of overall household credit. Nonetheless, the recent changes in the auto financing landscape warrant continued monitoring in the context of already-high household indebtedness, particularly if the debt is being incurred by borrowers who are already stretched financially (**Box 1**).

Second, uninsured residential mortgage originations by all lenders have grown markedly in recent years.[9] With the increase in homeowner equity brought about by higher house prices, existing homeowners may be able to finance their new homes with a larger down payment that does not require the purchase of mortgage insurance. On the other hand, low interest rates may be creating stronger incentives for some homebuyers to supplement their down payments through additional borrowing, thereby allowing for lower monthly payments, because they can avoid mortgage insurance premiums and obtain longer amortizations. In the latter case, financial system vulnerabilities related to household leverage and indebtedness are increased.[10]

A more worrisome aspect of this trend is that a sizable proportion of new, uninsured mortgages are being issued to riskier borrowers. For example, about 35 per cent of new, uninsured mortgages by smaller federally regulated banks since the end of 2012 could be considered non-prime (**Chart 8**).[11] Other financial entities, including those that are less regulated, are also engaging in non-prime lending.[12] Even for those lenders that traditionally cater to non-prime clients and, as such, have experience underwriting and managing riskier loans, there is a possibility that risk-management practices (including pricing and provisioning for potential losses)[13] may not be sufficient to compensate for the increase in default rates during periods of stress.[14]

Competition in the insured mortgage market also remains strong, as evidenced by the continued growth in outstanding mortgage credit extended by less-regulated lenders (**Chart 9**), particularly since adjustments to the National Housing Act Mortgage-Backed Securities (NHA MBS) program were introduced by the Canada Mortgage and Housing Corporation (CMHC) in 2013.[15] The changes have ensured that all lenders have equal access

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9 Since 2010, uninsured mortgage lending by D-SIBs and smaller banks has shown average annual growth rates of 10 per cent and 16 per cent, respectively. In comparison, insured mortgage lending has grown by about 5 per cent for both groups of institutions over the same period. There is anecdotal evidence that originations of uninsured mortgages by other lenders have also followed this pattern in recent years. Uninsured mortgages encompass those loans with a higher down payment (lower loan-to-value ratio), which are not necessarily risky.

10 While hard evidence of such additional borrowing is difficult to obtain, anecdotal evidence suggests that this practice is becoming more common in the context of a reduction in the maximum amortization period for insured mortgages from 40 to 25 years, and as premiums for mortgage insurance rise. However, entities involved in such lending would likely not be federally regulated, since underwriting guidelines for federally regulated lenders do not permit borrowed funds to qualify for a down payment.

11 Non-prime borrowers are generally characterized as having less capacity to make debt payments, weaker documentation of income and an imperfect credit history. On the basis of available data, we consider non-prime uninsured mortgage borrowers to be those who have a credit score below 650.

12 Less-regulated lenders include those that are not subject to prudential regulation at the federal or provincial level.

13 Current accounting rules stipulate that loan-loss provisioning should be based on a backward-looking, incurred-cost model. Such an approach accentuates procyclical and riskier lending behaviour by underprovisioning for potential future losses. This weakness is being addressed through changes in accounting standards, both internationally and in Canada. See http://www.ifrs.org/Alerts/PressRelease/Pages/IASB-completes-reform-of-financial-instruments-accounting-July-2014.aspx and http://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/adv-prv/Pages/freifrs9.aspx.

14 During the recent financial crisis, mortgage delinquency rates at smaller lenders that are more focused on non-prime borrowers were, on average, four times higher than those at D-SIBs.

15 Starting in August 2013, CMHC applied limits on the amount of new guarantees of market NHA MBS (and Canada Mortgage Bonds) and adjusted the allocation methodology. As of January 2014, all issuers of these securities are initially entitled to an equal share of the total capacity, set per quarter. In addition to their initial share allocation, any unused capacity is then made available to remaining issuers on an equal basis. These limits are being carried over to 2015. For more information, see http://www.cmhc-schl.gc.ca.