



ANNUAL REPORT 2019



MORTGAGE
PROFESSIONALS
CANADA



CONTENTS

| | |
|---|----|
| About Mortgage Professionals Canada | 4 |
| 2019 Board of Directors | 5 |
| A Message from the Chair | 6 |
| A Message from the President and CEO | 7 |
| Government Relations | 8 |
| Broker Channel Promotion and Member Communication | 12 |
| Membership | 14 |
| Events | 16 |
| Accredited Mortgage Professional | 19 |
| Education | 20 |
| Financial Highlights | 22 |
| The Canadian Mortgage Market | 24 |



ABOUT MORTGAGE PROFESSIONALS CANADA

MORTGAGE PROFESSIONALS CANADA is Canada's mortgage broker channel association. Representing over 12,000 individuals and 1,000 companies including mortgage brokerages, lenders, insurers and industry service providers. Our members, whose interests we represent to government, regulators, media and consumers, make up the largest and most respected network of mortgage professionals in the country. Together with our members, we are dedicated to maintaining a high standard of industry ethics, consumer protection and best practices.

The mortgage broker channel we represent originates 33% of all mortgages in Canada and nearly 50% of mortgages for first-time homebuyers, representing approximately \$80 billion dollars in annual economic activity. With this diverse and strong membership, we are uniquely positioned to speak to issues impacting all aspects of the mortgage origination process.

The mortgage broker channel is a critical and valuable profession. It creates possibility, fuels the economy and provides Canadians with choice when making the most important financial decisions of their lives.

Vision

To be the unified, authoritative voice of the mortgage broker channel and an indispensable resource to our members.

Mission

Advancing the mortgage broker channel.

Objectives

In order to help ensure an effective and efficient mortgage marketplace, Mortgage Professionals Canada works to:

- Promote consumer awareness of the benefits of dealing with the mortgage broker channel
- Advocate for member interests on legislative and regulatory issues
- Develop, monitor and promote responsible mortgage industry standards and conduct
- Deliver best-in-class training for mortgage professionals
- Provide timely and relevant information to members and mortgage consumers

2019 BOARD OF DIRECTORS

Executive



Michael Wolfe
CHAIR



Elaine Taylor
VICE CHAIR



Lionel Lewko
PAST CHAIR



Dong Lee
TREASURER



Tracy Valko
SECRETARY



Paul Taylor
PRESIDENT AND CEO

Directors



Vince Agozzino
ONTARIO
Term Ends: 2020



Jennifer Burrage
ATLANTIC
Term Ends: 2021



Doug Farmer
ALBERTA/NWT
Term Ends: 2021



Claude Girard
QUEBEC
Term Ends: 2020



Shirl Funk
MANITOBA
Term Ends: 2021



Jane Kulbida
SASKATCHEWAN
Term Ends: 2020



Mathieu Lebrun
QUÉBEC
Term Ends: 2021



Adil Mawji
AMBA
Term Ends: 2019



Hali Noble
BC/YUKON
Term Ends: 2021



Maria Pimenta
DIRECTOR-AT-LARGE
Term Ends: 2019



Joe Pinheiro
ONTARIO
Term Ends: 2021



Nolan Smith
BC/YUKON
Term Ends: 2019



Mike Wolfe

A MESSAGE FROM THE CHAIR

As we look back on 2019, it's inspiring to see all the things we accomplished as an organization. Everyone involved in MPC should be very proud of everything we accomplished together.

Happy 25th anniversary, MPC! It's pretty amazing to think of all the industry developments, all the ups and downs, that this organization has been through over the last twenty-five years. Actually, *been through* isn't right at all – over two-and-a-half decades, this organization has been directly driving, supporting and shaping this industry; MPC has played an integral role in the development of the mortgage broker channel in this country, and that's something we should all be very proud of. On a personal level, it was extremely gratifying to be part of this association during this milestone year, and to be able to celebrate this achievement with so many of you through our numerous events and accomplishments throughout the year.

2019 was an interesting year in the housing industry. Home buying rates were somewhat lower than expected given the favourable economy, the mortgage stress test no doubt having an impact, but nevertheless sales remained strong – and by the end of the 2019 calendar year we had returned to the long-term average per-adult sales rate. All in all, we wrapped up 2019 feeling optimistic about our industry and our members' prospects for the coming year.

As we look back on our 25th year, it's inspiring to see all the things we accomplished as an organization to help build, promote and accelerate our members' businesses and our collective role in the economy. I'm very excited to see where this organization goes in 2020 and beyond.

Some of the biggest 2019 highlights for me:

- Continuing to build relationships and work closely with regulators and other industry associations to advance our common interests
- Directly contributing to the 2019 election platforms of the federal parties, and ensuring candidates understood and cared about the issues that are important to our members

- Tirelessly advocating with a wide range of public officials for relaxing the mandated mortgage qualification stress test for first-time homebuyers
- Finalizing our joint membership program with the Alberta Mortgage Brokers Association
- Redesigning our accreditation program into three tiers that will provide increasing levels of education and credibility for our members
- Launching our brand new industry magazine, Perspectives
- Welcoming 1,400+ attendees to our annual National Mortgage Conference, plus many more to our symposium and other events across the country

I'd like to thank our volunteers for their ongoing contributions to the organization; all of this great work is a direct result of your efforts. Thanks are also due to our members as a whole for their commitment to the industry and to the growth of the mortgage broker channel. Everyone involved in MPC should be very proud of what we accomplished together.

I'd like to wish Elaine Taylor all the best as she steps into the role of chair for 2020. Having worked with Elaine throughout 2019, I know that she will make an excellent chair. I wish her and the rest of the board a very successful year ahead.

The mortgage broker channel is a significant part of the Canadian economy, and I'm very proud to be a part of it. Chairing the MPC board in its 25th year was truly an honour, not to mention a tremendous pleasure. I was very lucky to work with such dedicated professionals – on the board, in management, and in the membership at large – who are deeply committed to the betterment of our profession.

Thank you all for your support, hard work and passion.



Paul Taylor

A MESSAGE FROM THE PRESIDENT AND CEO

Advancing the Mortgage Broker Channel

2019 was a year of reflection, refocus and action for Mortgage Professionals Canada. In January, the board of directors, led by chair Mike Wolfe, conducted a strategic long-range planning exercise.

As its first action, the board adopted a revised, clear and concise mission statement – “Advancing the mortgage broker channel” – as well as an updated vision statement: “To be the unified, authoritative voice of the mortgage broker channel and an indispensable resource to our members.”

With this context set, the board established a number of strategic priorities, reaffirming that government relations and membership engagement are paramount, and stressing increased and improved communications as areas for significant focus for the coming 36 months.

We held multiple discussions with ministers, senior officials and policy makers in 2019, building on our commitment to maintaining strong government relations. MPC’s fifth Parliament Hill Day in Ottawa was a great success; our volunteer members had more than 60 meetings with MPs, senators and senior staff members from all parties, greatly reinforcing our brand with government. These activities also garnered the association considerable media attention, providing additional opportunities to discuss the disproportionate impact of mortgage qualification stress tests on young and aspiring middle-class Canadians. We continue to meet regularly with CMHC, OFSI, the Bank of Canada and the federal Ministry of Finance.

Provincial activity also continued, as both Ontario and BC implemented new mortgage regulatory structures (Quebec is expected to do the same in early 2020). MPC staff and our respective chapter members were actively engaged in consultations about the changes, and I’m delighted to report very good working relationships across the country. MPC coordinated provincial government awareness days, akin to the federal Hill Day, in Ontario and BC, with many member volunteers representing MPC and our channel’s customers.

2019 also saw considerable investment in education. We revised our national designation to be reintroduced in early 2020 with an exciting new curriculum. We continue to support our member brokerages with industry-leading preparatory courses. Our new Quebec licensing course saw 189 students complete the program and 162 (85%) participants pass the exam. Nationally, we had nearly 1,700 licensing participants. Our next steps in 2020 include

focusing our attention on strengthening our online library of continuing education courses.

We hosted a tremendously successful annual conference in Toronto, attended by over 1,400 industry participants and featuring an incredibly rich content agenda. Our symposium series was also very well attended, and attendees’ feedback showed they were very impressed with the calibre of speakers and exhibitors.

Our new magazine, *Perspectives*, was launched in 2019 and continues to grow, and we send each issue to all federal MPs’ offices. Our focus on brokers and lenders helping regional communities in Canada reinforces the importance of our channel, not just from an economic perspective but also a human one. I’m also very happy to report that Canadian Mortgage Trends, our industry news site, closed out 2019 with just shy of 1 million unique visitors. We hope to increase this to a million and beyond in 2020.

Our national conference saw the appointment of our new chair, Elaine Taylor. I am very much looking forward to a productive year working alongside Elaine to champion our long-range goals, with a focus specifically on membership engagement, a topic I know is near and dear to Elaine personally. I would like to thank Mike Wolfe for his dedication and commitment to the association this past year, and for his calm, considered approach to his role as chair and industry representative. He sacrificed considerable time with his family to further our industry goals, and he was a pleasure to work with.

Finally, our joint membership initiative with the Alberta Mortgage Brokers Association began on January 1, 2020. Relationships like this one strengthen our collective industry voice. This arrangement was many years in the making and I am delighted to see it implemented. Congratulations are due to each organization’s board of directors for making it a reality.

Thank you for your continued membership. We continue to strive to ensure your membership dollars are directed to initiatives that bring great value and support to our channel as a whole.

GOVERNMENT RELATIONS

From Active Participant to Leading the Charge

Effective government relations are essential to the success of our industry, so we are proud that 2019 established our position as a leading advocate for not just mortgage brokering but for Canada's housing sector.

As noted in *The Globe and Mail* in February, Mortgage Professionals Canada worked hard in its many meetings with elected officials "to lead the charge for relaxing the government's mandated mortgage qualification stress test, arguing it is shutting too many buyers out of the market, particularly first-time buyers."¹ President and CEO Paul Taylor has improved our working relationships with other national housing-sector associations, allowing for broader, more effective advocacy on behalf of existing and aspiring homeowners, the bedrock of the Canadian economy.

The government relations foundation laid in recent years has allowed us to strengthen our established relationships with the regulatory bodies overseeing our industry. In 2019, MPC held over 100 meetings with influential policymakers from across Canada. We also forged new relationships with nascent provincial regulators. This was a consequential election year, and we discussed national issues with the federal Ministry of Finance, CMHC, OSFI, the Bank of Canada, and other federal ministries and entities that have an interest in what our industry provides Canadians.

Using data compiled by our chief economist, Will Dunning, and from other reputable sources, MPC continually demonstrated that mortgage stress testing was harming the economy. While unelected officials did not always agree, a great majority of the elected officials we met with ac-

knowledged the fact that the public wanted a review and revision of current policies.

MPC politely questioned the First-Time Home Buyer Incentive (FTHBI) when it was announced in the 2019 Federal Budget. We said it would be costly and bureaucratically difficult for our industry and the government, and would ultimately prove unpopular with aspiring homeowners. In explaining the shortcomings of FTHBI and the need for mortgage stress test revisions, we were pleased to work with Canada's major political parties as they prepared the homeownership sections of their own election platforms.

In planning for the October federal election, we held our annual Ottawa Hill Day in May, maximizing our pre-election exposure. Our seventeen excellent member representatives from across Canada converged on Ottawa to meet with dozens of members of Parliament and senators. Our Hill Day team noted that, in a positive evolution from previous years, parliamentarians both knew who MPC was and knew our issues before meetings began, which made for excellent conversations.

We are especially proud that several 2019 election promises released by federal parties involved the adoption of one or more of MPC's three sensible primary recommendations, which were as follows:

¹Janet McFarland, "Morneau faces pressure to help first-time homebuyers in March budget," *Globe and Mail*, February 24, 2019, <https://www.theglobeandmail.com/business/article-morneau-faces-pressure-to-help-first-time-homebuyers-in-march-1/>.





- Decouple the stress test rate from the posted Bank of Canada rate and instead set it at 0.75% above the contract rate.
- 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.
- Provide qualified first-time homebuyers access to amortization periods of up to 30 years for insured mortgages.

Working with the Conservative and New Democratic parties helped us set up a solid foundation to collaborate with all parties in Parliament post-election, as they adjusted to a new minority government.

Our prolonged and respectful advocacy took a big step in December, when Prime Minister Justin Trudeau directed Finance Minister Bill Morneau to find ways to improve the mortgage stress test and make it “more dynamic.” Trudeau professed that he wanted “to make sure homeownership remains an achievable dream, not a privilege afforded to only the richest few.” This review has begun, and MPC will remain front and centre discussing this priority issue with lawmakers.

On the provincial front, we held many discussions with several governments and regulatory bodies that oversee our industry. We are especially pleased to have established regular conversations with all members of the Mortgage Broker Regulators’ Council of Canada (MBRCC) to discuss local concerns. We are also working with all levels of government as they work to harmonize anti-money laundering initiatives and legislation. We strongly support the need for improved AML to protect Canadians.

Overall, our GR efforts are driven by MPC’s vision to be “the unified, authoritative voice of the mortgage broker channel.” 2019 was an excellent year. MPC established new key relationships with essential policymakers from coast to coast, and reinforced existing ones. MPC has undeniably improved its ability to advocate effectively on behalf of our members and their clients in the future.

Our members have made Mortgage Professionals Canada an essential part of our national conversation on homeownership, and our volunteers remain uniquely positioned to relay the needs of today’s consumer to government officials. We truly appreciate the contributions of our members, who help ensure our voice is unified, authoritative, and trusted.

GOVERNMENT RELATIONS *(continued)*

From Active Participant to Leading the Charge

The governments we engage with are receptive to our needs, asking for our advice and assisting the industry whenever possible. The importance of solid relationships with our country's senior policymakers is now more essential than ever before. With continued support from our members, we look forward to continuing to work hard for members and their clients.

More highlights of our 2019 GR activities

Parliament Hill Testimony

On Parliament Hill, MPC Chair Michael Wolfe and MPC President and CEO Paul Taylor provided written and verbal testimony to the House of Commons Standing Committee on Finance (FINA). MPC also met several times with members of FINA and staff across the federal government to discuss our recommendations.

National Collaboration

We were again pleased to work with national housing industry associations regarding shared interests and goals in advance of the federal election, providing the opportunity to advance the needs of our members and have a greater impact with government. We thank the Canadian

Home Builders Association, the Canadian Real Estate Association and the Appraisal Institute of Canada for working collaboratively to craft messages we could all share and support.

Provincial Initiatives

To better deal with provincial regulatory issues, MPC began meeting more frequently with the Mortgage Broker Regulators' Council of Canada (MBRCC). We continue to work with this committee of regulators from across Canada to harmonize regulations and modernize individual provincial mortgage broker acts, to improve consumer protections, to ameliorate educational standards, and to promote economic activity benefitting our economy.

In Nova Scotia, we began working with regulators to modernize its mortgage brokers act, which was last revised in the 1960s. New legislation is due in 2020, and we are happy to assist in this effort.

In Quebec, we were actively involved with regulators as they transitioned mortgage broker oversight from the Organisme d'autoréglementation du courtage immobilier du Québec (OACIQ) to the Autorité des marchés financiers (AMF). The tremendous efforts of Directors Claude Girard and Mathieu Lebrun and our MPC education team were pivotal in enhancing our reputation with the Quebec government through this transition.





With the arrival of a new government in Ontario, our efforts there were comprehensive. We held a very successful Queen's Park Day in April, meeting with over 40 MPPs from the government and opposition. Our MPC team of 16 asked MPPs to harmonize regulations, cut unnecessary red tape, introduce measures to create more housing supply and tackle affordability concerns, and outlined concerns about federal mortgage eligibility rules and stress tests, and their effects on Ontario. We also worked closely with the Ontario Ministry of Finance on its 2019 budget and its review of the *Mortgage Brokerages, Lenders, and Administrators Act* (MBLAA). We are proud that the official report on the MBLAA review, *Protecting and Modernizing Ontario's Mortgage Broker Industry*, adopted several of our recommendations, including the reduction of red tape for our industry. We also held extensive, collaborative meetings with management at the new Financial Services Regulatory Authority of Ontario (FSRA) as part of our work together to improve our industry.

In Manitoba, we began working with our chapter members to set out key points for discussion with the newly re-elected provincial government as we look to improve and modernize the province's mortgage brokering legislation and regulatory practices.

In Alberta, we are proud to have established a partnership with the Alberta Mortgage Brokers Association. With

AMBA, our Alberta mortgage brokering community will have greater effectiveness in discussing industry-related issues with the government as it reconstitutes and reforms the Real Estate Council of Alberta.

In British Columbia, we held a successful Legislature Day in April. Four of our BC members joined the team to meet with 30 BC NDP and BC Liberal MLAs, including 13 members of Cabinet. We thanked legislators for recognizing that housing affordability is an ongoing challenge in BC. We also discussed policy issues and mechanisms related to zoning for more construction in key urban and suburban areas, improved supports for first-time homebuyers and decision-making that would better account for discrepancies between BC's hot markets and regular markets. We also continued to work with the Ministry of Finance and the Financial Institutions Commission as FICOM began its transition into the BC Financial Services Authority (BCFSA).

Our improved efforts and results across the country are largely a result of our regular chapter calls, where MPC management discusses local issues with each of our chapters. Those calls help us address the issues with provincial regulators and federal lawmakers. They also allow us to measure and focus the attention of our national association. We thank all members for their part in strengthening our industry.

BROKER CHANNEL PROMOTION AND MEMBER COMMUNICATION

Raising Profiles and Enhancing Knowledge

Promoting the value of working with a mortgage broker to the broader consumer population is one of the most valuable things we do as an association. We also provide important information through a wide range of activities, resources and publications, we aim to add value to our members by delivering up-to-date, relevant content.

Consumer Advertising

In 2019, we continued to reach a wide range of homebuyer groups through our *Find a Broker* campaign, which, using national and regional publications in print, digital and outdoor platforms, educates consumers about the value of using a mortgage broker. We continued to use the “Focus on What Matters” slogan, running the campaign in English and French in dozens of markets to direct consumers to the *Find a Broker* directory. Through direct contracts, special advertising auctions and existing partnerships, we were able to obtain a large number of opportunities at significantly discounted rates, and our multi-platform, diverse campaign made 130 million+ advertising impressions.

Rebranding

To mark the association’s 25th anniversary, we launched a revised and refreshed set of branding imagery and rolled it out across all of our visual platforms and vehicles, including email, print, web and social media. We also created bold imagery to accompany the association’s newly redesigned designation program (see the Education and AMP sections for more detail), in preparation for the 2020 launch.



Website and Social Media

Social networking efforts through Facebook, Twitter, Instagram and LinkedIn allowed us to share news and information to keep members in the know. Our social media reach and impact are growing: in 2019, our Twitter and Facebook followings grew by 8.7% and 11.5%, respectively. We also launched our own dedicated video platform, which allows us to run videos from our own website to promote our activities and issues.



Industry and Consumer Research

In 2019, our in-depth research continued to help our members understand the current state of the residential mortgage market and the latest patterns in consumer borrowing behaviours, notably through these key reports:

- *Impacts of the Mortgage Stress Test—The False Binary* (May): our special report advocating for the reframing of government discussions about the mortgage stress test.
- *Home Buying in 2019 is Hard Work* (August): an in-depth economic analysis of the perceptions and behaviours of Canadian first-time buyers amid challenging conditions and a restrictive marketplace.
- *Annual State of the Residential Mortgage Market in Canada* (year-end): a comprehensive look at mortgage activity and consumer attitudes, written by Chief Economist Will Dunning.

This year's research found that out of a list of six major life decisions, consumers rated the decision to buy a home as the second most stressful. Canadians continue to favour the goal of homeownership for the right considerations, including recognition that mortgage principal repayment "represents a very aggressive forced saving program." We will continue to advocate for revisions to current policies that can reduce harm and risks and help make the dream of home ownership a reality for more Canadians.

Publications and Online Resources

Perspectives

This year we launched our brand new quarterly magazine, *Perspectives*, replacing our twenty-year-old *Mortgage Journal*, just in time for the association's 25th anniversary. Expanded to 80+ pages from the *Mortgage Journal's* 24, *Perspectives* is the official publication of Canada's mortgage industry, designed to highlight and raise the profile of the mortgage broker channel with government, stakeholders and Canadians across the country. Available in print and electronic formats, the magazine is a valuable industry resource and demonstrates our leadership in real estate finance journalism. The magazine is produced entirely in-house with an emphasis on sustainable, carbon-neutral practices throughout the publication process.



Canadian Mortgage Trends (CMT)

Recognized as the preeminent online mortgage information resource, CMT delivers coverage and analysis of the critical issues and trends affecting the industry. This year, CMT reached nearly a million pageviews, up 23% over 2018. Valued for its content, industry news coverage, strategic information and research, CMT includes professional perspectives and credible information to help mortgage professionals stay on top of major issues and breaking news, and to empower Canadians with the necessary knowledge and tools to make smart mortgage decisions.

Mortgage Dashboard

Mortgage Dashboard delivers current economic data and is fully customizable. This valuable resource offers leading-edge data to help members decipher where rates are heading; the regularly-updated data is great resource to support discussions with clients.

MEMBERSHIP

Supporting Your Success

The success of any association is dependent on a strong and engaged membership. Focusing on initiatives and opportunities to attract new members and deliver value to current ones is critical to the association's long-term growth.

Belonging to an association of peers enables members to benefit from a national voice on issues that shape our industry and their business. Together we have the power to bring about positive change and this past year, we were pleased that so many new members made the decision to belong to a passionate and connected community.

Membership provides credibility for brokers as they work with borrowers. Membership demonstrates a broker's commitment to providing the highest level of service. Working with a mortgage broker has never been more important, so consumer confidence is critical. Homebuyers can trust in the experience and knowledge of a broker who is a member of Canada's mortgage industry association.

AMBA Partnership



Over the course of the last few years, we have established a successful partnership with the Alberta Mortgage Brokers Association. Our common objectives – of promoting mortgage brokers as the best choice for consumers, presenting our respective members' interests to government, and providing networking, education and social activities for member engagement – are better achieved through collaboration.

This partnership led to the introduction of a new joint membership fee structure in Alberta, which went into effect on January 1, 2020, further supporting our unified voice in the province and across Canada. Those who belong to both associations will benefit from a cost savings and, more importantly, from the combined efforts, resources and influence that the two associations have to offer.

This partnership led to the introduction of a new joint membership fee structure in Alberta, which went into effect on January 1, 2020, further supporting our unified voice in the province and across Canada. Those who belong to both associations will benefit from a cost savings and, more importantly, from the combined efforts, resources and influence that the two associations have to offer.

Benefits of Membership

MPC members benefit from valuable products and services to help them meet their business needs and remain competitive, including:

- Unparalleled advocacy efforts with all levels of government

- Provincial and regional representation on local matters
- Respected research on consumer borrowing behaviour and market data
- Exclusive money-saving benefits program
- Professional recognition through accreditation
- Career enhancement through education and training
- Business development and networking opportunities
- Coverage and analysis of relevant issues through *Perspectives* and *Canadian Mortgage Trends*

Errors & Omissions Insurance

Members have access to the premier Errors and Omissions (E&O) Insurance policy in the marketplace through RDA Insurance. Dual rating systems provide affordable premiums for both small and large mortgage brokerage firms, and policy features include fraud coverage, full prior-acts coverage and no retroactive date.

Online Directory

MPC's *Find a Broker* directory is used to build awareness and use of brokers among the borrowing public; it is promoted on all of our consumer-facing advertising.

Valuable Member Discounts and Promotions

Our members can save on gas, attractions, travel and more through access to the Perkopolis and Member Deals programs, as well as on office supplies through the Deluxe Business Essentials program. The potential savings could more than cover the annual membership fee.

MPC members can also access:

- Promotional products and clothing through the MPC eStore
- Significant discounts on events and educational offerings from MPC and other partners

GoodLife Corporate Membership

Members can take advantage of significant savings on regular GoodLife Fitness membership fees with our preferred corporate rate, which can also be extended to family members.

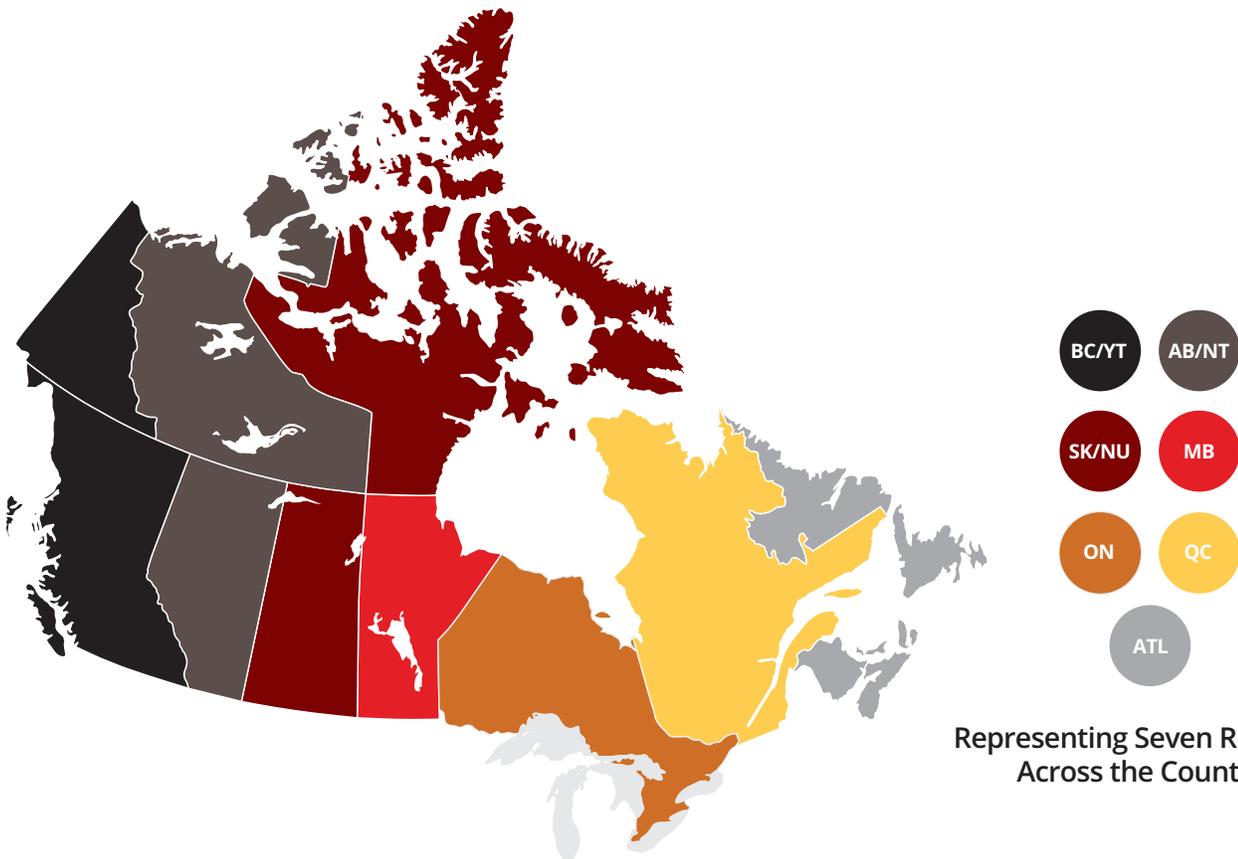
Volunteer Involvement

Members have the opportunity to contribute to the development of the association by volunteering on a committee to share their expertise and perspectives. Our dedicated volunteers help the association prosper through their knowledge, commitment and enthusiasm.

We are also pleased to provide regional representation on local matters through our regional chapters across the country. Each chapter is made up of mortgage professionals from the region who provide input on industry and regulatory issues and discuss emerging local trends and topics.

Membership Snapshot *As of December 2019*

| REGION | BROKER | LENDER | TOTAL |
|----------------|---------------|--------|---------------|
| Alberta/NT | 1,001 | 63 | 1,088 |
| Atlantic | 278 | 16 | 305 |
| BC/Yukon | 1,175 | 56 | 1,258 |
| Manitoba | 233 | 6 | 244 |
| Ontario | 6,827 | 440 | 7,471 |
| Quebec | 1,071 | 22 | 1,107 |
| SK/Nunavut | 202 | 27 | 236 |
| Members | 10,787 | | 11,709 |



Representing Seven Regions Across the Country

EVENTS

Building Connections Across the Country

Mortgage Professionals Canada hosts a number of events that dive into relevant industry topics and deliver knowledge and insight to help brokers succeed. Held throughout the year and across the country, our events are designed to help members broaden their contacts and develop their business.

National Mortgage Conference

The *National Mortgage Conference*, the industry's largest and most important gathering of mortgage professionals, returned to Toronto in 2019 and welcomed over 1,400 delegates from across the country.

The conference featured motivating and entertaining keynote speakers including Jay Baer, Manjit Minhas, Ron Tite, Benjamin Tal and Seth Godin. Delegates also heard about industry developments from CMHC's Evan Siddall, back for his second year, and gained perspectives into the characteristics and complexities of the current mortgage landscape from our "Lender Panel."

A variety of industry-focused sessions offered many educational choices and professional development opportunities, including a number of French-only options. Once again in 2019, the expo – the industry's largest trade show, held at the conference every year – drew huge crowds and provided a fantastic venue to share ideas and make business connections with all facets of the industry.

New this year, the program included a Sunday night networking event for all participants. Over 1,200 delegates attended the "Night Circus"-themed evening, which included some incredible entertainment – aerial performances, tarot-card readers, hand-balancing acts, strolling magicians and live music provided by two different bands. The Night Circus event was generously sponsored by over 30 industry partners.



Canadian Mortgage Hall of Fame

On the Monday night of the national conference, over 500 mortgage professionals gathered to honour the newest inductees to the prestigious *Canadian Mortgage Hall of Fame*: Michael Jones and Wayne Sudsbury. Michael and Wayne were recognized for their exceptional careers, their service and commitment to the industry, and the leadership, vision and inspiration they have brought to the profession.



Association Awards

The 2019 Association Awards were also presented during the national conference. These awards recognize commitment and service to the association, to communities at large and to the industry as a whole.

This year's winners:

Mark Kerzner won the *Michael Ellenzweig Outstanding Service Award* in recognition of his dedication and hard work in furthering the aims and objectives of the association.



Michael Cameron won the *Michael Ellenzweig Outstanding Service Award* in recognition of his dedication and hard work in furthering the aims and objectives of the association.



Robert Boyd won the *Founders Award* for his significant role in raising the profile of the association and for providing outstanding service to the association for an extended period of time.

The **Alberta Mortgage Brokers Association** was presented with the *Partners in Excellence Award* in recognition of their commitment to working together to ensure that our combined goals are achieved for the betterment of our members.



EVENTS *(continued)*

Building Connections Across the Country

Mortgage Symposia and Trade Shows

Our spring symposium circuit featured a series of one-day events with industry experts providing knowledge and resources designed to help mortgage professionals advance their business. Kicking off in Ottawa, followed by Toronto, Vancouver, Saskatoon, Winnipeg and Halifax, these events attracted 2,000 mortgage professionals from across the country. Provincial regulators were on hand to provide the latest updates, and housing market information and trends were provided for each region.

Topics included how to hire an assistant, how to partner with high-producing realtors, how marketplace connectivity works, an overview of the evolution of digital technology and services affecting the industry, digital security in the mortgage industry and an industry panel of experts. Over 150 exhibitors participated in the symposia's trade shows, helping attendees discover new products and emerging trends.

Montreal's *Mortgage Forum* was held in September, in partnership with l'Association de professionnels hypothécaires (APH), and included presentations on mortgage loan insurance, digital technology, title insurance and trends in the real estate and mortgage market in Quebec, as well as an economic update.

Also in June, we were pleased to partner once again with the Alberta Mortgage Brokers Association for our joint spring conference, *Alberta Convention*, held in beautiful Banff. The agenda was jam-packed with educational seminars and motivating speakers, as well as the new Mortgage Pursuit Challenge, an interactive trade show that facilitated connections between brokers and industry partners through creative, fun team activities.

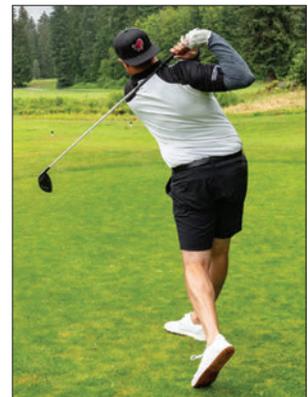


Information and Education Sessions

We offered a number of education sessions in various cities over the course of the year. Topics included the importance of effective communications, benefits of title insurance, managed mortgage solutions, and marketing to millennials. In the spring, the *MIC Seminar and Trade Show*, held in partnership with the Ontario Mortgage Investment Companies Association (OMNICA), taught attendees how mortgage investment corporations can help fund deals and how to best present submissions to this niche lender.

Golf Tournaments

When the nicer weather finally arrived, members brushed off their clubs and cleats and hit the greens at our regional charity golf tournaments. Held in Toronto, Halifax, London and Ottawa, these events brought veteran and novice players together for a day of fun and networking, with proceeds going to local charities. MPC partnered with CMBA-BC to host a joint golf tournament in Whistler, *The Variable Rate Open*, raising funds for Canuck Place Children's Hospice.



ACCREDITED MORTGAGE PROFESSIONAL

Canada's National Mortgage Designation

The Accredited Mortgage Professional (AMP) is the only national designation for Canada's mortgage industry. Launched in 2004, the AMP was developed as part of the association's commitment to increasing the level of professionalism in Canada's mortgage industry through the development of educational and ethical standards.

In today's increasingly competitive business environment, the designation is a powerful marketing tool that differentiates AMPs from other mortgage professionals, increases their business opportunities, keeps their skills and industry knowledge up to date and enhances consumer confidence. AMPs also receive discounts on events and educational offerings.

Raising Awareness

AMPs are featured prominently on our online consumer tool, *Find a Broker*, and are often quoted or mentioned in media articles. Research also shows that there is no better promotion than self-promotion, and AMPs are encouraged to do their part to raise awareness of the value of the designation.

We would like to acknowledge all AMPs for their commitment to upholding the highest standard of industry performance.

A Sneak Peek at 2020

As our industry evolves, we continually strive to strengthen the designation in terms of credibility, retention and awareness. In 2019, with the assistance of our members and board of directors, MPC began the process of revamping the AMP designation. The result is Canada's Mortgage Designation Program, in partnership with the University of British Columbia's Sauder School of Business, a three-tiered designation program whose first level launched in early 2020.



Level 1 – The Accredited Mortgage Professional of Canada (available as of February 2020):

The first level, the **AMPC** or Accredited Mortgage Professional of Canada, will replace the existing AMP and will encompass the basics of real estate transaction in Canada, residential mortgage underwriting practices, commercial and specialized mortgage lending, and discussions and case studies of ethical practice in the mortgage industry.

The AMPC is designed for individuals who have been in the industry for one to two years and who are looking to strengthen their understanding of basic real estate law, learn best practices in residential mortgage underwriting, review commercial mortgage products and practice from a high level, and examine the importance of ethical practice for the sake of the industry and our consumers' best interests. The AMPC will be the designation choice of those newer to the industry who want to set themselves apart as the strongest practitioners with a wider industry view.



Level 2 – The Preferred Mortgage Professional of Canada (launching in late 2020):

The **PMPC** will build upon the foundation set by the AMPC materials, providing greater direct practical application of specialized mortgage lending practices, as well as discuss the financial frameworks for mortgage lending, from deposits to investor funding, including bond issuance and securitization.



Level 3 – The Expert Mortgage Professional of Canada (launching in 2021):

The **EMPC**, the pinnacle mark of distinction of mortgage industry professionals, will be introduced in early 2021. The EMPC will round out the designation programs with more traditional business topics such as leadership, human resources, accounting, strategy, business planning and marketing.

Benefits of Obtaining a Mortgage Designation

- Increase your level of professionalism
- Enhance your industry knowledge and commitment to industry excellence
- Maximize your competitive advantage
- Improve your marketability and distinguish your expertise
- Instill consumer confidence
- Demonstrate your proven industry experience and industry leadership

EDUCATION

Keeping You Up To Date and Informed

As the country's foremost provider of mortgage-related instruction, we are committed to addressing market needs for training and providing tools and opportunities to help members grow and succeed throughout their career.

Setting the standard of excellence for industry education, we offer a wide variety of cost-effective, high-quality education and resource materials to fit members' professional development requirements.

Conveniently available in class and online, courses are offered for all levels of experience and provide opportunities for maintaining current industry skills and knowledge and adapting to changing industry regulations. We offer a large number of our courses to our members for free.

2019 highlights include:

- Launching a new mandatory CE course for agent and broker licence renewals in Ontario (the 2020 Ontario Continuing Education Course for Mortgage Agents and the 2020 Ontario Continuing Education Course for Mortgage Brokers)
- Relaunching our Practical Brokering Series in HTML5 format and completely rehauling and updating the following courses:

a. Completing the Application Effectively

b. Analyzing Credit Reports

c. Reviewing Support Documentation

d. Understanding Basic Mortgage Products

- Exhibiting at the 2019 Student Life Expo (for student outreach and education) to promote Mortgage Professionals Canada courses and talk to young people about the mortgage industry and career opportunities
- Consistently achieving at least a 10% higher participant success rate in our Quebec mortgage broker blended-learning program than all other institutions/colleges offering this program in the province
- Partnering with Learnware Design to promote efficient learning strategies and mastering new skills. We will use their Designationware™ platform in the new AMPC program

In 2019, Mortgage Professionals Canada:



Delivered over **34** in-class education sessions to over **600** participants



Supported over **5,000** participants registered in more than **50** eLearning courses

Courses Offerings

Accreditation (AMP)

We continued to offer the education offerings required to complete and maintain the AMP designation. A key aspect of the program is the successful completion of the National Competency Exam, designed in collaboration with the University of British Columbia's Sauder School of Business.

In 2019, we designed the education to support the three tiers of Canada's Mortgage Designation Programs, which will launch in stages in 2020 and 2021. See the "Accredited Mortgage Professional" section for details.

Provincial Licensing

We were pleased to continue to offer provincial licensing courses across the country in 2019. We are currently offering introductory licensing courses in:

- Saskatchewan – *Saskatchewan Mortgage Associate Course*
- Manitoba – *Manitoba Mortgage Salespersons Course*
- Ontario – *Ontario Mortgage Agent Course*
- Nova Scotia – *Nova Scotia Mortgage Broker Course*
- Newfoundland and Labrador – *Newfoundland and Labrador Mortgage Broker Course*
- New Brunswick – *New Brunswick Mortgage Associate Course*
- Quebec – *Courtage hypothécaire au Québec*

In 2019, Quebec made a change to the provincial regulator for the mortgage industry. We held a number of sessions throughout the transition period to prepare candidates for the industry. We used agile course-design techniques that allowed us to continue facilitating the program while amending it with new regulations, content and evaluation methods as the transition went on. As an impartial non-profit organization, we also worked with the new Quebec regulatory body, Autorité des marchés financiers (AMF), to develop the new content for the AMF certification exam manual for entry-level mortgage brokers.

Provincial Re-Licensing

In certain provinces, mortgage brokers are required to maintain their license or registration in good standing with the provincial regulator through the completion of mandatory continuing education (CE). We offer regulator-

approved CE courses in several provinces, including Ontario, Saskatchewan, New Brunswick, British Columbia and Quebec.

Managing Broker

We continue to offer Managing Broker education programs in Ontario, Saskatchewan and New Brunswick, designed to meet the needs of those wishing to become licensed as mortgage brokers (or equivalents) under the MBLAA (Ontario), the MBMA (Saskatchewan) and the MBA (New Brunswick).

These courses are for mortgage professionals who:

- want to become licensed as a mortgage broker
- aspire to become a principal broker
- specialize in mortgage compliance
- want to explore career development opportunities or upgrade their qualifications

Commercial

In addition to the vast array of education offerings related to residential mortgages, we also provide commercial mortgage courses such as Commercial Mortgage Financing, Analyzing Commercial Real Estate, Commercial Lending and Commercial Roofing

Continuing Education (CE)

CE offerings are designed to ensure mortgage professionals have the knowledge and capabilities for continued professional growth and business success. Courses fall into multiple categories, including Fraud Avoidance, Advertising Standards, Regulatory Compliance, Mortgage Economics and Professional Development.

We decided to add a new instructional designer (to be in place by early 2020) to help manage the increased demand for courses and online programs, convert existing programs from Flash to HTML, and continue updating existing content to keep it relevant and fresh. We plan to increase our online course offerings and refresh existing ones in the coming year.

Additional details including registration information for all our courses can be found under the Education tab at mortgageproscan.ca.

FINANCIAL HIGHLIGHTS

These summarized financial statements are derived from the complete financial statements of Mortgage Professionals Canada as at April 30, 2019. They have been prepared by Mortgage Professionals Canada management and audited by KPMG LLP in accordance with accepted accounting standards for not-for-profit organizations.

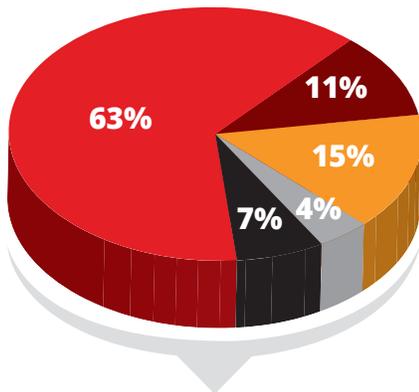
The financial results capture another strong year. Revenue increased as a result of continued membership and education growth, offset by increased investment in broker channel promotion and improvements to the association's information technology systems.

As the federal government continues to change the mortgage insurance and qualification landscape, we increased our efforts to advocate on behalf of our members. This has resulted in key investments in government relations

activities both federally and provincially that have helped offset the continued pressures faced by the industry and the housing sector.

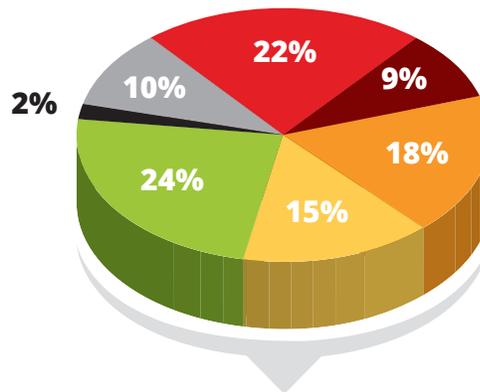
We carefully examine our operations and expenses to ensure the services and programs offered to members remain affordable. The exercise of due care and diligence in financial management and performance remains a key priority for the association.

Revenue Centres



- Membership
- Events
- Education
- Designation
- Other

Activities



- Conference
- Communications
- Broker channel promotion
- Membership
- Education
- Designation
- Events

Statement of Financial Position April 30, 2019, with comparative information for 2018

| ASSETS | 2019 | 2018 |
|---|---------------------|---------------------|
| Current assets | | |
| Cash | \$ 14,710 | \$ 37,139 |
| Short-term investments (note 2) | 932,772 | 1,187,116 |
| Accounts receivable | 282,506 | 268,382 |
| Prepaid expenses and deposits | 159,802 | 191,978 |
| | <u>1,389,790</u> | <u>1,684,615</u> |
| Capital assets and intangible assets (note 3) | 407,830 | 202,934 |
| Long-term investments (note 2) | 3,606,813 | 2,585,976 |
| | <u>5,404,433</u> | <u>4,473,525</u> |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 4) | 1,427,548 | 823,172 |
| Course and event fees received in advance | 866,006 | 531,061 |
| Deferred membership revenue | 883,762 | 963,004 |
| | <u>3,177,316</u> | <u>2,317,237</u> |
| Net assets (note 5) | | |
| Invested in capital assets | 407,830 | 202,934 |
| Unrestricted | (5,713) | 128,354 |
| Internally restricted: | | |
| Operating reserve fund | 1,250,000 | 1,250,000 |
| Special issues fund | 200,000 | 200,000 |
| Asset replacement fund | 375,000 | 375,000 |
| | <u>2,227,117</u> | <u>2,156,288</u> |
| Commitments (note 6) | | |
| | \$ 2,227,117 | \$ 2,156,288 |

Statement of Operations Year ended April 30, 2019, with comparative information for 2018

| REVENUE | 2019 | 2018 |
|---|------------------|-------------------|
| Membership | \$ 2,662,316 | \$ 2,503,240 |
| Events | 1,987,013 | 2,170,481 |
| Education | 1,048,335 | 865,177 |
| Designation dues | 139,388 | 200,135 |
| Advertising and publications | 190,698 | 191,849 |
| Interest and other income | 152,603 | 90,078 |
| | <u>6,180,353</u> | <u>6,020,960</u> |
| OPERATING EXPENSES | | |
| Salaries and wages | 1,655,048 | 1,705,877 |
| Events | 1,575,887 | 1,550,135 |
| Education | 480,197 | 457,185 |
| Membership | 345,011 | 309,562 |
| Employment costs | 306,619 | 298,140 |
| Broker channel promotion | 632,798 | 586,604 |
| Information technology | 367,857 | 239,730 |
| Rent | 203,305 | 200,606 |
| Governance | 189,661 | 194,763 |
| Office and general | 112,051 | 176,995 |
| Non-Dues programs | 89,731 | 118,320 |
| Amortization | 88,369 | 100,815 |
| Legal, audit and insurance | 62,990 | 85,959 |
| | <u>6,109,524</u> | <u>6,024,691</u> |
| Excess (deficiency) of revenue over expenses | \$ 70,829 | \$ (3,731) |



THE CANADIAN MORTGAGE MARKET

Will Dunning, Chief Economist

The Canadian economy remains quite strong, and is a highly favourable force for supporting housing markets across the country. During the fiscal year of Mortgage Professionals Canada (to April 30, 2019), employment expanded by 2.4%. This is well in excess of the rate of population growth (the adult population expanded by 1.4% during the same period).

The Canadian population is changing. An increasing share has retired or is rapidly approaching retirement. In addition, more young people are staying in school longer. Therefore, it is interesting to look at the employment situation for people in the so-called “prime working ages” (25 to 54 years). The data shows that the share of prime-aged adults who have jobs (the “employment rate”) reached an all-time high during 2019. The estimates show a small reduction during the closing months of the calendar year. It remains to be seen whether that small drop represented a “true” downshift for employment or whether it was just one of the temporary random variations that is often seen in this data.

The 25–54 age bracket is not just a prime age for jobs: it is also the prime age for home buying. It takes time for people who get new jobs to become home buyers – often several years. Therefore, the strong employment situation that has been seen during the past three years is very favourable for the housing market and for mortgage demand (see Figure 1).

FIGURE 1



Interest Rates

In response to the strengthened economy, the Bank of Canada (BoC) increased its benchmark interest rate twice during the 2019 fiscal year (in July and October of 2018) and the rate has been flat since then: at the end of calendar 2019, the Bank’s “Target for the Overnight Rate” was 1.75%. There is currently (as always) uncertainty about the direction of the Bank’s key policy rate, as economic

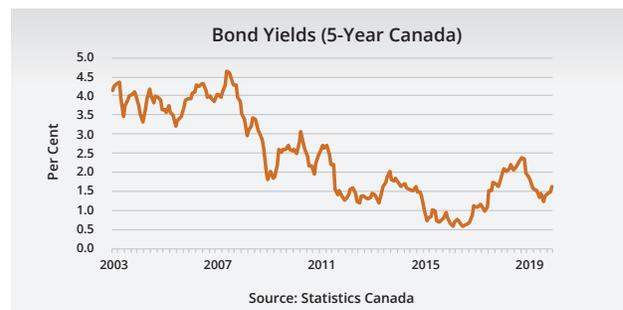
conditions are close to neutral and there are no signs that inflation will depart materially from the 2% target.

Figure 2 shows that yields for Government of Canada bonds also increased during the first half of our fiscal year, but then retreated during the second half. At the start of the fiscal year on May 1, 2018, the yield for 5-year Government of Canada bonds was 2.17%, and a peak of 2.48% was reached in early October. By year-end (April 30, 2019), the yield was lower, at 1.54%. Yields increased slightly during the closing months of the calendar year, and the 5-year yield was 1.62% at year-end.

Mortgage interest rates followed a similar path. “Special offer” rates advertised by major lenders were typically 3.2% at the start of the fiscal year in May 2018, rose to about 3.75% by December, and then eased to 3.1% by April 2019. At the end of calendar 2019, the typical rate was 2.85%.

Rates for variable rate mortgages showed small variations during the year, starting at 2.85%, peaking at 3.2% during January and February 2019, and ending the year at 2.95%.

FIGURE 2



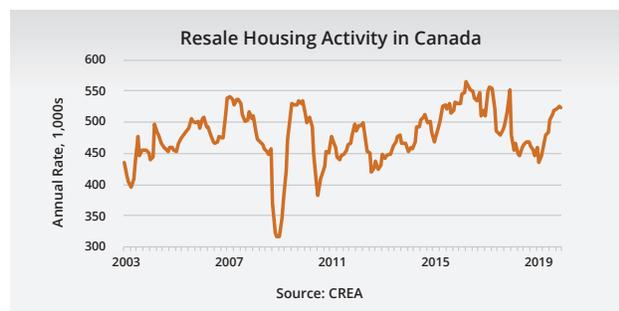
Housing Market Activity

The very healthy employment situation should have been a very positive factor for housing sales, but resale market activity was weak throughout the fiscal year, as is shown in Figure 3. Activity began to improve after the end of the fiscal year, and by the closing months of calendar 2019, the sales rates were at a healthy level.

For the entire fiscal year, resale activity totalled about 457,500, which was 6.6% less than during the prior fiscal year.

Given the economic conditions that existed during the year (a strongly positive effect from strong job creation, with a small negative effect from the interest rate rises seen during the first half of the year), sales should have totalled at least 500,000.

FIGURE 3



The lower-than-expected home buying is due mainly to the duo of “stress tests” that are now required for most new mortgages in Canada.

- Since late 2016, insured mortgages must be tested at the “posted rate” for 5-year mortgages that is published by the Bank of Canada.
- Since the start of 2018, for non-insured mortgages from federally-regulated financial institutions, stress testing must be done at the greater of two points above the contracted interest rate or the posted rate.
- During fiscal 2019, the posted rate was 5.34%, almost 2 percentage points above the average typical “special offer” rate for 5-year fixed rate mortgages (an average of 3.42% for the same period) and even farther above variable rates (2.9%).
- The stress tests continue to prevent home purchases by tens of thousands of potential buyers who could confidently and comfortably afford the actual costs of home ownership.

As is shown in Table 1, the reductions in sales activity (comparing 2018 and 2019 to 2016 and 2017) have been greatest in British Columbia and Ontario, which had been the strongest among the provinces, followed by Saskatchewan and Alberta. Activity has strengthened in the five eastern-most provinces, because there have been pronounced

economic turnarounds in recent times, which have allowed their housing markets to recover from weakened situations.

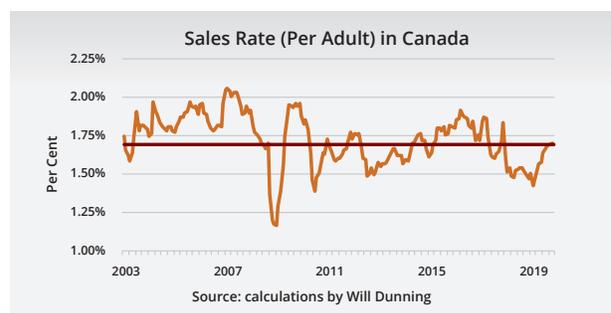
TABLE 1

| Resale Activity During 2016 to 2019 (in 1,000s) | | | | |
|--|--------------|--------------|--------------|--------------|
| | 2016 | 2017 | 2018 | 2019 |
| British Columbia | 112.4 | 104.0 | 78.5 | 77.3 |
| Alberta | 55.1 | 57.4 | 53.3 | 53.2 |
| Saskatchewan | 11.3 | 11.1 | 10.3 | 10.5 |
| Manitoba | 14.5 | 14.4 | 13.5 | 14.7 |
| Ontario | 243.9 | 219.9 | 191.1 | 208.1 |
| Quebec | 78.1 | 82.5 | 86.5 | 96.6 |
| New Brunswick | 7.8 | 8.2 | 8.3 | 9.4 |
| Prince Edward Island | 2.1 | 2.2 | 2.1 | 1.9 |
| Nova Scotia | 10.1 | 10.6 | 11.1 | 12.3 |
| Newfoundland & Labrador | 10.7 | 10.8 | 11.3 | 11.2 |
| Canada | 540.2 | 514.9 | 459.0 | 488.8 |

Source: Canadian Real Estate Association; compiled by Will Dunning

The population grows over time. We should expect that sales will trend upwards. In addition, because newly-constructed dwellings are being added to the housing inventory, there are more dwellings that could potentially be sold. Therefore, it is useful to look at sales on a per-person basis. Figure 4 does that. The data shows that during 2018 until late 2019, the sales rate was considerably below the long-term average (the flat line). During fiscal 2019, the average sales rate was 11% below the long-term average. By the end of calendar 2019, the sale rate had returned to the long-term average.

FIGURE 4



THE CANADIAN MORTGAGE MARKET *(continued)*

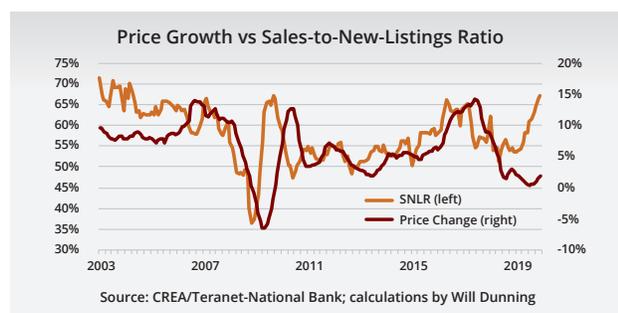
Looking ahead into 2020, with very strong support from prior employment growth, and with interest rates at low levels, we should expect strong sales, with the per-adult sales rate exceeding the long-term average. But the mortgage stress tests are likely to continue to limit actual performance.

The housing market operates very much in the way that economic theory tells us it should: prices are highly responsive to the balance between demand and supply. The state-of-balance is measured by the sales-to-new listings ratio, or SNLR. As is illustrated in Figure 5, there is a close relationship between SNLR and growth of house prices. (In this chart, price change has been calculated using the Teranet-National Bank House Price Index.) It can be seen that when there are sudden changes in the state-of-balance, it can take several months for the price adjustment to occur (two obvious examples are at the sudden onset of recession in 2008 and then the sudden rebound that occurred in 2009). In the most recent data, for late 2019, we can see the beginning of another example, as a sharp upturn in the SNLR is now being followed by a turnaround for pricing.

During the 2019 fiscal year, the SNLR was relatively stable, in the mid-50s. This is slightly above the threshold for a “balanced market,” which we estimate is in the low-50s for all of Canada (the thresholds vary for different communities). This resulted in moderate price growth during the fiscal year (with year-over-year house price growth at just 1.2% as of April 2019).

On this basis, with the SNLR at a very high level at the end of calendar 2019, we should expect an acceleration of price growth during 2020. There will, of course, be variations across the country, depending on local conditions.

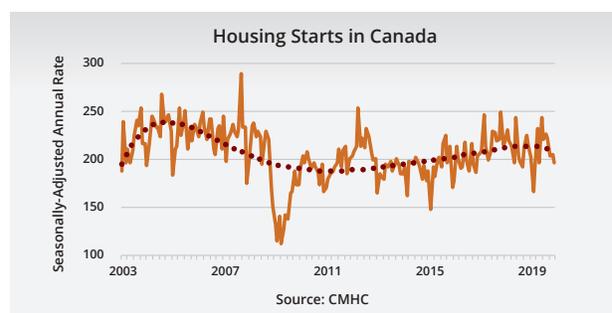
FIGURE 5



Housing starts generally follow the resale market, although with a lag. Corresponding to resale market trends, housing starts increased during 2016 and 2017. The subsequent data, shown in Figure 6, hints that starts have

peaked, and may have fallen slightly (following the weakened resale activity). Detailed data shows that starts of low-rise homes (single-detached, semi-detached and town homes) has fallen sharply (by 16% compared to 2016/17). For apartments, the response is slower, and recent activity has been quite strong (for fiscal 2019, starts were 16% higher than in 2016/17). Recent data hints that a downturn for apartment starts has begun.

FIGURE 6



Mortgage Market Trends

At the end of Mortgage Professionals Canada’s 2019 fiscal year, the volume of outstanding residential mortgage credit in Canada stood at \$1.56 trillion, which was \$56 billion (3.7%) higher than a year earlier. As is illustrated in Figure 7, growth has increased slightly in recent months, which is due to the upturn in resale activity.

Traditionally, growth of mortgage credit is driven by at least three major factors. At present, these factors point towards continued moderate growth of mortgage credit.

- The total value of resale activity (in dollars) has begun to turn up, but to a level that is mid-range in historic terms. Closings of home sales will continue to generate demand for new mortgages.
- Continued very low interest rates mean that mortgage borrowers can aggressively pay down their mortgages.
- Housing completions will slow gradually during 2020, meaning that there will be a gradually falling need for mortgages on new homes.

Another factor that might be suppressing the growth rate for mortgage credit is that the stress tests are forcing some home buyers (and mortgage refinancers) to alternative lenders that are not required to use the stress tests. Some of this lending activity is not measured by the Bank of Canada survey. Therefore, to some unknown degree, actual mortgage credit growth is stronger than the data indicates.

FIGURE 7



Shifting Interest Rates Are Altering Affordability

There are several housing affordability indexes in Canada. However, they share one limitation, which is that they use “posted” mortgage rates, rather than the discounted rates that can be obtained in our very competitive marketplace. The result is that those indexes tend to over-estimate the costs of home ownership. The chart below uses estimates of typical “special offer” rates to calculate housing affordability. Those interest rates are combined with the Teranet-National Bank House Price Index (which covers 11 major market areas in Canada).

An additional consideration is that mortgage payments include substantial amounts of principal repayment (based on typical interest rates for fiscal 2019, 43% of the first payment is principal repayment, and that share rises incrementally each month). Principal repayment is a form of saving, and therefore the principal part of the payment should not be seen as a cost: the true cost of finance is the interest component of the mortgage payment.

In Figure 8, a high index indicates reduced affordability. While house prices have increased very rapidly in Canada, reductions of interest rates have somewhat offset the price rises. During 2009 until mid-2017, affordability was quite favourable most of the time. These estimates show the best-ever affordability situation during 2015 and 2016, which resulted in very strong buying activity. Subsequently, affordability has deteriorated, due to the combination of increases for interest rates and higher home prices. This index is calculated so that the long-term average is equal to 100.0. During fiscal 2019, the index averaged 113.7, meaning that affordability was less of an attraction than on average, and this was a factor in the weak sales performance. That said, with the drops in interest rates in recent months, the index fell to less than 100 during the second half of calendar 2019, meaning that improved affordability

is once again attracting more buyers into the housing market. At the end of the calendar year, the index was 8% below its average level, which is a positive indicator for the housing market in 2020.

Affordability conditions vary across the 11 centres covered by this index. As is shown in Table 2, the indexes (for the 12 months of fiscal 2019) were above their average levels (100.0) in four of the 11 centres, and below average in seven of the centres. As of the second half of calendar 2019, the indexes were below average in eight of the 11 centres, and for the three centres that had above-average indexes, the figures were only slightly above the long-term average of 100.0.

FIGURE 8

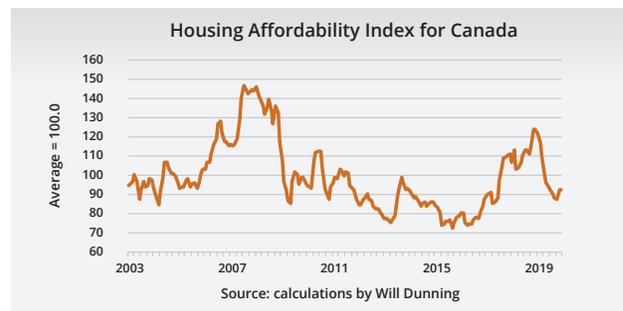


TABLE 2

| Housing Affordability Indexes for 11 Centres in Canada | | |
|--|--------------|----------------|
| | Fiscal 2019 | July-Dec. 2019 |
| Victoria | 113.0 | 89.2 |
| Vancouver | 139.2 | 102.8 |
| Calgary | 77.9 | 61.5 |
| Edmonton | 78.6 | 61.6 |
| Winnipeg | 97.6 | 78.3 |
| Hamilton | 124.5 | 103.0 |
| Toronto | 127.9 | 104.2 |
| Ottawa-Gatineau | 88.5 | 74.7 |
| Montreal | 94.3 | 77.7 |
| Québec | 92.4 | 72.2 |
| Halifax | 79.4 | 67.7 |
| Total - 11 Centres | 113.7 | 90.5 |

Source: calculations by Will Dunning, using data from Teranet/National Bank and Statistics Canada

THE CANADIAN MORTGAGE MARKET *(continued)*

Looking Forward

Factors that sustain the demand for new mortgages include:

- Growth of the housing inventory (via completions of newly constructed housing): most of these dwellings will require mortgages when they become available to be occupied.
- Continued growth of the Canadian population (largely determined by immigration into Canada) sustains the need to build new housing in Canada.
- Canadians continue to migrate in pursuit of economic opportunities, away from slow growth communities, which generally have low housing prices, into areas that provide more job opportunities and (as a result) have higher housing costs and larger associated mortgages. This “internal migration” is raising the average principal amounts of mortgages in Canada.
- There is “rotation” within the existing housing inventory: home owners who sell their dwellings usually have relatively small mortgages (or no mortgage at all) and the new home owners who take their place usually require larger mortgage amounts. This also raises the average principal amounts.

Based on recent data, the trend in the resale market is quite encouraging, at a rate (on the basis of per adult sales) that is very close to the long-term average. This healthy situation results from a mix of factors.

- Job creation has been quite strong during the past three years, which means that increasing numbers of Canadians are able to save towards home down payments and are getting ready to buy.

- Ongoing population growth via immigration will generate additional demand.
- In addition, reductions of interest rates have substantially improved affordability. Opinions about the future of interest rates are, of course, very mixed. But current data on the economy and inflation suggest that rates are now about where they should be, and so there is a good possibility that rates will not rise materially during 2020.
- At this time, the biggest negative factor is that the stress test policies are preventing purchases by large numbers of Canadians who, based on their assessments of their own situations, believe that they are able to afford the financial obligations associated with home ownership.

All of this considered, resale activity is projected to total about 520,000 to 530,000 in 2020. This would be similar to the average seen during 2015 to 2017 (about 523,000 per year). On a per adult basis, sales in 2020 would be close to the long-run average.

Housing starts, however, are most likely to slow during 2020, following from weakened pre-construction sales during 2018 and 2019. Following total starts of 208,686 dwelling units in 2019, the total for 2020 is likely to be just under 200,000. Housing completions (which are more important for mortgage demand) will also fall slightly during 2020.

According to the Bank of Canada data, residential mortgage credit is currently expanding by about 4.7% per year (as of year end) and the growth rate has accelerated. By the end of 2020, the growth rate is projected to be in the area of 5–5.5%.

Will Dunning is the chief economist for Mortgage Professionals Canada and president of Will Dunning Inc., a consulting firm that specializes in economic analysis.



MORTGAGE
PROFESSIONALS
CANADA

2005 Sheppard Avenue East, Suite 401
Toronto, ON M2J 5B4

mortgageproscan.ca