Mortgage Insurance Company of Canada. C

MICC INVESTMENTS LIMITED ANNUAL REPORT 1976

MICC

MICC Investments Limited is a public company whose shares are listed on the Toronto and Montreal stock exchanges. As at December 31st, 1976, approximately 97% of its outstanding common shares were held by shareholders of record in Canada. Its principal operating subsidiary is The Mortgage Insurance Company of Canada (MICC).

MICC was incorporated by Act of Parliament passed in December, 1963 and commenced operations in June, 1964. It is licensed and operates in each of the provinces. MICC's activities fall under the jurisdiction of the Federal Department of Insurance whose staff carry out regular inspections and whose approval is obtained for all insurance programs.

MICC is engaged in the business of insuring investment risks. Under its first mortgage program, protection is provided to mortgage lenders and investors against losses on mortgage loans covering houses (including condominium units), rental projects, commercial and industrial properties, and vacation homes. The company also insures second mortgages on houses and income properties. MICC also offers a lease guarantee program under which lessors of commercial and industrial real estate are insured against loss through failure of a tenant to pay rent. In addition, the company offers a deposit insurance program in Ontario, which protects purchasers of condominium units against loss of deposit in the event of builder bankruptcy.

MICC now has over 12 years' experience and has developed a staff highly skilled in mortgage underwriting. More than 300 mortgage lenders use its services, including most major financial institutions in Canada.

Si vous désirez recevoir ce rapport annuel en français, veuillez vous adresser au :

Secrétaire
MICC Investments Limited
C.P. 14, 401 rue Bay, chambre 1212
Toronto, Ontario M5H 2Y4

Board of Directors

MICC Investments Limited and The Mortgage Insurance Company of Canada

T. A. Boyles, Honorary Chairman
The Bank of Nova Scotia, Toronto, Ontario

R. C. Brown, Partner
Blake, Cassels & Graydon, Toronto, Ontario

John Cochran, President
Domtar Construction Materials Ltd., Montreal, Quebec

Harold Corrigan, President
Alcan Canada Products Limited, Toronto, Ontario

S. E. Eagles, President
Marathon Realty Company Limited, Toronto, Ontario

Gardner English, President
Kopas & Burritt Funding Incorporated, Toronto, Ontario

C. W. Jameson, Executive Assistant to the President
The Bank of Nova Scotia, Toronto, Ontario

Max H. Karl, Chairman and Chief Executive Officer
MGIC Investment Corporation, Milwaukee, Wisconsin, USA

Peter Kilburn, Chairman
Greenshields Incorporated, Montreal, Quebec

Raymond Lavoie, President and Chief Executive Officer
Credit Foncier Franco-Canadien, Montreal, Quebec

Fred H. McNeil, Chairman and Chief Executive Officer
Bank of Montreal, Montreal, Quebec

Reginald T. Ryan, President
MICC Investments Limited, Toronto, Ontario

R. T. Scurfield, President
Nu-West Development Corporation Ltd., Calgary, Alberta

G. D. Sutton, President
Canadian Enterprise Development Corporation Limited, Montreal, Quebec

J. L. Toole, Chairman, CN Investment Division
Canadian National Railways, Toronto, Ontario

C. L. Townend, Company Director,
West Montrose, Ontario

G. J. van den Berg, Company Director
Beaconsfield, Quebec

B. G. Willis, Executive Vice-President
Greenshields Incorporated, Toronto, Ontario

Executive Officers

MICC Investments Limited

Reginald T. Ryan, President

C. W. Jameson, Vice-President

David C. Toms, Secretary-Treasurer

The Mortgage Insurance Company of Canada

Reginald T. Ryan, President

C. W. Jameson, Vice-President

James McAvoy, Vice President

John McCreadie, Vice-President

David C. Toms, Secretary-Treasurer

Georges W. Carpentier, Assistant Vice-President

Barry A. Morrison, Assistant Vice-President

MICC

Highlights for the year

	1976	1975	% change
	$	$	%
Premiums Written	20,177,102	19,552,099	3.4
Underwriting Revenue	11,327,039	9,651,713	17.4
Investment Income	12,110,420	8,558,274	41.5
Losses on Claims Incurred	3,990,855	2,842,978	40.4
Net Earnings (before realized investment gain or loss)	11,820,644	8,863,302	33.4
Net Earnings	11,937,134	8,119,645	47.0
Net Earnings Available to Common Shareholders	10,445,009	8,119,645	28.6
Total Assets	167,560,020	124,981,531	34.1
Shareholders' Equity	85,613,858	51,927,505	64.9

Earnings Per Common Share (before realized investment gain or loss)	$1.81	$1.55	16.8
Earnings Per Common Share	$1.83	$1.42	28.9
Common Dividends Paid	24½¢	24¢	2.1

President's report to shareholders

Operating results of MICC Investments Limited continued at a satisfactory level in 1976. Earnings before realized gain on investments increased to $11,820,644 from $8,863,302 in 1975, equal to $1.81 per common share compared to $1.55 per common share in 1975. Consolidated assets increased to $167,560,020 from $124,981,531 at December 31st, 1975, an increase of 34%.

The Mortgage Insurance Company of Canada, the company's principal subsidiary, issued commitments for new Canadian mortgage insurance (first mortgages only) in the amount of $2,400,445,000, an increase of 8% over 1975 and a new record for the Company. Lease guarantee commitments covered aggregate rentals of $33,215,000, also a new record and an increase of 37% over the previous year. Net premiums written totalled $20,177,102, compared to $19,552,099 in 1975. Insurance in force increased to approximately $7.0 billion at year end, an increase of 23% over December 31st, 1975.

We were pleased with the performance of our investment portfolio in 1976. Investments increased by approximately 35% rising to $162,286,234 at year end from $120,608,275 at December 31st, 1975. The value of securities held in the portfolio, in relation to cost, improved considerably during the year and return on investment also increased over 1975. Details of the investment portfolio of the insurance company are contained on page 18.

Claims losses increased to $3,990,855 from $2,842,978 in 1975. Bearing in mind the mediocre performance of the Canadian economy in 1975, that unemployment was extremely high in many areas throughout the year, and that our insurance in force increased by 23%, the level of losses is considered quite acceptable. Details regarding claims losses will be found on page 16.

In the spring of 1976, the Company made a successful public offering of $20 million of 10% cumulative preferred shares. These funds were required to provide additional capital for the insurance company. As a result of this underwriting, we have over 950 new shareholders.

Regular quarterly dividends were paid on the preferred shares commencing in June. Common dividends, of 6¢ per share, were paid in the first three quarters with the final quarter dividend being increased to 6.5¢ as permitted under the Anti-Inflation Guidelines.

In April of 1976, the Anti-Inflation Guidelines were extended to cover general insurance companies. The Anti-Inflation Board has recognized that the term and nature of the mortgage insurance contract are unique, and has approved guidelines similar to those for life insurance companies, which your management feels are more appropriate. However, we do not agree with the control on dividend increases which restricted our common dividend increase to 8% in the final quarter.

In April 1975, the company acquired the 50% interest of its partner in Charlotte Properties Limited, which has a recreational land development in Hastings County, Ontario. MICC has decided against any further involvement in the land development field and is proceeding to dispose of the assets of Charlotte Properties Ltd. Part of the land holdings have already been sold, and this sale was closed in January 1977. It is expected that the balance of the land will be disposed of by the end of 1977 and the Company's investment fully recovered. The operations of Charlotte resulted in a small profit in 1976.

Real estate markets were difficult throughout the year in many parts of the country. Alberta and Saskatchewan fared better than most of the provinces, particularly in the first half of 1976. In many areas, home buyers postponed purchases primarily because of uncertain economic conditions, high house prices and a continuing high level of interest rates. Surprisingly, new housing starts, stimulated primarily by Federal Government subsidy programs, were stronger than expected and totalled 273,203 units. Worrisome inventory problems persist in many larger cities with Vancouver, Toronto and Ottawa bothered particularly by a substantial number of condominium units for sale.

The year 1977 will probably be a year of modest achievement for Canada's economy. Growth in gross national product, in real terms, will likely be less than 5% and the unemployment rate will probably remain above 7%. On the positive side, there has been a continuing drop in the rate of inflation. Mortgage rates, which declined substantially in the latter part of 1976, should stabilize at lower levels in 1977. New housing starts will be below the 1976 total and a reduction of at least 10%-15% is probable.

While a reduction in new starts will have some impact on MICC, we are confident that we will write a good volume of business again next year. In the light of an increasing portfolio of insurance in force and because of high unemployment and depressed economic conditions in certain parts of the country, it is expected that claims losses in 1977 will remain at about the same level as last year. However, management is confident that MICC will achieve a satisfactory level of earnings in 1977.

I would like to record sincere appreciation to our staff for their efforts during 1976. Their contribution of talent and hard work enabled us to achieve another year of strong progress.

I regret to advise that Mr. C. W. Jameson, a founding director of the Company, is unable to stand for re-election at the forthcoming annual meeting. In his place, we will be nominating Mr. Robert MacIntosh, an executive vice-president of The Bank of Nova Scotia.

R. T. Ryan
President
MICC Investments Limited

MICC Investments Limited

Consolidated balance sheet
as at December 31, 1976

		1976	1975
Assets		$	$
Cash and accounts receivable	Cash	630,580	576,731
	Interest accrued and sundry receivables	1,955,338	1,587,470
	Premiums receivable	1,500,000	1,250,000
	Foreign income taxes recoverable	47,606	310,519
	Due from other insurance companies	1,357	152,491
		4,134,881	3,877,211
Investments	Treasury bills and other short-term securities – at cost	9,337,538	32,318,491
	Bonds and debentures – at amortized value (market value $48,739,340; 1975 – $22,902,841)	49,992,443	25,362,393
	Preferred stocks – at market value (cost $64,960,586; 1975 – $47,624,232)	64,828,491	44,405,448
	Common stocks – at market value (cost $28,216,726; 1975 – $14,466,281)	29,778,982	13,903,905
	Mortgages – at amortized value	3,461,160	1,003,568
	Real estate	4,362,420	3,322,750
	Charlotte Properties Limited	525,200	291,720
		162,286,234	120,608,275
Other assets	Loan to trustees under employee stock purchase plan	234,465	267,300
	Other	180,098	144,846
	Capital expenses – at amortized cost (notes 3 and 4)	724,342	83,899
		1,138,905	496,045
		167,560,020	124,981,531

Signed on behalf of the Board

G. D. SUTTON, Director

R. T. RYAN, Director

		1976	1975
Liabilities		$	$
Accounts payable	Bank loan	—	4,000,000
	Due to other insurance companies	234,021	27,408
	Provision for claims	3,124,574	1,391,106
	Accounts payable and accrued liabilities	642,299	703,424
	Interest payable on income debentures	188,750	190,300
	Premium taxes payable	71,738	105,659
	Income taxes payable	132,684	189,689
	Due for securities purchased	32,138	42,237
		4,426,204	6,649,823
Other liabilities	Deferred revenue (note 2)	62,924,828	53,524,278
	Deferred income taxes	4,595,130	2,879,925
	Income debentures (note 3)	10,000,000	10,000,000
		77,519,958	66,404,203
		81,946,162	73,054,026
Shareholders' Equity			
Capital stock (note 4)	Authorized – 3,981,200 preferred shares of the par value of $25 each, issuable in series; 10,000,000 common shares without par value		
	Issued and fully paid – 781,200 10% cumulative redeemable preferred shares Series A	19,530,000	—
	5,711,080 common shares	37,430,189	37,430,189
Retained earnings		27,273,508	18,278,476
		84,233,697	55,708,665
Unrealized gain (loss) on stocks		1,380,161	(3,781,160)
		85,613,858	51,927,505
		167,560,020	124,981,531

MICC Investments Limited

Consolidated statement of earnings
for the year ended December 31, 1976

		1976	1975
		$	$
Revenue	Net premiums written	20,177,102	19,552,099
	Application fees	1,440,688	1,344,661
	Commission income	19,697	12,857
	Inspection service fees	21,083	—
		21,658,570	20,909,617
	Less: Increase in deferred revenue	10,331,531	11,257,904
	Underwriting revenue	11,327,039	9,651,713
	Investment income – Interest and amortization	4,700,569	3,810,878
	Dividends	7,401,371	4,746,896
	Other	8,480	500
		12,110,420	8,558,274
		23,437,459	18,209,987
Expenses	Insurance underwriting and policy issuance expenses	2,345,051	1,722,736
	Premium taxes	453,242	393,466
		2,798,293	2,116,202
	Less: Increase in deferred expenses	930,981	394,851
		1,867,312	1,721,351
	Losses on claims incurred	3,990,855	2,842,978
	Other operating expenses	1,208,630	1,106,092
	Income debenture interest and amortization expense (note 3)	787,880	194,716
		7,854,677	5,865,137
Earnings before income taxes		15,582,782	12,344,850
Provision for income taxes	Current	2,131,258	2,355,706
	Deferred	1,630,880	1,125,842
		3,762,138	3,481,548
Earnings before realized investment gain (loss)		11,820,644	8,863,302
	Realized gain (loss) on disposal of investments	116,490	(743,657)
Net earnings for the year		11,937,134	8,119,645
Earnings per common share	Earnings before realized investment gain (loss)	$1.81	$1.55
	Net earnings for the year	$1.83	$1.42
	Weighted daily average number of common shares outstanding	5,711,080	5,711,080

Consolidated statement of unrealized gain (loss) on stocks and of retained earnings

for the year ended December 31, 1976

Unrealized gain (loss) on stocks	1976	1975
	$	$
Unrealized loss on stocks – beginning of year	(3,781,160)	(5,784,251)
Unrealized gain on stocks for the year	5,211,321	2,003,091
	1,430,161	(3,781,160)
Deferred income taxes	50,000	—
Unrealized gain (loss) on stocks – end of year	1,380,161	(3,781,160)

Retained earnings	1976	1975
	$	$
Retained earnings – beginning of year	18,278,476	11,529,490
Net earnings for the year	11,937,134	8,119,645
	30,215,610	19,649,135
Amortization of capital expenses, less related income taxes (note 4)	45,103	—
Expenses on purchase of preferred shares	5,659	—
Cash dividends –		
Preferred	1,492,125	—
Common	1,399,215	1,370,659
	2,942,102	1,370,659
Retained earnings – end of year	27,273,508	18,278,476

Consolidated statement of changes in financial position

for the year ended December 31, 1976

		1976	1975
		$	$
Source of funds	Operations –		
	Net earnings for the year	11,937,134	8,119,645
	Increase in net deferred revenue (note 2)	9,400,550	10,863,053
	Income taxes deferred	1,630,880	1,125,842
	Depreciation and amortization	69,752	53,786
	Funds generated from operations	23,038,316	20,162,326
	Preferred shares issued (net of expenses)	19,279,738	—
	Debentures issued (net of expenses)	—	9,911,685
	Increase in accounts payable	—	5,403,803
	Decrease in loan to trustees under employee stock purchase plan	32,835	68,567
	Other	51,381	—
		42,402,270	35,546,381
Use of funds	Increase in cash and accounts receivable	257,670	2,540,079
	Decrease in accounts payable	2,223,619	—
	Purchase of fixed assets	87,344	33,492
	Dividends –		
	Preferred shares	1,492,125	—
	Common shares	1,399,215	1,370,659
	Purchase of preferred shares	475,659	—
		5,935,632	3,944,230
Funds available for investment		36,466,638	31,602,151
Investment funds – beginning of year		120,608,275	87,003,033
		157,074,913	118,605,184
	Unrealized gain on stocks for the year	5,211,321	2,003,091
Investment funds – end of year		162,286,234	120,608,275

Notes to consolidated financial statements

For the year ended December 31, 1976

1. Accounting Policies

The accounts of MICC are included herein in accordance with generally accepted accounting principles. The application of these principles is set out for the following significant items:

Principles of consolidation

The consolidated financial statements of MICC Investments Limited (the "company") include the accounts of its subsidiary, The Mortgage Insurance Company of Canada (MICC).

The accounts of Charlotte Properties Ltd., a wholly-owned subsidiary as of April 30, 1976, have not been consolidated as it is the company's intention to sell this company. This investment, previously a corporate joint venture and accounted for on the equity basis, has been accounted for on the cost basis as at December 31, 1976.

Premiums

Net premiums written are deferred and then taken into underwriting revenue as earned over the terms of the related policies. Prior to 1974, the majority of policies were written for a term of fifteen years; since then the majority of policies have been written for twenty years. The rate or formula under which premiums are earned relates to the amount of risk in each year of coverage.

Application fees and commission income

Application fees received on insurance policies written and commission income received on reinsurance premiums ceded to a reinsurer are taken into income as received.

Underwriting and policy issuance expenses and premium taxes

Underwriting and policy issuance expenses and premium taxes in excess of application fees and commission income are deferred and then amortized against premiums as the premiums are earned.

Losses on claims incurred

A provision is made for potential losses on mortgage loans which are in default for three or more months. This provision is based on past experience of MICC. A further provision is set up for each mortgage loan when MICC anticipates that a lender will be making a claim on a mortgage. On settlement of a claim, the real estate acquired is carried in the accounts at 90% of the estimated realizable value.

Investment income

(a) Treasury bills and other short-term securities – Interest is recorded as income as it accrues. Realized gains and losses are taken into income.

(b) Bonds, debentures and mortgages – Interest is recorded as income as it accrues. The premium or discount between cost and maturity value is amortized into income over the period to maturity. A gain or loss on the sale of a bond, debenture or mortgage is deferred and then amortized over the term to maturity of the security sold.

(c) Stocks – Dividends are recorded as income on the ex-dividend date. Realized gains and losses on disposal of stocks, net of income taxes, are taken into income as a special item. Unrealized gains and losses on stocks are accounted for in a special statement (consolidated statement of unrealized gain (loss) on stocks), the balance of which is transferred to shareholders' equity.

2. Deferred Revenue

Deferred revenue consists of deferred premiums, after deduction of deferred underwriting and policy issuance expenses and premium taxes.

3. Income Debentures

Income debentures mature on September 30, 1981, with mandatory prepayment as to 33.4% on September 30, 1979 and 33.33% on September 30, 1980. The debentures consist of two series, $2,000,000 series A which pay interest at 8¼% and $8,000,000 series B which pay interest equal to 50% of the prime bank rate, plus 2.5%. Interest on these debentures is not deductible in computing taxable income.

Costs incurred in connection with this issue have been capitalized and are being amortized against earnings on a straight-line basis over the term of the debentures. As at December 31, 1976, unamortized capital expenses relating to income debentures amounted to $66,239.

4. Capital Stock

(a) Preferred shares

On January 30, 1976 the company increased its authorized capital by creating 4,000,000 preferred shares of the par value of $25 each, issuable in series. Subsequently 800,000 of these shares were designated as 10% cumulative redeemable preferred shares Series A and were issued for a cash consideration of $20,000,000.

The 10% cumulative redeemable preferred shares Series A are subject to mandatory sinking fund redemption at par for:

(i) 24,000 shares on March 15 in each of the years 1977 to 1981 inclusive;

(ii) 56,000 shares on March 15 in each of the years 1982 to 1986 inclusive; and

(iii) 72,000 shares on March 15, 1987 and each year thereafter.

Effective March 15, 1982 the company may increase each annual sinking fund by 24,000 shares. The company is entitled to anticipate sinking fund requirements by purchasing shares in the market at prices not exceeding the redemption price. Subsequent to March 15, 1981 the company may redeem shares not required for sinking fund purposes at a premium of 5%, declining annually thereafter to par value on March 15, 1986.

During 1976 the company purchased 18,800 shares for sinking fund requirements.

Costs incurred in connection with the issue of the preferred shares Series A, amounting to $720,262, have been capitalized and are being amortized against retained earnings over the estimated term of the shares on a weighted average basis. As at December 31, 1976, unamortized capital expenses relating to preferred shares Series A amounted to $658,103.

(b) Common shares

20,400 common shares are reserved for allotment and issue to the trustees of the employee stock purchase plan.

A non-assignable stock option for the purchase of 10,000 common shares is held by a director of the company, and is exercisable until June 6, 1978 at a price of $16.75 per share.

5. Statutory Information

In accordance with the disclosure requirements of the Canada Corporations Act, fees and other remuneration paid to directors and officers were as follows:

Number of directors of the company	18
Aggregate remuneration as directors of the company	Nil
Aggregate remuneration as directors of MICC	$ 51,150
Number of officers of the company	4
Aggregate remuneration as officers of the company	$ 11,229
Aggregate remuneration as officers of MICC	$114,610
Number of officers of the company who are also directors of the company	2

The aggregate remuneration paid to directors and senior officers as defined by The Securities Act of Ontario amounted to $309,549.

In addition, loans made to two officers, one of whom is also a director, under the employee stock purchase plan, amounted to $80,570 as of December 31, 1976.

6. Foreign Exchange

Assets and liabilities in United States dollars have been translated at the rate prevailing on December 31, 1976. Earnings have been translated into Canadian dollars at the average rate prevailing through the year.

7. Anti-Inflation Act

Under the Anti-Inflation Act the company is constrained with regard to the payment of dividends and its subsidiary, The Mortgage Insurance Company of Canada, is constrained with regard to prices and compensation.

Auditors' report to the shareholders

We have examined the consolidated balance sheet of MICC Investments Limited and subsidiary company as at December 31, 1976 and the consolidated statements of earnings, retained earnings, unrealized gain (loss) on stocks and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1976 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants
February 4, 1977

Transfer Agents

Preferred Shares	National Trust Company, Limited
Common Shares	The Canada Trust Company

Registrars

Preferred Shares	National Trust Company, Limited
Common Shares	Canada Permanent Trust Company

Auditors Coopers & Lybrand

The Mortgage Insurance Company of Canada

Balance sheet

as at December 31, 1976

		1976	1975
Assets		$	$
Cash and accounts receivable	Cash	607,239	508,656
	Premiums receivable	1,500,000	1,250,000
	Interest accrued and sundry receivables	2,071,706	1,564,646
	Due from other insurance companies	1,357	152,491
	Foreign income taxes recoverable	47,606	310,519
	Income taxes recoverable	193,210	—
		4,421,118	3,786,312
Investments	Bonds, debentures and stocks, at authorized values	145,753,613	113,971,713
	Mortgages	2,761,809	444,212
	Real estate	4,362,420	3,322,750
		152,877,842	117,738,675
		157,298,960	121,524,987

		1976	1975
Liabilities		$	$
Accounts payable	Due to other insurance companies	234,021	27,408
	Provision for claims	3,124,574	1,391,106
	Accounts payable and accrued liabilities	644,499	697,974
	Premium taxes payable	71,738	105,659
	Income taxes payable	—	111,989
	Due on undelivered securities	32,138	42,237
		4,106,970	2,376,373
Reserves	Reserve for unearned premiums	65,616,937	55,285,406
	Additional policy reserve	6,195,199	3,845,573
	Reserve for unregistered reinsurance	359,168	382,692
		72,171,304	59,513,671
		76,278,274	61,890,044
Shareholders' Equity			
Capital stock	Authorized – 800,000 10% non-cumulative preferred shares with a par value of $100 each, redeemable at par; 200,000 common shares with a par value of $100 each		
	Issued and fully paid – 260,000 preferred shares (1975 – 140,000)	26,000,000	14,000,000
	108,145 common shares	10,814,500	10,814,500
Surplus		44,206,186	34,820,443
		81,020,686	59,634,943
		157,298,960	121,524,987

Signed on behalf of the board

G. D. SUTTON, Director

R. T. RYAN, Director

Review of operations

New Business

The total volume of commitments issued by the Company in 1976 for insurance of first mortgages amounted to $2,400,445,000. This is the highest annual figure for new business the Company has recorded in its history to date, and it exceeds the 1975 figure of $2,217,973,000 by 8%. A breakdown of new business figures for the past five years, by program, is given on page 20.

Commitments to insure for high-ratio house loans increased to $1,528,200,000 from $1,447,700,000 in 1975, a modest increase of 5.6%. The insuring of 75% house loans continues to gain favour and last year commitments of $348,000,000 were issued, an increase of 23% over 1975. Commitments issued on income property loans (apartments and commercial and industrial properties) increased to $518,501,000 from $478,907,000 in 1975. The average loan per case – $203,500, was virtually unchanged from last year's figure of $204,000.

In 1976, the average insured high-ratio house loan for new houses (including condominium units) was $42,300 per unit, as compared with $38,400 in 1975. The 1976 figure for existing house loans was $30,300 whereas in 1975 the average was $27,900. Bearing in mind the general pattern of house prices throughout the country, these averages, although higher than in 1975, illustrate that the vast majority of high-ratio house loans are being directed to the moderately priced housing market.

The Company introduced its program of insuring second mortgages on houses in late 1975 and after one full year of operation, the volume of commitments issued amounted to $2,568,000. While this total is modest, it is noteworthy that its use by lenders increased over the latter part of the year.

During the year, 122 lease guarantee commitments were issued covering $33,215,000 in aggregate insured rent, compared to $24,236,000 in 1975, an increase of 37%. More and more lenders, landlords and investors are coming to appreciate the value of this type of coverage. In 1976, cases were more geographically diversified than in the past, and the average aggregate rent insured per case was lower, at $233,182 compared to $297,598 in 1975. Total liability of MICC under this coverage stood at $10,621,188 at year end.

Under the program of insuring condominium deposits, introduced in July 1975, for Ontario only, commitments were issued during the year to insure deposits in 52 projects. Premiums written amounted to $299,628, and total estimated liability at year end stood at $23,882,923. Of this liability, $19,154,602 of insured deposits related to units in condominium projects where the developments were completed, many of the purchasers were in occupancy, and the registration process was underway. There have been no claims paid under this coverage to date.

As anticipated, the Province of Ontario enacted legislation for a new home warranty program in June, which includes

Left to right: K. G. Antaya – Supervisor, Mortgage Insurance; G. W. Carpentier – Assistant Vice-President and Chief Underwriter; J. McCreadie – Vice-President; C. E. Madden – Supervisor, Lease Guarantee.

condominium deposit insurance. This legislation came into force on December 31st, 1976. The MICC program will no longer be required for new condominium projects but will be available for condominium developments which result from the conversion of an existing rental property.

Potential Premiums Written

In the past, the Company has used the "new commitments issued" figure as the prime indicator of the volume of new business for the year. This figure is the sum total of commitments to insure issued to lenders under all of our first mortgage insurance programs. However, as the number of mortgage insurance programs continues to grow, with premium levels which range from 0.6% to 3% of the insured loan amount, the "new commitments issued" figure is no longer as meaningful as it used to be.

Left to right: Miss M. Sparkes – Assistant Manager Administration and Personnel; E. D. Smith – Chief Inspector; J. W. Stewart – Manager Administration and Personnel; (Absent) J. McAvoy – Vice-President.

It is our view that a "potential premium" figure is a better indicator of business volume – i.e., the total premiums we would expect to receive if all commitments issued became insured risks. This figure would give proper recognition to the varying premium levels of our various programs.

It should be noted that neither the "commitments issued" figure nor the "potential premiums" figure can be taken as a completely accurate reflection of premiums to be written in a specific year. A percentage of commitments issued either lapse or are cancelled as a result of loans that are not funded. The rate of cancellations and lapses varies between programs, the requirements of borrowers and economic conditions. The current rate is in the order of 20%-25%. In addition, there is a time lag between the date a commitment is issued and the date the loan becomes insurable, and the premium received. Thus a substantial number of commitments issued in 1976 will not mature until 1977 and some possibly not until 1978. At December 31st, 1976, the potential premium from all outstanding commitments amounted to approximately $19,300,000.

It is interesting to compare the potential premium figures, for all programs, for commitments issued in 1975 and 1976:

Potential Premium	*1976*	*1975*
First Mortgages	$	$
Homeownership loans		
High-Ratio	15,003,116	14,203,591
75% and less	2,040,586	1,636,995
Rental loans		
High-Ratio	3,376,019	3,283,710
75% and less	232,484	241,861
Commercial/Industrial loans		
High-Ratio	2,802,175	2,892,007
75% and less	2,428,313	1,860,119
Vacation Home Loans	108,754	171,169
Second Mortgages		
Homeownership loans	76,374	—
Lease Guarantee Insurance	1,543,798	969,017
Condominium Deposit Insurance	174,580	392,568
Total Potential Premium	27,786,199	25,651,037

Approved Lenders and Correspondents

At the end of 1976 our records listed 279 Approved Lenders and 52 Approved Correspondents. Approved Lenders included 11 banks, 46 life insurance companies, 45 trust companies, 32 loan companies, 128 credit unions and caisses populaires, and 17 other type institutions.

Construction Inspections

During the year a total of 29,176 inspections were carried out on properties under construction. The use of this service continues to grow as more and more of our lenders request inspection assistance to ensure a satisfactory standard of construction practice.

Regional Offices

During 1976 new offices were opened in Quebec City, Regina and Calgary, giving the company a total of ten regional offices. These regional offices enable us to give our lenders better service throughout the country. A complete listing of offices will be found on page 24.

Left to right: J. J. Traill – Manager, Claims; C. E. Locke – Director, Business Development; G. J. Pennie – Business Development Officer – Ontario.

New Programs

MICC introduced several new programs during the year and, as well, made some significant changes to existing programs. For example, coverage on house loans was offered on mortgages for terms as short as two years (or one year with a one year renewal option in favour of the borrower).

Coverage for loans financed under Federal Government programs known as AHOP (Assisted Home Ownership Program) and ARP (Assisted Rental Program) was made available through our offices. Insurance of land mortgages, a coverage aimed at assisting a developer to raise capital on land already zoned and serviced, or on land in the process of proceeding to the production stage, was introduced. Several other programs, such as insurance of interim loans for use in major development projects, and second mortgages on income producing properties, were formulated for introduction in early 1977.

Defaults and Claims Losses

Defaults

A poor local economy and increased unemployment resulted in a higher level of defaults in many parts of the country. However, at year end the default picture, under most programs, compared favourably with 1975. Default ratios for the last five years are compared in the table on page 21.

Claims Losses

Losses incurred on claims during the year, rose to $3,990,855 compared with $2,842,978 for 1975. Losses include a substantial provision for losses where claims have not been received, but are anticipated. A breakdown of losses for 1976 as well as for the four previous years is given on page 21.

While losses increased significantly for Canadian mortgage insurance, there was a substantial decline in losses on U.S. reinsurance. Losses on Canadian mortgage insurance were higher than in 1975 due mainly to the lack of recovery in the economies of certain areas of the country which are also experiencing a high incidence of unemployment. However, in relation to the growing portfolio of insurance in force, the level of losses is not considered to be excessive. In the light of economic conditions forecast for 1977, we anticipate that claims losses will be no lower than experienced in 1976.

Our share of lease guarantee losses incurred increased to $82,584 from $21,820 in 1975. At year end, claims were being paid on 3 lease guarantee cases with MICC's share of the loss being $2,128 per month.

Under our lease guarantee insurance program, we reinsured a portion of the risk relating to claims which continued for more than seven months. Effective December 31, 1976, these reinsurance arrangements were terminated with respect to new business and we will be carrying the entire risk on commitments issued after that date.

Real Estate

At year end, the company owned 66 properties, comprising 19 apartment buildings, containing 242 units, 39 single family dwellings, 6 units in condominium projects and 2 commercial properties, for a total book value of $4,362,420. Prior to sale, real estate is carried on the books of MICC at 90% of its appraised value.

It is company policy to dispose of real estate, acquired through payment of a claim, as quickly as possible. However, in some cases, listing of a property for sale may be deferred while repairs are being completed and, from time to time, properties may be rented pending an improvement in local market conditions. At year end 55 of the properties in the portfolio were listed for sale.

Investments

In the uncertain market conditions that prevailed in 1976, net after tax investment income expressed as a percentage of average assets, increased to 7.29% from 6.98% in 1975. In addition, the market value of the portfolio, as established by the Department of Insurance, improved to 101.7% of cost from 96.3% in 1975.

The portfolio mix, based on net assets, between debt and equity, changed very little in 1976. In 1975, MICC Investments sold $10,000,000 of income debentures and in the spring of 1976, $20,000,000 of 10% cumulative preferred shares were sold. The funds thus raised were used to provide necessary capital to the insurance company.

To hedge its total position, the insurance company maintains a $30,000,000 investment in similar type securities. After deducting these investments, equity securities, as a percentage of net assets, increased to 54.1% in 1976 from 48.1% in 1975.

The company maintained a high proportion of the portfolio in cash and liquid assets during the year. At year end these assets totalled $39.2 million which was 26.8% of the portfolio. As outlined in the 1975 Annual Report, MICC continued its program to limit portfolio exposure to higher long term interest rates. The Company's investment in debt, other than cash and liquid assets, was reduced by $4.7 million to 9.7% of the portfolio from 15.9% in 1975. The average term of these securities was reduced to 3.7 years from 7.3 years in 1975. Conventional preferreds were reduced to 6.3% of the portfolio from 10.5%, and retractable and sinking fund preferreds were increased to 29.9% of the portfolio from 22.5% in 1975. MICC also raised its investment in high yielding common stocks of companies where there is a good prospect of growth in dividends.

Assets amounting to $7.9 million in support of U.S. reinsurance liabilities are lodged with a U.S. trustee and are included in the portfolio described below. The following table shows a classification of the portfolio at cost, as at December 31st, 1976.

Classification	**Cost**	**% of Total**	
	Dec. 31, 1976	**1976**	**1975**
Cash	$ 554,500	0.4	0.4
Federal Government (Under 3 years)	33,671,595	23.0	17.2
Money Market (Under 1 year)	4,987,000	3.4	8.3
Income Debentures (Under 1 year)	—	—	5.9
Cash and Liquid Assets	39,213,095	26.8	31.8
Federal Government (Over 3 years)	7,332,341	5.0	7.2
Cash and Readily Marketable Securities	46,545,436	31.8	39.0
Provincial Government	2,737,268	1.9	3.5
Guaranteed Investment Certificates and Certificates of Deposit (Over 1 year)	4,050,000	2.8	4.0
Other Corporate Debt (Over 1 year)	—	—	1.2
Total Cash and Debt	53,332,704	36.5	47.7
Term Preferred	15,412,537	10.5	11.2
Sinking Fund Preferred	28,322,971	19.4	11.3
Conventional Preferred	9,214,427	6.3	10.5
Straight Preferred	52,949,935	36.2	33.0
Convertible Preferred	12,010,651	8.2	7.1
Common Stock	27,941,726	19.1	12.2
Common Stock and Convertible Preferred	39,952,377	27.3	19.3
Total Equity	92,902,312	63.5	52.3
Total Assets	146,235,016	100.0	100.0

Financial

Total statutory assets of the Company increased to $157,298,960 from $121,524,987 at December 31st, 1975. Shareholders' equity increased by $21,385,743, to $81,020,686, including an increase of $12,000,000 in issued capital as a result of subscriptions by the parent company for additional preferred shares. This capital, together with anticipated earnings in 1977, should be sufficient to support a substantial portion of the estimated volume of new business in 1977.

The Company's investment portfolio, at authorized values increased by $31,781,900 to $145,753,613 as detailed elsewhere in this report. The Company's investment in mortgages consists of mortgages taken back in the course of selling properties acquired by claims settlement, and increased from $444,212 at the end of 1975 to $2,761,809 at December 31st, 1976. It is the Company's policy to dispose of such mortgages from time to time, and mortgages having a book value of $409,135 were sold in 1976.

Expenses incurred during the year, other than claims losses, increased by 33.4% to $3,904,158, equal to 36.6% of premiums earned. A large part of this increase resulted from the opening of three new regional offices and from an increase of $368,393 in salary costs, which are the Company's single largest item of expense.

Application fees which are intended to substantially defray the cost of underwriting new business increased from $1,344,661 in 1975 to $1,440,688.

Left to right: Miss L. Crowder – Supervisor, Data Processing; D. C. Toms – Secretary-Treasurer; W. Gunsolus – Supervisor, Accounting; B. A. Morrison – Assistant Vice-President, Investments; Mrs. N. Godwin – Portfolio Manager.

Underwriting statistics

	1976	1975	1974	1973	1972
Approved lenders and correspondents					
Lenders	279	234	180	146	78
Correspondents	52	60	50	46	38
Total	331	294	230	192	116
Commitments to insure issued (Canadian business)	$	$	$	$	$
Mortgage Insurance					
First Mortgage Programs					
Homeownership Loans					
High-Ratio	1,528,188,552	1,447,704,143	1,484,782,308	1,792,814,593	632,055,626
75% and less	348,030,102	282,611,237	112,093,294	27,908,123	14,763,834
Rental Loans					
High-Ratio	233,347,198	226,253,796	163,007,232	256,482,618	52,770,900
75% and less	21,188,866	25,934,831	7,461,559	4,576,130	8,038,174
Commercial/Industrial Loans					
High-Ratio	121,622,005	121,192,938	107,009,748	45,343,857	11,814,512
75% and less	142,343,410	105,525,556	81,450,843	48,393,221	45,643,663
Vacation Home Loans	5,724,853	8,750,743	3,869,528	5,819,992	1,550,679
Total	2,400,444,986	2,217,973,244	1,959,674,512	2,181,338,534	766,637,388
Second Mortgage Program					
Homeownership Loans					
High-Ratio	1,360,895	—	—	—	—
75% and less	1,206,650	—	—	—	—
Total	2,567,545				
Lease Guarantee Program	33,214,053	24,236,580	17,902,000	13,524,000	9,900,000
Condominium Deposit Insurance Program	33,354,754	87,963,519	—	—	—
Total Potential Premium (all programs)	27,400,250	25,442,213	22,303,444	29,525,884	12,043,713

Notes: 1) Commitment figures are gross.

2) Premium rates for homeownership and rental loans were reduced in November, 1972 and again in December, 1973.

	1976	1975	1974	1973	1972
Average loans	$	$	$	$	$
Homeownership Loans (High-ratio)					
New Construction (Per Unit)	42,342	38,647	34,270	30,507	27,610
Existing Homes (Per Unit)	30,275	28,118	24,341	24,825	22,346
Rental Projects	148,157	157,000	134,689	146,981	168,060
Commercial/Industrial	319,916	310,100	326,072	203,728	383,560
Vacation Homes	26,615	24,578	17,162	15,763	14,226
GDS and TDS ratios	%	%	%	%	%
Gross Debt Service Ratio (1)	24.8	24.5	23.9	23.1	21.9
Total Debt Service Ratio (2)	30.3	30.1	29.2	28.9	28.7

Notes: 1) GDS ratio (Gross Debt Service Ratio) – is the ratio of the monthly (or annual) mortgage payment (including principal, interest and taxes) to the gross monthly (or annual) income of the borrower plus any other acceptable income.

2) **TDS ratio** (Total Debt Service Ratio) – is the ratio of the sum total of the monthly (or annual) mortgage payment (including principal, interest and taxes) plus monthly (or annual) payments on all installment debts such as finance company and bank loans, to the gross monthly (or annual) income of the borrower plus any other acceptable income.

	1976	1975	1974	1973	1972
Insurance in force					
(Canadian Mortgage Insurance)					
At Year End (In Billions of Dollars)	7.0	5.7	3.6	2.2	.965

MICC

Defaults and claims

Default ratios*	1976	1975	1974	1973	1972
First Mortgage Programs	%	%	%	%	%
Homeownership Loans					
High-Ratio	0.55	0.72	0.38	0.29	0.21
75% and less	0.26	0.23	—	—	—
Rental Loans	0.86	0.52	1.59	—	—
Commercial and Industrial Loans	0.85	0.75	0.19	—	—
Vacation Home Loans	0.31	0.00	—	—	—
Second Mortgage Programs	0.00	—	—	—	—
Overall Default Ratio	0.52	0.67	0.23	0.29	0.23

Claims losses	$	$	$	$	$
First Mortgage Programs					
Homeownership Loans					
High-Ratio	1,718,582	568,180	52,732	16,666	51,703
75% and less	51,818	—	—	—	—
Rental Loans	671,177	1,056,759	178,966	—	—
Commercial and Industrial Loans	1,068,351	138,666	7,519	—	4,178
Vacation Home Loans	—	—	—	—	—
Second Mortgage Programs					
Homeownership Loans	—	—	—	—	—
Total Mortgage Insurance losses from Canadian Operations	3,509,928	1,763,605	239,217	16,666	55,881
Lease Guarantee Insurance Losses	82,584	21,820	19,593	3,877	2,000
Condominium Deposit Insurance Losses	—	—	—	—	—
U.S. Re-Insurance Losses	398,343	1,057,553	590,152	237,346	40,071
Total losses	3,990,855	2,842,978	848,962	257,889	97,952

***Default Ratio** is the ratio of insured mortgages in default at year end (as indicated by the Approved Lenders and Correspondents) to the total number of insured mortgages on repayment. A mortgage in default is one where the monthly payments are in arrears in an amount equal to or in excess of three monthly payments. For mortgages in excess of $500,000 the account is considered to be in default where the monthly payment is one month in arrears.

MICC

Historical financial summary
(Note 1)

	1976	1975	1974	1973
MICC Investments Limited				
Premiums written	$ 20,177,102	19,552,099	19,515,633	20,563,068
Premiums earned	$ 9,845,571	8,294,195	6,326,450	4,625,297
Application fees and other	$ 1,481,468	1,357,518	1,346,505	1,538,438
Underwriting revenue	$ 11,327,039	9,651,713	7,672,955	6,163,735
Investment income	$ 12,110,420	8,558,274	5,758,533	3,101,839
Claims losses	$ 3,990,855	2,842,978	848,962	257,889
as a % of underwriting revenue	35.23%	29.5%	11.1%	4.2%
Expenses	$ 3,863,822	3,022,159	2,516,110	2,393,613
as a % of premiums written	19.2%	15.5%	12.9%	11.6%
Net earnings, before realized investment gain/loss	$ 11,820,644	8,863,302	6,291,316	3,626,972
Shares outstanding (average) (Note 2)	5,711,080	5,711,080	5,056,575	3,920,805
Earnings per share	$1.81	1.55	1.24	0.93
Total Assets (Note 2)	$167,560,020	124,981,531	88,836,756	65,827,358
Return on total assets	8.1%	8.3%	8.1%	7.3%
Shareholders' Equity (Note 2)	$ 85,613,858	51,927,505	43,175,428	32,407,316
Return on shareholders' equity	17.2%	18.6%	16.6%	15.5%
Net after tax investment income expressed as a % of average investment portfolio	7.29%	6.98%	5.63%	4.50%
The Mortgage Insurance Company of Canada				
Policyholders' reserves	$ 72,171,304	59,513,671	46,421,936	32,332,094
Capital	$ 81,020,686	59,634,943	41,729,863	29,705,886
Total capital and reserves	$153,191,990	119,148,614	88,151,799	62,037,980

Note 1. Certain figures have been restated from those shown in previous annual reports to reflect current reporting procedures.

1972	1971	1970	1969	1968	1967	1966	1965	1964
11,223,332	3,312,824	484,856	555,110	802,507	1,076,192	1,033,000	1,339,188	386,074
2,131,656	826,579	502,540	500,321	465,555	391,985	283,149	172,526	38,607
620,978	248,567	34,020	12,479	23,548	61,414	58,396	78,963	31,362
2,752,634	1,075,146	536,560	512,800	489,103	453,399	341,546	251,489	69,969
1,352,400	702,765	564,829	491,677	433,606	333,006	241,720	139,825	68,022
97,952	42,513	8,125	3,524	8,771	12,768	13,897	—	—
3.6%	4.0%	1.5%	0.7%	1.8%	2.8%	4.1%	—	—
933,099	436,013	199,331	129,776	119,185	133,679	106,454	110,669	43,571
8.3%	13.2%	41.1%	23.4%	14.9%	12.4%	10.3%	8.3%	11.3%
1,646,160	700,033	499,863	461,853	428,956	354,027	254,589	108,322	57,210
2,868,994	2,106,592	2,048,156	—	—	—	—	—	—
0.57	0.33	0.24	—	—	—	—	—	—
33,777,684	14,760,666	10,063,745						
6.8%	6.2%	5.2%	—	—	—	—	—	—
18,158,370	8,683,726	6,877,517						
12.3%	9.0%	7.6%	—	—	—	—	—	—
3.83%	3.63%	3.60%	3.55%	3.46%	3.32%	3.13%	3.10%	3.05%
15,884,358	6,558,649	3,877,825	3,722,102	3,510,345	3,050,707	2,283,348	1,514,129	347,467
15,302,614	7,051,819	4,933,144	4,774,919	3,924,582	3,452,200	2,958,223	1,939,598	1,940,411
31,186,972	13,610,468	8,810,969	8,497,021	7,434,927	6,502,907	5,241,571	3,453,727	2,287,881

Note 2. Prior to 1969 the Company held a majority interest in The Mortgage Insurance Company of Canada (MICC) together with certain other assets. In 1969 it acquired the minority shareholdings of MICC and divested itself of its other assets. This summary reflects only the results of MICC for 1969 and prior years on a "pooling of interests" basis.

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Miss L. Crowder,
Supervisor, Data Processing

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Manager

Miss M. Sparkes,
Assistant Manager

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C. E. Locke, Director

G. J. Pennie
Business Development Officer (Ontario)

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Manager

Construction inspection

E. D. Smith,
Chief Inspector

Investments

B. A. Morrison,
Assistant Vice-President, Investments

Mrs. N. Godwin,
Portfolio Manager

Underwriting

G. W. Carpentier
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