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Abstract

The Canadian system has been resilient to the global financial crisis and its aftermath. This resilience is due to the supervisory regime and the robustness of the securitisation products. However, the global financial crisis has shown that the system is vulnerable to a housing crisis, 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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