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Legislative Costing Note

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Short title: Insured Mortgage Purchase Program (IMPP)

Description: As part of the IMPP, the Government will purchase up to $150 billion of insured mortgage pools through the Canada Mortgage and Housing Corporation (CMHC). The objective of the IMPP is to provide financial market liquidity to ensure continued lending to businesses and individuals. The IMPP was last used in 2008 2010.

Data sources:

Variable	Source
National Housing Act Mortgage-Backed Securities (NHA MBS) monthly purchase amount and schedule	CMHC IMPP 2020 (NHA MBS Purchase Operation Call for Purchase Offers)
Mortgage Insurance net income and total insurance-in-force	CMHC Annual Reports (2010-2018)
NHA MBS guarantee fees	CMHC Annual Limits and Guarantee Fees
NHA MBS application fees	CMHC The NHA Mortgage-Backed Securities Guide 2018
Annual NHA MBS securities guaranteed and total guarantees-in-force	CMHC Annual Reports (2010-2018)

Estimation and projection method: The only fiscal impact in this cost estimate relates to CMHC's net income from insuring previously ineligible mortgages and securitization fees charged to new MBS issuances. Other IMPP financial exposures are assumed to have no budgetary impact because they are either netted, are not incremental or are assumed to be hedged using swaps.

- The government will incur substantial gross interest costs to undertake borrowing for IMPP purchases (on behalf of CMHC), but PBO assumes these costs will be fully offset by interest income generated on IMPP assets.
- Existing NHA MBS are already insured, so these purchases through the IMPP pose no additional credit risk to CMHC, nor do they generate additional mortgage insurance revenue.
- PBO assumes that the CMHC will purchase interest-rate swaps to mitigate prepayment and interest-rate risk and that there is no gain/loss on these financial instruments.

The assumptions are informed by IMPP financial results from 2008-2010.

The government has temporarily expanded eligibility criteria to allow previously uninsured mortgage loans to be eligible for mortgage insurance and included in future NHA MBS issuance. The expansion covers low loan-to-value mortgages with a maximum amortization term up to 30 years and low loan-to-value mortgages whose purpose includes the purchase of a property, subsequent renewal of such a loan, or refinancing. These previously uninsured mortgages would generate incremental income for CMHC on a risk-adjusted basis.

To estimate this incremental net income on mortgage insurance, PBO used the average ratio from 2010-2018 of mortgage insurance net income to total insurance-in-force. PBO then applied this to the estimated percentage of incremental MBS purchased under the IMPP.

As part of the securitization process to create new MBS, CMHC will also generate net income on guarantee and application fees. The net income on securitization fees is calculated as the amount of new MBS issued multiplied by an application fee (0.02%) and the appropriate guarantee fee based on the monthly purchase amount and schedule.

This estimate only considers fees for new MBS issued under IMPP. PBO estimates fee revenue by taking the average ratio of new MBS issued and total guarantees-in-force from 2010-18 and multiplying it by the total size of the IMPP. Guarantee fees were based on CMHC fee schedules. PBO assumed that guarantee fees were calculated under a 5-year MBS term with the lower rate. PBO also assumed that MBS' purchased on or after July 1st, 2020 were all under the 'Other NHA MBS Pools' classification.

The net federal fiscal impact of corporate income tax is zero as CMHC is subject to the federal corporate income tax rate, and in lieu of a provincial corporation income tax, pays an additional 10% federal corporate income tax.

The timing of NHA MBS purchases under the IMPP were assumed to follow CMHC's monthly purchase amounts and schedules. PBO assumed that $5 billion of MBS will be purchased in March 2020, and $145 billion will be purchased in 2020-21.

PBO assumes no administration, underwriting, CPTA service and custodial service fees, because they are customarily calculated on an issue-by-issue basis. PBO assumes no additional operational or administrative expenses will be needed for the IMPP.

Aggregate Results:

PBO estimates the total net savings of this measure to be $13 million in 2019-20 and $428 million 2020-21.

The time horizon for this costing is aligned to PBO's current Economic and Fiscal Scenario, although there may be potential fiscal impacts for subsequent years.

Source of Uncertainty:	PBO assumes that purchases will reach the program upper limit of $150 billion. Between 2008 and 2010, IMPP purchases ($69 billion) were well below the program's $125 billion upper limit. Total uptake is highly dependant on future financial market conditions. Another source of uncertainty arises from the assumption that CMHC will follow the same approach as the IMPP used in 2008-10, and that it will enter into interest-rate swap agreements to mitigate prepayment risk. Without these swaps, the government's exposure to gain/loss on the IMPP would increase. This iteration of the IMPP also has a different set of criteria for the underlying mortgages. Any variations to the percentage of MBS that are incremental due to these changes in eligibility would have an impact on the cost estimate. PBO does not estimate fiscal gains through fees in the securitization process besides application and guarantee fees. These fees are calculated on an issue-by-issue basis, and thus challenging to estimate. Additional fees could add to potential fiscal gains to government.
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Cost of proposed measure

$ millions	2019-2020	2020-2021
Total cost	-13	-428

Notes:
Estimates are presented on an accruals basis as would appear in the budget and public accounts.
Positive numbers subtract from the budgetary balance, negative numbers contribute to the budget balance.
"-" = PBO does not expect a financial cost