Taming the bull

Regulatory actions in the housing market and the case for owning the debt conversation

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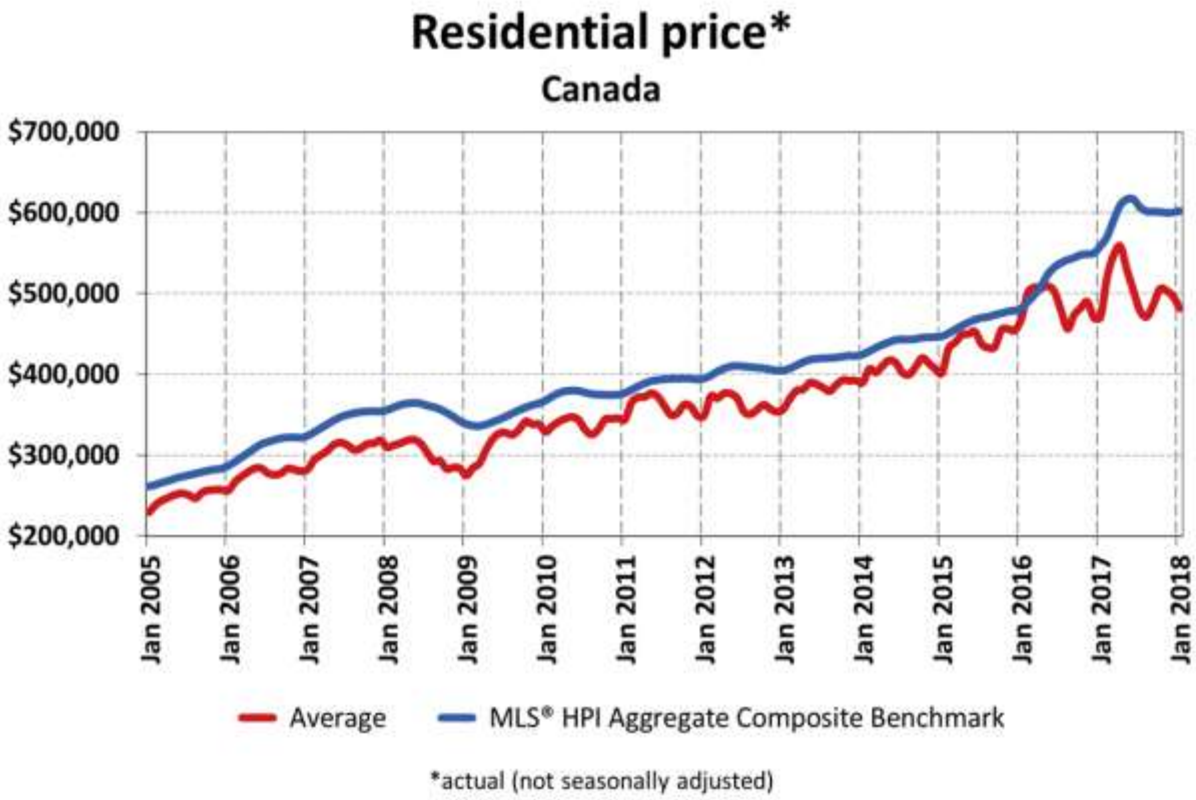
Learning objectives

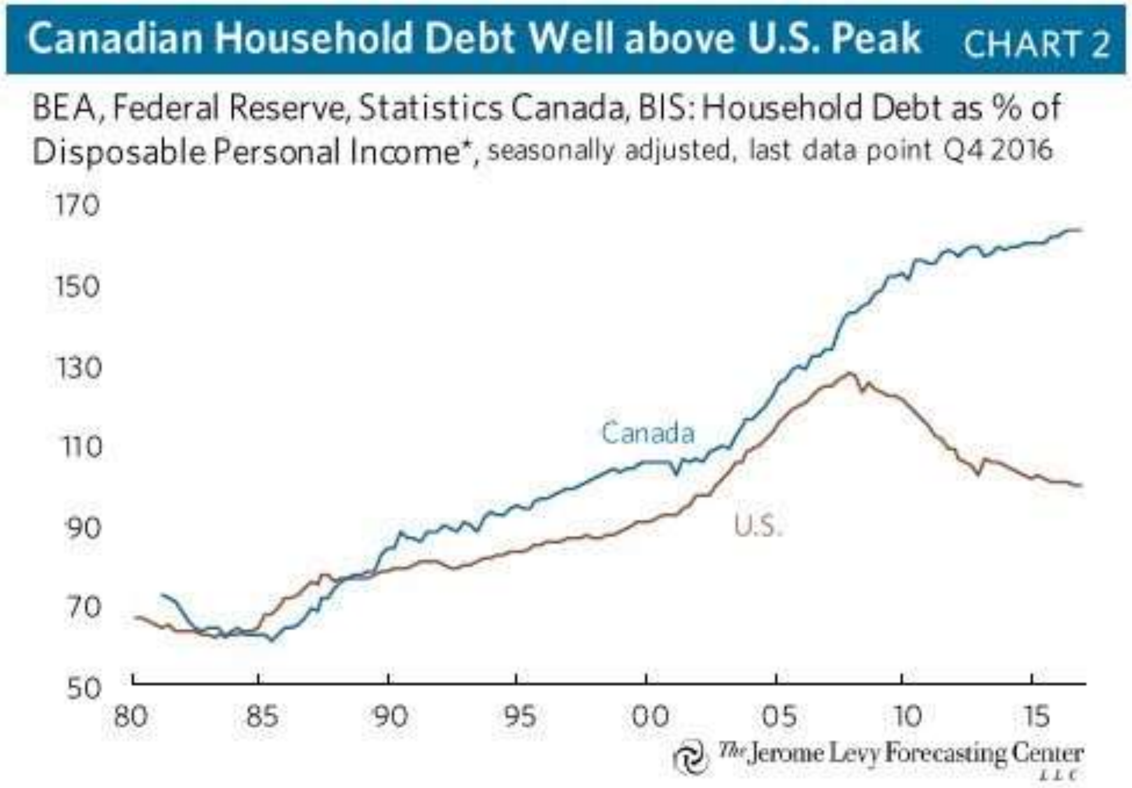
By the end of this session, you should have a better understanding of:

- The long running bull market for housing and the debt that's fueled it
- Canada's regulators attempts to reign the housing bull and protect a leveraged economy
- The benefits of you helping clients manage their debt and cash flow

Your clients' home
A great investment with solid growth… but at what cost?



Source: National Statistics - Canadian Real Estate Association, Feb, 2018



Q4/2017 - Household Debt to Disposable Personal Income was 170.4% - Statistics Canada

Your clients' home
A great investment with solid growth… but at what cost?

Income needed to purchase the average home

How much do you need to earn?	Avg. Single Family Home	Yearly Income Needed	Median Income (2015)
Guelph	$443,600	$94,000	$78,000
Oakville/Milton	$725,000	$147,000	$139,200
Greater Toronto	$853,500	$172,000	$78,300
Sudbury	$259,500	$58,000	$90,500
Ottawa	$362,500	$77,500	$104,000
Nationally	**$660,300**	**$134,250**	**$81,000**

10% down payment (20% for homes in excess of $1,000,000). CMHC insurance where applicable. 5.14% qualifying rate for a mortgage amortized over 25 years. Home prices as of MLS® HPI Index, January, 2018 – Source CREA; Median income: 2015 Statistics Canada Census

In the eyes of the regulators

- Historically low interest rates would rise again
- Incomes not rising as fast as home prices
- Supply Vs. Demand: bidding wars, waving conditions
- U.S. housing market crash stoked fears of a bubble
- Organization for Economic Co-operation and Development (OECD) and other global economists raising alarms
- Canada Mortgage and Housing Corporation (CMHC) is essentially backed by the tax-payer

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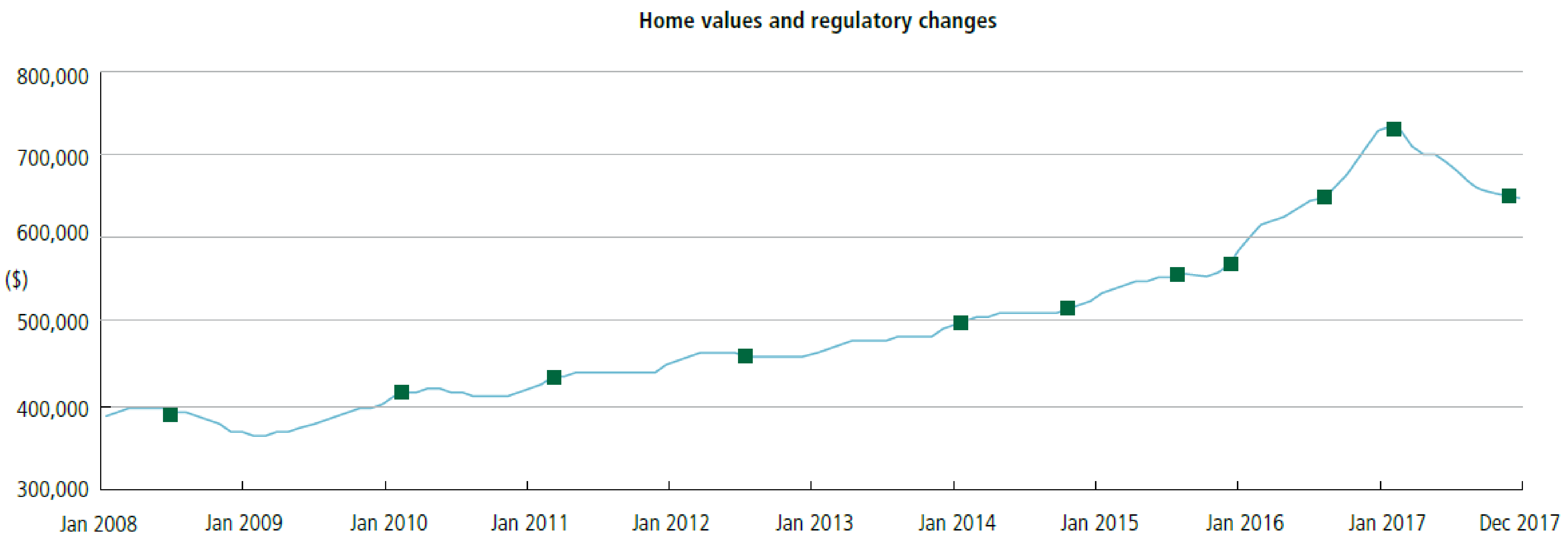
Taming the bull – Did regulators and the market finally get their way the 11th time?



Source: Canadian Real Estate Association (CREA) MLS® Home Price Index – single family detached homes, August, 2017

Taming the bull – the eight big changes to cool the hot housing market

	Key changes made by Canada's housing regulators over the past 10 years:
2008	Minimum down-payment of 5% for high ratio; Reduce maximum amortization to 35 years; Increase credit score requirement and Maximum TDS
2010	Introduction of qualifying Rate at 3.84% (now 5.14%*) Insured re-finances 90% LTV; 20% down on rentals to get insured financing; Restrictions on insurance for second home
2011	Reduce maximum amortization to 30 years for High Ratio; 85% LTV on insured refinances; Eliminated government insurance on secured lines of credit
2012	CMHC: Severe restrictions on Portfolio Insurance; Maximum loan-to-value for home equity lines of Credit is reduced to 65% (from 80%); Reduce maximum amortization to 25 years for High Ratio; Tighten GDS/TDS; No Mortgage insurance on Properties over $1 Million
2014	CMHC increase mortgage insurance premiums; OSFI guidelines on insured mortgage underwriting
2015	CMHC increase mort insurance premiums; Increase minimum down payment from 5% to 10% for homes > $500K
2016	Stress test for 5+ year fixed mortgages; eliminate tax exemption for non-residents; tighten access to port insurance; consult on risk sharing
2018	As of January 1, the new qualifying guidelines for Manulife Bank clients borrowing 80% or less of their home value will be the greater of: ▪ The Bank of Canada Qualifying Rate, which is currently 5.14%*, or ▪ The borrower's contract rate +2%*

2012 and 2018 can be considered the two biggest regulatory changes for Canadian lending institutions

Source: Manulife Bank Treasury, 2017
*As of November 25, 2017. Rates are subject

What does “B20” mean to your clients buying a home or transferring a mortgage?

- Before Jan., stress test was for clients with <20% down.
- Today all borrowers must qualify at the greater of:
  - The Bank of Canada’s 5-year benchmark rate
  - OR, their contractual rate plus two percentage points.

IMPORTANT NOTE:

Clients will always receive the contract rate.

The qualifying rate may impact how much they can borrow.

What does B20 mean to your clients buying a home or transferring a mortgage?

- Example using Manulife Bank:

Bank of Canada	Manulife One Main Account*	Manulife Bank 5 yr. Fixed
5.14%	3.95%+2.00% = 5.95%	3.64%+2.00% = 5.64%
Differences in qualifying payments ($100,000) 25 year amortization		
Pre-B20	3.95% = $523	3.64% = $507
Today	5.95% = $637	5.64% = $619

What does B20 mean to your clients buying a home or transferring a mortgage?

- The good news?
  - No stress test for clients renewing an existing mortgage.
  - Clients may be forced to look at smaller homes
    - Smaller mortgages may mean more cash flow for investments/insurance
  - Clients should be able to absorb higher rates at renewal
  - Housing prices may decline and become more affordable
  - Bidding wars and waving conditions may cease

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How does Manulife Bank help your clients?

Our all-in-one solution creates:

- Greater cash flow efficiency by combining debt, income and short term savings
- Flexibility to address unforeseen expenses
- Accelerates debt repayment
- Tailors the debt to a client's needs

How to does Manulife Bank help your clients?

To assist with the qualifying rate, we can

- Place some debt in fixed rates to lower qualifications
- Extend amortization to 30 years to lower payment
- Recommend a client take a smaller borrowing limit

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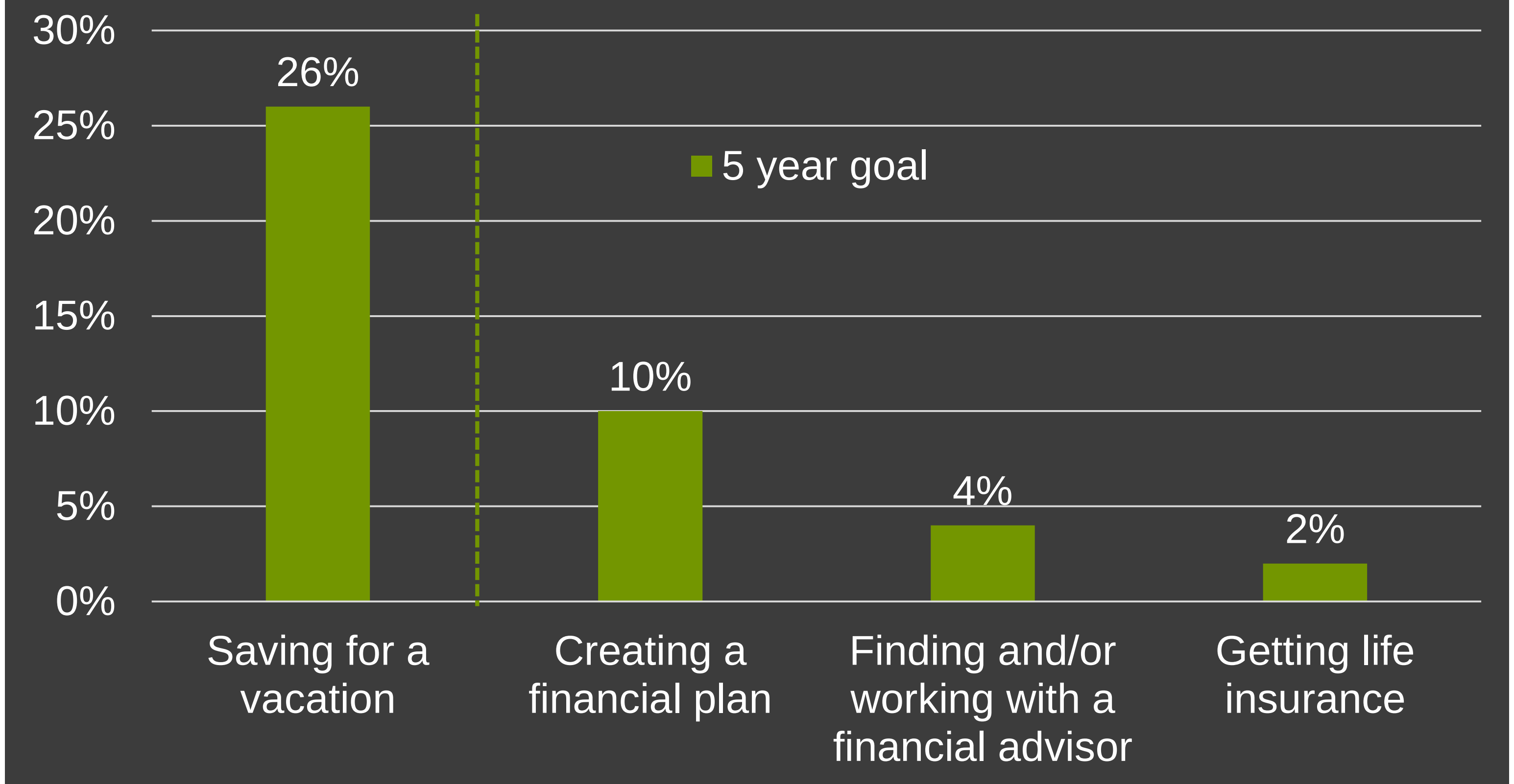
25 YEARS 1993-2018

The case for independent advisors managing debt and cash flow with their clients

#1

When clients self-manage debt and cash flow, they can lose focus on the right financial priorities

- Are clients focusing more on their vacation than their financial plan or buying insurance?



A1. What are your top three financial priorities in the next 5/ 10 years? Base: All Respondents (n = 2409)

#2 Earn more! Don’t wait for clients to find you the money.
With effective debt and cash flow planning, you find the money for them

Example: If you are insurance licenced, inefficient cash flow may be having a significant impact on your practice

Longer sales cycle

(Repeatedly justifying cost / delayed decisions until cash flow improves)

Less coverage

(Lowering face value or benefit coverage to fit budget)

Lost sale

(Client shops the Internet or chooses another advisor for a lower cost offering)

Lost conversions

(Age band premium increases and term to permanent conversions can be difficult)

Less costly insurance

(Recommending Term instead of Permanent to reduce cost)

Compromising

(Life & living benefits needed but client can only afford one option)

Lost business

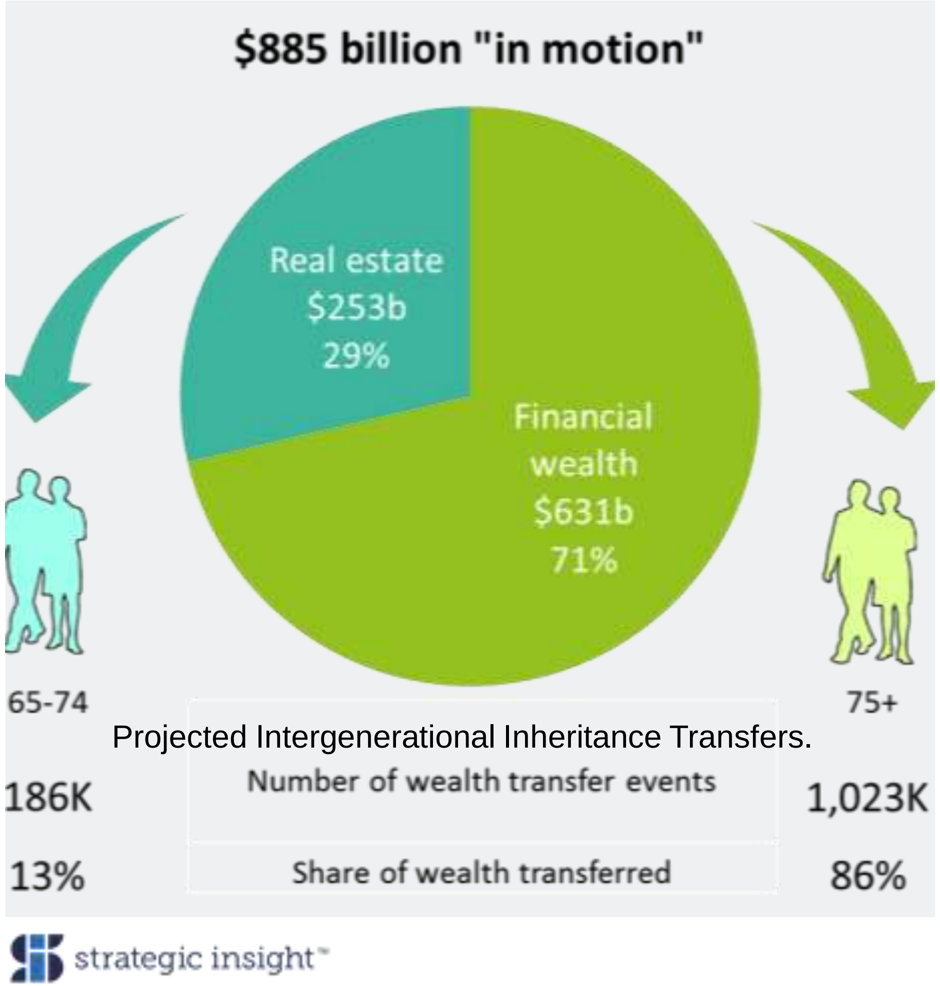
(Indebted clients may collapse policies to free-up much needed cash)

Lost influence

(Financial Institutions where your clients’ bank, want to sell them insurance as well)

#3 When a client passes away where do the estate proceeds go?

- At death, parts of your AUM or insurance proceeds will be deposited to a bank account…
- …is that account affiliated with your business?
- $885 billion in motion over the next decade



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#4 | Do you give every client the same portfolio based on lowest MERs? Would every client get the same insurance policy based solely on price?

When did the 5 year term (fixed or variable) become the homeowner standard… regardless of circumstances… where is the diversification?

#4 When did the 5 year term become the homeowner standard?

- 5 year fixed-terms remove flexibility
- Historically, an expensive short-term mortgage
- No behavioral benefits

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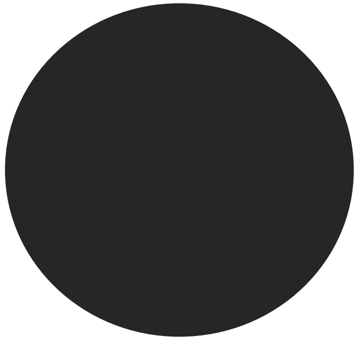
#4 We can tailor their debt like an investment portfolio

- Building a mortgage specific to your clients needs
  - Income
  - Lifestyle
  - Cash flow surplus
  - Interest rate risk tolerance

Low cash flow | Self employed | Average salaries | Large incomes

Additional opportunities

Manulife Bank Select: less than 20% equity



#5 With clients living to 100 and beyond…
Don’t they need to use all of their assets for income?

Traditional Planning Approach

- Liquidate investment assets for funding retirement
- Most investments have tax implications
- Large amount of net worth dormant

Diversified Planning Approach

- Optimized tax efficiency
- Utilizing entire net worth to fund retirement
- Betters your ability to fund longer retirement plans

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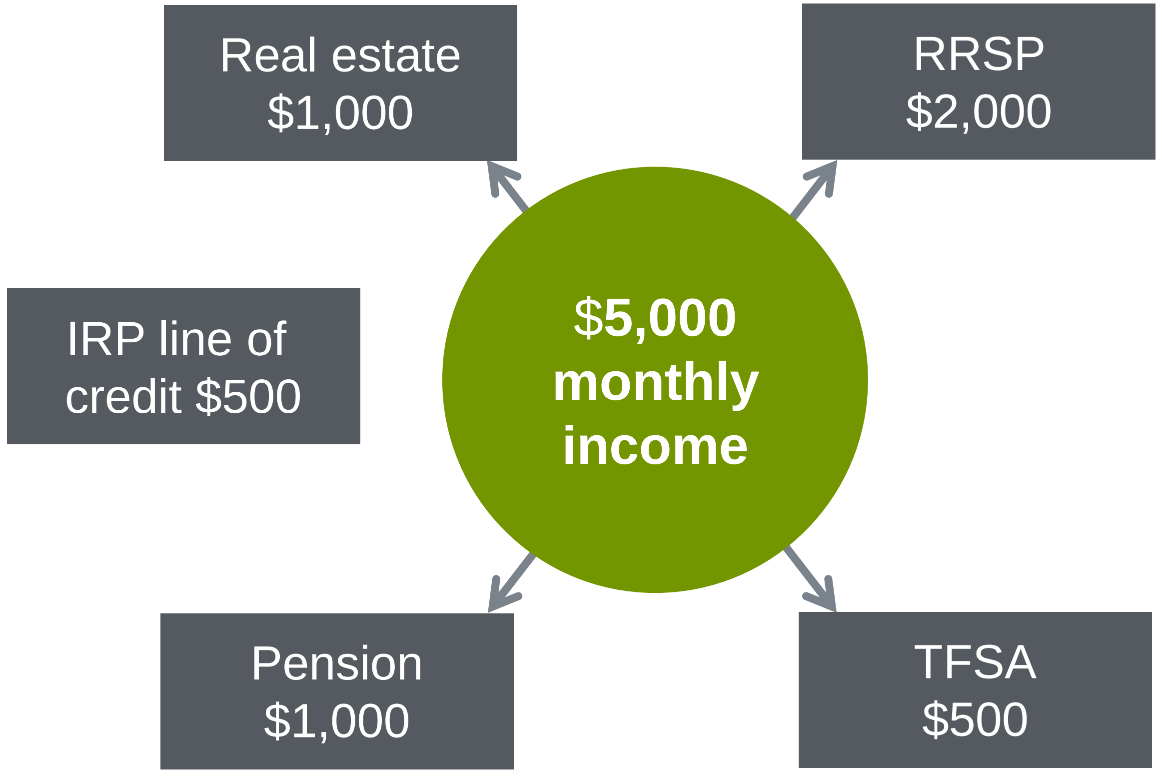
#5 Diversification in retirement should be the same as pre-retirement

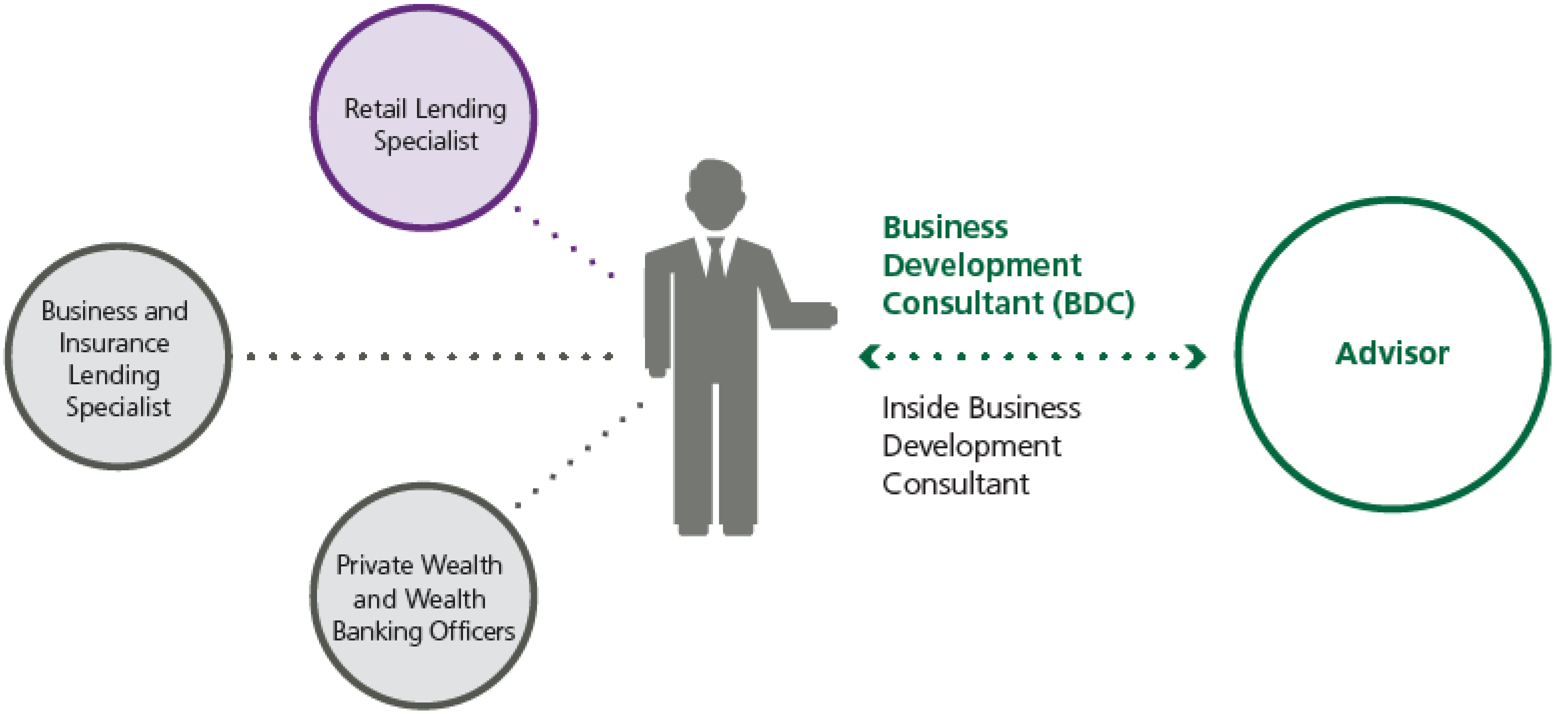
Diversified approach

Dialed up or down
with all asset classes



#6 You don’t have to be an expert

- We work alongside independent advisors
- Manulife One is a referral arrangement so you can remain focused on your core business



#7 The advisor benefits of helping clients with their cash flow and banking

Simplified banking reduces stress and increases opportunities to invest/protect

No additional licencing is required – these are referral products

You're probably not earning compensation on your clients banking today

Initial borrowings	Compensation[2]					
	Year 1	Year 2	Year 3	Year 4	Year 5	Total
$250,000	$643	$229	$215	$201	$188	$1,476
$500,000	$886	$458	$431	$403	$375	$2,553
$750,000	$1,129	$688	$646	$604	$563	$3,629

1. For Manulife One an annual trailing compensation of 0.1% of the positive or negative balance in the account, will be calculated and paid to you monthly. For Manulife Bank Select an annual trailing compensation of 0.1% of the mortgage balance paid monthly and 0.25% of the banking account balance paid monthly. 2. Assumptions: Amortization period of 25 years. Referral fee of $400 is a one-time payment that is paid after the account has funded and is included in Year 1 amount. The annual trailer compensation for the mortgage balance is 0.10%.

Thank you

Important information

As at March 1, 2018, the Manulife One base rate is **3.95%** and the annual interest rate is **1.25%**. Both are variable rates, calculated on the daily closing balance and charged monthly. The monthly administration fee is $16.95 ($9.95 for seniors). Rates and fees are subject to change. Rates are as at September 6, 2017.

Manulife Bank of Canada is a member of Canada Deposit Insurance Corporation.