MORTGAGE PROFESSIONALS CANADA
PROFESSIONNELS HYPOTHÉCAIRES DU CANADA

Let's Talk Budget 2022
Pre-Budget Consultation
Recommendations to the Ministry of Finance

44th Parliament, 1st Session
February, 2022

To support Parliament's collective desire to strengthen Canada's middle class, improve housing affordability, and build a more competitive and more inclusive economy, Mortgage Professionals Canada recommends that the Federal Government promptly:

1. Implements the mortgage insurance pledge to "increase the insured mortgage cut-off from $1 million to $1.25 million, and index this to inflation, to better reflect today's home prices";

2. Provides qualified first-time home buyers access to mortgage amortization periods of up to 30 years for insured mortgages;

3. Implements the pledged tax-free First Home Savings Account, which would "allow Canadians under 40 to save up to $40,000 towards their first home, and to withdraw it tax-free to put towards their first home purchase, with no requirement to repay it".

MORTGAGE PROFESSIONALS CANADA | PROFESSIONNELS HYPOTHÉCAIRES DU CANADA

February 18, 2022

The Honourable Chrystia Freeland
Deputy Prime Minister and Minister of Finance
The Honourable Randy Boissonnault
Minister of Tourism and Associate Minister of Finance

Department of Finance Canada
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Dear Minister Freeland and Minister Boissonnault:

Re: Recommendations for Let's Talk Budget 2022

On behalf of Mortgage Professionals Canada (MPC) members, we appreciate this opportunity to share our Board's recommendations to help policymakers ensure Canada's competitiveness. We are confident that, if implemented, each of our recommendations would strengthen and more equitably grow the middle class and Canada's economy.

In August 2021, prior to last year's federal election, MPC submitted written pre-budget 2022 recommendations to the 43rd Parliament, 2nd Session. While that brief was finally posted by the House of Commons Standing Committee on Finance (FINA) in December 2021, that document is now out of date, considering the promises made during the election and the election's outcome. Stakeholders have subsequently been given conflicting messages as to whether new Budget 2022 submissions would be entertained; nevertheless, we ask that *this* document be the one the federal government includes in its Budget 2022 deliberations.

About Mortgage Professionals Canada

Mortgage Professionals Canada (MPC) is Canada's mortgage industry association. Founded in 1994, MPC represents over 14,500 individuals and over 1,000 companies, including mortgage brokerages, lenders, insurers and industry service providers. The mortgage broker channel originates greater than 35% of all mortgages in Canada and 55% for first-time buyers, representing approximately $110 billion dollars in annual economic activity. Our members make up the largest and most respected network of mortgage professionals in Canada, and MPC represents their interests to government, regulators, media and consumers. We are dedicated to maintaining a high standard of industry ethics, consumer protection and best practices.

The Issues

COVID-19 remains *the* national issue. The effects of COVID on the Canadian economy will remain for many years. We again thank the government for its swift implementation of coordinated initiatives among the Ministry of Finance, CMHC, OSFI, and the Bank of Canada. The significant contributions by government to the financial position of individuals and businesses alleviated much of the economic fallout Canada would otherwise have felt.

During the pandemic's early stages, there was understandable talk about a potential significant national housing price correction. One notable prediction, made in May 2020 by the then-president of CMHC to the House of Commons Finance Committee (FINA), was of an impending "decline in average house prices of 9 – 18 per cent in the coming 12 months." This expert advice was relied upon by many in Ottawa; however, as we all now know, the average national house price actually increased in those "coming 12 months" by at least that 9 – 18 per cent. CREA reported that its December 2021 national Aggregate Composite MLS® Home Price Index went up "a record 26.6%" on a year-over-year basis. The comprehensive COVID supports by government assisted in this outcome, but this rapid price increases in Canadian real estate can be primarily attributed to two factors.

The first factor is ongoing inadequate housing supply. Since 2020, housing supply across Canada, already insufficient, has had to contend with housing demand increased by COVID's effects on the psychology of existing and newly arriving Canadians. Quickly and decisively, hundreds of thousands of people felt compelled to buy and move into the homes they wanted. Long term working from home, even part time, suddenly became possible for many salaried workers. People saved for down payments more quickly because COVID lockdowns prevented them from otherwise spending. Homes well outside of metropolitan areas – even in other provinces - became feasible possibilities for people who once assumed they would remain anchored to large cities due to employment and networking. Between July 2020 and January 2021, MPC conducted a series of surveys to gauge consumer sentiment to the housing market. In retrospect, these surveys accurately predicted the increased demand for real estate. The escalation in Canadian home prices is a condition which will continue primarily because of perpetually inadequate housing supply relative to demand from existing and aspiring Canadians. Ben Rabidoux, of Edge Realty Analytics, recently shared important housing supply data with MPC members. He explained that a "balanced housing market" requires six months of housing inventory, but CREA data for January 2022 shows that Canada currently has less than two months of inventory, so, **"we need more than TRIPLE current inventory or a 2/3 cut in home sales" just to get back to a balanced housing market.** This seems unlikely in the near term.

The importance of **immigration** to Canada must also be noted. In January 2022, the government confirmed that Canada achieved its targeted level for immigration for 2021: 401,000 new permanent residents were welcomed, "the most newcomers in a year in Canadian history." The federal government's targets were raised yet again this month, with a new target of 451,000 for 2024. History shows that immigration enhances our country and our collective economy, but history also shows that new immigrants want to own their homes in Canada as soon as possible. **An ambitious immigration policy necessitates even more ambitious federal and provincial housing supply policies**, ones which challenge municipal governments and "NIMBY" tendencies to throttle otherwise reasonable housing supply growth.

The second factor is low interest rates. The Bank of Canada simply had to lower its Policy Interest Rate to the lowest level on record in order to contend with COVID's comprehensive shock to our economy. As of writing, the Rate has not been raised during the pandemic. Senior Bank officials have indicated that some interest rate increases are coming, and anticipation of interest rate increases have been reflected in bond yields for several months. (These bond markets directly impact the interest rates of fixed-rate mortgages which, as of writing, have increased considerably from their February 2021 all-time lows.)

Regarding predictions of dramatic interest rate hikes to counter inflation, the Bank has consistently expressed that it expects current inflation to be "transitory", not long lasting. We note the Bank itself "places more emphasis on long-lasting shocks than on shocks believed to be short lived: monetary policy takes so long to work that it makes little sense to respond to shocks that will have disappeared by the time the policy takes effect." From its explainer, "Monetary Policy: How It Works, and What It Takes", policy actions relating to the Bank's overnight interest rate take "between 12 and 18 months for most of the effect on aggregate output to be observed. Most of the effect on inflation is not apparent for between 18 and 24 months."

As a result of the Bank's pronouncements, projections, perceptions, and the expectation that governments will moderate COVID policies going forward, MPC does not expect interest rates to become unmanageably high for traditional mortgage holders. Ben Rabidoux also notes that "real estate and consumer spending … accounted for 85% of GDP growth over the past five years", and officials must take particular note of that fact in their deliberations.

Overall, at least for the near term, **MPC believes housing prices should not be expected to decrease absent a quick and comprehensive improvement to housing supply, and we believe interest rates cannot be expected to increase enough to dramatically reduce housing demand.**

The circumstances of the past two years *should* have allowed for many younger, middle-class Canadians contending with rental housing insecurity to enter homeownership and the path to financial growth. These aspirants increased their savings and secured adequate down payments. Additionally, historically lower interest rates meant that mortgage debt carrying costs were greatly reduced, with a considerably greater proportion of the typical mortgage payment going to principal repayment rather than interest. Regrettably, policies which existed before and since COVID continue to limit this cohort, and have helped to establish both a perception and reality that only existing owners of property can readily afford to buy property. In order to reverse this trend, we recommend that policies preventing otherwise solid candidates from homeownership be adjusted as soon as possible.

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Recommendations

1. ***Implement the mortgage insurance (MI) pledge to "Increase the insured mortgage cut-off from $1 million to $1.25 million, and index this to inflation, to better reflect today's home prices".***

A pledge to increase the MI cap from the current $1 million was made by both the Liberal Party of Canada and the Conservative Party of Canada during the 2021 federal election campaign. The quoted pledge above was made by the Liberal Party and has been reiterated since the election; however, unlike many other proposals and election pledges, this item was not specifically mentioned in the December 2021 mandate letters sent by Prime Minister Justin Trudeau to the Deputy Prime Minister and Minister of Finance and the Minister of Housing and Diversity and Inclusion. Noting the absence of this promise in an otherwise comprehensive pair of mandate letters, we recommend the MI cap be increased to at least $1.25 million as soon as possible.

Mortgage default insurance is an essential part of the Canadian economy and society. Canada has three mortgage default insurance providers – CMHC, Sagen (formerly Genworth Canada) and Canada Guaranty. CMHC is a Crown Corporation; Sagen and Canada Guaranty are private MI providers. The basics of MI for consumers are well explained by CMHC: "If you want to buy a home with a down payment of less than 20%, you'll need mortgage loan insurance. This protects your lender in case you can't make your payments. CMHC [or other MI provider] mortgage loan insurance lets you get a mortgage for up to 95% of the purchase price of a home. It also ensures you get a reasonable interest rate, even with your smaller down payment. Mortgage loan insurance helps stabilize the housing market, too. During economic slumps when down payments may be harder to save, it ensures the availability of mortgage funding."

Through premiums, the federal government guarantees 100 per cent of CMHC's insured mortgage obligations to lenders, while the government guarantees 90 per cent of such obligations by Sagen and Canada Guaranty. It must be noted that Canada's taxpayers are well protected and appropriately compensated, with multi-billion-dollar dividends routinely paid by CMHC to the government. MI is a user pay model. Mandatory MI for purchases with less than 20% down payment ensures the risk pool is high quality, balanced, and well-funded. Mortgage insurers are aggressively stress tested to ensure they can withstand black swan economic catastrophes and tail events. Insurers also pay a guarantee fee to the federal government.

Currently, MI is not available on homes purchased for greater than $1 million, therefore a minimum 20 per cent down payment, or at least $200,000 in savings, is required to purchase a home greater than $1 million. According to RPS Real Property Solutions, the fourth quarter 2021 median aggregate home price nationally was $779,000; however, in the Greater Vancouver Area the median price was $1,253,300, and in the Greater Toronto Area the median price was $1,119,800. With valuations where they are now, and increasing, the pledge to increase the MI cap to $1.25 million and then index it on an ongoing basis is a sensible and necessary action. Of note, while there has been mention of a regionalized approach to MI, we note that adverse housing events are typically regional in nature, or might potentially only affect a specific lender. In addition to their exceptional methods to qualify prospective borrowers, mortgage insurers spread out risk, meaning if one region drops, another can balance out those losses.

It must also be noted that **by increasing the MI cap to $1.25 million, the portfolio would become better diversified**. At the current $1 million cap, the Toronto/Vancouver part of the portfolio is significantly weighted with condominiums. Increasing the cap allows for more freehold single-family homes, including townhouses, semi-detached and fully detached. The merits of increasing the mortgage insurance cap are strong.

We would also like to comment on another election promise related to MI made by the Liberal Party, a **pledge for a 25% decrease in the mortgage insurance premiums** charged by the Canada Mortgage and Housing Corporation (CMHC). We are concerned this promise could have considerable consequences for taxpayers, mortgage insurers, and potential borrowers.

In terms of actual taxpayer costs of this election promise, the Parliamentary Budget Office estimates "that the 25% decrease in CMHC's mortgage insurance premiums will result in **a net cost of $1.4 billion to the government** over five years." But our concerns go beyond line item costs. Mortgage insurance premium levels are set through actuarial analysis and consideration of minimum adequate capital reserve requirements, and overseen by OSFI. They are reflective of the required revenues to prudently manage the risk inherent in the product. Reducing operating revenues increases the risk of default of a mortgage insurer, and exposes the government to its guarantee.

We believe it is incumbent on the government to provide significant statistical analysis and independent assurance by OSFI that any newly set premiums will be adequate for the MI to meet its obligations.

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2. ***Promptly provide qualified first-time home buyers access to mortgage amortization periods of up to 30 years for insured mortgages.***

With home prices continuing to increase due to demand in most areas of the country, assistance must be provided to those who are not fortunate enough to turn to any so-called Bank of Mom and Dad. The mortgage stress tests and more stringent qualification criteria currently in place mean a smaller and smaller portion of an individual's income can be considered available to service a mortgage debt. Canada has some of the world's most stringent qualification criteria. With today's low interest rates, the financing costs for mortgages are as favourable as they have ever been. The hurdle for many would-be purchasers is amassing a sufficient down payment, and as prices rise, the challenge is increasingly difficult.

Our surveys showed that, along with increasing savings rates, lockdowns increased the desire of many Canadians to leave the insecurity of renting in favour of ownership. Reintroducing a 30-year insurable amortized mortgage, specifically for first time buyers, will permit them to enter their first home with a lower and more manageable payment in their first years of ownership. This creates an opportunity for equity growth over time and increases Canada's financial strength.

A 30-year amortization for insured mortgages allows for significantly greater flexibility of repayment and accelerated payment as the income potential of the young family is realized over time. Historical payment data demonstrates that while 30-year amortizations assist aspiring purchasers to own, these purchasers almost never take the full 30 years to pay off. More often than not, these purchasers accelerate payments when possible, and eventually move out of this first home and arrange for a shorter amortization on their subsequent homes. CMHC would be able to corroborate this, and also confirm how agreeing to this recommendation would benefit its own levels of new mortgage originations.

A 30-year amortization (supported in recent elections by both the Conservative Party of Canada and the New Democratic Party of Canada) has become an example of how to achieve greater fairness in homebuying. While we prefer to not express the issue in terms of being "able to better compete" with other buyers, **well capitalized buyers – whether investors or not – already have access to 30-year mortgages** as long as their down payments are greater than 20%. First time home buyers should be given a more level playing field to compete with the well capitalized, and the 30-year amortization for insured mortgages is an excellent and simple way to do this. We hope this recommendation is adopted.

We must also mention the **First-Time Home Buyer Incentive Program (FTHBI)**. Since its inception, officials have tried to present FTHBI as a better alternative to our 30-year amortization recommendation. We appreciate why the federal government might like to continue its support of this $1.25 billion program, but the program's three years have not been successful, by neither our industry's metrics nor the government's.

Since FTHBI was first announced in 2019, wide promotion of the program, during and since the 2019 and 2021 federal election campaigns, helped to get prospective buyers to contact MPC members with inquiries. This increase in interest was appreciated by our members, who did inform aspirants of the program's potential benefits. But the main industry criticism of the program remained: **FTHBI does not assist anyone to qualify to purchase a home who would not have already otherwise qualified.**

Most applicants with reasonable credit who meet FTHBI's qualifying criteria *already* qualify for a traditional insured mortgage of around 4.7- or 4.8-times household income. In addition, clients also need to be comfortable with the government sharing ownership of their home. Generally speaking, prospective applicants decline FTHBI as an option once they learn that FTHBI is a loan they would have to repay the government. Clients noted a seemingly one-sided aspect of this deal: The government would share in the appreciation of their home's value once the home is sold or the incentive repaid, but not contribute to their home's expenses and upkeep. Recognizing these facts, one can understand why very few have applied for FTHBI.

Despite the efforts of the government and our industry to promote the program, **we strongly believe FTHBI will remain unable to meet its stated policy or financial targets**. As reported in June 2021, "Now halfway through the $1.25-billion three-year program managed by the Canada Mortgage and Housing Corporation (CMHC), only 14% of funds ($178 million) have been doled out to support first-time buyers. That translates to 9,804 buyers who have taken advantage of the program so far, well short of the 100,000 buyers the government expected to assist over the life of the FTHBI." Additionally, "Most successful applications were for mortgages valued between $150,000 and $350,000, well below the average selling price in Canada's biggest cities."

We do acknowledge the regional changes made to FTHBI since 2019 in an attempt to improve its appeal; regrettably, these adjustments made minimal improvement to the program as home prices continued to appreciate. As reported by Aidan Chamandy in iPolitics this month, "Just 12 homebuyers have qualified for the program in Victoria, 13 in Vancouver, and 66 in Toronto." In other words, only 91 homes in total have been bought with FTHBI in the regions the refinements to the program were meant to affect.

Allowing for 30-year amortizations for insured mortgages is the superior, more accessible, simpler, more practical, and fairer overall solution for Canada's aspiring first-time home buyers, a solution with benefits to CMHC and other mortgage insurers and providers, and without FTHBI's known administrative costs and other potential taxpayer burdens.

3. ***Implement the pledged tax-free First Home Savings Account, which would "allow Canadians under 40 to save up to $40,000 towards their first home, and to withdraw it tax-free to put towards their first home purchase, with no requirement to repay it."***

This is an election promise we believe warrants immediate consideration, expeditious analysis and evaluation, and implementation as soon as possible.

For reference, here is the pledge made on the proposed First Home Savings Account (FHSA) from the Liberal Party of Canada's 2021 election platform, verbatim:

> **A New Tax-free First Home Savings Account**
>
> Young Canadians want the chance to own their home—just like their parents and grandparents did. But higher rent and the increased cost of living are making it harder and harder to afford a down payment.
>
> **A re-elected Liberal government will:**
>
> - Introduce a tax-free First Home Savings Account will allow Canadians under 40 to save up to $40,000 towards their first home, and to withdraw it tax-free to put towards their first home purchase, with no requirement to repay it.
>
> Combining the features of both an RRSP and a TFSA, this plan would allow young Canadians to set aside 100% of every dollar they earn up to $40,000 and shorten the time it takes to afford a down payment.

When this promise was announced, many members reached out to us to express their support of the concept. They asked us to voice our support for FHSA and hoped for its quick implementation. Several also proposed sensible ideas and permissions related to FHSA, or whatever it is ultimately called, for consideration. With that, we also ask that the government considers:

- Permitting transfers from existing RSP plans into the proposed FHSA
- Allowing immediate family members – siblings, parents, grandparents - to make gifts of transfers from their own RSPs to a FHSA without incurring a tax penalty for the benefactor

MPC applauded the promise of a First Home Savings Account when first presented during the election campaign, and now endorse a rapid evaluation and implementation of such a program.

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Conclusion

MPC's current recommendations are primarily driven by a desire to ensure young, aspiring, and otherwise qualified Canadians are not unduly prevented from owning their own home and growing our middle class. We have tried to explain how this essential cohort has been disproportionately affected and disqualified, especially through COVID, and hope you agree that the negative societal effects of otherwise well-intentioned housing and lending policies should not persist. Without effective support for aspiring homeowners, policymakers will likely exacerbate the wealth gap by ensuring property ownership is restricted to those who are, or are related to, the already well capitalized. We believe that adopting our recommendations will help to reduce that trend.

We will always make ourselves available to elected officials and their staff, and invite you to contact us to discuss these recommendations and any other policy questions or concerns. We also welcome your insights and perspectives. Additionally, being a national association gives us access to members across Canada who are able and willing to discuss issues and share perspectives. If you require data, testimonials from our members and/or their clients, we would be pleased to help provide such information. Our Director of Government Relations and Regulatory Affairs is J.P. Boutros. He can be reached at jpboutros@mpc.ca, 416-644-5466, or at our office address below.

On behalf of our membership, thank you for considering our aforementioned recommendations, and your continued efforts on behalf of Canadians.

Sincerely,

Paul Taylor
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