

U.S. mortgage insurers press Ottawa to fully guarantee policies

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U.S.-based mortgage insurance companies are pressing the federal government to fully guarantee their home insurance policies in the pending federal budget to expand their market and possibly help resuscitate Canada's struggling real-estate market.

According to people familiar with the lobbying campaign, two leading mortgage insurers, Genworth Financial and American International Group, are fighting to raise existing government guarantees of private mortgage insurance to 100 per cent from the 90-per-cent level that has been in existence since the late 1980s.

Such a move would make the federal government ultimately liable for all of the hundreds of billions of dollars in insured mortgage debt.

Although the policy is a massive liability - "maybe the largest liability the government of Canada would ever have," one former Finance Department official said - industry players argue the risk to taxpayers is remote. The insurers are required to contribute to a guarantee fund and set aside reserves to absorb losses.

Currently, the government guarantees 100 per cent of the mortgages insured by Canada Mortgage and Housing Corp., a Crown corporation that dominates the sector. Because Ottawa only guarantees 90 per cent of private insurers' loans, most banks and trust companies have been deterred from doing business with them since the autumn crash.

The U.S. insurers argue that a full government backstop would not only level the playing field for them against CMHC, it would reduce the costs of mortgage insurance for homeowners. The federal government requires home buyers with a down payment of less than 20 per cent to have their mortgage insured.

In interviews, officials from the private insurers acknowledged that in the past four months their new policies have slowed to a trickle, with lenders almost exclusively opting for CMHC. The exodus is believed to have escalated the Crown corporation's market share - once estimated at 70 per cent - to even greater heights. Of the five private insurers that were once in the market, three have closed shop, while Genworth and AIG have struggled. One AIG executive called the draw to CMHC "a flight to quality."

Canada is one of the few countries that backstop mortgages insured by private companies.

Backstopping all of the loans could pose a major political headache for the government. It was Finance Minister Jim Flaherty who opened the door to U.S. private insurers in his inaugural budget in 2006, agreeing to extend the guarantee to new competitors such as AIG. The initiative sparked a flurry of riskier lending that resulted in a proliferation of 40-year, zero-down home loans - so much so that the government barred the loans this summer.

In the first half of 2008, \$56-billion of new mortgages, or more than half, had 40-year amortizations. Sources estimate that about 10 per cent of those were zero-down loans.

The most vocal proponent of expanding the guarantee has been Genworth, which for years held an estimated market share of about 30 per cent. The federal lobbyist registry shows that Ron McLaughlin, a former chief of staff to former Ontario premier Mike Harris and a hired consultant for Genworth, held a series of meetings with numerous officials from the Finance Department - starting at the very top. In August, the lobbyist met with Mr. Flaherty and his chief of staff, Derek Vanstone, about the guarantee, the registry shows. Two months later he met with a number of bureaucrats, including Jeremy Rudin, the assistant deputy minister in charge of the government's guarantee. The lobbyist also met with a finance policy adviser in late November.

Mr. McLaughlin declined to comment on his role. The lobbyist registry also shows that Genworth recently enlisted two competition experts from law firm Blake, Cassels and Graydon, as well as consultant Barry Campbell, to push its cause. AIG, meanwhile, has hired lobby firm Hill and Knowlton.

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