

## Vulnerable to mortgage fallout?

Canadian mortgage market 'a picture of health': industry group

Reuters

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TORONTO -- In a bid to stave off concerns, a Canadian mortgage industry association called the domestic mortgage market "a picture of health," compared with the United States, where default rates have jumped in the higher-risk subprime mortgage segment and forced some U.S. lenders out of business.

As world financial markets monitor the U.S. subprime slide for possible ripple effects, the Canadian Association of Accredited Mortgage Professionals took pains on Thursday to point out differences in the two markets.

In a statement, it said the subprime market makes up 5% or less of all outstanding mortgages in Canada, versus about 20% in the United States.

The association represents about 9,800 mortgage lenders, brokers, insurers and other industry players.

"We didn't want to give all subprime mortgages a bad reputation, because there is a role for them," Jim Murphy, president of the association, said in an interview.

For example, he noted, self-employed people with variable incomes or new immigrants lacking Canadian credit histories can qualify for alternative products carrying a higher interest rate.

"But we felt it was important to say our housing market in Canada is strong, the mortgage market is strong; it continues to grow by 10% each and every year," Murphy added.

The overall arrears rate on mortgages in Canada remains near record lows of less than 0.5%, and the domestic market has not been using the option adjustable rate mortgages for subprime borrowers that are popular in the United States, the group said.



CREDIT: CanWest File

Last rays of sunshine reflect off downtown Vancouver, BC and the surrounding North Shore mountains Monday, February 26, 2007.

Canadian underwriting practices are "more prudent," since there has not been a market-share battle for the highest-risk borrowers, and the "vast majority" of Canadian mortgages are amortized over 25 years or less, the association said. A five-year, fixed rate mortgage term is the most popular choice, it added.

The statement comes a day after alternative lender Xceed Mortgage Corp. said net income in the three months ended January 31 jumped 37% to \$6.8 million, or 23 cents a share. The small Toronto-based company also raised its dividend.

Xceed cited favorable market conditions, among other factors, for the profit increase, and on its Web site it stresses that some lending problems in the United States are unique to that market.

The U.S. housing and mortgage markets are generally overheated, the U.S. has "borrower-friendly laws" versus "lender-friendly laws" in Canada, and the Canadian subprime market is much less developed, so products are also less aggressive, the company said.

According to Xceed, which administers \$2.5 billion in mortgages and other assets, the U.S. default rate for subprime mortgages is 6.8%, versus 2.1% in Canada.

Although small, the Canadian subprime market is growing rapidly, at about 50% annually, economists at Canadian Imperial Bank of Commerce said in a December report.

In the United States, there are concerns the subprime market fallout could depress house prices, spread to mainstream lenders and possibly hurt the broader economy.

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