May 6, 2021

Office of the Superintendent of Financial Institutions
255 Albert Street
12th Floor
Ottawa, ON K1A 0H2
Submitted via email to B.20@osfi-bsif.gc.ca

Re: April 8, 2021 Consultation - "OSFI proposes new minimum qualifying rate for uninsured mortgages"

Thank you for this opportunity to respond to the consultation on the proposed amendment to the uninsured qualifying rate, and the proposed frequency of potential future review and amendments.

The COVID-19 pandemic is, quite simply, the most pervasive event in Canada's recent history. For fourteen months, the pandemic has upended Canada and the world. Despite this reality, Canadians are coping well, in very large part because of the coordinated early actions of the federal government, the Bank of Canada, OSFI, and other important agencies, for which our members and I are thankful. The rapid implementation of the IMPP, the capital relief framework introduced to support the mortgage deferral programs, and the interest rate reductions and quantitative easing initiatives undertaken have together helped sustain the financial system's health and vibrancy incredibly well. Each of the respective agencies should be commended for their part in that effort, OSFI included. The distribution of vaccines is improving, which we hope will lead to near term economic reopening, and a collective readjusting to a new normal.

Through all of this, Mortgage Professionals Canada (MPC) members have witnessed how the pandemic has galvanized the beliefs and aspirations of Canadians regarding homeownership. Owning and keeping a home is undoubtedly more important than ever, and demand as of writing is the strongest our members can recall. In the midst of a global pandemic, this great housing demand, a very low supply of homes, and necessarily low short-term interest rates have combined to establish the home sales prices we are now seeing.

OSFI's mandate is to "protect the rights and interests of depositors, policyholders, financial institution creditors and pension plan beneficiaries while having due regard for the need to allow financial institutions to compete effectively and take reasonable risks." Given the cries in public media from the CEOs of OSFI regulated banks to reduce housing market appetite, which we see as an indication of their collective concern about the overall level of new loan risk, OSFI's proposed change to the qualifying rate for uninsured mortgages, based on its mandate, seems reasonable in this current economic environment.

In supplementary commentary from OSFI following the initial announcement, Mr. Rudin stated that the 5.25% qualification rate was selected because it was the logical approximate median of the Bank of Canada's posted 5 year rate for the twelve (12) months prior to the pandemic (5.34% and 5.19% respectively), which served therefore as the qualification rate floor. OSFI feels such a rate is appropriate for the current environment as it ensures regulated entities are operating within parameters that were considered prudent in the pre-pandemic realities of the Canadian marketplace, which we are hopeful to be returning to soon.

We note, however, that the interest rates mortgage contracts were being issued at were already falling pre-pandemic, and the posted rates of the six large banks, from which the Bank of Canada posted rate is derived, had not been following suit. As noted by Deputy Superintendent Ben Gully in his remarks to the C.D Howe Institute in January 2020, "the difference between the average contract rate and the benchmark has been widening more recently, suggesting that the benchmark is less responsive to market changes than when it was first proposed." Mortgage Professionals Canada understood this was in large part the impetus for the previous OSFI and Ministry of Finance jointly announced but never implemented stress test adjustment (February 18, 2020), reducing the then-current 5.19% stress test floor to

- The weekly median five-year fixed insured mortgage rate as calculated by the Bank of Canada from mortgage insurance applications adjudicated by federally-backed mortgage insurers; plus
- A buffer of 200 basis points to be set by the Minister of Finance upon the coming into force.

In practice at the time, had this recommendation been implemented, the minimum mortgage qualification rate would have seen a roughly 50 basis point reduction, as opposed to the roughly 50 basis point increase OSFI's current recommendation will bring.

We acknowledge we are in a very different time today. With our economy supported so significantly by government spending in many areas, there is greater exposure to the stability of OSFI-regulated lenders and their customers. We believe the current recommendation is appropriate for our current time and circumstances. We are also very supportive of the uncoupling of the Bank of Canada posted rate from the qualification mechanism. Given the recent dislocations we have seen, we agree it is more appropriate to have a qualification rate which is independently set and periodically reviewed.

MPC believes that all regulatory policies should be reviewed frequently, and must be quickly improved should they become inappropriate or punitive at another point in an economic cycle. We support the proposal to revisit the calibration of the qualifying rate at least once a year, and suggest a quarterly review is likely more appropriate. We would like to see set dates for these reviews to take place, so interested stakeholders are given predictable opportunities to make recommendations as warranted to OSFI in a scheduled and anticipated manner.

We would be remiss if we were not to state our strong concerns about access to homeownership for the aspiring middle-class and would-be first time buyers. While the changes proposed by OSFI are specifically for the uninsured mortgage market, we understand that the Ministry of Finance will be reviewing the consultation responses, as it is likely also considering a change to the insured mortgage qualification requirements. While an increase to the uninsured qualification rate is appropriate given the respective responsibilities of OSFI and of the banks to their depositors, we do not feel an increase in the qualification rate for insured mortgage products is necessarily right at this time.

In our discussions with member mortgage brokers, mortgage lenders, and mortgage insurers, it is clear that there are already considerable additional limiting factors in the qualification for insured mortgages. Unlike uninsured mortgages, insured mortgage amortizations are limited to 25 years, and can only be used for homes valued under $1 million. The current 4.79% qualification rate, coupled with a maximum 25 year amortization and other GDS/TDS requirements, means the number of first time buyers capable of borrowing beyond 450% of their income is very small. As such, the insured mortgage portfolios are not exposed to the same degree of leverage risk as the uninsured market. Additionally, and at the root of our real concern with a potential increase in the qualification floor for insured mortgages, these products are predominantly used by first time buyers. Making qualifications even more stringent will directly impact the ability of the aspiring middle class to reach it. These would-be purchasers are not responsible for the price escalations we're seeing across Canadian real estate; they are the unfortunate victims of it.

Reducing access to insured mortgage products today would likely remove some from the ability to own their own home for a significant period of time, if not forever. We view this as the largest risk to financial inequality in Canada today. Those already well capitalized, those with existing home equity, and those with access to wealth within their family will become the greatest beneficiaries of property ownership. Those without access to financial assistance from loved ones will not find sufficient supports in place to assist them. Young couples or individuals not in a relationship will find qualification, not finances, will be their barrier to entry. Many of our members relay troubling stories to us of those experiencing marital breakdowns who also often find themselves unable to qualify to purchase a family home for their children on a single income after their previous equity is shared. Given that the current insured mortgage qualification requirements are already more stringent than uninsured mortgages, we do not feel is appropriate to make them more stringent at this time.

As a side observation, participation in the Federal Government's First Time Home Buyers Incentive plan, administered through CMHC, would also suffer, since all participants need to first qualify for an insured mortgage before they can access the shared equity mortgage. It will not, in and of itself, be of any assistance to a community of borrowers disqualified by a more stringent insured mortgage stress test.

In closing, Mortgage Professionals Canada does not oppose the implementation of the proposed uninsured mortgage qualification rate change to 5.25%. MPC recommends a review of the test on a quarterly basis with decision dates about potential changes scheduled and published in advance.

Thank you for the opportunity to comment. Should you have any questions, please do not hesitate to contact me directly by email at paul@mympc.ca or by phone at 905-334-1165.

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About Mortgage Professionals Canada

Mortgage Professionals Canada (MPC) is the national mortgage industry association representing over 13,000 individuals and 1,000 companies, including mortgage brokerages, lenders, insurers and industry service providers. Our members make up the largest and most respected network of mortgage professionals in Canada. MPC represents members' interests to government, regulators, media and consumers. Together, the association is dedicated to maintaining a high standard of industry ethics, consumer protection and best practices.

The mortgage broker channel originates approximately 40% of all mortgages in Canada and 55% of mortgages for first-time homebuyers, representing approximately $110 billion dollars in annual economic activity. With our diverse and strong national membership, Mortgage Professionals Canada is uniquely positioned to speak to issues impacting all aspects of the mortgage origination process, with all levels of government in Canada.