MORTGAGE PROFESSIONALS CANADA | PROFESSIONNELS HYPOTHÉCAIRES DU CANADA

Advice to Policymakers on How To Improve Housing Affordability for Ontarians
April, 2019

Our Current Recommendations to Ontario Policymakers

1. To help Ontario's middle class and improve housing affordability issues, we ask that the Ontario Government support our top recommendations to the Federal Government, encouraging federal policymakers to:

   a) decouple the stress test rate from the posted Bank of Canada rate and instead set it at 0.75% above the contract rate;

   b) implement an exemption to the Guideline B-20 stress test for mortgage holders who have completed and met the obligations for a minimum of five years of their original amortization period, and who wish to switch to a different lender upon renewal;

   c) give qualified first-time homebuyers access to mortgage amortization periods of up to 30 years for insured mortgages.

2. We ask that Ontario take a leading role in the mortgage brokering industry by continuing to support the new Financial Services Regulatory Authority (FSRA) as it works to establish itself as Canada's preeminent provincial regulatory agency.

3. We ask that the Ontario Government legislate as-of-right zoning within 800 meters proximity (or a 10 minute walk) to future and underutilized existing higher order public transit.

4. We ask that the Province improves municipal housing supply by continuing to encourage a simple, harmonized process across Ontario for homeowners to create secondary suites within their existing homes.

5. We ask that the government prevent any new or increased provincial or municipal land transfer taxes (LTT), including new tiers within existing LTTs.

About Mortgage Professionals Canada

Mortgage Professionals Canada (MPC) is the national mortgage industry association representing 11,500 individuals and 1,000 companies, including mortgage brokerages, lenders, insurers and industry service providers. Our members make up the largest and most respected network of mortgage professionals in Canada. MPC represents members' interests to government, regulators, media and consumers. Together with our members, the association is dedicated to maintaining a high standard of industry ethics, consumer protection and best practices.

The mortgage broker channel originates over 35% of all mortgages in Canada and 55% of mortgages for first-time homebuyers, representing approximately $80 billion dollars in annual economic activity. With this diverse and strong membership, Mortgage Professionals Canada is uniquely positioned to speak to issues impacting all aspects of the mortgage origination process.

As a national association, we deal with federal and provincial governments. Affordability and livability are important to help grow Canada's competitive advantage for human capital and financial capital. We support prudent and evidence-driven actions to test a borrower's abilities to make future payments; our focus in recent months has been mortgage stress testing.

Our recent data analysis (including our January, 2019, *Annual State of the Mortgage Market in Canada* report) illustrates that a more reasonable stress test level and lending restriction reforms are now needed to strike a better balance for borrowers and policymakers, improving housing affordability and Ontario's (and Canada's) economy. The aforementioned report outlines how improper policy levers can continue to depress the market.

Our members are seeing downward trends and/or depressions in areas like the resale market, the outlook on employment in the housing construction sector, and a continued decline in rental vacancy rates. Simply put, federal policy changes are disqualifying potential first-time homebuyers and creating immense pressures on the rental market, which is in turn driving rental prices higher. The problem is spiraling.

We appreciate why, prior to 2017, federal policymakers were keenly focused on borrowers and interest rates, but the more recent reduction of activity in the housing market coupled with extremely low rental vacancy rates have impacted employment and the overall economy. Without an adjustment to policies, Ontario's economy will be weaker than it needs to be.

The Greater Toronto Area has experienced rapid home price growth over the last number of years, placing competitiveness challenges in the market. We feel the best way to address the affordability challenges in certain parts of Ontario is not through macro-economic policy levers, but rather through increased supply.

We appreciate this opportunity to share our collective membership's recommendations to help policymakers ensure Ontario's competiveness. We are confident that, if implemented, each of our recommendations would strengthen and help grow the middle class, Ontario's and Canada's economy, and increase competition within the mortgage market. Elaboration on current recommendations can be found at https://mortgageproscan.ca/advocacy .

Our Recommendations

1. **To help Ontario's middle class and housing affordability issues, we ask that the Ontario Government support our top recommendations made to the Federal Government earlier this year.**

After 14 months of a national housing slowdown largely caused by new federal lending regulations (mortgage insurance eligibility changes and lending guidelines known as "B-20"), which has been further exacerbated by higher interest rates, MPC and Canada's housing and lending industries had been looking to last month's pre-election Federal Budget for some relief. MPC has recently been recognized in several national publications, including the Globe and Mail, for 'leading the charge' on the issue of B-20's overly constrictive policies and its costs to our economy. Unfortunately, while the Federal Budget did have some small improvements, such as an increase to the RRSP Home Buyers' Plan maximum, and the introduction of a new First Time Home Buyers Incentive Plan, it is widely seen by those in the financial sector as insufficient.

For our sector, what was deemed the highlight of the Budget, the First-Time Home Buyer Incentive is incomplete, with many of our questions to the government and CMHC about it still unanswered. Our preliminary research suggests it will not be very popular in Ontario for several reasons, including (but not limited to) the fact it would make the government a co-owner of one's home, it limits mortgage borrowing power to 4x household income when they could qualify for closer to 4.7x if they did not participate, and simple math suggests the program cannot be used to buy a home greater than $550,000 in value. The program will also not be available before September.

Our top three recommendations to the Federal Government remain sound, sensible, and reasonable; we ask that the Ontario Government help promote them. They are:

a) That the government decouple the stress test rate from the posted Bank of Canada rate and instead set it at 0.75% above the contract rate.

According to calculations conducted by our chief economist, Will Dunning, a 0.75% stress test achieves an appropriate protection to consumers in the event that rates rise, while not unduly disqualifying too many consumers from the marketplace. It is important that a market-based rate be used to calculate the stress test to ensure that the appropriate balance between stability and affordability be found. As discussed below, the use of a 0.75% test rate at initiation simulates the effect of a 2% rise five years in the future. The stress test addresses events that might occur in the future but the calculations rely on current parameters. As such, the current test will overestimate the impact of a future rise in mortgage interest rates on borrowers' costs.

According to our analysis, reducing the stress test to 0.75% would allow for an additional 37,500 Canadian families to qualify for a mortgage per year in today's interest rate environment. Making this minor adjustment to the stress test ensures that the policy intent of the stress test in maintained, while improving the competitiveness required to sustain a healthy and robust housing market.

b) That the government implement an exemption to the Guideline B-20 stress test for mortgage holders who have completed and met the obligations for a minimum of five years of their original amortization period, and who wish to switch to a different lender upon renewal.

We propose that a technical adjustment be made for consumers who have a proven history of credit worthiness, evidenced by paying all obligations as agreed for a minimum of five years of their original amortization period, exempting them from stress test qualification when renewing their mortgage. These borrowers must not have refinanced, obtained a home equity line of credit, or increased their loan amount through the initial term. This could be limited to those who have 30-year amortizations or less. Accelerated payments would be permitted.

Simply put, many Canadians see this aspect of the current B-20 guideline as being anti-consumer and anti-competitive. These individuals are responsible borrowers who have proven track records, have not accumulated additional debt, and have prudently managed their financial obligations. They are not the high-risk borrowers the government is concerned with. Restricting the provision for renewals without the stress test qualification to incumbent lenders therefore restricts these individuals from accessing competitive mortgage rates from other lenders and deters incumbents from offering their most competitive rates.

c) That qualified first-time homebuyers be provided access to mortgage amortization periods of up to 30 years for insured mortgages.

This is a recommendation MPC developed in coordination with Canadian Home Builders Association (CHBA) and other associations and stakeholders in the Canadian real estate sector; we believe it to be a sensible, workable, easily implemented option for the government, increasing the buying power of first-time homebuyers by approximately 20 percent, and likely helping 15,000 to 20,000 aspiring homeowners nationwide, primarily from the Millennial cohort.

The January 15, 2019, pre-Federal Budget submission by CHBA included thorough discussion on the merits of reintroducing 30-year amortization periods for first-time homebuyers with insured mortgages. As CHBA stated, "with proper conditions and lender guidelines, increased mortgage amortization flexibility for first-time homebuyers should deliver broad economic benefits and involve little or no material risk." (CHBA's submission can be found here.)

As mentioned, the above recommendations can only be enacted by the Federal Government but, as an election will take place before November, 2019, we ask that the Ontario Government consider and share them in order to help younger, aspiring Ontarian first time homebuyers achieve their dream.

2. **We ask that Ontario take a leading role in the mortgage brokering industry by continuing to support the new Financial Services Regulatory Authority (FSRA) as it works to establish itself as Canada's preeminent provincial regulatory agency.**

We ask that the government continue to support FSRA as it works with our mortgage brokering sector to improve the lives of Ontario's consumers as we help them with some of the largest purchases they will ever make. For the record, FSRA's stated goals are to:

- support business investment, competition and innovation;
- respond to changes in industry and consumer expectations;
- better protect Ontarians who use mortgage brokers;
- improve market effectiveness and enhance market integrity; and
- foster effective and consistent regulation across Canada through leadership and advocacy.

MPC believes in continually improving the mortgage brokering sector for its members and clients. Having now worked with FSRA officials over the past year, as they worked to achieve those stated goals and begin to take over their regulatory roles from FSCO, we are pleased to say we are confident in FSRA as Ontario's needed "new, independent and integrated regulator". MPC, of course, will articulate any arising issues regarding fees and regulatory issues pertaining to our industry.

We are impressed by FSRA's newly-arrived, skills-based talent. They don't pretend to "know it all", showing a refreshing willingness to discuss issues in order to benefit consumers. FSRA wants our mortgage brokering sector to succeed and mature further, and for consumers to be protected. We also appreciate the potential for FSRA to lead other regulators across Canada to higher standards and a harmonizing of regulations for mortgage brokering.

3. **We ask that the Ontario Government legislate as-of-right zoning in proximity to future and underutilized existing higher order public transit.**

Transit hubs are valuable taxpayer investments which warrant maximum return for tax dollars through maximized usage by customers. Ontarians want to live close to transit hubs, but density near transit hubs is limited by municipalities which, more often than not, defer and cater to some local ratepayer groups which insist on preventing change.

> *"In a study conducted by Canadian Mortgage and Housing Corporation (CMHC), it was determined that within an 800-metre radius of a transit hub (or a ten-minute walk) as-o-right zoning should allow for 1,000 housing units per square kilometer for infrequent bus service stations and up to 3,000 units per square kilometre for rapid rail services. Over 30% of the space surrounding Ontario's major transit hubs are predominately single-family homes with the capacity for up to 4 million new housing units, which, if developed, could support the expected population growth of the Province for the next 24 years."*
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> OREA'S Submission to the Province's Housing Supply Action Plan Consultation, 02/2019

We support the Ontario Real Estate Association, which has led the charge on the issue of "as-of-right" zoning near transit hubs. Municipalities should feel compelled to do what they can to enhance our collective taxpayer investment in infrastructure.

4. **We ask that the Province improves supply in municipalities by encouraging a simple, harmonized process for homeowners to create secondary suites in their existing homes.**

According to the City of Toronto Zoning By-law 569-2013, a "secondary suite" is:

> *"a self-contained living accommodation for an additional person or persons living together as a separate single housekeeping unit, in which both food preparation and sanitary facilities are provided for the exclusive use of the occupants of the suite, located in and subordinate to a dwelling unit."*

We are encouraged by municipalities such as the City of Toronto recently becoming more amenable to secondary suites, a quick and relatively easy way for municipalities to create housing supply, but to further help renters and owners, we encourage the province to do what it can to continue to reduce red tape preventing the easy creation of secondary suites, including harmonizing the secondary suite application process across Ontario.

5. **We ask that the government prevent any new or increased provincial or municipal land transfer taxes (LTT), including new tiers within existing LTTs.**

Land Transfer Taxes have become a convenient crutch for some municipalities: Since 2009, Toronto's LTT revenue has grown from $184 million in 2009 to $803 million in 2017 (it has since dropped to roughly $730 million in 2018). Purchasing a $1,000,000 home in Toronto leads to $32,950 in LTTs, whereas buying the same priced home in municipalities surrounding Toronto would halve that tax burden. There is now talk of Toronto raising its current level of land transfer taxation from its already high level; this would further erode housing affordability in Toronto. We suggest that the province do what it can to prevent any new or increased municipal land transfer taxes in Ontario.

We also ask that the province consider increasing its maximum rebate to first time homebuyers from the current $4,000 (equal to a $368,300 home) to $6,000 (equal to a $476,250 home) and ask municipalities charging LTT to do the same.

Conclusion

As the Canadian economy or legislation changes, we will modify our recommendations; for now, on behalf of our membership, thank you for considering our aforementioned recommendations which we are confident will help Ontario be more open for business and consumers to thrive. We always appreciate your thoughts and insight from your perspective.

In addition, MPC's new publication, *Perspectives*, will soon be arriving at the offices of policymakers across Ottawa and across Canada. We are very proud of it, as it will best highlight what our members do for their clients, and our industry. If you do not receive your copy by the end of April, or would like another copy, please contact us below and we will send you your copy of *Perspectives*.

Our website, filled with data, reports and other resources, is www.mortgageproscan.ca. If you require any data, testimonials from our members and/or their clients, or any other information on your own riding or province – whether an election is happening or not - we would be more than happy to provide any and all of it. Our Manager of Government Relations and Regulatory Affairs is J.P. Boutros; you may reach him at jpboutros@mympc.ca, 416-644-5466, or at our office address below.

We appreciate our discussions with policymakers on the very important issue of Housing Affordability, and look forward to continuing this conversation throughout the coming days and months. Thank you for your time and efforts.

Sincerely,

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