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Archived - Government of Canada Announces Additional Support for Canadian Credit Markets

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Related Documents:

- Backgrounder
- Term Sheet
- CLAF Application for Participation
- CLAF Participant Agreement *(Revised Feb 26, 2009)*
- Indemnity Agreement *(Revised Feb 26, 2009)*
- Guarantee Execution *(Revised Feb 26, 2009)*

The Honourable Jim Flaherty, Minister of Finance, today announced the Government will purchase up to an additional $50 billion of insured mortgage pools by the end of the fiscal year as part of its ongoing efforts to maintain the availability of longer-term credit in Canada.

This action will increase to $75 billion the maximum value of securities purchased through Canada Mortgage and Housing Corporation (CMHC) under this program.

"At a time of considerable uncertainty in global financial markets, this action will provide Canada's financial institutions with significant and stable access to longer-term funding," said Minister Flaherty.

"This extension of the program to purchase insured mortgages will further support the availability of credit, which will benefit Canadian households, businesses and the economy. In addition, it will earn a modest rate of return for the Government with no additional risk to the taxpayer."

In addition:

- The Government will reduce the base commercial pricing of the Canadian Lenders Assurance Facility by 25 basis points. It will also waive the 25 basis point across-the-board surcharge for insurance provided under the Facility until further notice. This will make the Facility more competitive with similar programs offered in other countries. The term sheet for the Facility will be posted on the Finance Canada web site (www.fin.gc.ca) shortly.

- The Office of the Superintendent of Financial Institutions (OSFI) announced yesterday an increase in the allowable limit of innovative and preferred shares in Tier 1 capital. This will provide Canadian financial institutions with more sources of funds to support lending in Canada. This will also ensure that similar decisions in other countries do not place Canadian institutions at a competitive disadvantage. Further technical information is available from OSFI at www.osfi-bsif.gc.ca.
- As the Bank of Canada noted in its announcement on October 13, the Bank will continue to provide exceptional liquidity to the Canadian financial system as long as conditions warrant.

"The Government of Canada is prepared to take whatever steps are necessary to ensure that Canada's strong financial system is not put at a competitive disadvantage by developments in other countries. The Government will not allow Canada's financial system, which has been ranked as the soundest in the world, to be put at risk by global events," said Minister Flaherty.

For further information, media may contact:

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To receive e-mail notification of all news releases, please register at http://www.fin.gc.ca/scripts/register-eng.asp.

Backgrounder

Insured Mortgage Purchase Program (IMPP)

- Under the Insured Mortgage Purchase Program, Canada Mortgage and Housing Corporation (CMHC) purchases securities comprised of pools of insured residential mortgages from Canadian financial institutions. These are high-quality assets that are backed not only by the overall strength of Canada's housing market, but also by the Government's own guarantee of the insured mortgages.
- The first tranche of the program, for purchases up to $25 billion, was announced on October 10. These purchases will be completed by November 21. Under the initiative announced today, Canadian financial institutions will have access to up to an additional $50 billion of longer-term funding, bringing the total for the IMPP to $75 billion.
- The extension of the IMPP will be financed through increased issuance of Treasury bills and bonds. The Government will be consulting with market participants about the operational plan in the coming weeks.

Canadian Lenders Assurance Facility (CLAF)

- This Facility, announced October 23, will make available government insurance of up to three years, on commercial terms, for borrowings by banks and other qualifying deposit-taking institutions. This initiative will help to secure access to longer-term funds so that Canadian financial institutions can continue lending to consumers, homebuyers and businesses in Canada. As the Facility will be offered to lenders on commercial terms, there is no expected fiscal cost.

- Many countries have recently announced new and comprehensive policy initiatives to restore or protect the stability of their financial systems. The Facility will ensure that financial institutions in this country are not put at a competitive disadvantage when raising funds in wholesale markets.
- The Facility is a component of Canada’s implementation of the G7 Plan of Action to stabilize financial markets, restore the flow of credit and support global economic growth. It will be available, on a voluntary basis, to all federally-regulated deposit-taking financial institutions and Caisse centrale Desjardins (see announcement of October 27). The program will commence in the coming days. Insurance extended under the Facility will be available until April 30, 2009.
- The changes to pricing announced today mean that lowest price for insurance under the Facility will be 110 basis points, rather than 160 basis points as announced on October 23. The 25 basis point surcharge for lower-rated and unrated borrowers, and the further surcharge for foreign currency issuance, will remain in effect.