CMHC Does Bank of Nova Scotia’s Dirty Work

Description

If you’re looking to buy a house and you need mortgage insurance, the premiums just got a little more expensive.

Yes, the CMHC has hiked mortgage insurance premiums for the third time in four years. This hike is necessary due to new capital requirements for mortgage insurers introduced January 1 by the Office of the Superintendent of Financial Institutions.

By no means is this increase a major imposition for prospective homeowners.

For example, if you live in Toronto and are looking to buy a $944,000 home with 10% down, your mortgage insurance premium increases by 60 basis points to 3.1%. On a monthly basis, that adds $27.98 to your mortgage payment. Anyone who can’t afford the extra $30 really shouldn’t be buying a home in the first place, but that’s another issue entirely.

My beef is with the big Canadian banks, generally, and **Bank of Nova Scotia** (TSX:BNS)(NYSE:BNS) specifically.

In October, I wrote an article that discussed how we as Canadians have coddled the banks to such an extent that the mere mention of them sharing the risk (in any way) on insured mortgages is viewed in the great banking halls of this country with horror, disdain, and vehement opposition. It’s better if you and I take the hit, over, and over, and over.

This past June, the website Better Dwelling looked at the question of whether or not the Canadian banks were betting against Toronto’s housing market. It highlighted their second-quarter results, examining the extent to which banks had reduced their mortgage portfolios over the previous 12-month period — Bank of Nova Scotia had decreased its Canadian mortgage portfolio by 37.8% year over year to $117 billion, the most of any of the Big Five.

“We’re a little concerned about housing prices in the greater Vancouver area and Toronto,” Brian Porter, Bank of Nova Scotia’s CEO, said in a June 1, 2016, *Bloomberg* TV interview. “We took our foot off the gas the last couple quarters in terms of mortgage growth for the reasons I cited, in terms of

Vancouver and Toronto."

Sounds like prudent underwriting? If only that were completely true.

At the same time Bank of Nova Scotia was cutting the size of its Canadian mortgage portfolio, it was increasing the percentage of insured mortgages held relative to the portfolio as a whole. Over the previous 12 months ended May 31, 2016, Bank of Nova Scotia increased its insured mortgages by 23.2%, easily the biggest increase of any of the big banks.

So, essentially, over the 12-month period ended Q2 2016, the bank stopped taking uninsured mortgages and instead focused all of its efforts on insured mortgages, guaranteeing that shareholders wouldn't be affected by any downturn.

Smart move? Sure, if we as Canadians lived in a bubble. But, of course, we don't.

Bank of Nova Scotia finished its fiscal year at the end of October with insured mortgages in Canada accounting for 56.9% of the $193 billion total — up 810 basis points, or $17.1 billion; all of that is backed by the Canadian taxpayer/homeowner.

We wonder why housing prices are rising at astronomical rates and yet we, the consumer, are taking the hit for the Bank of Nova Scotia, which has simply offloaded mortgage risk from its books to ours.

The CMHC, as I've explained before, is doing Bank of Nova Scotia's dirty work. As a country, if we're prepared to give them a free pass on this issue, we ought to at least force them to get their hands dirty when it comes to lending to start-ups and other entrepreneurial ventures.

Otherwise, we risk making banking the preferred career in this country, and no one wins in that regard.

Oh, and in case you're wondering, **Royal Bank of Canada** (TSX:RY)(NYSE:RY) is the least offensive of the Big Five banks with just 47% of its mortgage portfolio insured — 990 basis points less than the worst offender.

I haven't shown much love for RBC, but knowing this, maybe I'll start.

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