

Transformation of the Role of the Canada Mortgage and Housing Corporation

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Canada Mortgage and Housing Corporation
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Overview of CMHC

The Canada Mortgage and Housing Corporation (CMHC) is the national housing agency for Canada. It is committed to housing quality, affordability and choice for Canadians, and it carries out its mission via four business pillars - housing finance, assisted housing, research and information transfer, and international activities. Although it is fully owned by the government, CMHC is managed like a private sector corporation, with a president reporting to an independent Board of Directors – a ‘Crown Corporation’ in Canadian terms.

CMHC has a broad mandate with respect to housing. It is unique in that it gathers under one roof a number of business and non-commercial activities that address the question of housing from every vantage point.

However, while CMHC’s focus on enabling housing access and supporting the housing industry has remained unchanged over the years, its role within the housing sector has continued to evolve. Initially, CMHC took a direct approach to solving housing problems, in housing finance, public housing, and industry development. As CMHC identified the challenges in each realm of housing and worked towards a solution, it involved other players, agencies or stakeholders in collaborating with CMHC to develop and implement products, programs, and institutions. As successful working models have been found to implement housing solutions, CMHC has moved away from direct intervention. Where appropriate, CMHC shifted responsibility for providing housing solutions to the private sector or other levels of government, while it retained a supervisory or facilitative role.

Since CMHC’s inception, each decade has had a unique set of challenges. In order to illustrate CMHC’s role over time, we will highlight the challenges of each major period and CMHC’s approach vis-à-vis the sector to respond to each of these challenges.

1940s: Housing Shortages

The housing sector faced a number of difficulties in the 1940s. There was a tremendous shortage of housing, compounded by rapid increases in immigration and the return of war veterans in 1945. The industry was characterized by a large number of very small builders, who engaged in labour intensive construction—unable as a whole to sustain a supply sufficient to meet demand. Mortgage financing was limited and its terms were very conservative, such that

the lack of access to financing was a main contributor to housing shortages. While some limited housing initiatives existed, there was no single agency focused on the many different aspects of housing.

CMHC's Role in 1940s: Consolidation of Housing Activities

	Challenge	Response	Institutional Impact
Housing Finance	<ul style="list-style-type: none"> • Housing finance not accessible to majority of Canadians. 	<ul style="list-style-type: none"> • Liberalization of some housing finance terms. • Joint public-private mortgage lending with insurance companies; some government intervention on interest rates. • Partial government loan loss coverage. 	<ul style="list-style-type: none"> • Creation of CMHC to consolidate all housing activities into one national centre. • Portfolio of 30,000 houses transferred to CMHC from Wartime Housing Limited.
Assisted Housing	<ul style="list-style-type: none"> • Large number of immigrants and returning war veterans with no housing. 	<ul style="list-style-type: none"> • Direct mortgage loans to stimulate the private sector to supply low-rent housing. • Grants to municipalities for slum clearance where land to be re-used for moderate rental housing. 	
Industry Development	<ul style="list-style-type: none"> • Industry unable to provide sufficient supply to alleviate housing shortages. • Industry small, disorganized, deficiencies in labour quality and supply. 	<ul style="list-style-type: none"> • Establishment of industry guidelines. • Developed plans of standard housing designs and construction drawings to stimulate housing supply. • Began recruiting housing professionals from overseas (architects, engineers, surveyors, skilled trades). 	

The primary response to these challenges was the creation of the Central Mortgage and Housing Corporation (CMHC) in 1946¹. A national agency was needed to consolidate all activities regarding housing, including the stimulation of private market provision of housing as well as direct housing creation.

CMHC acted on major challenges in the housing sector through many different fronts. In terms of housing finance, legislation was introduced to liberalize terms and conditions for loans. These measures decreased the minimum downpayment allowed, extended the term length of loans, allowed borrowers the right to renew a loan, and allowed loans to be paid in blended

¹ CMHC was renamed Canada Mortgage and Housing Corporation in 1979.

equally monthly payments of interest and principal. Meanwhile, the government through CMHC became directly involved in housing finance through a joint public-private lending system. Certain authorized financial institutions were allowed to make loans on new housing up to 80% of the lending value, with the federal government providing one quarter of this joint loan, at below-market interest rates. Recognizing private sector limitations, CMHC also moved to stimulate low-rent housing development. In terms of industry development, CMHC moved to address labour deficiencies and skill shortages, and began the process of instituting quality assurance to the industry through the development of housing, material, and construction standards.

1950s & 1960s: Economic Growth and Urbanization

The demand for housing continued to outpace supply throughout the 1950s and 1960s. Rapid economic growth during much of this period, coupled with high immigration rates and rapid urbanization strained the capacity of the housing supply – both in terms of buildings and in funding for mortgage lending. These problems were more acute in urban areas. Municipalities struggled to provide service infrastructure for housing, and slum areas continued to deteriorate in cities, emphasizing the need for low-income housing. The joint public-private mortgage lending system instituted in the 1940s was not sufficiently effective; the private sector participants (mostly life insurance companies) did not have the financial capacity to meet demand, and that system also required substantial government funding.

CMHC’s Role in 1950s and 1960s: Meeting Housing Demand

	Challenge	Response	Institutional Impact
Housing Finance	<ul style="list-style-type: none"> • Rapid economic growth and urbanization creates strong demand for housing. • Joint-lending not sufficient and too expensive for government. • Severe shortages of mortgage funding. 	<ul style="list-style-type: none"> • Introduced mortgage default insurance as a lever to switch to private sector focus for housing finance. • Allowed banks entry to mortgage market (insured mortgages). 	<ul style="list-style-type: none"> • CMHC expanded nationwide, growing from 1,800 employees and 32 offices to 2,200 employees and 69 offices across the country.
Assisted Housing	<ul style="list-style-type: none"> • Growing concern with urban redevelopment, slums, and attention to low-income groups. • Strain on municipal service infrastructure for housing due to rapid urbanization. 	<ul style="list-style-type: none"> • Began large-scale federal/provincial public housing projects, where CMHC provided loans to provincial housing programs that covered 75% of the capital costs and provided 75% of the projects’ operating deficit. • Loans to municipalities for service infrastructure development. 	<ul style="list-style-type: none"> • Creation and expansion of the mortgage insurance sector within CMHC. • Many staff are planners, technical

Industry Development	<ul style="list-style-type: none"> • Concern about ensuring the quality of buildings. • Search for most cost-effective building methods and technologies. 	<ul style="list-style-type: none"> • Developed certification programs for builders and appraisers. • Adopted Residential Standards for insured houses and published minimum standards as guidelines for all houses. • Supported research into technical issues affecting housing; construction of first experimental houses. • Established the Canadian Manufactured Housing Institute, and the Canadian Housing Design Council. 	experts, designers.
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The government of Canada's solution to the housing finance issue was to introduce mortgage default insurance, on a self-financing basis, in 1954. Banks were allowed to lend for insured mortgages. With CMHC insuring a lender against a borrower default, lenders were more willing to make mortgages with low downpayments. Fixed mortgage interest rates were changed to maximum prescribed rates. These changes all had the effect of removing the government from the direct provision of housing finance, to a system where the private sector provided the financing, with CMHC acting as a facilitator.

In terms of assisted housing, CMHC also continued to meet demands not addressed by the private sector. Building on the Corporation's know-how in housing and program management, the Government of Canada expanded CMHC's role to include serving the poor. This included developing and delivering public housing programs in tandem with the provinces and sometimes municipalities. Through CMHC, the federal government provided the majority of the capital needed to build the public housing projects as well as the majority of the subsidies to offset the operating deficit of the low-income housing projects. Funding of municipal infrastructure to enhance access to serviced land was also provided by the federal government, through CMHC working with its provincial counterparts.

Regarding industry development, CMHC was very active in developing certification programs for builders and appraisers. It also established new organizations to encourage quality and cost-effective design in housing development.

1970s: Affordability and Low Income Housing Needs

By the 1970s, Canada's housing industry was better able to meet demand. Throughout the decade, the primary challenge became that of housing affordability. Strong economic growth pushed up inflation rates and interest rates, particularly towards the end of the decade. Demographic trends meant that a large number of potential homebuyers were young, first-time homebuyers, with limited resources for financing housing purchases. The Government of Canada responded by further liberalizing housing finance and providing fiscal incentives to stimulate housing supply, through CMHC.

The range of CMHC's assisted housing programs widened — addressing issues from neighbourhood improvement to renovation of existing housing stock to on-reserve housing. At the same time, in the area of public housing, the projects became smaller in order to better integrate them within the community. To this end, CMHC also built the capacity of non-profit and cooperative housing groups and supported them as they developed their own housing projects in existing neighbourhoods.

CMHC's Role in 1970s: Focus on Affordability and Low Income Housing

	Challenge	Response	Institutional Impact
Housing Finance	<ul style="list-style-type: none"> • Affordability of housing finance is the dominant challenge. • Rising inflation, housing prices, and interest rates. 	<ul style="list-style-type: none"> • Strengthened private market involvement in housing finance: banks allowed full access (conventional mortgages as well as insured mortgages) and loan term length lowered to eliminate funding mismatch; interest rate ceiling eliminated. • Direct and fiscal incentives to stimulate homeownership and the supply of private rental housing. 	<ul style="list-style-type: none"> • Housing a major government priority. • CMHC grew from 2,241 employees in 1971 (70 offices) to 3,870 employees in 1979 (79 offices). • Majority of staff involved in assisted housing programs.
Assisted Housing	<ul style="list-style-type: none"> • Disaffection with large-scale public housing projects; desire for integrated communities. • Increased desire for community participation in assisted housing. • Need and desire to revitalize cities. 	<ul style="list-style-type: none"> • Expanded scope for housing programs to address range of issues: i.e. renovation of existing stock, neighbourhood improvement, special needs groups. • Focus on new partners in assisted housing; allowed community (non-profit) groups to produce and manage assisted housing. 	

Industry Development	<ul style="list-style-type: none"> • Concern about quality of existing housing stock. • Energy costs skyrocket. • Adoption of metric system in Canada. 	<ul style="list-style-type: none"> • Encourage home renovation industry; provide house rehabilitation skills training. • Enabled the establishment of new home warranty programs. • Produce advisory documents on housing and site design, energy conservation, etc. • Support of technical research issues and industry innovation. Conducted several demonstration projects to test feasibility and costs of new and alternative housing designs and technologies. • Assist construction industry to adapt to metric system. 	
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1980s & 1990s: Fiscal Challenges

Economic realities caused the major challenges in the 1980s, both in terms of housing finance and assisted housing. The early part of the decade saw huge increases in interest rates and the beginning of a very prolonged recession. The economic situation created affordability issues for many new borrowers. With interest rates rising, lenders were often reluctant to supply mortgages for longer than the short term, causing medium and long-term mortgage financing to become very expensive. Throughout the period, general investor tastes also began to move away from the fixed income market towards the equity market, further eroding lenders' sources of funding.

The burst of the real estate cycle in the 1980s, coupled with the overstimulation of the homeownership market (due to prior subsidies), caused major increases in claims payouts on defaulting mortgages. The defaults were so high that CMHC was forced to borrow from the federal government to fulfill its insurance obligations. This borrowing was later repaid when the insurance fund stabilized.

These economic challenges led to two main developments in housing finance within this period. First of all, CMHC was charged with operating its mortgage insurance on a fully commercial basis, and to move towards achieving the capitalization needed to supplant the government guarantee. Secondly, in order to address funding issues, CMHC introduced mortgage-backed securities (MBS).

In terms of assisted housing, the multiple programs from the previous decade were exerting a rising strain on government funding, while criticisms were levelled that housing assistance was being applied to middle income as well as low income recipients. A philosophy of efficiency led to a greater emphasis on targeting low-income recipients ("core-need" concept), removing overlap and duplication of government programs, and evaluating programs for

effectiveness. By 1985, the federal government began a general rationalization for the economic and fiscal health of the country, which included a disengagement from housing stimulation. In the early 1990s, government budget deficits forced a termination of any **new** long-term commitments in assisted housing (except on aboriginal reserves).

CMHC's Role in 1980s and 1990s: Commercialization and New Fiscal Realities

	Challenge	Response	Institutional Impact
Housing Finance	<ul style="list-style-type: none"> • Economic recession and rising interest rates. • Major defaults in mortgage insurance. • Shortage of affordable medium and long-term funds for mortgage lending. • Affordability issues for new borrowers due to high interest rates. • 1990s: Technology advances reshaping the financial services industry. 	<ul style="list-style-type: none"> • Restructured mortgage insurance fund to operate on a fully commercial basis. • Introduced Mortgage-Backed Securities (MBS) to provide new source of funding for home loans. • Developed an automated underwriting system that processes applications for mortgage loan insurance from approved lenders. 	<ul style="list-style-type: none"> • CMHC, like other government departments, went through a major downsizing during this period. Staff declined from 3,700 in 1980 to 3,000 in 1986. One-third of offices were closed. • Continued downsizing throughout 1990s, to 1,940 staff in 1999. • 1990s: CMHC consolidated its operations into five Regional Business Centres.
Assisted Housing	<ul style="list-style-type: none"> • Concerns about targeting housing assistance programs. • 1980s: Efficiency concerns about program targets and program duplication. • 1990s: Government outlays constrained by budget deficits. 	<ul style="list-style-type: none"> • Greater focus on targeting all social programs. Introduction of "Core Need" measure. • Early 1990s: Withdrawal from any new long-term commitments to assisted housing except on aboriginal reserves. • Mid-1990s: Sought the transfer of delivery and administration of majority of assisted housing programs to the provinces and territories. • Formed the Canadian Centre for Public-Private Partnerships in Housing, to encourage public, private, and community groups to generate innovative housing solutions without on-going government subsidy. 	

Industry Development	<ul style="list-style-type: none"> • Cyclical housing demand difficult for builders. 	<ul style="list-style-type: none"> • Introduced construction programs for a short time to stimulate the economy following the recession. • Creation of Canadian Housing Export Centre. • Introduction of Market Analysis Centre. • CMHC relied on housing market and local governments to regulate housing quality. 	
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2000s: Competition & Homelessness

CMHC’s housing finance initiatives have gone a long way to achieving the objective of affordable and accessible housing for all Canadians. Flexible mortgage terms, with downpayments as low as 5%, have led to a housing system where 67% of Canadian families owned a principal residence in 1999. One-third of these homeowners had a mortgage. Today, more than 40% of all outstanding residential mortgages are insured by CMHC.

Over more than five decades, CMHC has led in the development of strategic directions and policies for the design, delivery, management and financing of assisted housing in Canada. As a national agency, it also had the ability to implement overarching principles to the housing sector, such as establishing a fair and rational basis for allocating federal money to the different geographical regions of the country. The legacy of fifty years of assisted housing in Canada is demonstrated by the existing public housing portfolio, which represents between five and six percent of the country’s housing stock, consisting of over 650,000 housing units.

In terms of quality assurance and industry capacity development, CMHC’s role has evolved from intervention and regulation to support. While other agencies are primarily responsible for product research and testing, accreditation, and building codes, CMHC continues to play an active support role in quality assurance. For example, as a member of the Canadian Commission on Building and Fire Codes, it participates in development of codes and standards. CMHC also produces supportive technical research, guides and training to help the industry understand code requirements.

CMHC’s Role in 2000s: Expanding Opportunities

	Challenge	Response	Institutional Impact
Housing Finance	<ul style="list-style-type: none"> • Strong demand for rental and affordable family housing. • Competition within housing finance industry. • Globalization. 	<ul style="list-style-type: none"> • Continued to develop innovative products; i.e. Canada Mortgage Bond. • CMHC Securities listed and sold globally. • Creation of CMHC International focused on adapting housing finance solutions to emerging economies. 	<ul style="list-style-type: none"> • New institutional pillar created (CMHC International). • Retained structure of one

Assisted Housing	<ul style="list-style-type: none"> • Increasing public concern for homelessness and lack of affordable rental housing. • Urban area growth creates cross-sectoral challenges for urban planning and quality of life. 	<ul style="list-style-type: none"> • Joint framework between CMHC and provinces for bilateral agreements on affordable rental housing. • CMHC involvement in government measures to assist the homeless. 	national and five regional Business Centres. <ul style="list-style-type: none"> • Continued decline in staff.
Industry Development	<ul style="list-style-type: none"> • Globalization • Market variability. 	<ul style="list-style-type: none"> • Refocus of export group assisting housing industry within CMHC International. • Extensive market analysis service, providing industry with information on trends in demand, price, vacancies, etc. 	

Conclusion

One critical factor contributing to CMHC’s success has been its ability to change in response to the needs of Canadians. This is perhaps best summed up by the words of a former Senior Vice-President, R.J. Boivin: *“CMHC staff has always been required to be flexible, to adapt to change, and so has the Corporation. ... Our secret has been knowing how to manage change instead of resisting it. The Corporation would not now be recognized as a relevant and respected instrument of federal housing policy if it had not learned how to accept and adapt to change.”*²

² R.J. Boivin, *Housing a Nation* (Ottawa: CMHC, 1986), p. 97.

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