



MBA's 93rd ANNUAL CONVENTION & EXPO 2006
OCTOBER 22 • 25 HYATT REGENCY • CHICAGO

**North America - Canada, Mexico and NAFTA
Growth and Opportunities**

Moderator:

David Liu

Vice President, Head of Operations

PMI Canada



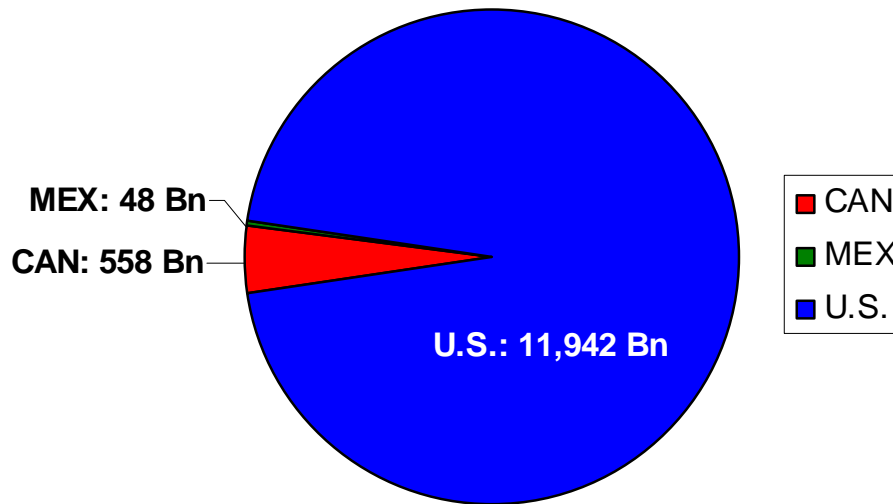
Sponsored by The PMI Group, Inc.



- ❑ A 30-year old global provider of credit enhancement
- ❑ Provides up to "AA+" mortgage insurance to institutions on residential mortgage loans
- ❑ Through Financial Guaranty Insurance Corp. (FGIC) provides access to "AAA" financial guaranty on securities
- ❑ Headquartered in Walnut Creek, California
- ❑ International offices located in:
 - Hong Kong
 - United Kingdom
 - Canada
 - Australia
 - Ireland
 - New Zealand
 - Italy
 - Germany
 - Brussels
- ❑ Publicly traded company (NYSE: PMI)



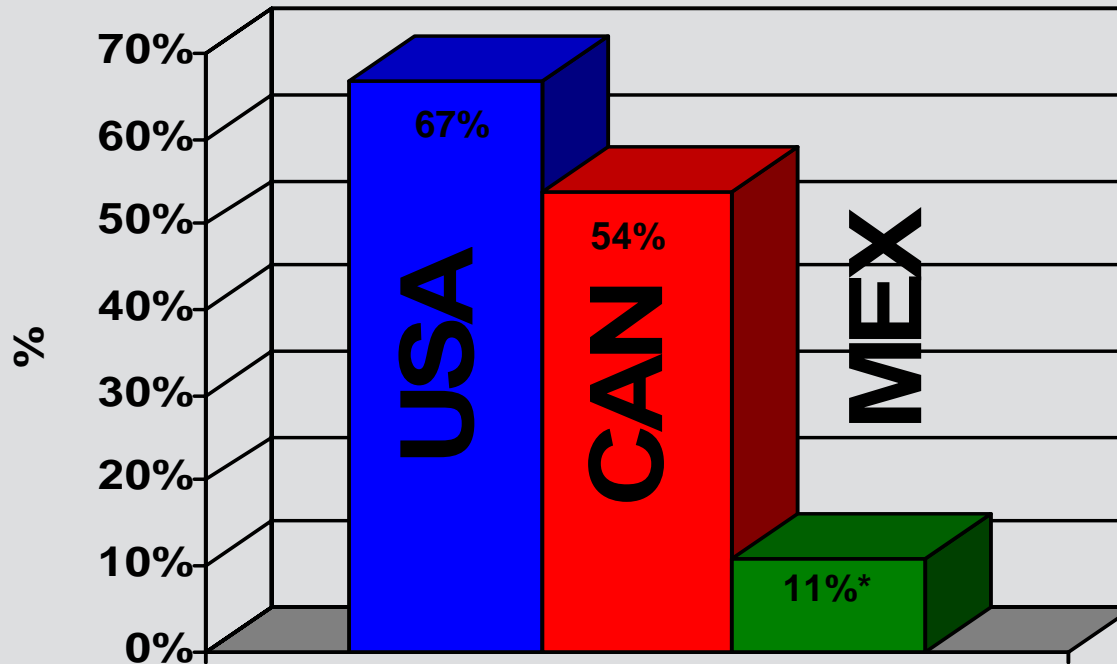
Mortgages Outstanding



Combined Canada & Mexico Mortgage Debt Outstanding: US\$606 Bn

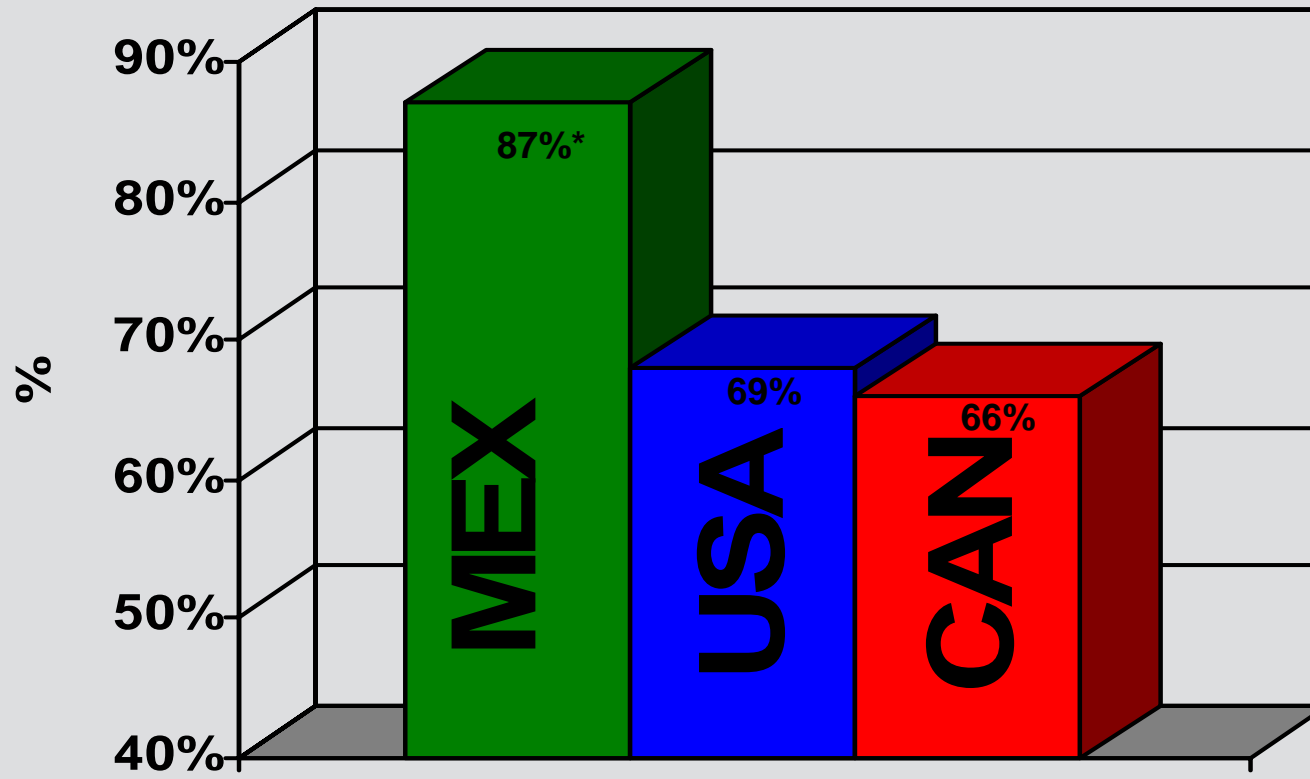


Mortgages Outstanding/GDP





Homeownership Rates

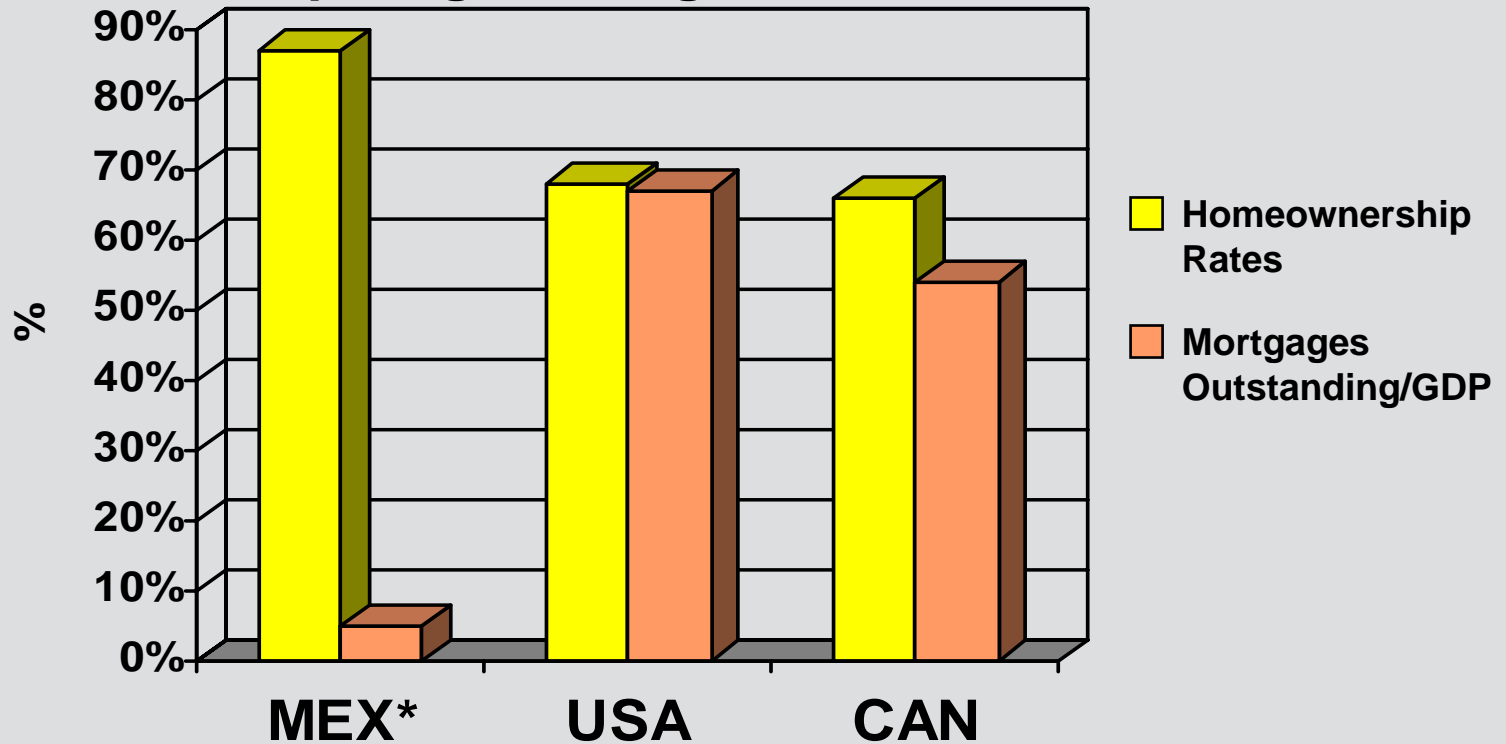


* SHF 2004 statistic, no 2005 statistic available
Sources: MBA, IUHF, CMHC, CIA, SHF, U.S. Census



Combined Canada & Mexico Mortgage Debt Outstanding: US\$606 Bn

Comparing Housing Statistics





- Why are we even thinking about expanding outside our border?
- Should we look to large mature markets where an unserved niche may exist like in Canada?
- Would an early entry in an emerging market like Mexico give us the “first mover advantage”? Or would it give us something else?
- Would the best strategy be to put a sharper focus on our home market and compete where we know best?
- What can we learn from Canadian and Mexican business practices?



UNATTRACTIVE



ATTRACTIVE

Market Size

Growth Rate

Profit Margins

Competition

Legal System

Borrower Quality

Information

Political Stability

Economic Stability

**Can our core
competencies tilt
the balance?**



MBA's 93rd ANNUAL CONVENTION & EXPO 2006

OCTOBER 22 • 25 HYATT REGENCY • CHICAGO

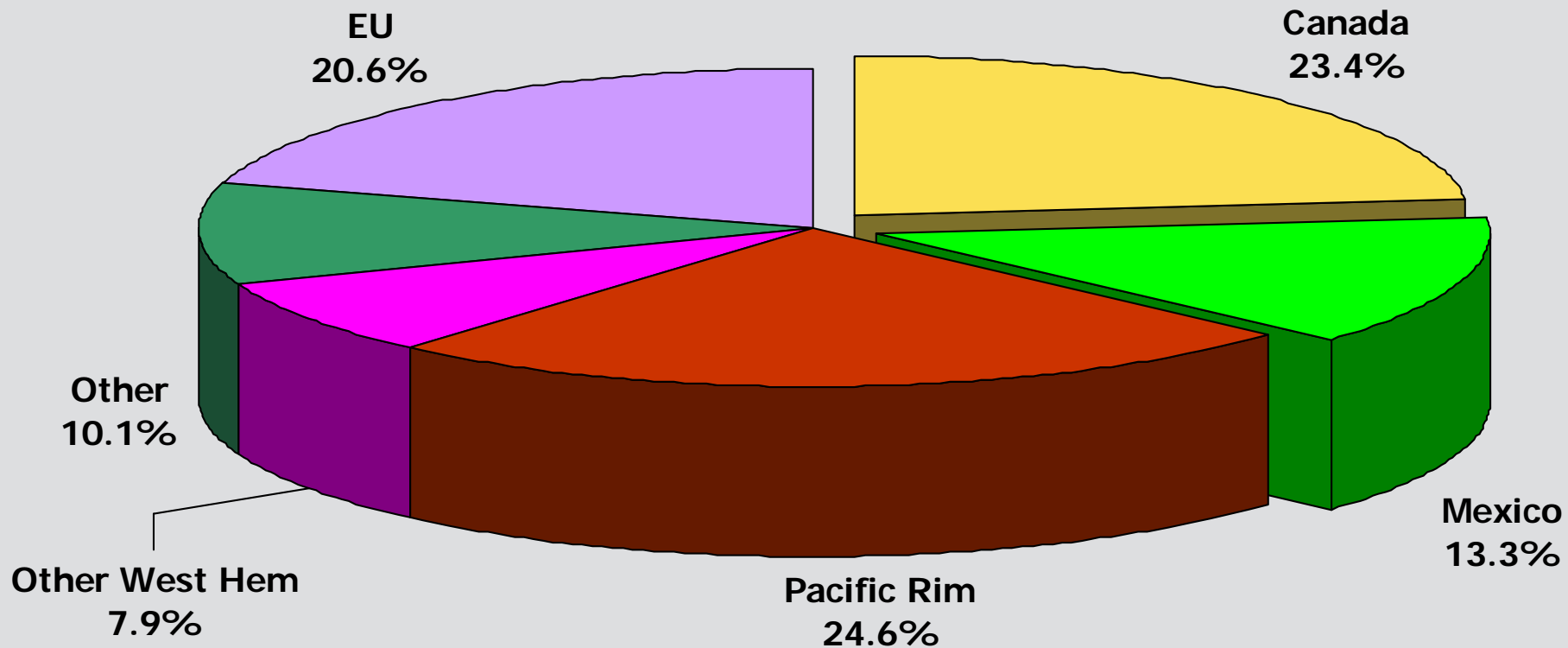
NAFTA at 12 and Beyond

What it means for the Real Estate/Financial Services/Insurance Sectors

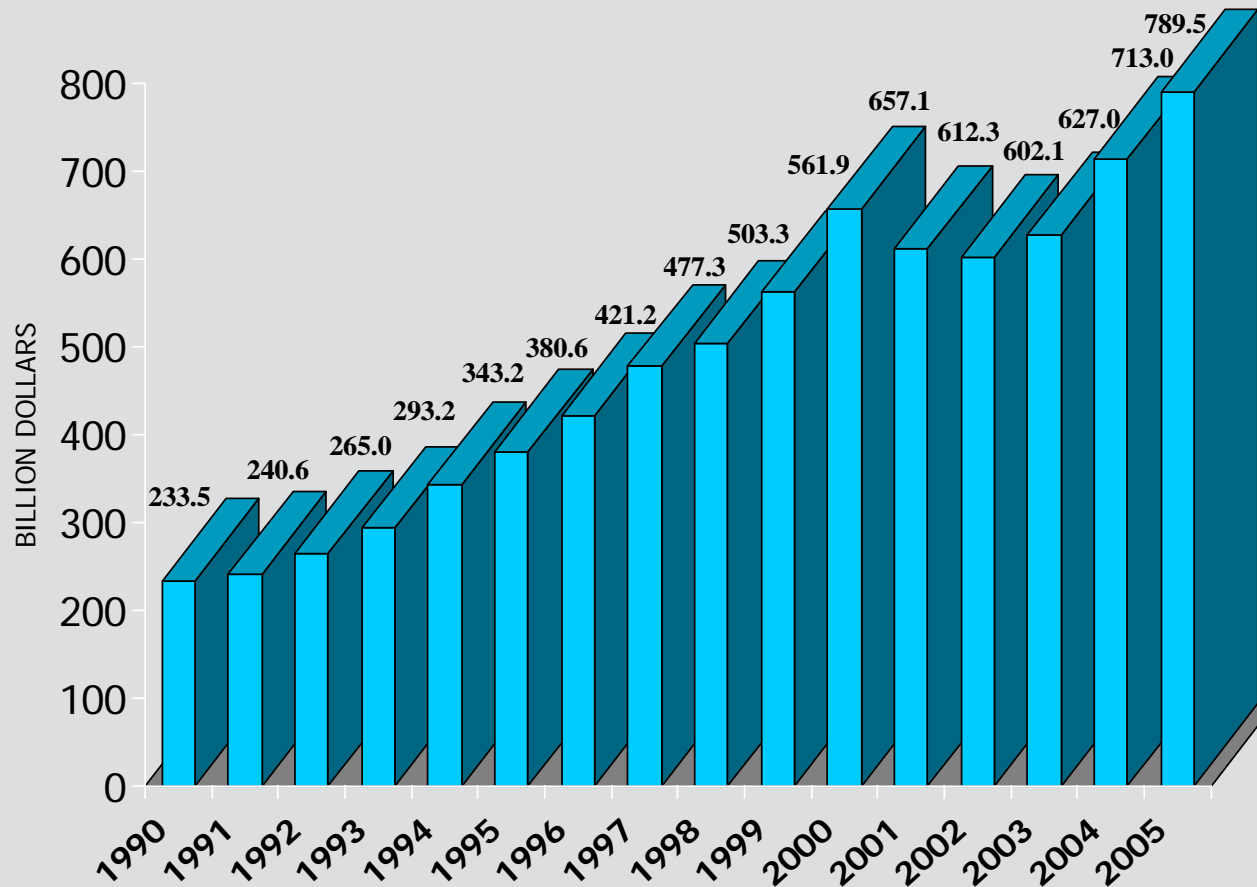


Sponsored by The PMI Group, Inc.

U.S. EXPORTS TO NORTH AMERICA EXCEEDING THOSE TO OTHER REGIONS 2005



U.S. – NAFTA TOTAL TRADE 1990-2005



The SPP – What is it?



- The Goal: ensure North America-
 - » **Best and safest place to live, work and do business**
 - » **Maintains NORTH AMERICAN ADVANTAGE in era of global sourcing**
- Builds on the NAFTA, P4P, and border initiatives to:
 - » **Better protect citizens from man-made and natural threats**
 - » **Promote safe and efficient movement of people and goods**
- The SPP consists of an economic and a security component
- Based on the principle that our common prosperity depends on our mutual security
- Expands economic opportunities by reducing barriers and making our businesses more competitive in the global marketplace

The SPP – What is it?



- The SPP is meant to:
 - » **Cut red tape, lower costs for manufacturers by eliminating unnecessary barriers**
 - » **Enhance our mutual efforts to:**
 - » **improve our quality of life,**
 - » **protect our environment,**
 - » **improve food safety and consumer choice,**
 - » **combat infectious diseases, and**
 - » **develop responses to cross-border man-made/natural disasters**

North American Competitiveness Council (NACC)



- Membership- 10 private sector representatives from each country
- U.S. Secretariat- Council of the Americas and U.S. Chamber of Commerce
- Organization varies in each country
- Purpose: provide recommendations on N. American competitiveness that could be addressed through the SPP
- Value of high-level private sector input
- Recommendations AND solutions to SPP Ministers



MBA's 93rd ANNUAL CONVENTION & EXPO 2006

OCTOBER 22 • 25 HYATT REGENCY • CHICAGO

Overview of the Canadian Mortgage Market

Charles Lambert

Managing Director, Mortgages, Scotiabank



Sponsored by The PMI Group, Inc.



One of North America's Leading Financial Institutions

- Canada's most international bank, operating in 50 countries
 - » 2,147 branches and offices
 - » 4,781 automated banking machines
 - » 52,232 employees
 - » In Canada, mortgages originated through branches, captive sales force, and independent mortgage brokers
- As at July 31, 2006:
 - » Total Assets: \$365 billion
 - » Market Cap: \$45 billion
 - » Mortgage Portfolio: \$85.5 billion



Canadian Market Characteristics

- Demographics:
 - » Population: 32 million
 - » Strong ethnic diversity; immigrants make up 18% of the pop
 - » Two official languages: English and French
- Stable interest rate environment; consumer confidence strong and is expected to remain firm
- Robust economy continues to support housing demand with Western Canada exceptionally strong
- Accelerating price growth in Western Canada will drive a 12% increase in resale home prices in 2006, a 17 year high; more balanced growth of 6.4% forecast for 2007
- Value of outstanding mortgages currently almost \$700 billion or equivalent to about 47% of GDP

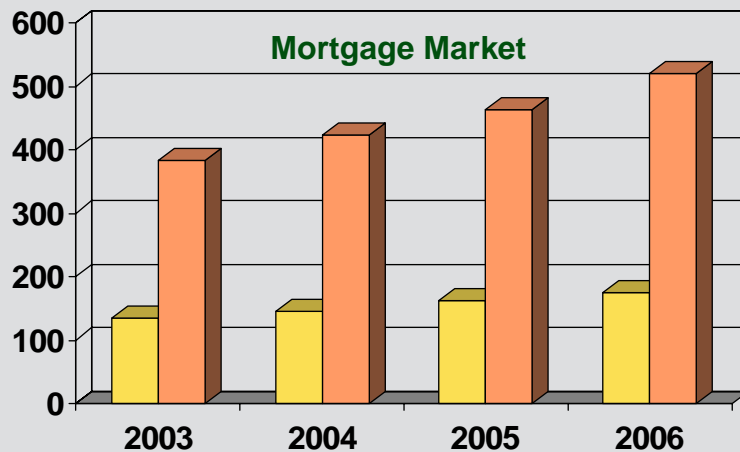
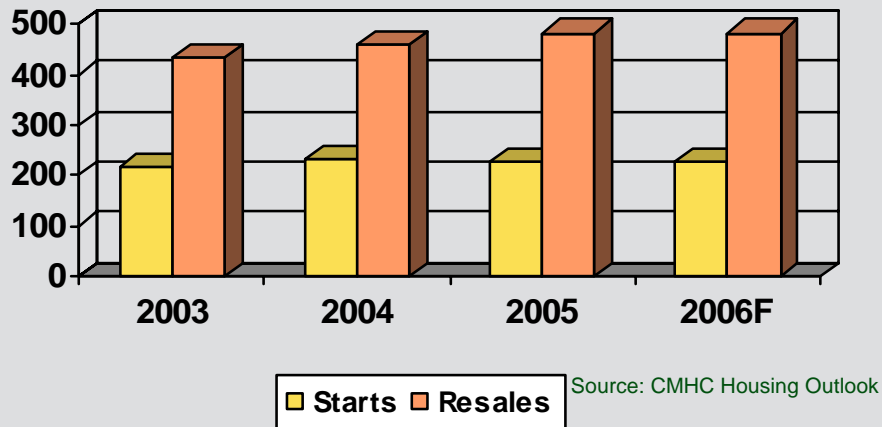


Established Mortgage Market

- Well established, stable banking system- technologically advanced payment system
- Political stability and strong legal framework
- Multiple channel originators, only large full-service Financial Institutions and Monolines lend
- Continually evolving product suite
- Established Mortgage Insurance market:
 - » CMHC – created in 1946
 - » Genworth Financial – entered the market in 1995
 - » PMI and others entering the market
- Five Title Insurers reduce legal title risk
- Mortgage Back Securities started in 1987; strong securitization market last few years with total issuance of MBS increasing by 15% between 2003 and 2004.



Robust Canadian Mortgage Market Expected to Continue

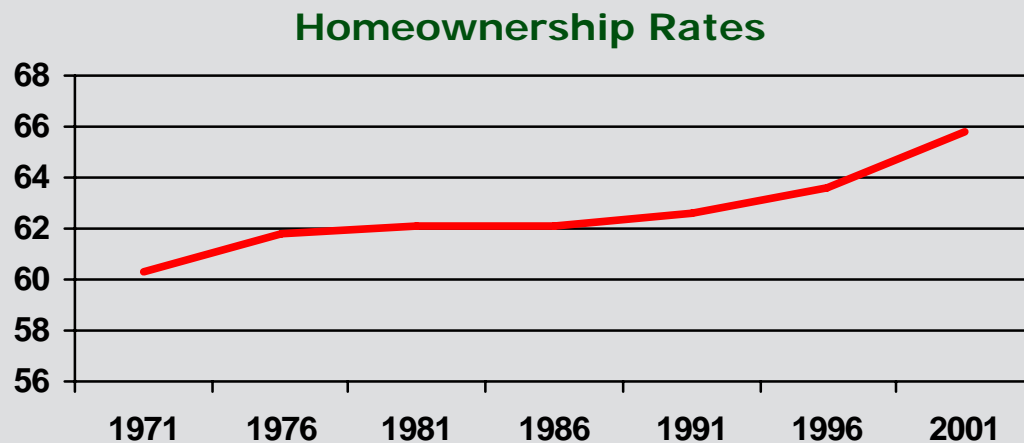


- Strong housing demand into 2007
Housing Starts:
2006F: 227,900
2007F: 209,100
Resales:
2006F: 481,700
2007F: 462,200
- Continued upward trend in renovation spending due to lower rates
- Housing stock:
 - » 11.6 million, 2/3 occupied by homeowners
 - » built to adhere to strict building codes and guidelines



High Homeownership Amongst Canadians

- 65.8% of Canadians own their own home, roughly 50% have a mortgage
- Continuous product innovation in response to consumer demands
- 5 year term most common product with 25 year amortization
- Historically low interest rates, led to increased popularity of VRMs and ARMs
- Lender key focus on customer retention drives emphasis on cross sell
- Mortgage interest not taxable; sale of primary residence exempt from capital gains
- Evolving near-prime market

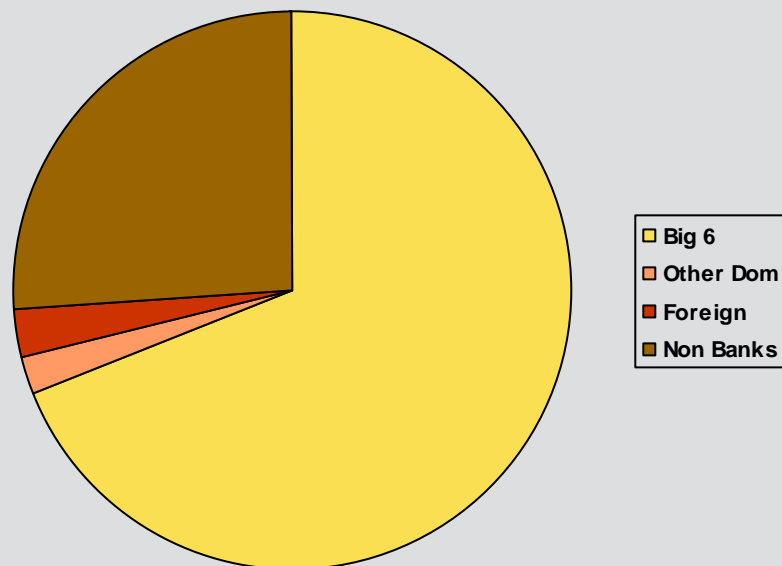


Source: CMHC Canadian Housing Observer 2005



Vertically Integrated Six Major Players Dominate Market

Residential Mortgage Outstandings



- Market includes: Big 6 Domestic Banks, Other Domestic and Foreign Banks, and Non-Bank Lenders
- Traditional lenders perform all functions
- Standardized, consistent credit adjudication process
- Strong legal system and foreclosure laws
- Low default rates

Source: CBA June 2006



Residential Mortgages Single Largest Group of Assets Securitized

- Significant growth in mortgage securitization:
 - » Outstanding December 2004: Total MBS \$78.6 billion, CMB \$54.5 billion
- Large lenders:
 - » Also use consumer deposits and wholesale funds
 - » In 2004 accounted for over 87% of new NHA MBS issuance in 2004
- Smaller lenders/monolines rely on securitization
- Predominately 4 – 5 year term, over 85%



Canadian Mortgage Market – In Summary

- Good economic prognosis into 2007 with continued robust housing demand forecast
- Stable environment with well developed, established lenders and market place
- Market characterized by good credit quality
- 6 largest domestic banks comprise about 70% of the residential mortgage market; multiple foreign banks, and monolines also active
- Strong and growing securitization market
- Continued product innovation fostered by new entrants into the market