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Archived - Government of Canada Strengthens Canadian Advantage in Credit Markets

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The Honourable Jim Flaherty, Minister of Finance, today took further action to strengthen Canadian access to international credit markets.

In response to prolonged global financial market turbulence, Minister Flaherty announced the creation of the Canadian Lenders Assurance Facility, which will provide insurance on the wholesale term borrowing of federally regulated 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.

This temporary program will be offered to lenders on commercial terms so there is no expected fiscal cost.

"The underlying strengths of the Canadian system have been especially evident during the profound disruption in global credit markets we have witnessed since September," said Minister Flaherty.

This reflects several advantages Canada enjoys in global credit markets:

- Canadian capital requirements for financial institutions are well above minimum international standards and higher than in many other jurisdictions. Canadian institutions voluntarily maintain capital buffers well above the required minimum and are less leveraged than many of their international peers.
- Large Canadian investment dealers have been bank-owned since the late 1980s, and as a result are regulated on a consolidated basis by the Office of the Superintendent of Financial Institutions.
- The Canadian housing finance market is sound. It does not have a large sub-prime component and has not witnessed the proliferation of products and marketing practices that have led to the serious problems being experienced in the United States.

- Lenders are required to insure against default any mortgages made without large down payments and that insurance is backed by the government. Prudent lending standards must be met to qualify for government-backed insurance. These insured mortgages provide a reliable backstop for Canadian mortgage-backed securities, which are well accepted around the world.

Many countries have recently announced new and comprehensive policy initiatives to restore or protect the stability of their financial systems. "I welcome the decisive and far-reaching actions that many countries are taking, which will provide critical support to financial stability," said Minister Flaherty.

"The Government of Canada is acting today to ensure that financial institutions in this country are not put at a competitive disadvantage when raising funds in wholesale markets to lend to consumers and businesses," he added.

The Canadian Lenders Assurance Facility will offer insurance on the wholesale term borrowing of federally regulated deposit-taking institutions. The temporary program will expire six months after its start date, which is anticipated to be the beginning of November.

"I have also been in contact with my provincial counterparts," Minister Flaherty said. "I expect that they will take steps to ensure the credit unions that they regulate maintain the access to wholesale markets that they need."

The Canadian Lenders Assurance Facility strengthens Canadian credit markets by building on the recently announced program to purchase up to \$25 billion of insured mortgages. To that end, on October 16, Canada Mortgage and Housing Corporation conducted the first operation of the insured mortgage purchase program. The Government purchased \$5 billion in insured mortgage pools from Canadian lenders through a competitive auction process, funds that lenders can use to make new mortgage, consumer and business loans. A second auction of up to \$7 billion is scheduled for later today.

"I am pleased with the outcome of the initial auction," said Minister Flaherty. "This program has no fiscal cost and there is no additional risk to the taxpayer. We will continue to monitor the program and Canadian credit markets closely, and are prepared to extend the program if necessary."

"Today's announcement is an important part of Canada's implementation of the recent G7 Plan of Action to stabilize financial markets, restore the flow of credit and support global economic growth," the Minister added. "The Government of Canada will never allow Canada's financial system, which has been ranked as the soundest in the world, to be put at risk by global events."

Additional details of the Canadian Lenders Assurance Facility will be released shortly, after consultations with financial institutions.

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