MORTGAGE PROFESSIONALS CANADA
PROFESSIONNELS HYPOTHÉCAIRES DU CANADA

Written Submission for the Pre-Budget Consultations in Advance of the Upcoming Federal Budget

Mortgage Professionals Canada
August 2020

To help improve housing affordability for aspiring first-time homebuyers and address widening wealth inequality, we recommend that the Federal Government:

1. Immediately implement the previously announced changes, initially intended for implementation on April 6th of this year, to the minimum qualifying rate for both insured and uninsured mortgages (the mortgage “stress tests”), as jointly announced by Minister of Finance Bill Morneau, and the Superintendent of OSFI, Jeremy Rudin, in February 2020. The announced changes remove the Bank of Canada’s posted 5 year fixed mortgage rate from the qualification rate mechanisms;

2. 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;

3. Provide qualified first-time homebuyers access to amortization periods of up to 30 years for insured mortgages, matching an amortization already available on uninsured mortgages.

About Mortgage Professionals Canada (MPC)

MPC is the national mortgage industry association representing over 12,000 individuals and 1,000 companies, including mortgage brokerages, lenders, insurers and industry service providers. Our members make up Canada's largest and most respected network of mortgage professionals. MPC represents members' interests to government, regulators, media and consumers. Together, 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 our diverse and strong national membership, MPC is uniquely positioned to speak to issues impacting all aspects of the mortgage origination process.

We appreciate this opportunity to help policymakers ensure Canada's competitiveness. We are confident that, if implemented, each of our recommendations would strengthen and help grow the middle class and Canada's economy, increase competition within the mortgage market, and allay the issue of wealth inequality, benefitting Canada as we all work to overcome the profound effects of COVID-19.

The Issues

In the early days of the COVID 19 pandemic, our members, like most entrepreneurs and business people, were focused on the safety and well being of their staff and customers, and the economic impact of the crisis on their businesses and livelihoods. Our members are very appreciative of the decisive and comprehensive fiscal actions by government and policymakers to stabilize financial markets and ensure ongoing capital liquidity, and for the individual income support mechanisms introduced and implemented at a record pace. Together, these initiatives have helped our economy continue to function and help Canadians to regain confidence in the short term. However, MPC recognizes that we remain in a period of uncertainty.

Homeownership is good. Owning your home provides greater financial and emotional security than renting your home does. Homeownership also provides one of the most sensible and accessible forms of forced saving for retirement available to Canadians. However, a very small minority of policymakers suggests that support of homeownership has been overdone. We feel that policies meant to make homeownership more difficult to achieve ultimately harms Canada economically and societally.

We firmly believe the government can abate widening wealth inequality by *encouraging* homeownership. Recent anti-homeownership policies, including stringent mortgage stress testing and changes to mortgage insurance eligibility, help the well-capitalized investor class over the aspiring and otherwise would-be qualified Canadian homebuyers most parliamentarians have pledged to help. As Prime Minister Trudeau expressed on March 20, 2019, it was his goal "*to make sure homeownership remains an achievable dream, not a privilege afforded to only the richest few.*" Recent policies and decisions prevent this goal from being achieved.

Our Recommendations

1. ***Immediately implement the previously announced changes, initially intended for implementation on April 6th of this year, to the minimum qualifying rate for both insured and uninsured mortgages (the mortgage "stress tests"), as jointly announced by Minister of Finance Bill Morneau, and the Superintendent of OSFI, Jeremy Rudin, in February 2020. The announced changes remove the Bank of Canada's posted 5 year fixed mortgage rate from the qualification rate mechanisms;***

The joint announcement of Finance Minister Morneau and OSFI Superintendent Rudin, if implemented, would have effectively created a mortgage interest rate "stress test" of 200 basis points, or 2%, higher than the actual contract rate negotiated by the borrower and the lender; the current requirement also includes a requirement meet the Bank of Canada posted 5 year fixed rate, currently 4.94%, which is almost 300 basis points, or 3%, above today's commercially available rates.

These February 18, 2020 announcements[1] were warmly welcomed by our members. The change was to have been implemented as of April 6, but was delayed due to the COVID pandemic. However, **we see no reason to further delay its implementation.** The tests are designed to ensure borrowers will be able to continue to afford their mortgage payments in the event of a future interest rate increase. Maintaining the current qualification requirement is overly burdensome and limits opportunity for many, and appears overly constrictive given the unambiguous guidance given by Bank of Canada Governor Tiff Macklem on July 15: "If you've got a mortgage or if you're considering making a major purchase […] you can be confident rates will be low for a long time."[2]

2. ***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 thank this esteemed committee for including this MPC recommendation, one we have suggested for several years, in its report to the government in February 2020:

> *"Recommendation 52: Exempt mortgage renewals from the stress-test where the mortgagor has already met the obligations of their original mortgage."*[3]

[1] https://www.canada.ca/en/department-finance/news/2020/02/minister-morneau-announces-new-benchmark-rate-for-qualifying-insured-mortgages.html
[2] https://www.bankofcanada.ca/multimedia/mpr-press-conference-webcasts-july-2020/
[3] CANADIAN IDEAS: LEVERAGING OUR STRENGTHS Report of the Standing Committee on Finance, FEBRUARY 2020
https://www.ourcommons.ca/DocumentViewer/en/43-1/FINA/report-1/page-81#19

MPC specifically proposes a technical adjustment be made to the current B-20 Guideline 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.

Many Canadians rightly see this aspect of B-20 as being anti-consumer and anti-competitive. The individuals MPC seeks to help (and this committee seeks to help through its Recommendation 52) are responsible borrowers with proven track records, have not accumulated additional debt, and have prudently managed their financial obligations. Restricting the provision for renewals without the stress test qualification to incumbent lenders can prevent these individuals from accessing competitive mortgage rates from other lenders, and can deter incumbent lenders from offering their most competitive rates, especially in today's very low rate environment.

3. ***Provide qualified first-time homebuyers be provided access to mortgage amortization periods of up to 30 years for insured mortgages, matching an amortization already available on uninsured mortgages.***

This remains a sensible and easily implementable option for the government, increasing the purchasing options of first-time homebuyers, and likely helping up to 20,000 aspiring homeowners nationwide. (We should also note that the Conservative Party of Canada and the New Democratic Party of Canada each pledged during the 2019 Federal Election campaign to introduce such 30-year amortizations.)

The stress tests have disproportionately impacted would-be first time home buyers, and younger and aspiring middle class Canadians. The stress test is having the opposite impact of the government's stated desired public policy goals. **Encouraging property investment for the well capitalized while dissuading aspiring middle class Canadians from owning and living in their own home only serves to exacerbate the wealth gap, not close it.**

Witnessing this trend, and noting that 30 year amortizations are already available on uninsured mortgages, we devised the idea of reintroducing an insurable 30 year amortized mortgage specifically for first-time buyers to help them compete against these investor purchasers in tighter markets. Without some direct targeted policy relief, these borrowers will have no option but to continue to rent, even though, in many instances, they could afford a mortgage payment with their equivalent monthly rental expenses if qualifications rules were changed.

The government seemingly also recognized this policy outcome and trend, but chose to try and address it differently.

The First Time Home Buyer Incentive program (FTHBI) was introduced in the 2019 Federal Budget. FTHBI intended to lower monthly financing costs by providing first time buyers with an equity mortgage. The main industry criticism of this $1.25 billion government program remains that **FTHBI doesn't assist anyone to qualify to purchase a home who would not have already otherwise qualified.** In addition, those that do qualify must to be comfortable with the government sharing ownership in their home, and understanding that it also will share in the appreciation of the home value when the home is sold. Given that these purchasers won't need the new program to qualify, **the number of first time home buyers taking advantage of FTHBI is much smaller than the government's projections.** This was the case before the COVID crisis, and continues to remain the case.

Additionally, the program restricts qualification to households earning less than $120,000 annually, and limits the collective mortgage sizes to four (4) times the actual household income. All things being equal, most families with reasonable credit would generally qualify for a traditional insured mortgage of around 4.7 or 4.8 times household income. So while the new program would reduce carrying costs, it would also further limit purchasing power of those in the lowest brackets, reducing the available stock of homes. We do note, however, the Liberal election campaign promise to increase its multiplier and the income limit to 5 times and $150,000, respectively, in greater Toronto, Greater Vancouver and Victoria would go some way to increase participation, and invites the discussion on regionalization of mortgage policy through the future design of this program. However, since the announced increase was promised, it has not been implemented.

FTHBI's reported activity to date has not come close to targets set by CMHC. If the government is committed to the success of this program, and committed to funding the allocated $1.25 Billion, **we recommend increasing the qualifying maximum income multiple for the FTHBI to 4.5 times**. While we do not believe this will be as supportive a change as the reintroduction of an insured 30-year amortization for first time buyers, it will increase the number of would-be first time buyers, would-be owner occupiers, and generally young and aspiring middle class Canadians benefiting from the program.

Conclusion

MPC's recommendations are primarily driven by a desire to ensure responsible Canadians are not unduly prevented from owning their first home. Mortgage lending rule changes have disproportionately affected an essential cohort from establishing themselves into Canada's middle class and helping to grow our economy in a balanced way. Current policies and restrictions in this historically low interest rate environment help to exacerbate wealth inequality, disqualifying aspiring homeowners who no longer wish to have or pay a landlord while helping investors. Access to homeownership should be encouraged by the government, not discouraged. Our recommendations reflect this position.

We always appreciate your thoughts, insight, and perspective. If you require additional information from us, our members and/or their clients, please contact our Director of Government Relations and Regulatory Affairs, J.P. Boutros, at jpboutros@mortgageproscan.ca.

On behalf of our membership, thank you for your service in this very difficult time, and for considering our recommendations. We always appreciate our discussions with members of your committee, your fellow parliamentarians and other policymakers, and we look forward to continuing this essential conversation throughout the coming days and months.

Sincerely,

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