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“Canada Shouldn’t Talk Itself Into a Recession” Says MortgageBrokers.Com’s CEO

MortgageBrokers.com CEO predicts a hot 2008-2009 Housing and Mortgage Market for Canada.

Toronto, Canada - January 30, 2008 – Contrary to the turmoil in the US mortgage markets, the Canadian mortgage and housing markets are in good shape. Homebuyers and other industry consumers should not worry about similar meltdowns occurring in the Canadian mortgage market, according to MortgageBrokers.com, Canada’s only publicly traded mortgage brokerage firm (OTC BB: MBKR).

“The Canadian mortgage and housing markets have had their challenges, but we firmly believe that these markets operate on a solid foundation versus current U.S. conditions” says Alex Haditaghi, CEO of MortgageBrokers.com

Recent articles, commentaries and news about the potential of what has happened in the U.S. sub-prime mortgage industry extending into Canada has certainly had a negative psychological effect within the Canadian housing and mortgage industry.

The post-housing bubble shakeout of the US economy is an important case in point. There’s little disagreement on the wrenching adjustments that have already unfolded in this sector -- a 25%+ drop in new home sales, a 35%+ plunge in housing starts, a 16% annualized decline in homebuilding activity over the past three quarters, a reduction of 110,000 jobs in the residential construction industry from its recent peak and 70,000+ jobs lost in mortgage sector in last few months. More than 120 lenders have shut down, declared bankruptcy or otherwise curtailed sub-prime lending in the last year because of rising defaults and a reduced appetite on Wall Street for securities backed by the mortgages.

Haditaghi adds: “So far, north of border, we haven’t experienced what our U.S. counterparts are going through due to several factors which are not applicable to Canada. In our opinion, looking forward, we expect a strong 2008 and 2009 for the Canadian mortgage and housing markets”.

Alex Haditaghi continued by stating that “we firmly believe that Current rates, available mortgage products and projected rate cuts in Canada will actually make the market more active”.

Alex Haditaghi, MortgageBrokers.com's CEO, addresses several market distinctions when comparing the current conditions of the Canadian and U.S housing and mortgage industries. His thoughts are as follows:

U.S. vs. Canada Sub-Prime Mortgage Markets

The percentage of home buyers in the U.S. qualified to buy or refinance their homes as a sub-prime borrower is much higher than in Canada. One of the main reasons for that is the difference between US and Canadian system and policies.

In Canada, the Canadian Home and Mortgage Corporation (CMHC), Genworth Financial, mortgage banks and many mortgage lenders have done a tremendous job with their investments in new technology systems and updated processes and procedures. As a mortgage broker or mortgage lender it is a much easier process to originate an insured mortgage than an un-insured mortgage.

In the US, in order to originate an FHA loan (its equivalent of CMHC and Genworth in Canada), the stack of paperwork, hoops to jump through, policies and procedures, exceptions to the policies and procedures, and updates to the policies and procedures, are, shall we say, astronomical, and I'm just talking about qualifying the applicant, let alone the underwriting and appraisal process.

One reason (of many) why brokers may have pushed sub-prime loans was because the borrower, who may have qualified for an FHA loan, couldn't get that loan with a broker - it takes an enormous amount of effort for a mortgage broker to become an FHA-approved lender. It's the small details that really count to HUD (US Department of Housing and Urban Development, of which the FHA is a division of it), such as annual HUD audits, net worth requirements, submitting audited financial statements and presenting quality control and compliance plans. In addition, banks, brokers, and thousands of loan originators have made trillions of dollars in profits over the last 10 years soliciting sub-prime and Alt-A loans to people who might have otherwise qualified for an FHA or VA loan.

Alts-A Loans (Alternative-documentation loans) - are primarily credit-score driven, since the candidates for these loans tend to lack proof of income from traditional employment. The Alt-A loan reduces the gathering of documentation associated with fully documented loans, such as providing income verification and documentation of assets. On the other hand, borrowers do pay a slightly higher interest rate, often from a quarter, up to half-point more than fully documented loans

In the U.S. the lending standards, particularly over the last few years, were bordering on irresponsible - 100%+ LTV loans, no-doc loans, hybrid adjustable-rate mortgages (ARM's) with 1% teaser rates, qualifying borrowers on a teaser rate instead of actual borrowing rate and lending to people with insanely high debt to income ratios.

I don't expect to see this contained in the sub-prime market either, these same types of loans were being made (but to a much lesser extent) in the Alt-A and prime markets as well. Just because home-buyers had a high credit score doesn't mean they weren't getting in way over their heads. So USA meltdown will likely extend much farther than what is being reported in the media as purely a sub-prime problem.

Because of the huge number of previous high-risk loans made in U.S., foreclosures are starting to rise. They're already setting historical records but most of the ARM's haven't started to "adjust" yet. Approximately \$1 trillion worth of ARM's begin adjusting in 2008. Many of these will adjust upwards to their full 2% adjustment cap - adding several hundred dollars to the average mortgage payment.

Within the Canadian housing market, significant credit should go to the management teams of CMHC (Canada Mortgage and Housing Corporation), Genworth and the mortgage banks and lenders as these entities have avoided financing high-risk loans. That is one of the reasons the rate of default on mortgages have been so low in Canada (0.5%). As an indication of a business plan and lending philosophy well-chosen, CMHC is making about \$1 billion a year in profit and is sitting on a \$5 billion reserve of retained profits. Those reserves are expected to rise to \$9.5 billion within four years, according to the agency's corporate plan.

In Canada, clients looking for an ARM have always been qualified on a 3 or 5 year fixed term mortgage rate, assuring the banks and mortgage insurance companies that these clients can afford mortgage payments even with a potential increase in their interest rates. With real estate pricing having appreciated during the past several years, a strong Canadian economy and healthy employment numbers, these mortgage pools have become quality assets.

One of the biggest problems inherent with the current U.S. mortgage market has been the fact that homeowners can't afford their new mortgage payments due to the fact teaser rates have expired. This is not a problem in Canada. Until couple of years ago, the longest amortization a client could take was only 25 years. Longer amortizations have become a reality just recently. We don't have the exact data but our guess would be that almost 90% of the outstanding mortgages in the Canada are amortized over 25 years. Now, with the introduction of 40 year amortizations or longer, the affordability is not an issue. For example if a client has a \$300,000 mortgage with an interest rate of 4.99% and 25 year amortization, they will have a payment of \$1,743.11 compared to a next year assuming the mortgage rate at 6.50% over 40 year amortization you are looking at payment of \$1,737.96.

There are two other interesting factors that most people don't discuss and they are as follows:

- a "zero-down" mortgage is something very new in Canada. Until recently, home buyers needed a minimum 5% down payment and closing costs of 1.5% and as a result, many of these owners currently have built up valuable equity in their homes.
- The other is the fact that most Canadians have a mortgage term of 3-5 years while in the US; terms are usually 20-30 years. This allows the Canadian mortgage market to have turn-over and activity every few years.

While consumers might want to observe the developments in the Canadian ABCP market, they shouldn't worry about it or lose sleep over it. And here's why:

The Canadian housing and mortgage market has had several years of healthy growth in a row, with housing prices having risen over last several years. The latest CMHC report estimates that housing starts will go down from 220,025 units in 2007 to 207,190 units in 2008. CMHC also predicts that MLS resale of homes will move lower to about 494,700 units in 2008 from a record 514,450 in 2007.

Well, if we think about it, this is not all bad news as one may surmise. The 207,190 housing starts represent the seventh year in a row that the number has exceeded the 200,000 threshold, a number that for years was considered magical for the housing industry. The declining number of 494,700 resale units is actually the second highest number ever in Canadian history and represents a much better number than the previous record year of 2005 in which the number of resale units was 483,300.

Immigration

Canada still remains one of the most desirable places in the world to relocate to. In speaking to a few immigration lawyers, a number of countries possess waiting lists to migrate into Canada that extend years. CMHC estimates that net migration to Canada increased by 12.0% to 236,850 in 2008. The level of net migration remains high and should add to the housing demand, although the majority of newly arrived immigrants initially settling in rental accommodations, an increasing share of these new residents typically move into home ownership as time passes.

Mortgage Rates

A recent report by the CMCH alludes to their belief that the combination of rising mortgage rates and higher home prices will result in an increase in mortgage carrying costs. Accordingly, they believe that these factors may ease housing demand, particularly for first-time buyers. We have to disagree with those comments and assessments. I expect lower rates in Canada for 2008. Also New underwriting policies introduced by both the CMCH and Genworth, in conjunction with longer amortizations of 40-45 years introduced to the Canadian housing and mortgage markets lead us to assume that the affordability of buying and owning a home has not changed that much.

As long as the CMCH and Genworth maintain their current policies, which we expect, due to the arrival of new competition to Canada (AIG, PMI Canada), we will continue seeing great and flexible mortgage products and ability to finance majority of borrowing market. In addition, a close comparison between the costs of housing in major Canadian cities compared to major U.S. cities finds that Canadian housing prices are much lower than those in the U.S or other G8 countries.

Strong Economy

Several different reports clearly indicate that the Canadian economy grew at a faster pace than expected in 2007. The continuance of a strong job market, the growing economy of Alberta, high prices for Oil, Gas and minerals, high immigration and the Vancouver Olympics and many other positive developments should affect the Canadian housing market in a very positive way.

Conclusion

While almost 80% of American's use mortgage brokers, only 25-28% of homeowners or potential homeowners do so in Canada. Canadian mortgage brokers are more educated and regulated than ever. Provincial authorities have done a superlative job in supervising mortgage brokers across Canada and the Canadian Association of Accredited Mortgage Professionals (CAAMP) has done a tremendous job in creating education and certifications programs such as AMP (Accredited Mortgage Professionals).

Consumers should take a long breath and relax. At this time, homeowners should review their current mortgage and speak to industry experts about managing and maintaining their financial health over the next 5-7 years. One thing Canadian consumers should do is to utilize the

experience of a professional mortgage broker. Getting rid of or consolidating credit card debt, doing that renovation or converting an ARM to a fixed term mortgage are just some of the benefits you may be able to take advantage of when dealing with a mortgage professional. An accredited mortgage broker can help new borrowers and current sub-prime mortgage holders by planning and exploring new avenues. It's a great time to call a mortgage broker and examine the opportunities.

We do accept, however, that some niche and sub-prime borrowers presently looking to obtain a mortgage may have to pay more and that will effect their costs of purchasing and owning a home. We also believe, though, that many Canadian sub-prime borrowers, as a result of regular payments and an increase in their home equity, may now qualify as prime borrowers.

Regardless of the changes in the sub-prime market, the need and demand for mortgage financing does not go away. Banks and mortgage lenders have a history of designing products to meet the economic needs of the borrowing public and MortgageBrokers.com will be there to educate and deliver these new products to them. In the next 12-24 months our business will change and for the benefit of the consumers. Tough times never last but tough people do. MortgageBrokers.com consultants across Canada are extremely well trained, experienced and more consultive in nature, as a trusted advisor, working closely with families to ensure their financial debt products are in line with their future plans and retirement. It will be more about products and strategy and less about rate. Emphasis will be on long and short term strategies, long and short amortizations; multi-term mortgages allowing clients to mix terms and products, prepayment privileges, portability, just to name a few of the available strategies.

The Mortgage Broker is becoming increasingly more important than ever as a result of their expertise and ability to analyze a customer's needs and to recognize and explain the product(s) that's best and most suitable for each consumer. We believe it's not a time to worry and panic but time to plan and feel confident.

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