



Appendix D – The Canadian Mortgage Bond Program

- 1.1 Canada's Mortgage Bond Program commenced in 2001 as part of Canada's longer-term efforts to reduce the cost of home borrowing. In the 1980's, the Canadian Government created the Canadian Mortgage Housing Corporation (CMHC), which in turn created the National Housing Act Mortgage-Backed Securities Program (NHAMBS) to 'facilitate the development of the securitisation of mortgages in Canada'.¹ Under the CMHC, the NHAMBS began providing an unconditional Canadian Government guarantee of timely payment of pools of government insured mortgages.²
- 1.2 Investors in these government insured mortgage-backed securities 'receive a monthly "pass through" cash flow comprised of interest, scheduled principal and unscheduled principal repayments'.³ Investors will always receive this monthly cash flow because the Canadian Government will make the payment if the financial institution which has issued the security does not. This guarantee of payment costs issuers of the security a premium.⁴
- 1.3 The Canadian Government expanded its mortgage securitisation program in 2001 when it introduced the CMB Program, under which the Canadian Government issues a guaranteed bond – giving purchasers of the bond regular interest payments with principal paid at maturity – and uses the proceeds of the bond sales to purchase the mortgage-backed securities issued by the NHAMBS scheme.⁵ The Government's intention was to

1 Treasury, *Submission No. 167*, p. 1.

2 Treasury, *Submission No. 167*, p. 1.

3 Treasury, *Submission No. 167*, p. 1.

4 Treasury, *Submission No. 167*, p. 1.

5 Treasury, *Submission No. 167*, p. 2.

generate more investment in mortgage-backed securities by providing investors with options.⁶ Both programs account for around four-fifths of mortgage securitisation in Canada and the vast majority of all securitisation activity, with the CMB program accounting for around three-quarters of investment in mortgage-backed securities.⁷

6 Treasury, *Submission No. 167*, p. 2.

7 Treasury, *Submission No. 167*, p. 2.