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Abstract

The Canadian system c obal financial crisis and its aftermath. The system's effectiveness is the result of a rigorous prudential regulatory and supervisory regime coupled with targeted government guarantees of mortgage insurance and securitisation products. In the post-crisis period, household debt levels and house prices have risen, owing, in part, to accommodative monetary conditions necessary to support the economic recovery. These vulnerabilities were mitigated by tightening macroprudential policy, specifically mortgage insurance rules, and strengthening mortgage-underwriting standards. Looking ahead, the housing finance framework needs to be adjusted and strengthened by rebalancing the risk exposures away from the government towards the private sector participants in the housing finance market. Although some measures have already been taken for this purpose, more adjustments may be needed to create the right incentives and achieve a sustainable rebalancing in risk exposures. Measures should also be considered to promote a liquid private-label mortgage securitisation market in Canada.

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