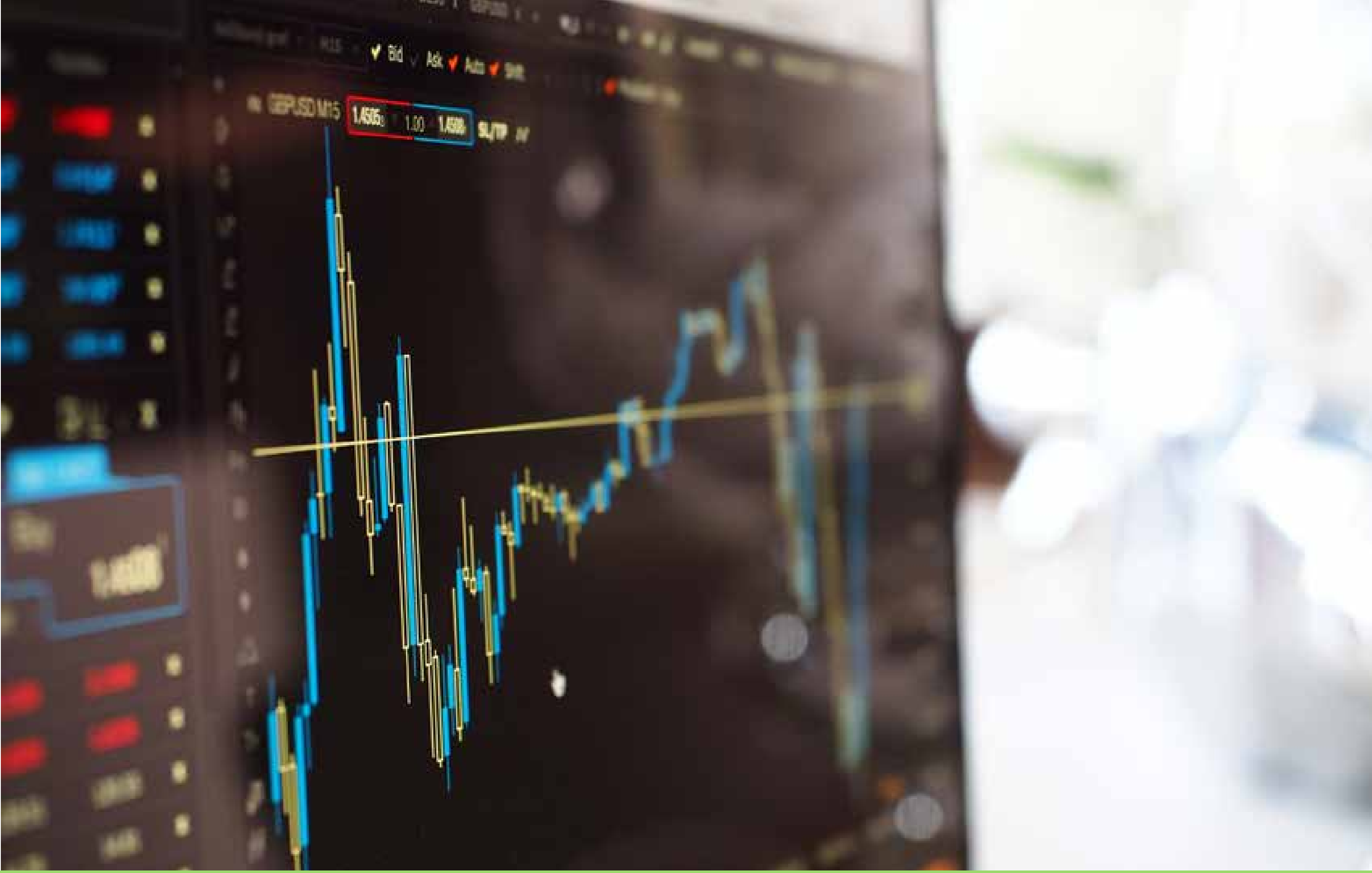

VERICO ECONOMIC CONSULTANT:
MICHAEL CAMPBELL

YEAR END REPORT
DECEMBER 2016

CASHIN MORTGAGES

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VERICO®

CANADIAN MORTGAGE AWARDS
WINNER
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OF THE YEAR 2013 | 2014 | 2016

5 *Very Significant* Numbers You Should Know

185%

Government of Canada 5 year bond rate has jumped from a low of 0.4% in February, 2016 to December's high of 1.14% - (185% increase).

$5.3 billion

The re-build of Ft. McMurray will result in $5.3-billion being injected into the Alberta economy.

6.1%

The energy sector growth increased 6.1% leading the Canada's GDP of 3.5% in the 3rd quarter.

$514 billion

CMHC's mortgage insurance business had $514 billion in total insurance-in-force at the end of the 3rd quarter.

CMHC SCHL

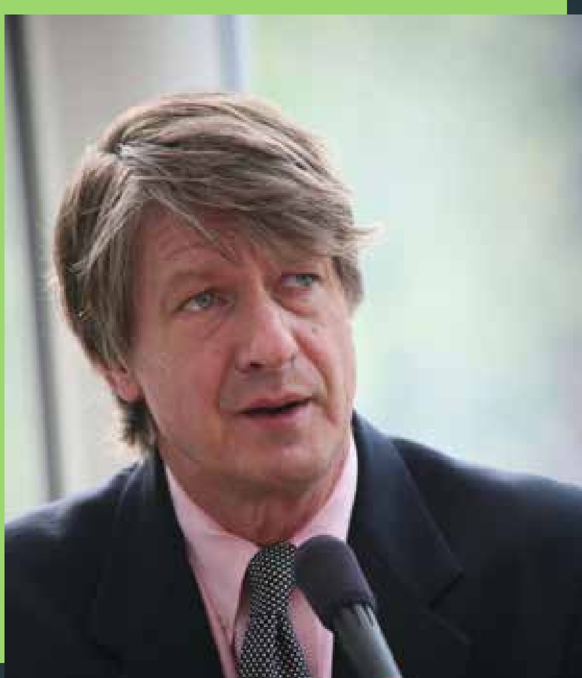
0.32%

8,286 CMHC insured loans were behind in payments by 3 months or more at the end of the 3rd quarter, which represented .32% of the total loans.

Quote of the Month

"The mystery of government is not how Ottawa works but how to make it stop."

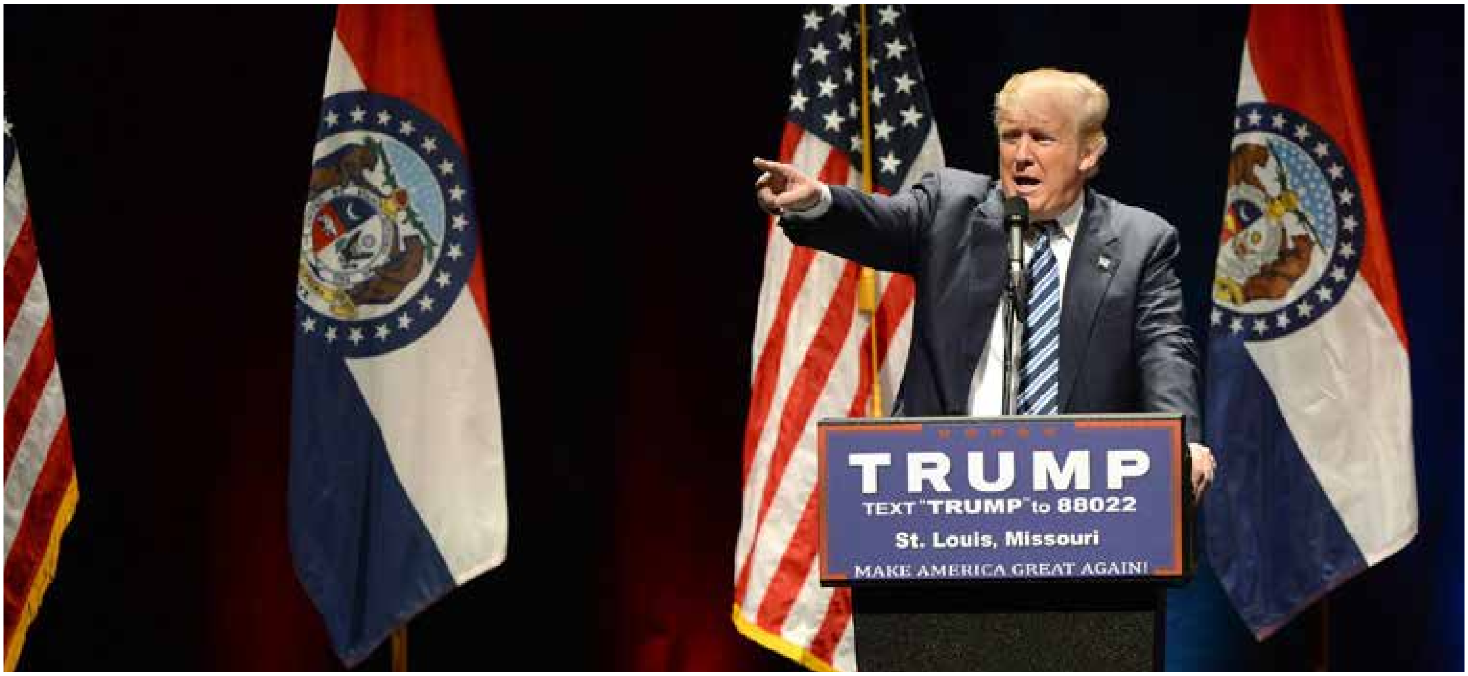
P.J. O'Rourke
Author of Parliament of Whores



Bonus quote from PJ:
"Politicians are wonderful people as long as they stay away from things they don't understand, such as working for a living." (or real estate)

What's Going On?

- The 5,000 year low in long term interest rates is behind us
- The No vote in the Italian referendum is the latest chapter in "Goodbye European Union."
- The US stock markets love Trumponomics
- China puts on a new round of currency controls
- Federal and provincial deficits this year will be over $43 billion



So What's Going On?
Two words - "Donald Trump"

For some it's more accurate to say, Donald Fricking Trump, while for others it's Donald Hell Yeah Trump. It doesn't really matter which you prefer, he's still President-elect and the world is reacting.

Mr Trump's skill was in capturing the public's and the media's attention during the campaign. Nothing has changed. He's still the story.

Over a trillion dollars has been added to US stock valuations since his election in the early hours of November 9th. At the same time over a trillion has been lost in the bond market as bond prices have fallen and yields have risen.

The question is: what's underlying these moves? The stock market seems to be reacting to the end of the uncertainty

"Over a trillion dollars has been added to US stock valuations since his election...At the same time over a trillion has been lost in the bond market...

The question is: what's underlying these moves?"

surrounding the election and is now focusing on Mr. Trump's promise to reduce regulation, promote the energy sector including the Keystone XL pipeline and lower corporate taxes.

Specifically the promise of a one time corporate tax rate of 10% (from the current 35%) in an effort to entice US companies to repatriate $2.4 trillion held overseas is getting a lot of attention. If it comes into effect it would be very positive for the stock market and to a lesser extend the economy.

But what about the bond market where yields on all maturities of US debt have risen dramatically. The market is clearly stating that rates are going higher due to anticipated increased economic growth thanks to Mr Trump's promise to spend tens of billions on infrastructure.

The price of 30-year US Treasuries have broken their rising trend line, which means rates are rising.

It won't be a non-stop straight line to lower bond prices and higher yields. There will be corrections along the way but all signs indicate that the 5,000 year low in long term rates interest rates was made in late July.

Canada

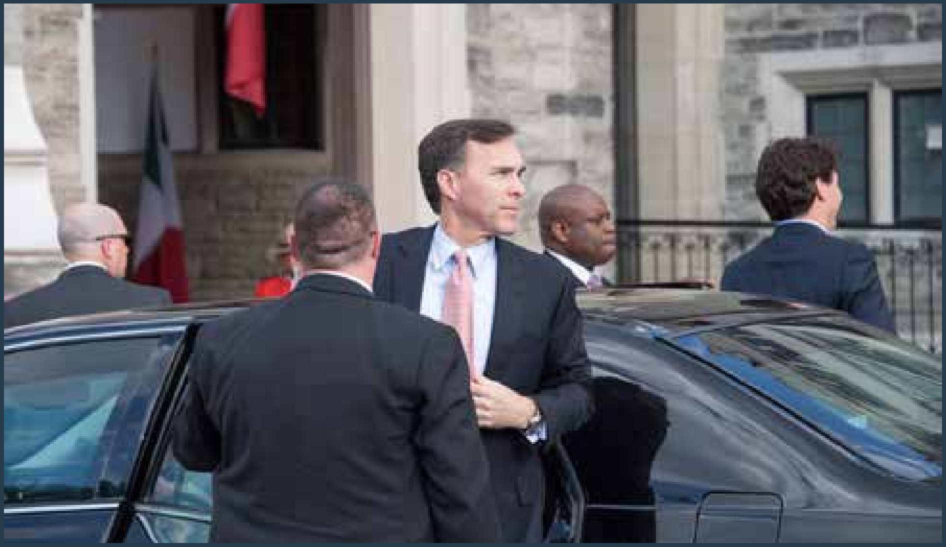
There is no such pressure in Canada to raise rates. While 3rd quarter economic growth was good, the recovery in energy in the aftermath of production cuts due to the Fort McMurray fires played a huge part. After consistently revising their economic growth forecasts downward for the past four years, most financial institutions are predicting in the neighbourhood of 2 ½% growth in 2017.

Bank of Canada Chair, Stephen Poloz has been dropping broad hints that there is no rate hike until 2018 at the earliest. In fact, he hinted last week that a rate cut was still on the table. But as we've seen in the last month that doesn't mean that mortgage rates remain unchanged. Mortgage rates are being influenced by the increase in bond yields and the reduction in competition from non-bank lenders in the aftermath of the new mortgage rules.

Real Estate

It's amazing to see the federal government – and in BC's case the provincial and Vancouver municipal government working so diligently to slow down the housing sector. Amazing because it's the leading industry in 7 out of 10 provinces including B.C. and there's no sector poised to take its place in Canada's slow growth economy.

The federal government tightened eligibility rules for insurable mortgages four times between 2008 and 2012. Down payment minimums were increased. They did away with 30 year amortization and curtailed borrowing limits but that was still not enough to slow the 9 hot property markets identified by the Canada Mortgage and Housing Corporation led by Vancouver and Toronto, so new rules were introduced in October.



The new rules were too late to slow the Vancouver market because it had already peaked in April and was declining significantly by August in the immediate aftermath of the introduction of the foreign buyers' tax. Keep in mind that the media usually compares the current month with the same month in 2015.

A far more revealing comparison is with April, which produces a more accurate picture of the extent of the downtrend.

It's hard not to note that all the political hand-wringing about affordability for first time buyers was thrown aside as the new rules governing eligibility and insurable mortgages will prevent a significant portion of potential buyers from entering the market, especially in Toronto and Vancouver.

4 big problems

If there is a problem with mortgage lending practices then the Finance Department should produce the evidence to justify the action they've taken.

1. By nature federal rules are one size fits all and clearly Canada's real estate market is not uniform. Vancouver and Toronto have completely different dynamics than Regina, Charlottetown or Winnipeg.

By their own admission the government, the CMHC and the Bank of Canada are concerned over rising prices principally in Vancouver and Toronto yet the new rules apply to all markets. My bet is that you'd have a hard time telling people in Calgary that you have to put the breaks on the market.

2. While the Canada Mortgage and Housing Corporation and the Finance Department understandably want to prevent the Canadian version of the US subprime mortgage crisis there is no evidence that the lending practices that produced the US problem are evident in Canada.

3. The CMHC's latest quarterly report stated that homebuyers still demonstrated a "strong ability" in managing debts effectively. Even in Calgary, where sensationalized headlines in the summer declared a big jump in mortgages in arrears (defined as 3 months behind in payments), the overall percentage is still incredibly low.

Same goes for the financial crisis of 2008-09 or the Great Recession of 1981 or the downturn in the early 1970s – Canada's finance and credit system was never in jeopardy due to a significant increase in foreclosures. Ultimately every downturn has led to higher prices in housing.

4. Consumers are not served by reducing competition in any area and it's no different with mortgage lending. The new rules reduce competition for the banks and that's not good for consumers.

The Next Battle

CMHC isn't finished. They want the banks to take on some of the insurance risk. Not surprisingly the banks aren't too keen. After all, mortgages are a major profit centre for banks while CMHC assumes the insurance risk. Obviously that's an attractive business model.

I see the consumer losing whether CMHC is successful or not. If banks take on a significant portion of the insurance risk then the consumer will pay the extra costs. And if they're not successful then look for CMHC to push for higher down payment requirements.

Real Estate Outlook

This is the time of year when analysts and financial institutions, virtually all of which did not predict the sharp rise in real estate prices, forecast what's going to happen in 2017.

If you got Vanna White to help you spin the real estate Wheel of Fortune and you'd have just as good a chance of getting it right.

Right now the consensus seems to be that Toronto price increases will lead the way in the 8% to 10% price range, the Prairies will be flat and Vancouver will see a small price increase.

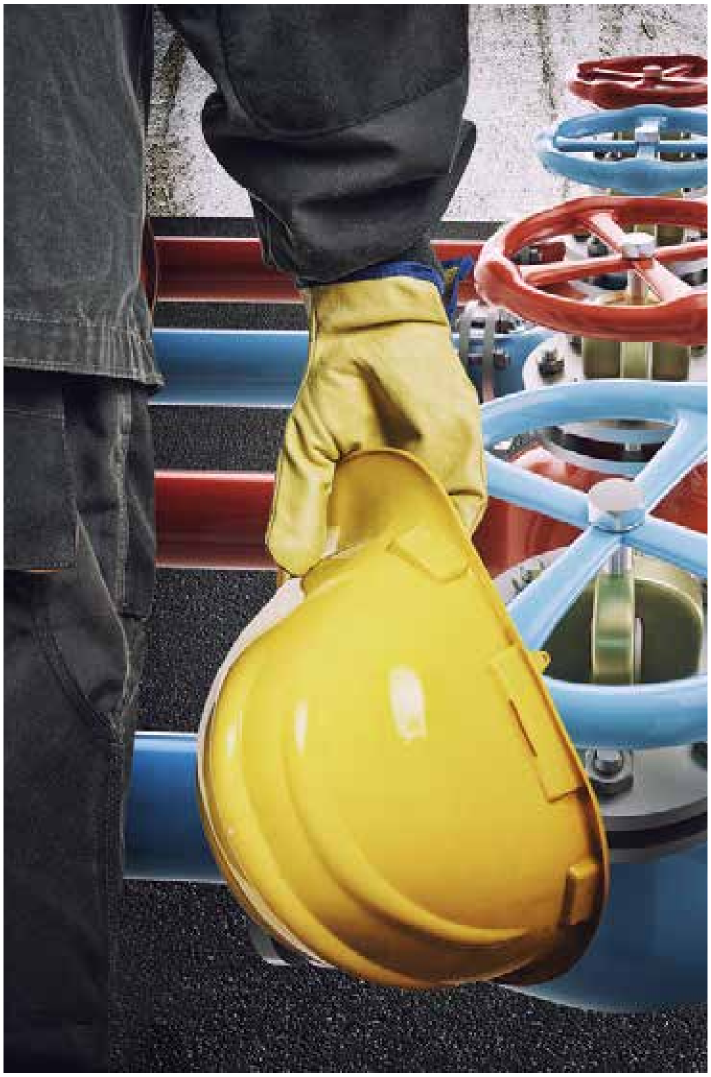
The bigger story is the forecast drop in activity.

The Finance Department predicted that the new mortgage rules could result in an 8% slowdown in the market but then again their models didn't predict the explosion in activity so take that with a grain of salt. In markets like Vancouver, Calgary and Edmonton where prices have already peaked, there's potential for greater damage as the new rules exacerbate the existing downtrend.

My Big Worry...

is that there is a great deal of evidence to suggest that it doesn't end well when governments purposely try to reduce its people's wealth. That's especially true in a global deflationary environment when other asset prices are flat lining.

Now add in the fact that our economy is impacted by so many factors like oil prices and export demand that are out of our control and it's questionable whether the government should be working to stall the country's most vibrant sector.



Canada's Economy

Let's bring back Vanna but this time with a tiny little wheel with the only numbers being 1, 1 1/2, 2, 2 ½ and 3%. Give her a rip – wherever it lands, that's your prediction for Canada's overall economic growth and my bet is that you won't be far off.

You have to notice that big deficit spending, a falling loonie and record low interest rates have only managed to help the economy reach about 1 ½% growth in 2016. So what about 2017? Sectors like tourism will benefit from the low loonie but the key is still oil. OPEC and other producers must keep their promises to cut production in the hope that oil prices can stay $50 in 2017. If that happens then the economy will probably see growth in the 2 ½% range.

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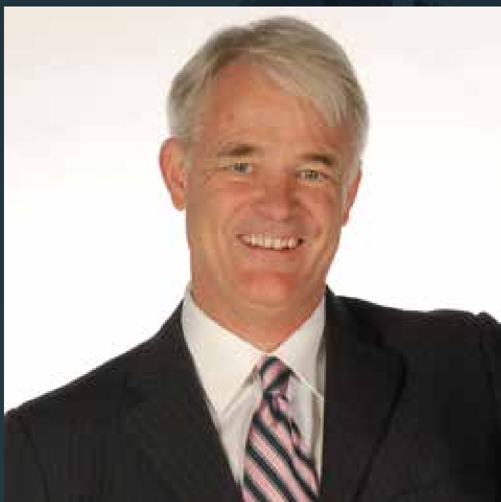
ECONOMIC PANEL

Michael recently participated on the MPC Economic Panel where leading economists provided insight into current market conditions and new financial realities. The panelists discussed key issues like the “bubble” question, as well as their expectations for interest rates, the housing market, and the real estate finance industry.



About Michael Campbell

One of Canada`s most respected business analyst, Michael is best known as the host of Canada's top rated syndicated business radio show MoneyTalks, and Senior Business Analyst for BCTV News on Global.

Mr. Campbell is the Economist for VERICO, Canada's trusted network of independent mortgage brokers.

About VERICO Canada

VERICO was founded in 2005 with a single idea: to unite top mortgage originators in Canada and create additional opportunities for this group of highly driven professionals. Together, we knew we could make a mark on the Canadian mortgage industry.

In 2010, we reached $10 billion in collective loan volume, a number that rivaled the mortgage business of the big 5 banks in Canada.

Operating at the highest degree of professionalism, excellence and ethical standards, we originate over $13 billion by helping 45,000+ families annually with their mortgage needs.

VERICO was named Best Broker Network of the Year in 2009, 2013, 2014, and 2016.

BROKER NETWORK OF THE YEAR

2013 | 2014 | 2016

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