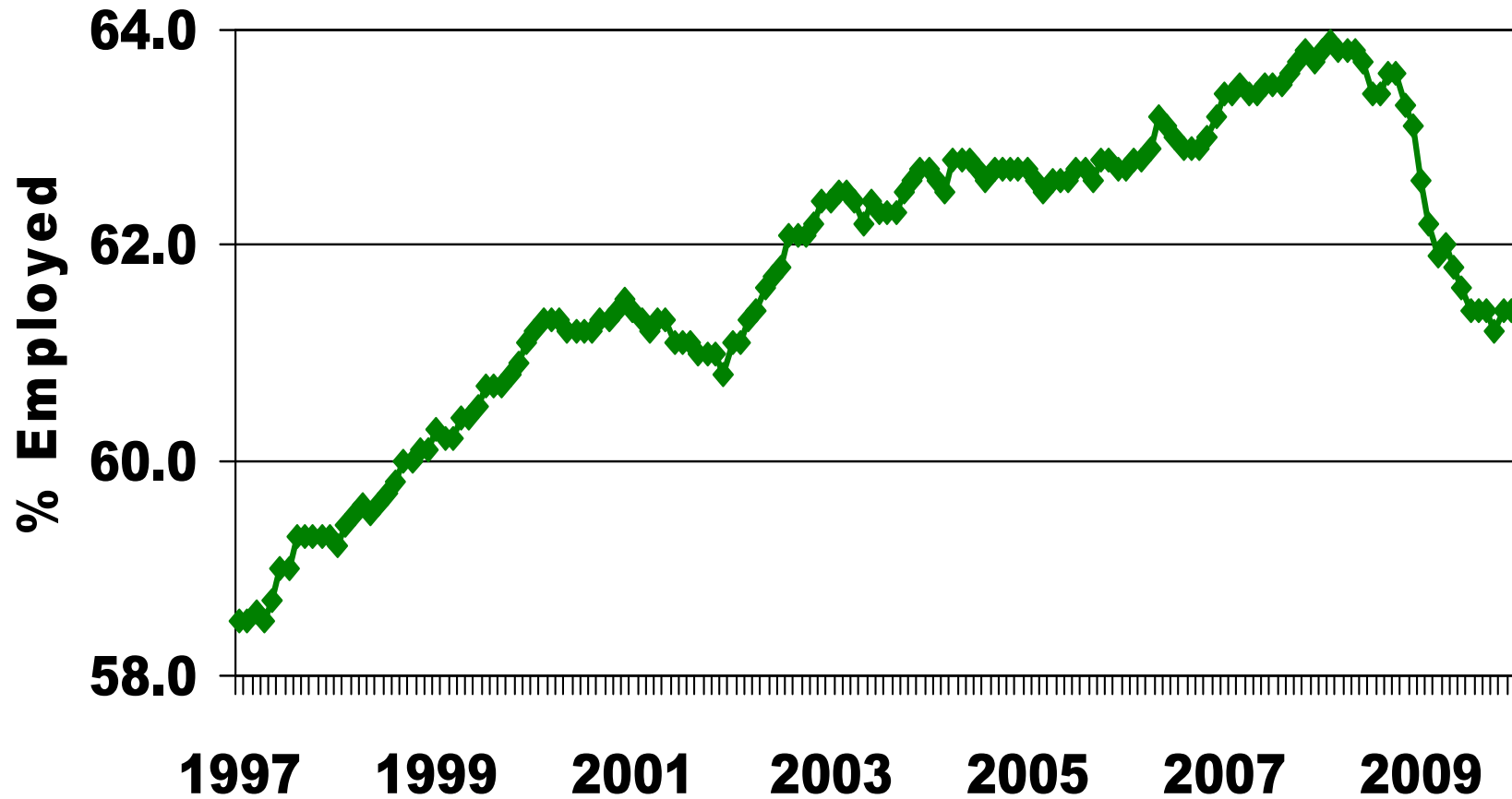
- Housing activity slowed very sharply early in the recession.
- Elimination of federal coverage for zero downpayments and 40 year amortization may have worsened the housing downturn.
- Since mid-2009, stabilization of the economy, improved confidence, and record low interest rates have resulted in a strong rebound of home buying and house prices.
- Have consumers taken on too much risk?

Increased Unemployment During the Recession



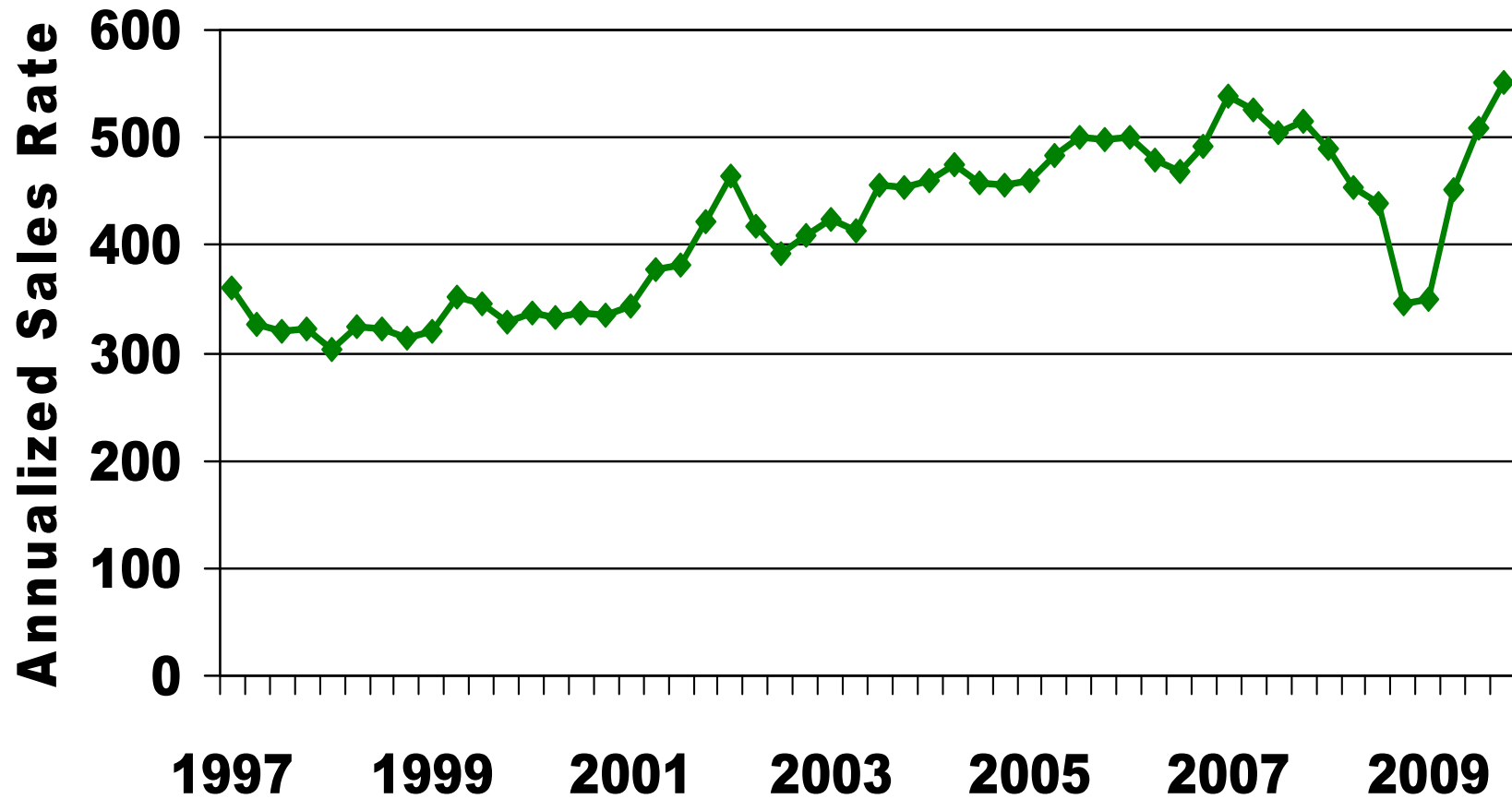
Source: Statistics Canada

Conversely – Smaller Percentage of Canadians Have Jobs



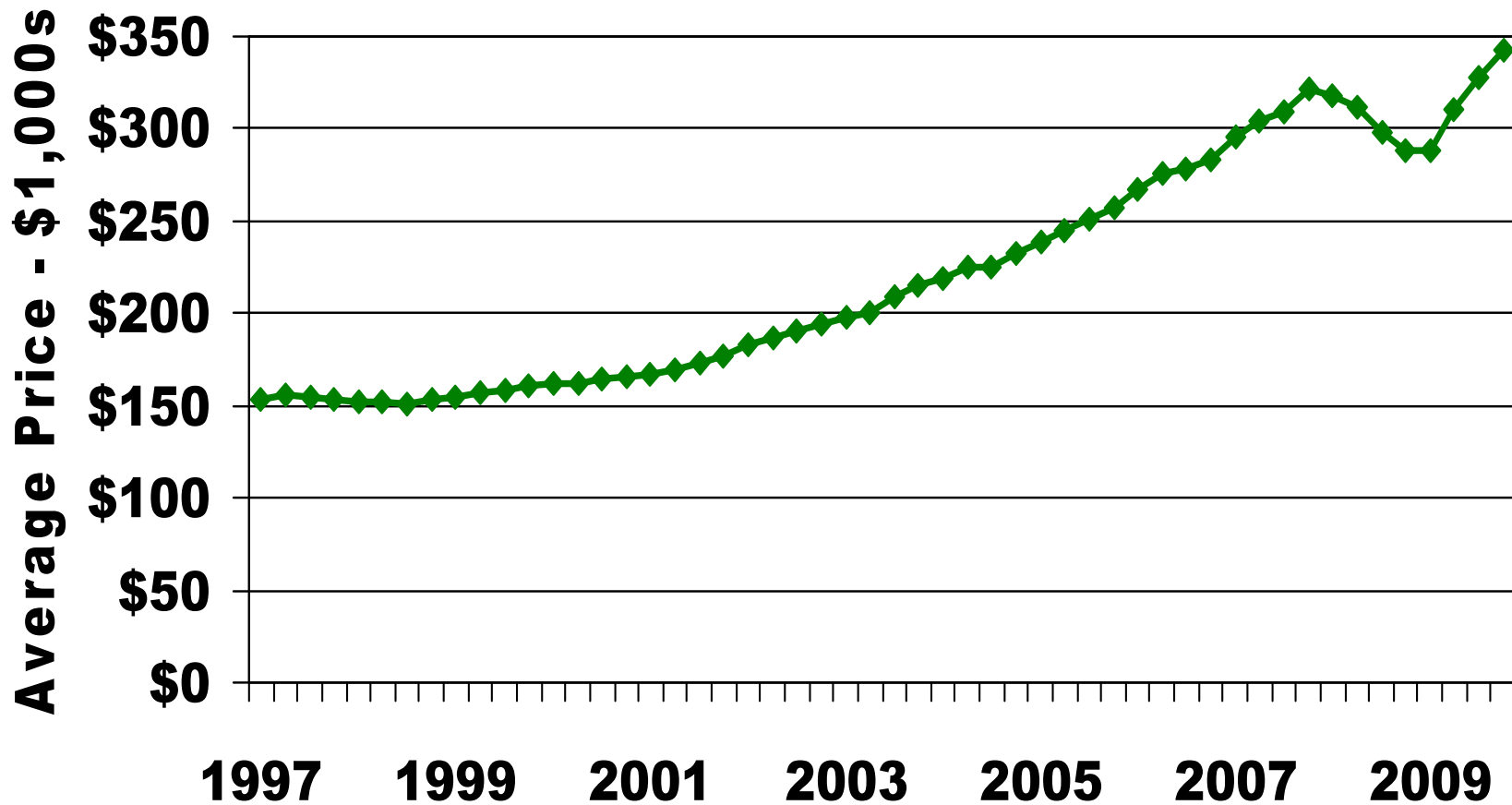
Source: Statistics Canada

Resurgent Resale Market



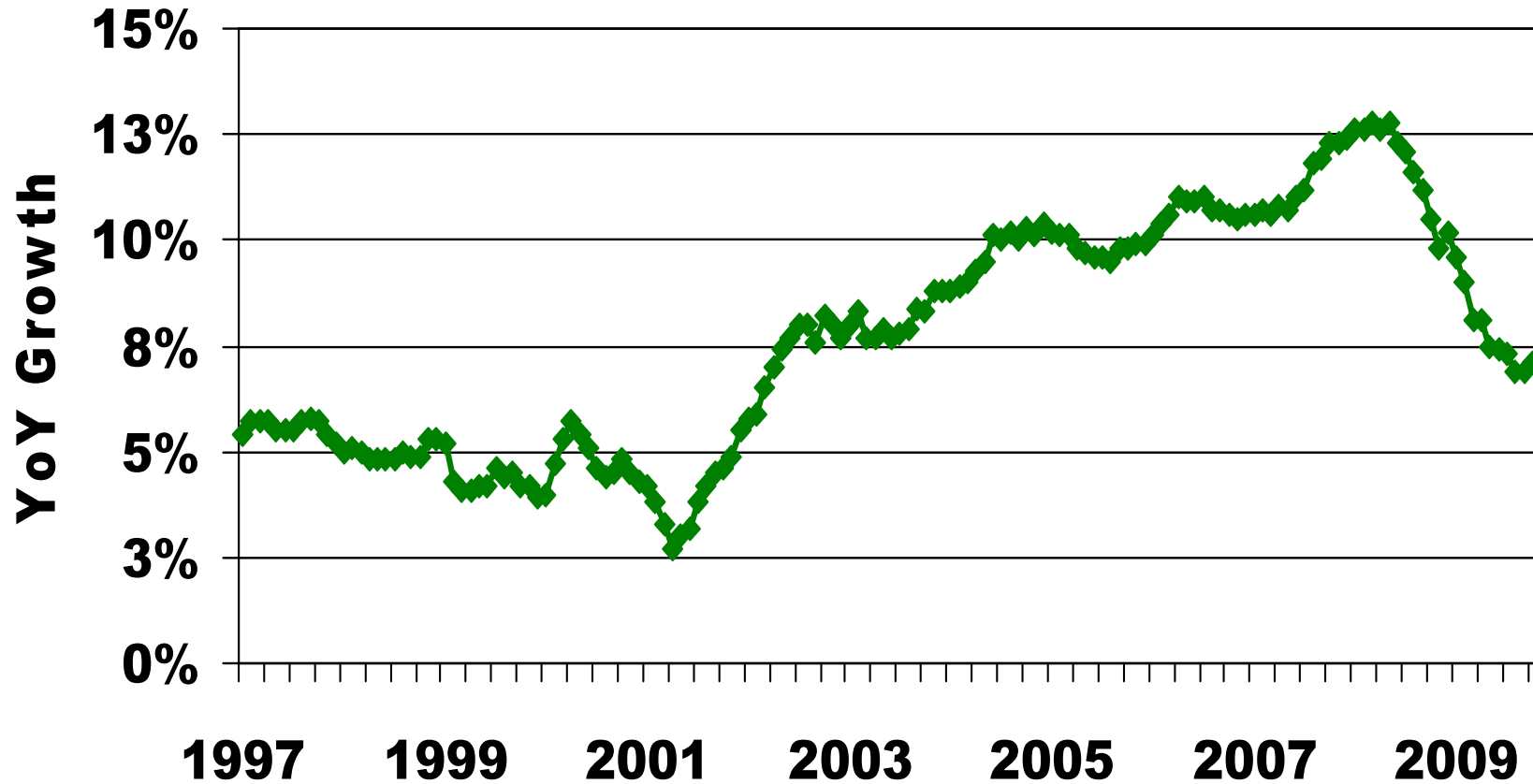
Source: Canadian Real Estate Association

House Prices at Record Levels



Source: Canadian Real Estate Association

Mortgage Credit Growth Has Slowed – But Still Robust



Source: Bank of Canada

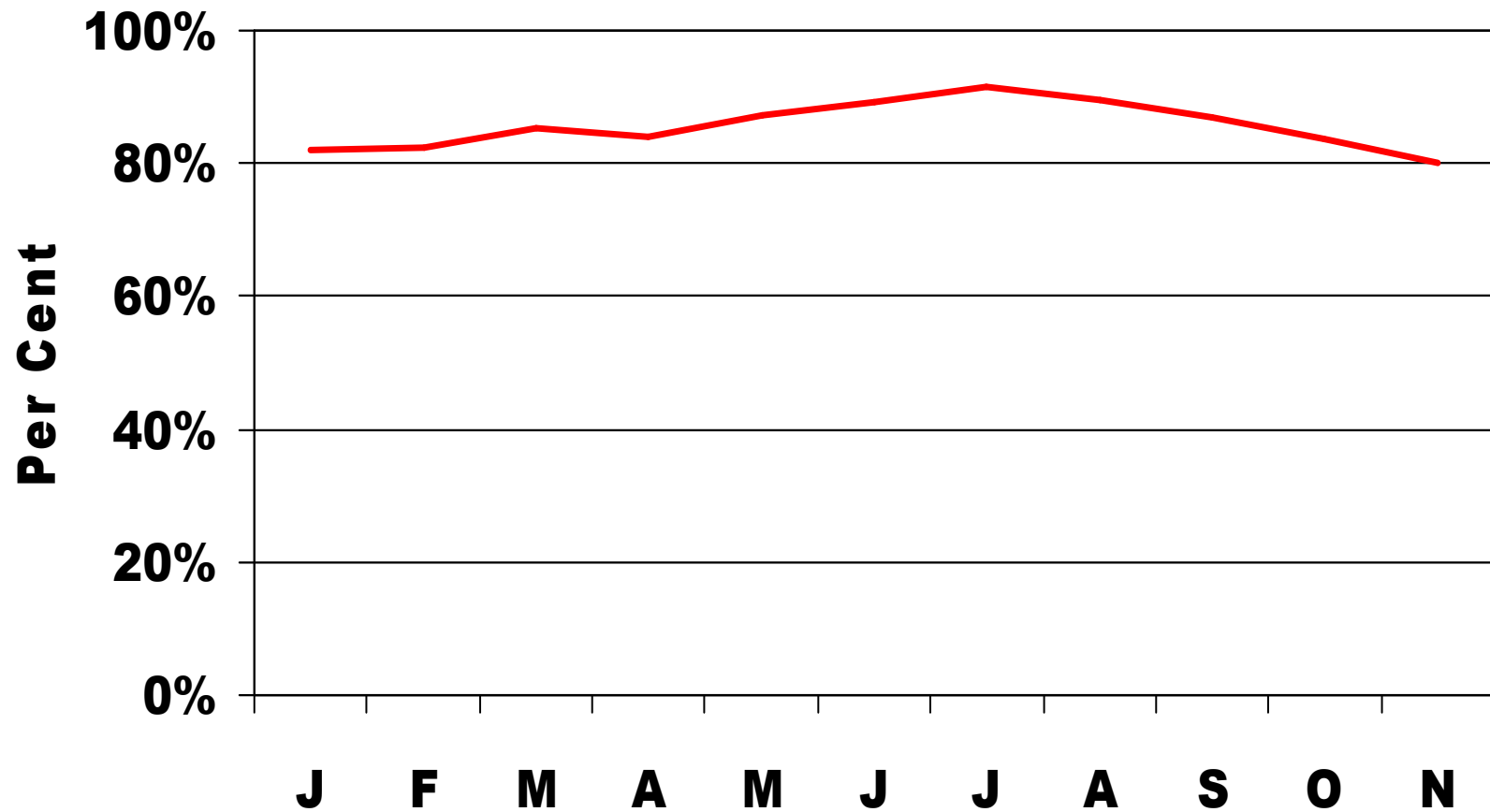
Mortgage Database

- About 40,000 transactions; \$10 billion
- Primarily high ratio; first-time buyers
- Represents about 1/6th of new mortgages for purchase
- Analysis:
 - Current characteristics
 - Impacts of higher rates
- The data destroys some recent myths about:
 - Term selection
 - Choice of fixed versus adjustable rates
 - Maximization of leverage
 - Impacts of future rate rises

Very Few Borrowers Are Taking Short Terms

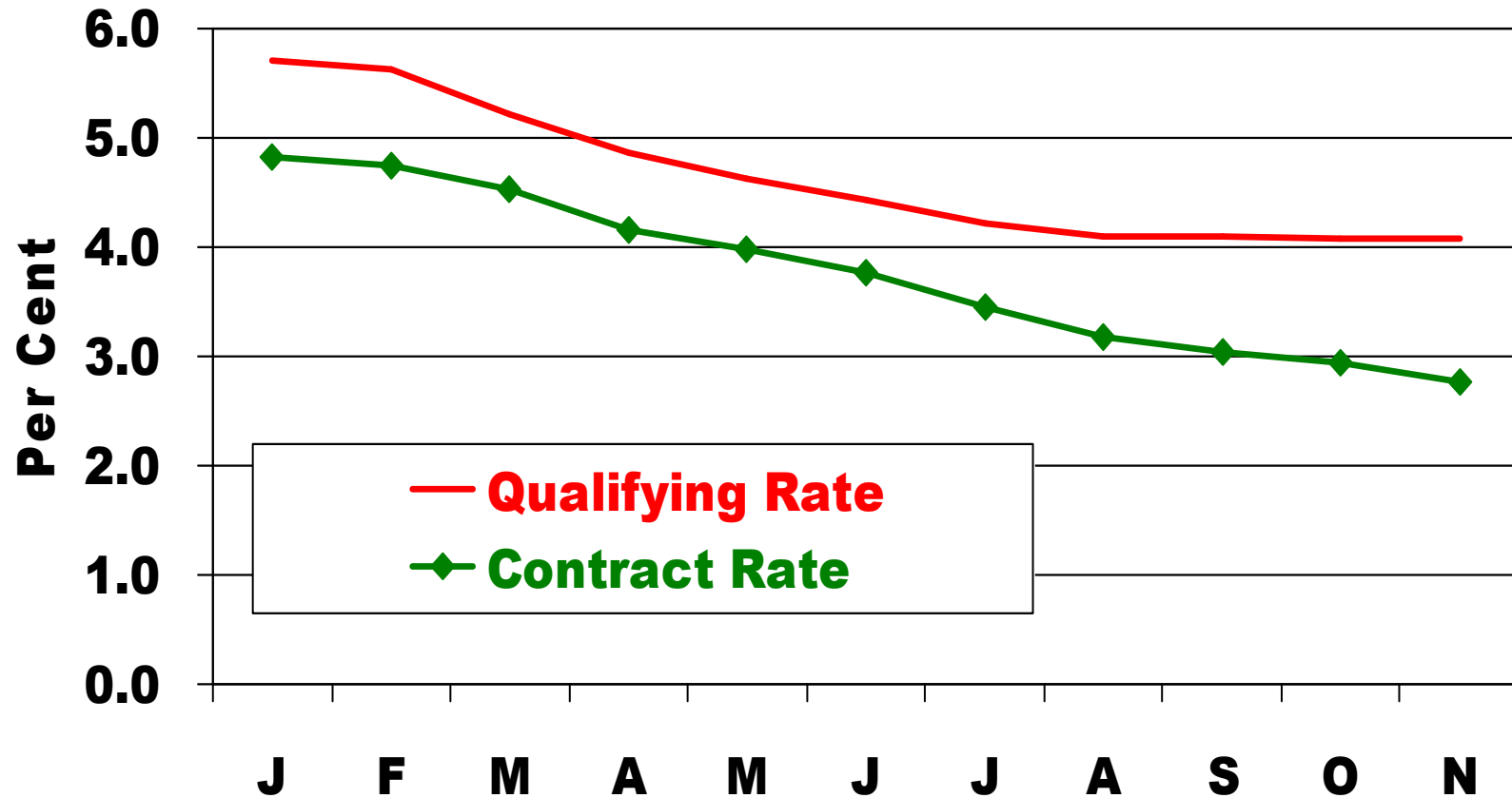
Term in Months	% of Loans
0-12	3.3%
13-24	1.0%
25-36	18.2%
37-48	5.1%
49-60	67.1%
>=61	5.3%

Vast Majority Take Fixed Rates



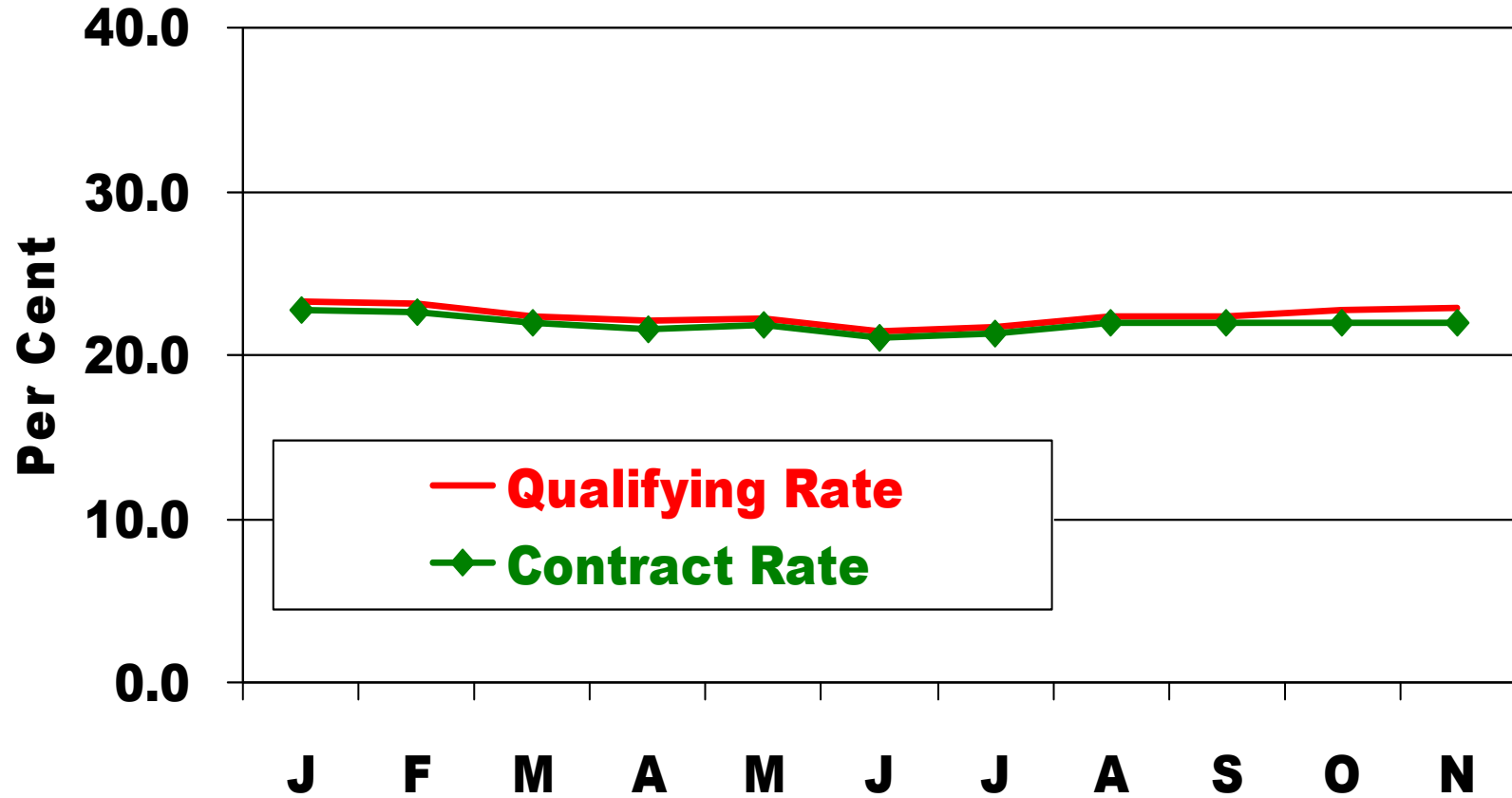
Source: CAAMP

Adjustable Rate Mortgages are Qualified at Above Market Rates



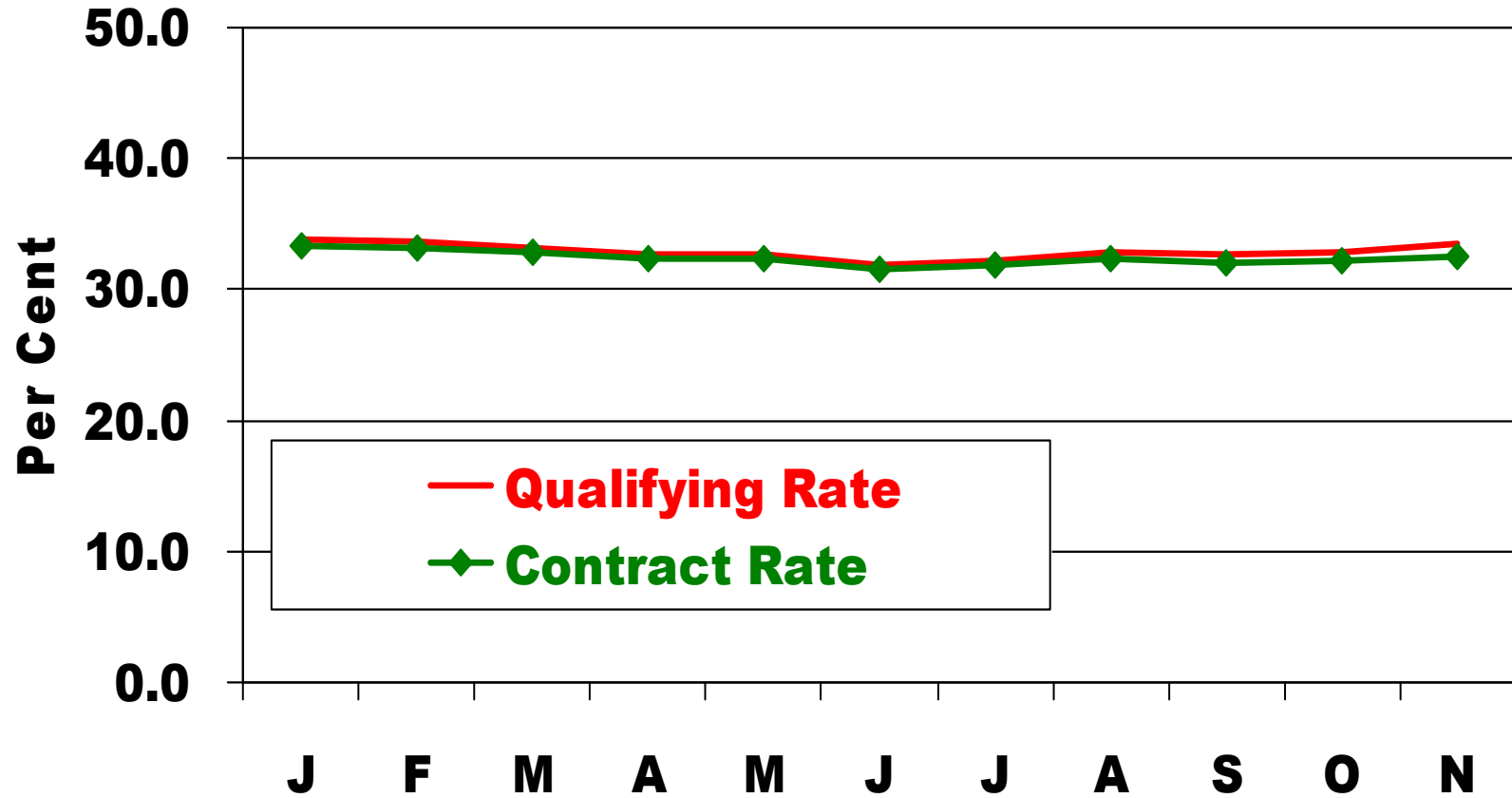
Source: CAAMP

GDS Ratios Are Far Below Lending Norms



Source: CAAMP

TDS Ratios Are Also Far Below Lending Norms



Source: CAAMP

Simulations of Rate Increases

- Assume increase to 5.25% (at next renewal for fixed rates and in 2 years for adjustable).
 - Increase of 1.25 points for fixed rates
 - 3.00 points for variable rates
- Payments and GDS/TDS recalculated based on new rates, amortization, and income growth

Rate Increases Will Have Negligible Impacts on GDS Ratios

GDS Ratio	At Initiation	After Rate Increase
< 20%	41%	42%
20-24.9%	26%	25%
25-29.9%	20%	20%
30-34.9%	10%	10%
35% or more	3%	3%

... And on TDS Ratios

TDS Ratio	At Initiation	After Rate Increase
< 30%	34%	34%
30-34.9%	26%	27%
35-39.9%	29%	28%
40-44.9%	11%	11%
45% or more	0%	0%

Bigger Impacts on GDS for Adjustable/Variable Rate Mortgages

GDS Ratio	At Initiation	After Rate Increase
< 20%	45%	33%
20-24.9%	28%	23%
25-29.9%	19%	22%
30-34.9%	7%	15%
35% or more	2%	6%

Holders of adjustable rate mortgages with GDS ratios 35% or more (after rate increases) represent about 4,000 households

TDS Ratios Will Also Be Affected for Adjustable/Variable Rate Mortgages

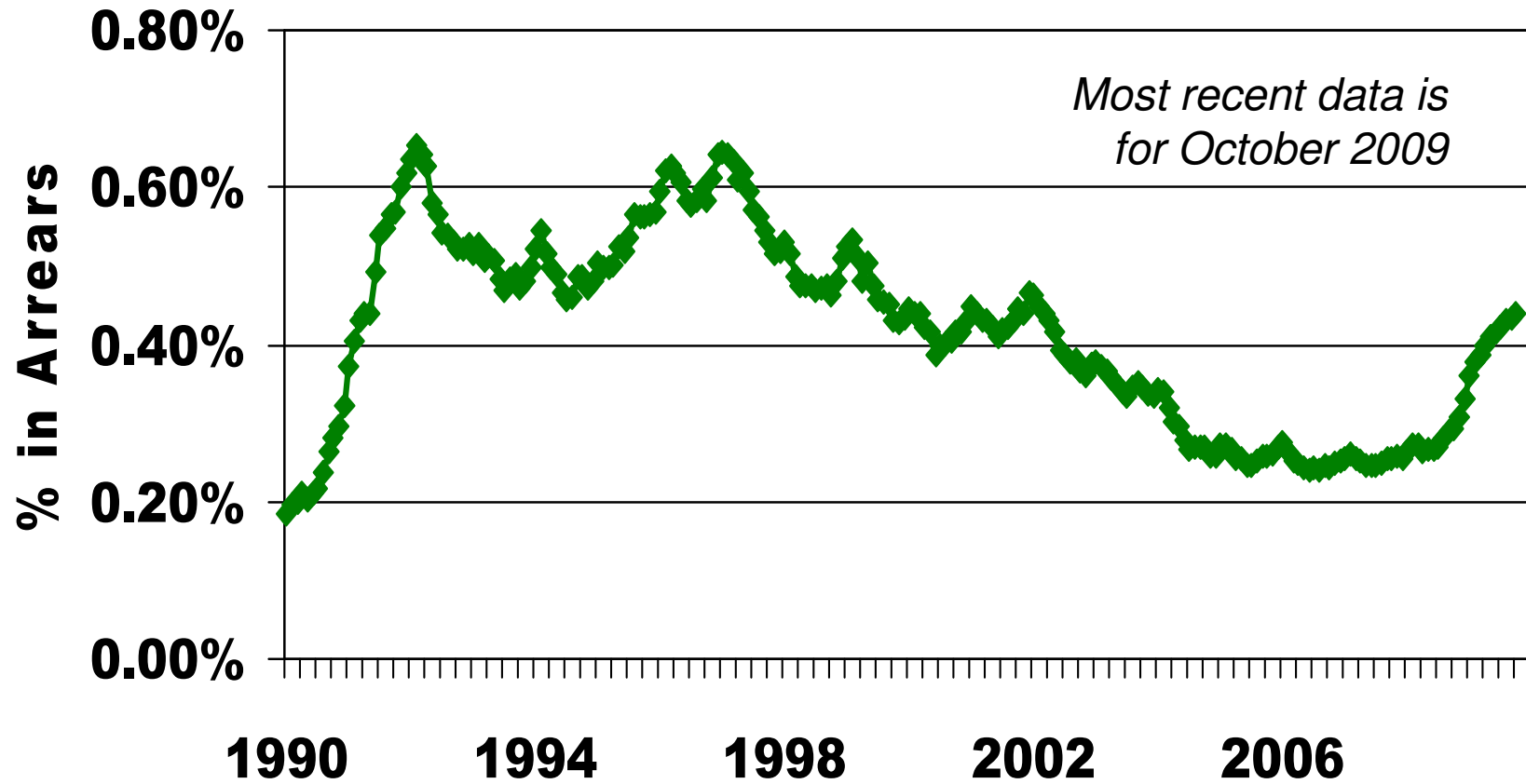
TDS Ratio	At Initiation	After Rate Increase
< 30%	40%	26%
30-34.9%	30%	24%
35-39.9%	24%	31%
40-44.9%	6%	17%
45% or more	0%	1%

Holders of adjustable rate mortgages with TDS ratios 40% or more (after rate increases) represent about 10,000 households (Microscopic for 45% or more – less than 1,000)

Some Borrowers are Challenged

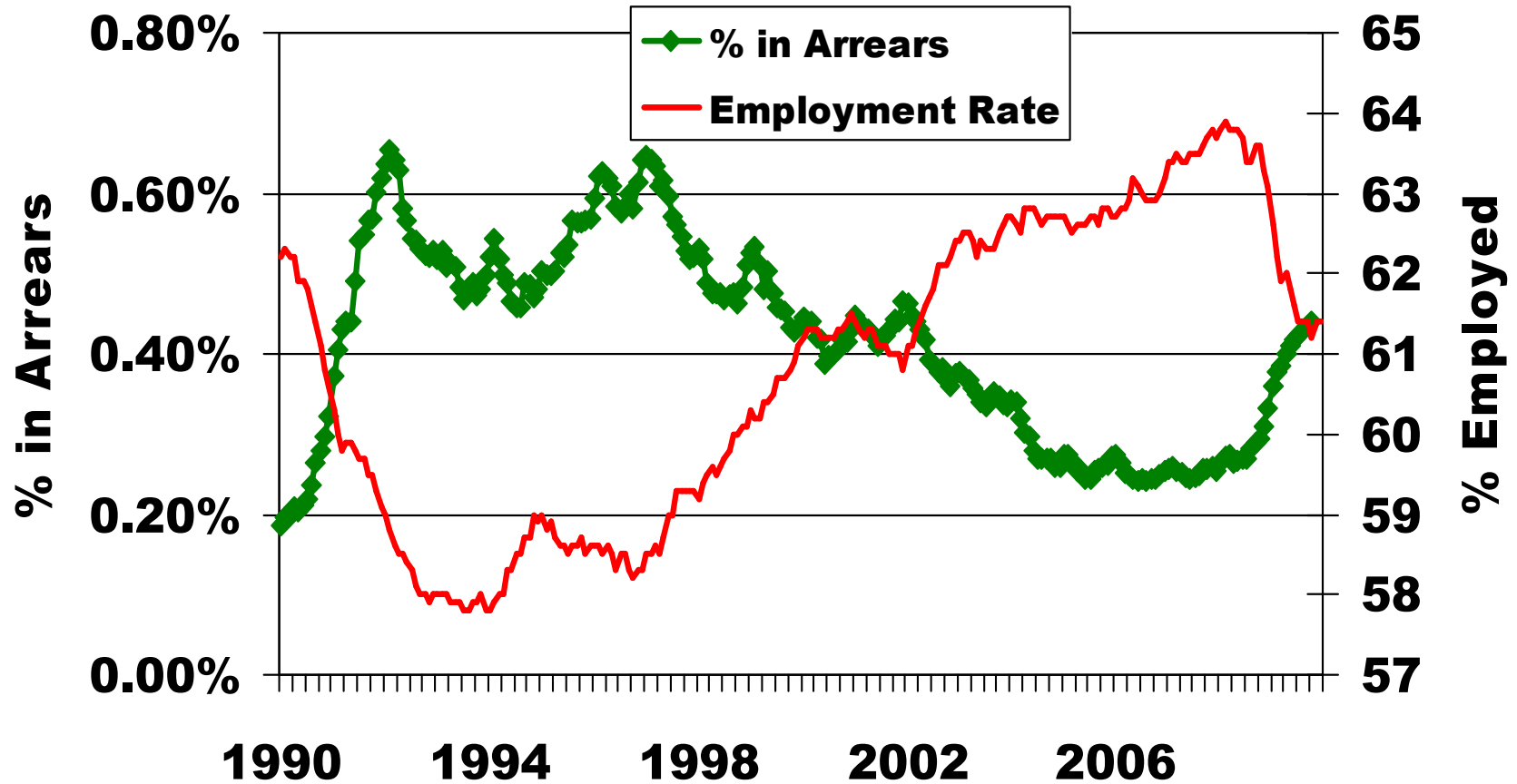
- Causes of default include:
 1. Reduced income (especially job loss). This is a current issue.
 2. Over-extension – unlikely to have gotten worse during a credit crunch
 3. Unaffordable changes in payments – this started the crisis in the US and is the focus of recent worries in Canada – and CAAMP’s analysis dismisses this threat

Rising Arrears Rate



Source: Canadian Bankers Association

Arrears Rate is Explained by the Employment Situation



Source: Canadian Bankers Association, Statistics Canada

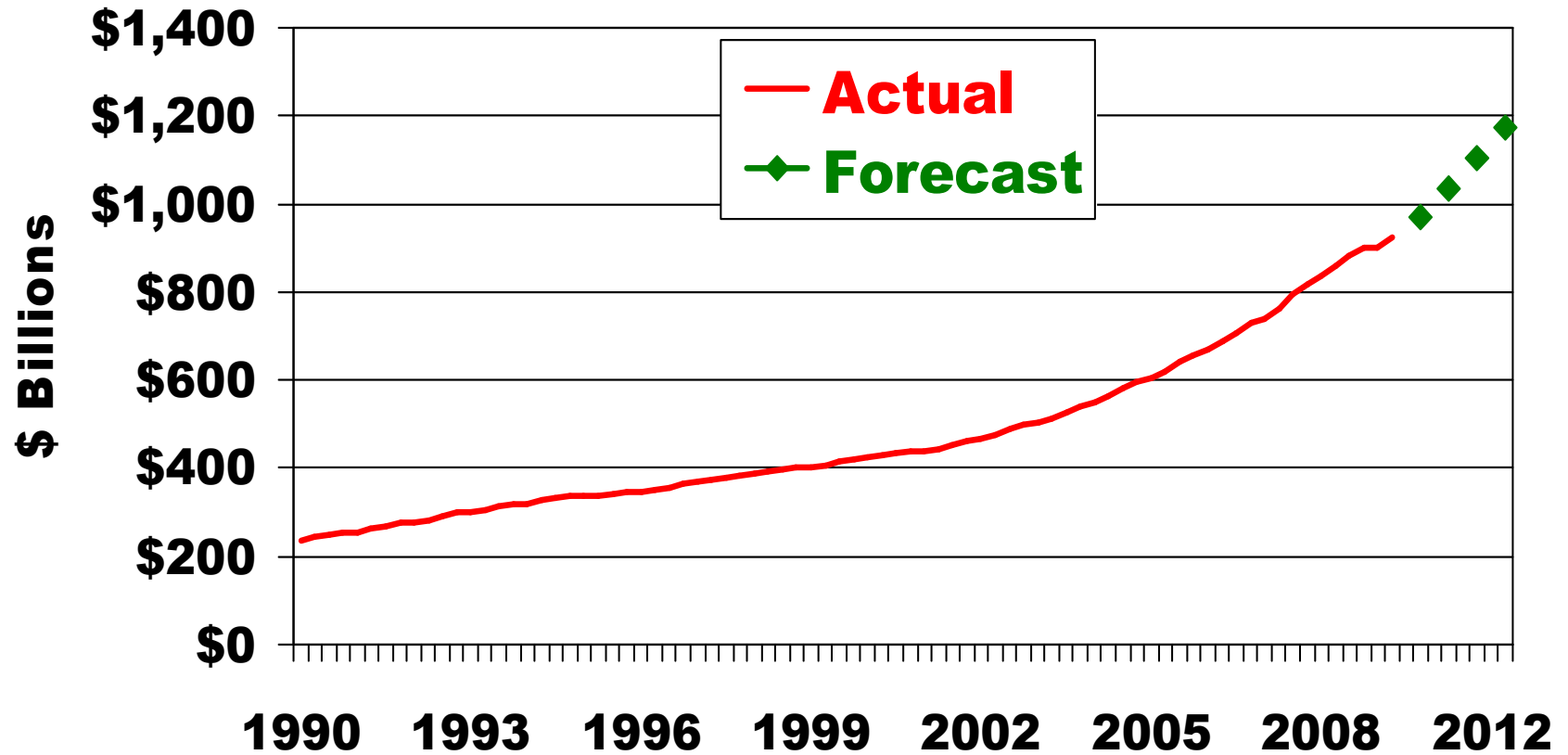
Conclusions

- Borrowers and lenders remain prudent
- Borrowers are capable of assessing self-interests
- Incentives are appropriate on the lender side
- Current rules and practices result in an acceptable level of mortgage risk in Canada

The State of the Residential Mortgage Market in Canada

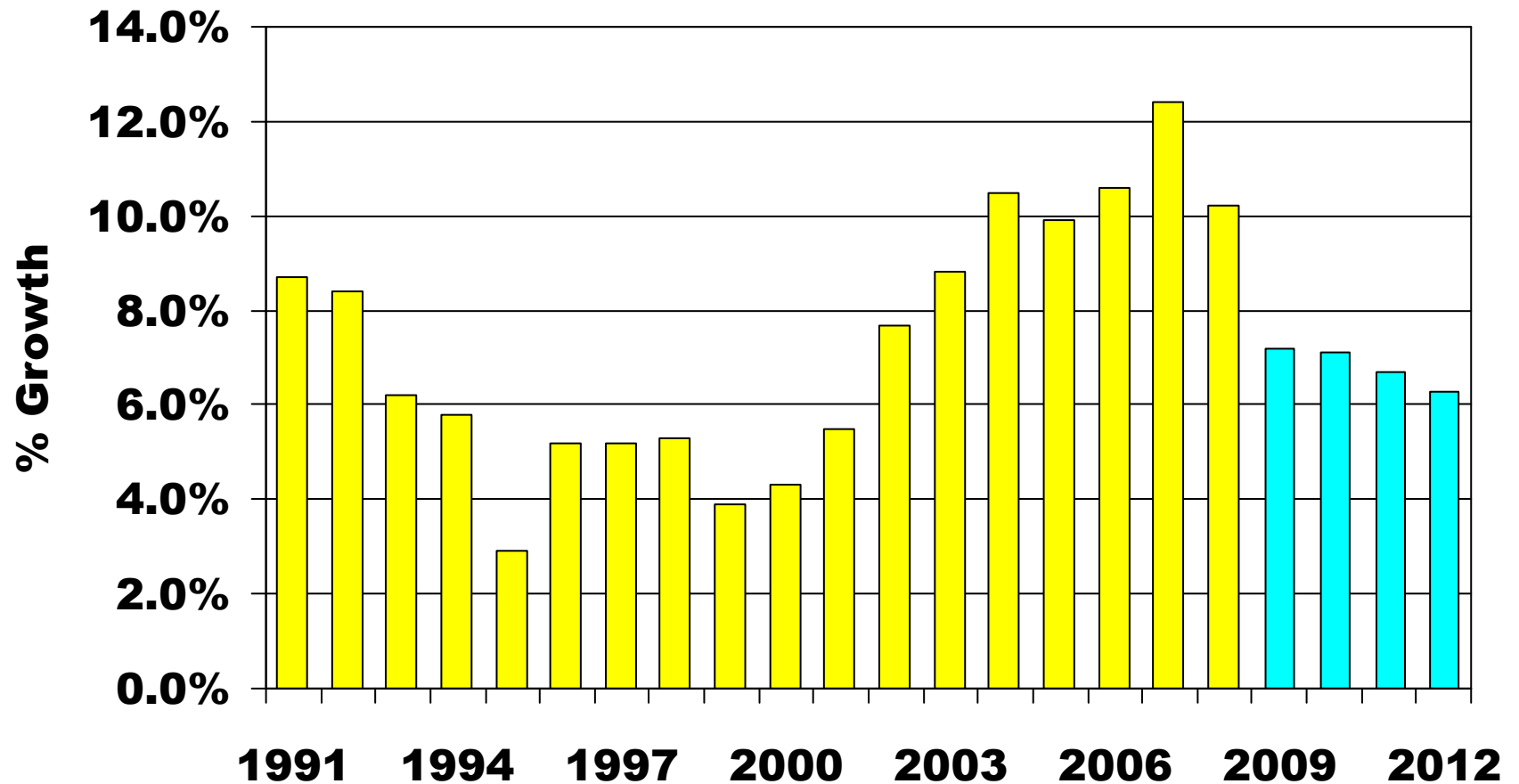
November 2009

Rapid Growth of Residential Mortgage Credit in Canada



Sources: Bank of Canada / Will Dunning Inc.

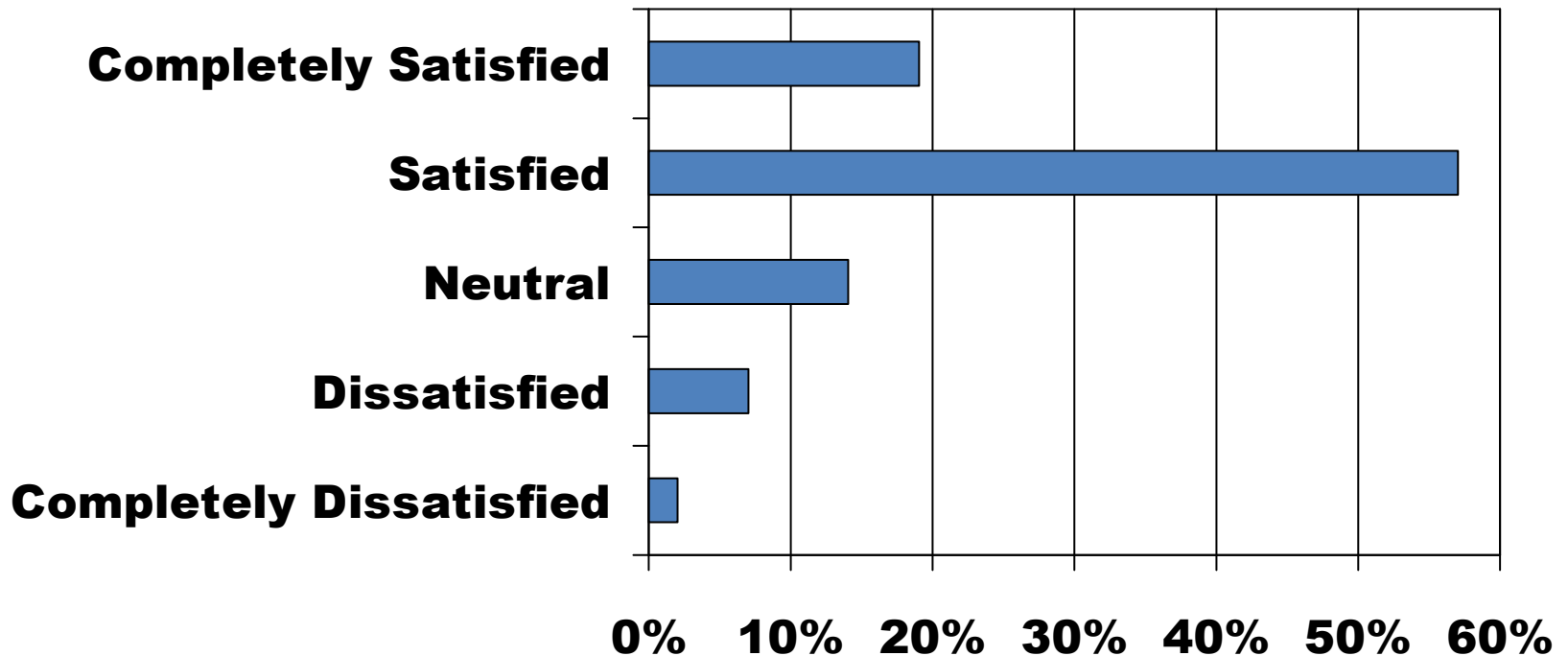
Annual Growth in Residential Mortgage Credit in Canada



Source: Bank of Canada / Will Dunning

Consumer Attitudes and Choices

Consumers' Satisfaction With Their Mortgage Experiences



Average satisfaction score of 7.7

Variations in Satisfaction

- Highest for older ages groups
- Highest for adjustable/variable rate mortgages (average of 8.2 out of 10 versus 7.7 for all)

Most Mortgage Borrowers do Limited Shopping

Number of Quotes	% of Borrowers
0 or 1	47%
2	28%
3	17%
4 or more	9%
Average	1.91

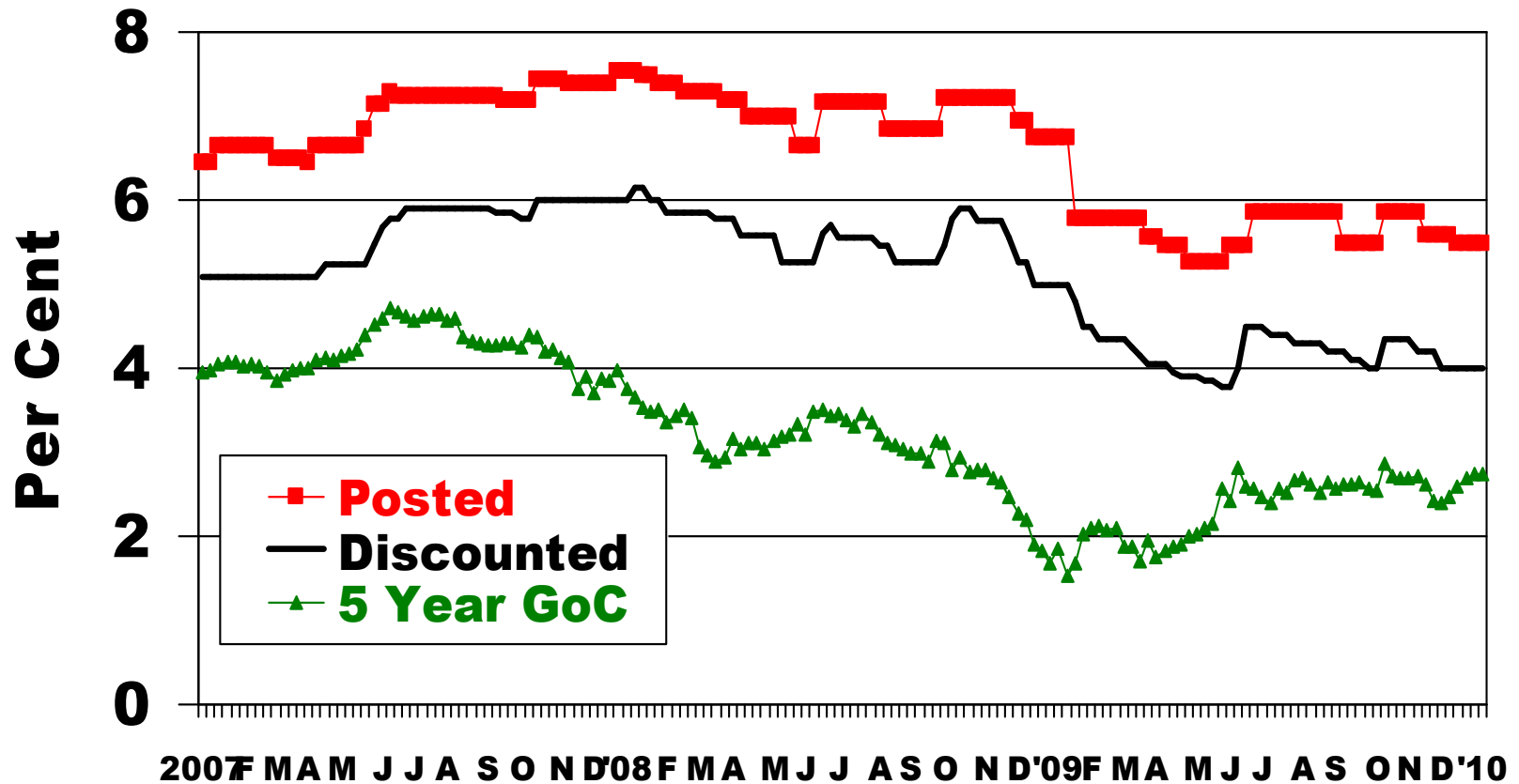
Fixed Rate Mortgages Still Most Popular

Number of Quotes	% of Borrowers
Fixed Rate	68%
Adjustable/Variable	27%
Combination	6%

Interest Rates

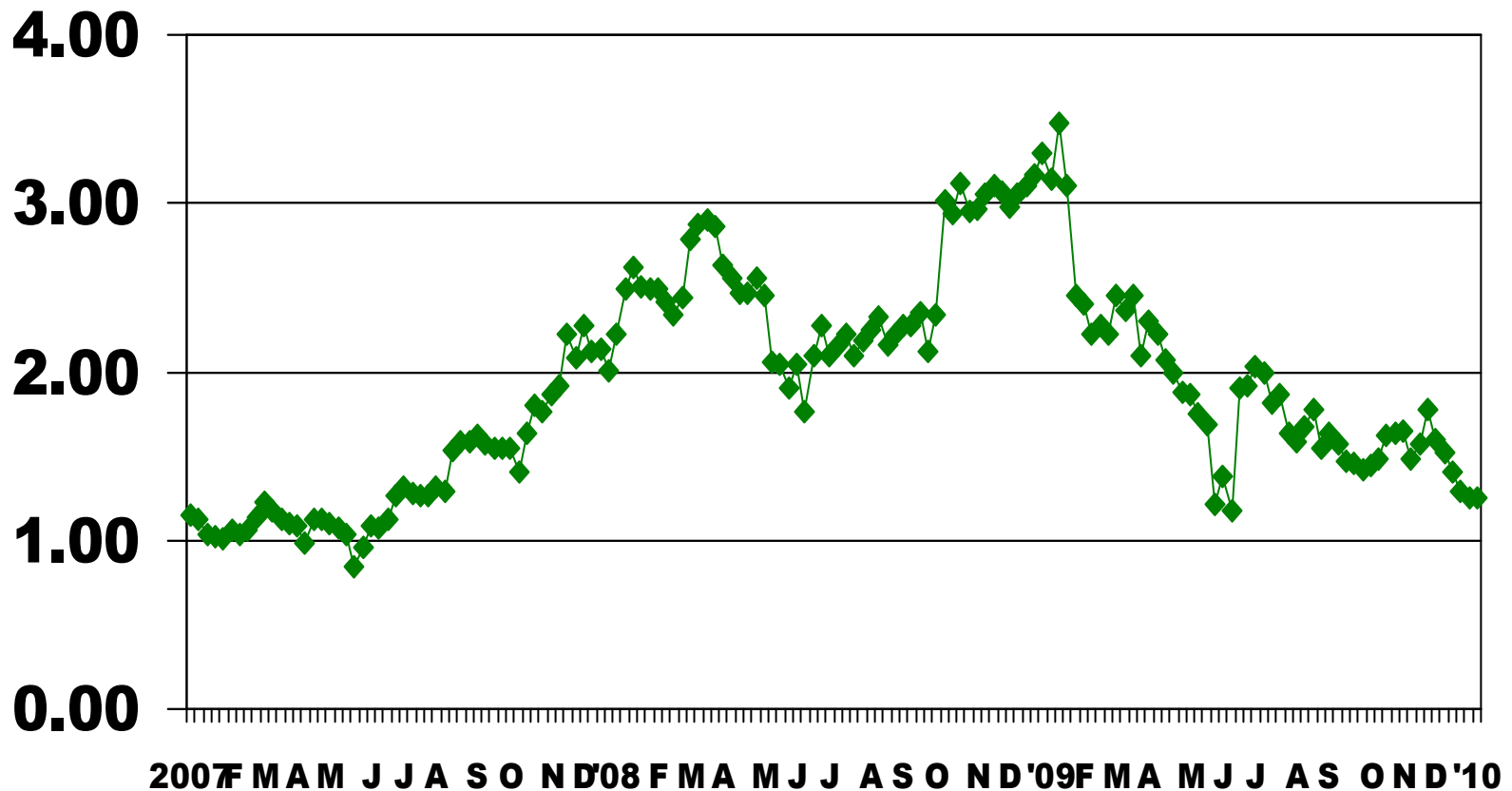
- Average across all mortgages - 4.55%
 - Lowest for variable – 3.03%; 5.15% for fixed
- Mortgages negotiated past 6 months - 4.23%
- For renewers: rate fell for 73%, rose for 15%, unchanged for 12%.
- Average change – minus 1.12%
- During past 12 months discounts averaged 123 basis points (5-year terms)

Mortgage Rates Versus GoC Bonds (5-Year)



Source: Bank of Canada / Will Dunning Inc.

Spread Between Bonds and (Discounted) Mortgages



Source: Bank of Canada / Will Dunning Inc.

Amortization Periods

- Amortization periods over 25 years have 18% of market.
- 44% for new mortgages initiated in past year, including:
 - 26-30 years – 18%
 - 31-35 years – 21%
 - 36-40 years – 5%

Housing Equity in Canada

- Estimated at \$1.98 trillion (based on \$2.69 trillion in values versus \$706 billion in mortgages)
- Average 74% equity
- 1% of mortgage holders may have negative equity
- > 95% have more than 5% equity

Equity Take-out

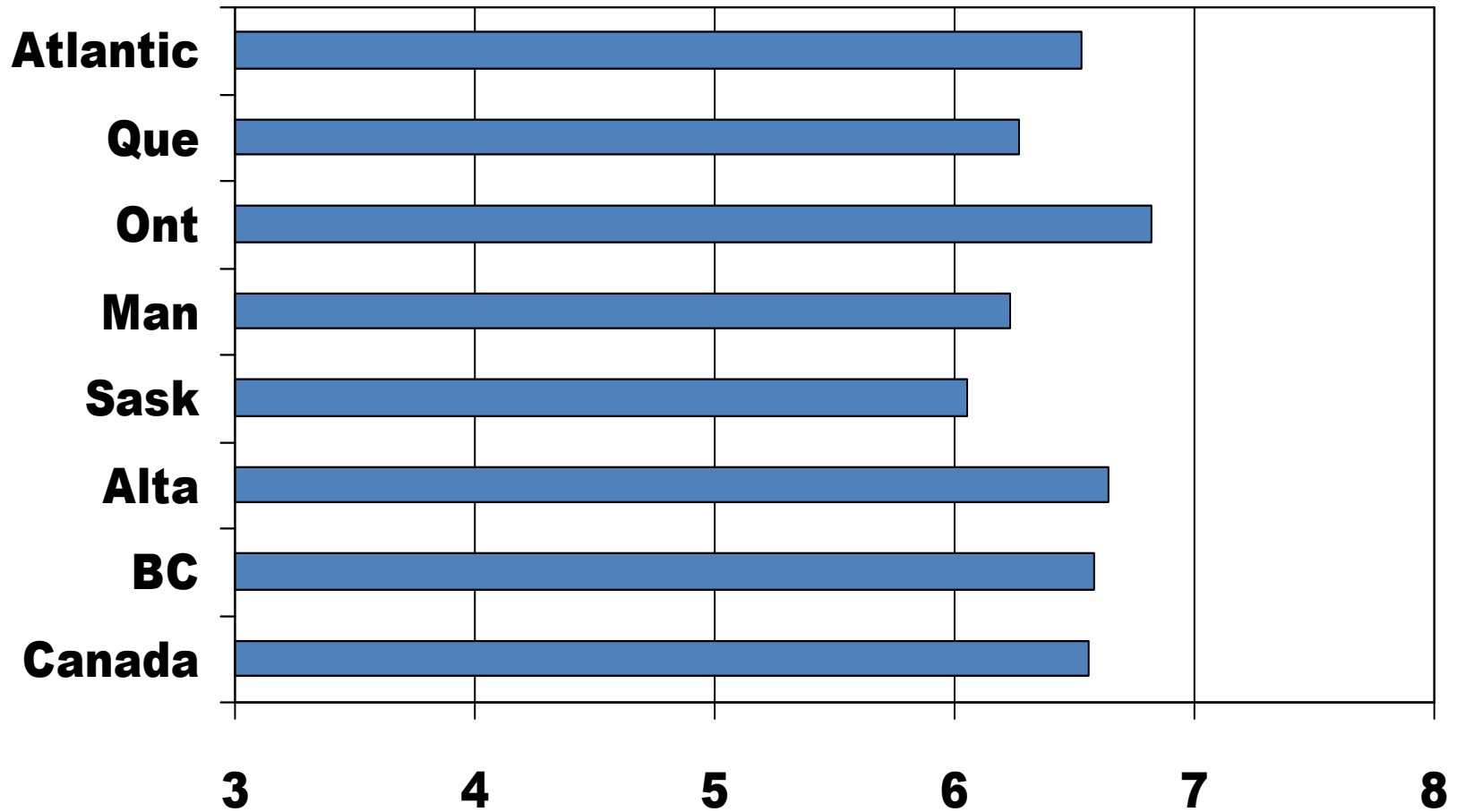
- 18% of all mortgage holders took out equity
- Take-out averages \$41,000
- Total take-out of \$41 billion (vs \$46 year ago)
- Equal to 4% of total personal disposable income

Uses of Equity Take-out

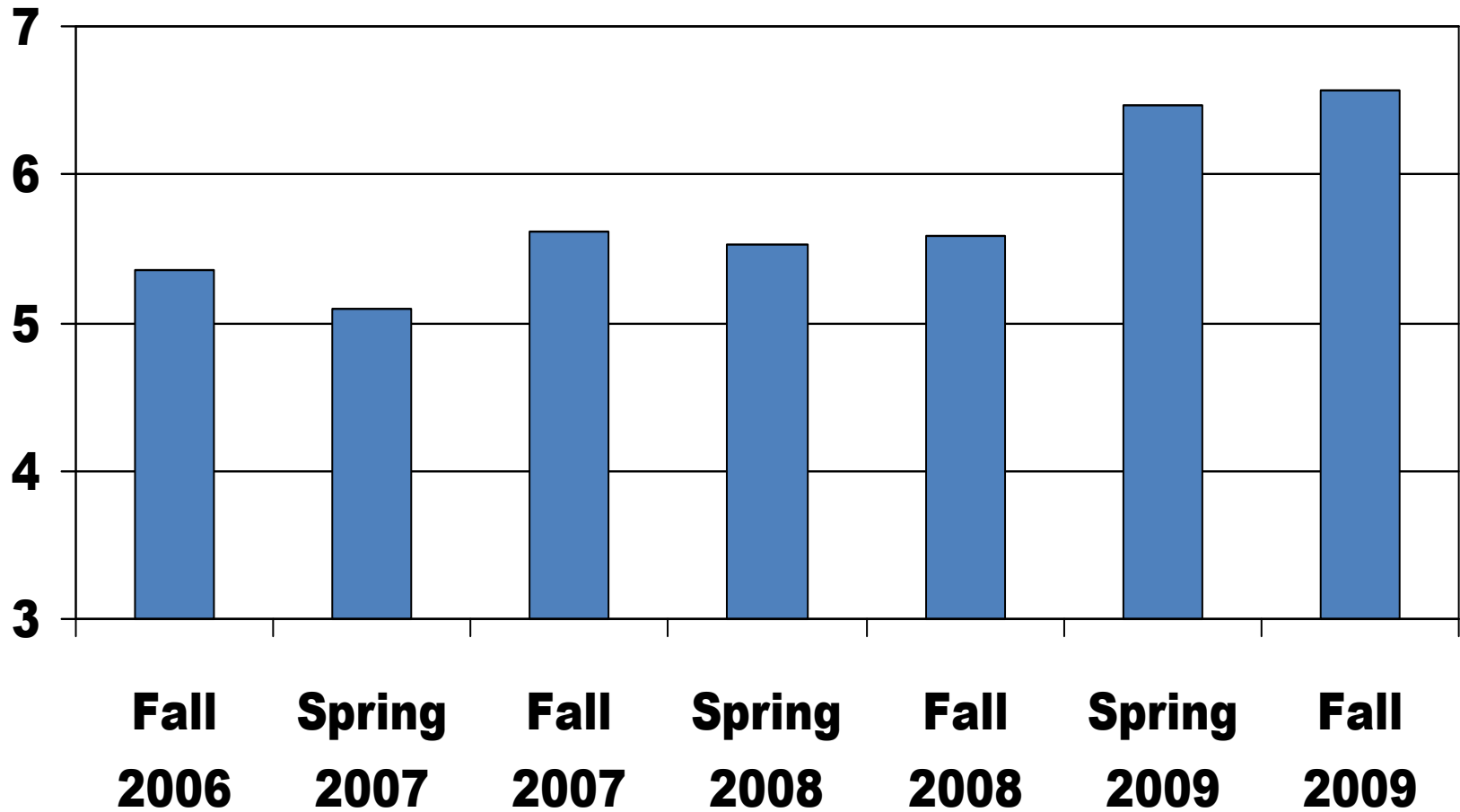
Purpose	Share of \$41 bn
To consolidate or pay down debt	\$ 17 bn
To renovate my house/condo	\$ 12 bn
To invest	\$ 6 bn
To make a purchase	\$ 3 bn
Other	\$ 3 bn

Consumers' Expectations

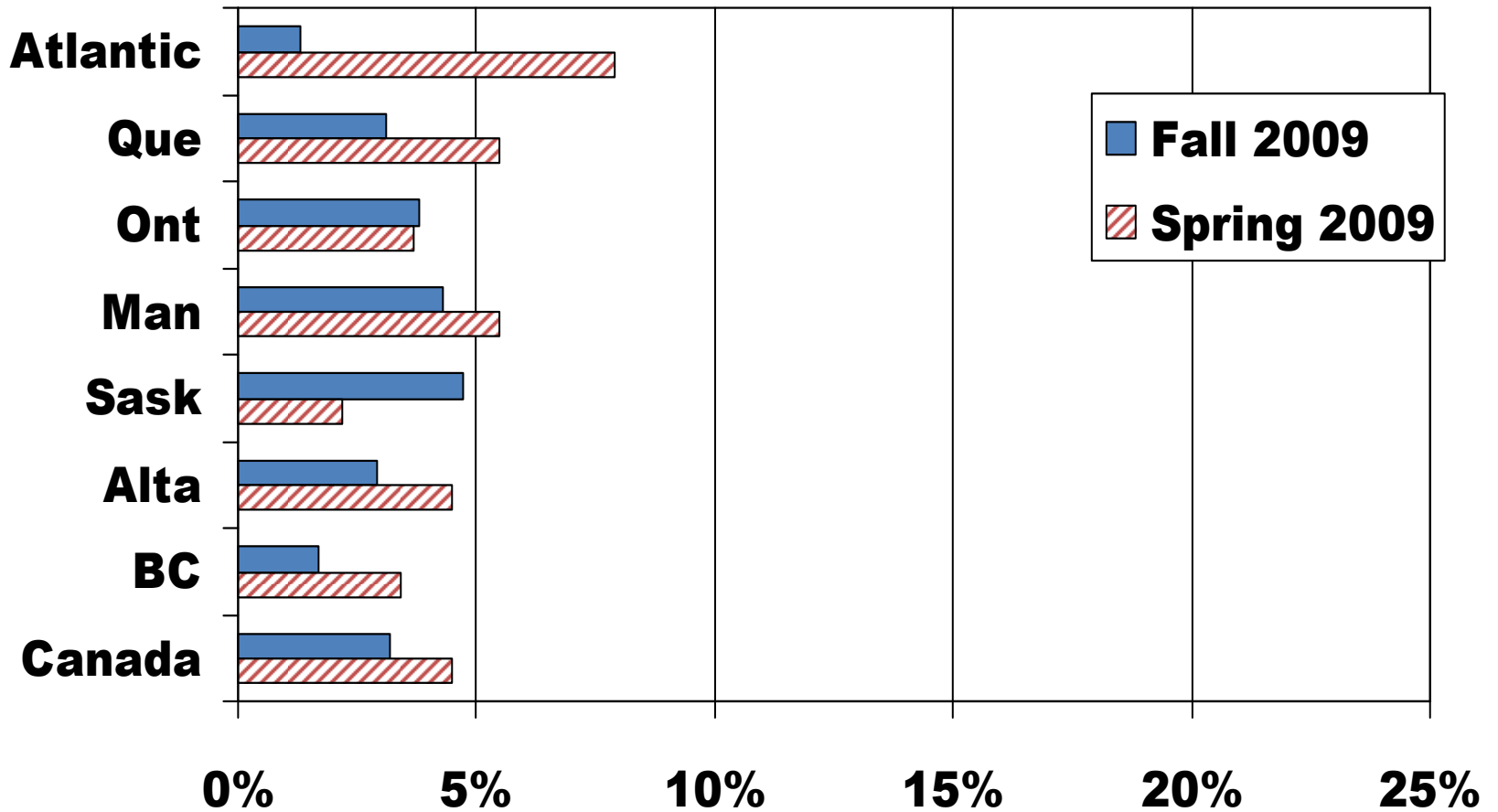
“Is Now a Good Time to Buy?” (Average on a 10-point scale)



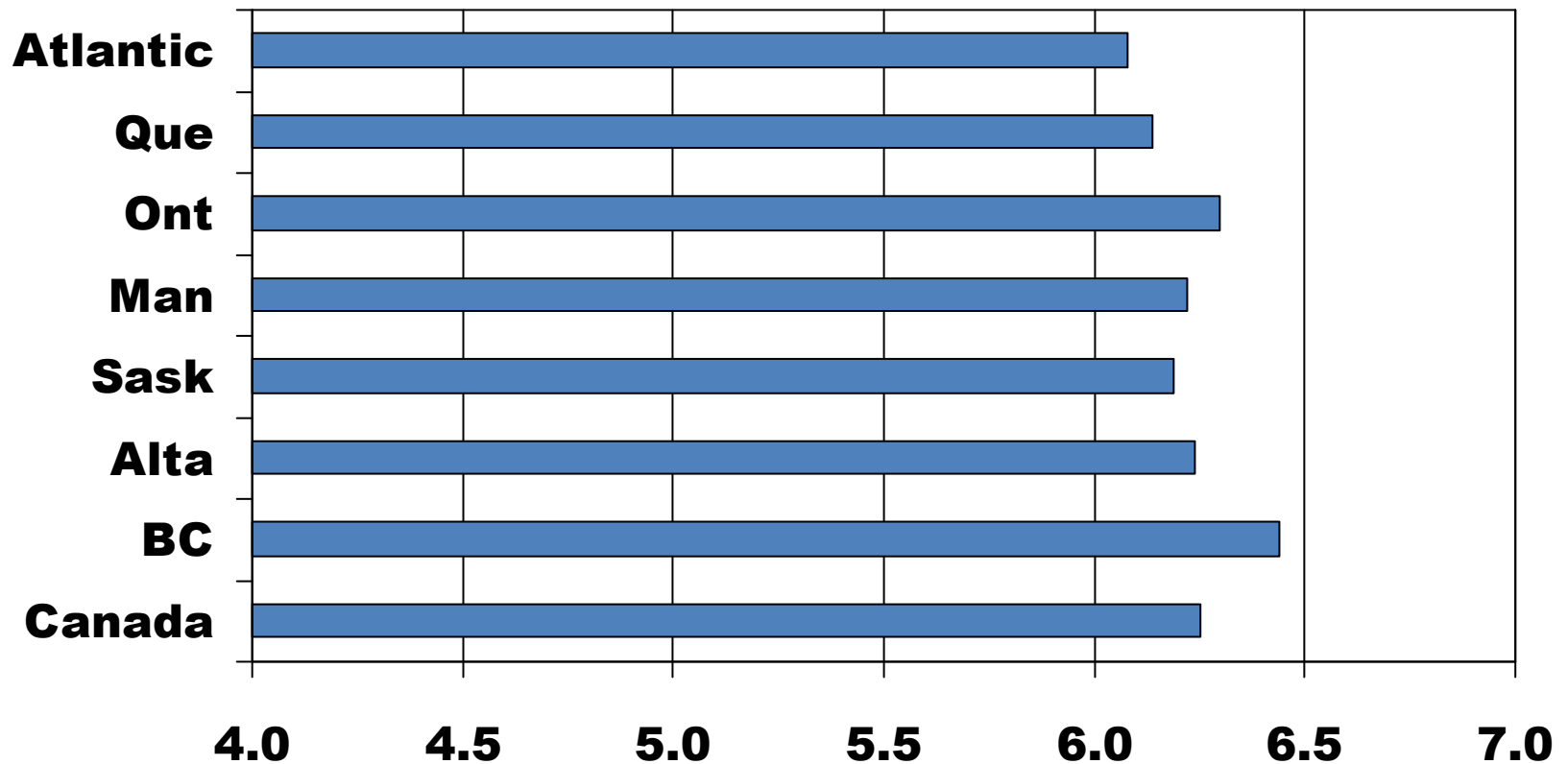
Attitudes to Buying Very Strong (10-point scale)



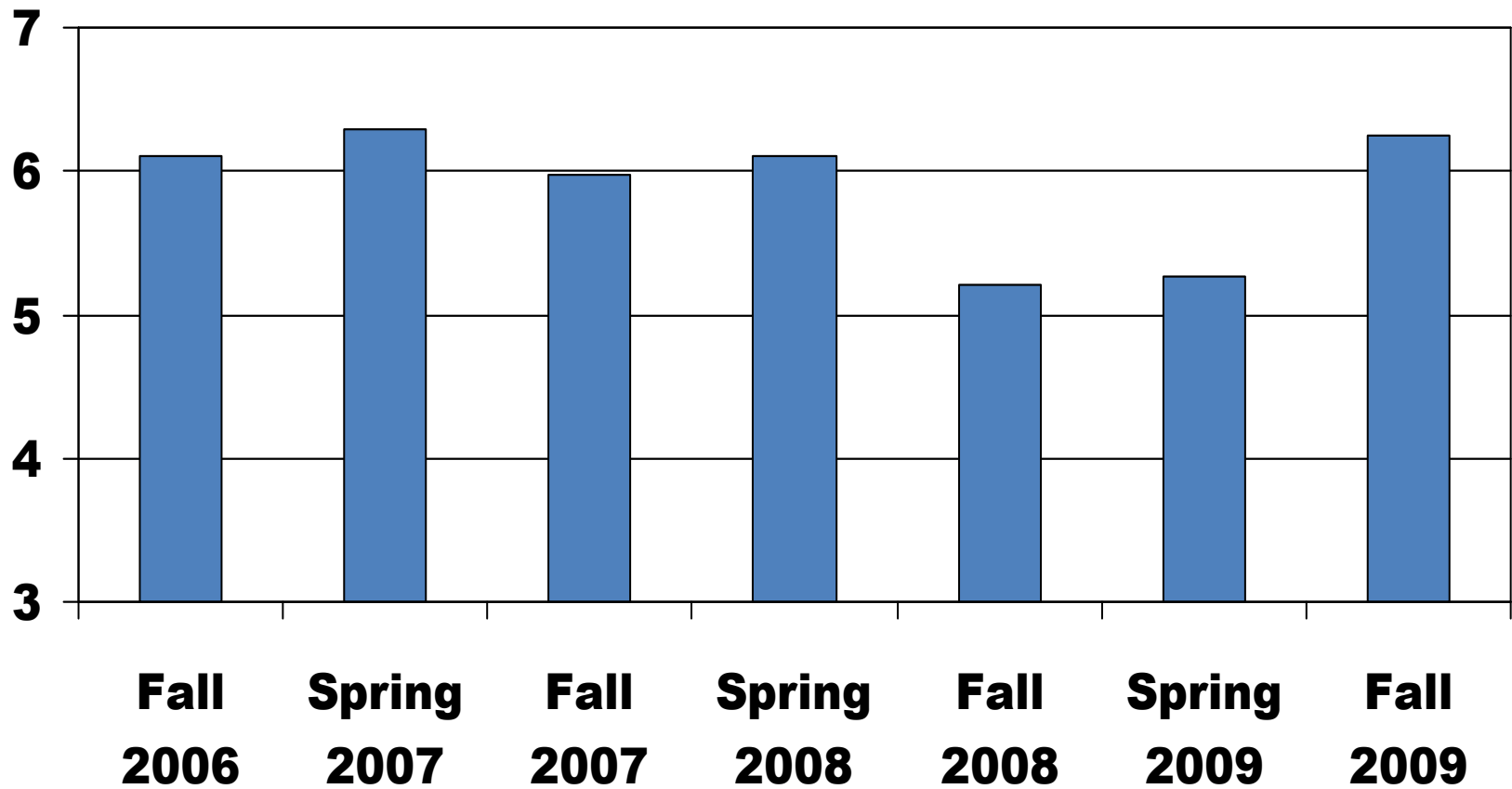
But, Expectations of Buying are Low (9 or 10 on a 10-point scale)



“Will House Prices Rise?” (10-point scale)



Strong Recovery of Price Expectations (10-point scale)



About Will Dunning

In addition to being Chief Economist for CAAMP, Will Dunning operates a consulting firm.

Services include:

- Custom research on economics and housing markets.
- Briefings and presentations.

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