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Advice to Policymakers on How To Improve Housing Affordability For Canadians

Mortgage Professionals Canada

February, 2019

Our List of Recommendations to Policymakers

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

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

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

4. That the government adjust the November 30, 2016, change to allow for refinances to be included in portfolio insurance up to 75% loan to value.

5. That the government implement an indexation to inflation for the mortgage insurance cap for properties over one million dollars.

6. That the government implement an indexing to inflation of the RRSP Home Buyers' Plan (HBP).

7. That the government implement polices to address the risks that are associated with unsecured household debt, such as car loans and credit cards.

8. That the government implement, through CRA, a strengthened Notice of Assessment to combat mortgage fraud.

9. That the government implement interest-free loans to municipalities to help develop land to create more supply of housing into the market.

About Mortgage Professionals Canada

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

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

We support prudent and evidence-driven actions to test a borrower's abilities to make future payments; however, our recent data analysis (including our January, 2019, *Annual State of the Mortgage Market in Canada* report) illustrates that a more reasonable stress test level and lending restriction reforms are now needed to strike a better balance for borrowers and policymakers, improving housing affordability and Canada's economy. Our aforementioned report outlines that improper policy levers can continue to depress the market.

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

The problem is spiraling.

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

We appreciate this opportunity to share our collective membership's recommendations for how policymakers, whether through the 2019 federal budget, electioneering, or by other methods, can ensure Canada's competiveness. We are confident that, if implemented, each of our recommendations – in particular the first three - would strengthen and help grow the middle class, the Canadian economy, and increase competition within the Canadian mortgage market.

Our nine current recommendations to policymakers follow.

Recommendations

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

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

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

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

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

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

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

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

The January 15, 2019, pre-budget submission by CHBA includes thorough discussion on the merits of reintroducing 30-year amortization periods for first-time homebuyers with insured mortgages. As CHBA stated, "with proper conditions and lender guidelines, increased mortgage amortization flexibility for first-time homebuyers should deliver broad economic benefits and involve little or no material risk."

(CHBA's submission: https://www.chba.ca/CHBADocs/CHBA/HousingCanada/Government-Role/2018-01-15-Letter-to-Minister-Morneau-Pre-Budget-Mtg-StrssTst-Recs.pdf)

4. *That the government adjust the November 30, 2016, change to allow for refinances to be included in portfolio insurance up to 75% loan to value*.

This adjustment would alleviate some of the competitive disadvantage pressure the cumulative effect of these changes place on many non-bank lenders. With this amendment, which could be made with a simple technical clarification document rather than an official announcement, non-bank lenders would be better positioned to adjust to the other required changes while remaining adequately capitalized.

This would ensure competitiveness by assisting smaller lenders who rely more on portfolio insurance to fund their mortgages and would positively benefit competition within the mortgage market. This would only account for a small portion of the 76% reduction in portfolio insurance and would retain the integrity of the vast majority of the mortgage insurance changes.

5. *That the government implement an indexation to inflation for the mortgage insurance cap for properties over one million dollars*.

Adjusting the cap for mortgage insurance on properties over one million dollars would help mitigate against the shifting portfolio for mortgage insurers. The current cap removes eligibility for mortgage insurance for a large number of homes in Toronto and Vancouver, liquid markets with high incomes and high credit borrowers. This is resulting in a higher percentage of insured mortgages in illiquid markets that have higher loss rates and weaker income and credit scores. This is creating a riskier aggregate portfolio and geographic footprint for mortgage insurers. Indexing the cap to inflation would allow for a slow, safe increase in the cap for mortgage insurance, while still maintaining the desired policy objective of the cap. Without an indexation to inflation, the cap is actually decreasing, in real dollars, the number of properties that can be insured, regardless of what the loan-to-value ratio is. This recommendation helps ensure mortgage insurers have a balanced and competitive portfolio.

6. *That the government implement an indexing to inflation of the RRSP Home Buyers' Plan (HBP).*

Many young Canadians need to save more in order to obtain a down payment as a result of the recent mortgage insurance changes. In fact, in a recent survey we conducted, 48% of Canadians said they had less than 20% down, and of those, 31% said they would need to withdraw from their RRSP in order to afford their purchase. As well, 63% of Canadian homebuyers said they would have been unable to afford their home without some form of down payment assistance. Indexing the RRSP Home Buyers' Plan to inflation would be a positive way to help many young Canadians use more of their savings to purchase a home, thereby assisting them to reach the middle class.

7. *That the government implement polices to address the risks that are associated with unsecured household debt, such as car loans and credit cards*.

Elevated levels of consumer debt in Canada remain a risk to our financial system, and to Canada's competitive position globally. Instead of further tightening the mortgage finance market, we recommend that the government pursue polices to address the much greater risks associated with unsecured household debt, such as car loans and credit cards.

8. *That the government implement, through CRA, a strengthened Notice of Assessment to combat mortgage fraud.*

Mortgage fraud can be decreased if Notices of Assessment (NOA) from CRA are strengthened and improved, and a validation mechanism was created to enable lenders to quickly validate the authenticity of a NOA received from an applicant. Currently, it is very easy to falsify NOAs, and obtaining validation is difficult or impossible, resulting in heightened risk for fraudulent activity.

9. *That the government implement interest-free loans to municipalities to help develop land to create more supply of housing into the market.*

Affordability and livability are important to help grow Canada's competitive advantage for human capital and financial capital. Canada's two global cities, Toronto and Vancouver, have experienced rapid home price growth over the last number of years, which are placing competitiveness challenges in the market. The best way to address the affordability challenges in Toronto and Vancouver are not through macro-economic policy levers, but rather through supply and demand. The federal government is best positioned to assist by providing financing options to the provinces and municipalities to incent development; we believe this can be done via interest-free loans. This can help with the costly development process (which itself needs reworking by governments) and ensure that the primary infrastructure is in place to assist with community planning. Additionally, this could be used as a way to force a reduction in unnecessary red tape by mandating that the financing be fixed to time-constrained outcomes.

Conclusion

On behalf of our membership, thank you for considering our aforementioned recommendations. Of course, we would appreciate your thoughts on them, and some insight from your perspective. In addition, MPC's new publication, *Perspectives*, will soon be arriving at the offices of policymakers across Ottawa and across Canada. We are very proud of it, as it will best highlight what our members do for their clients, and our industry. If you do not receive your copy by the end of March and would like one, please contact us below and we will send you your copy of *Perspectives*.

Our website, filled with data, reports and other resources, is www.mortgageproscan.ca. If you require any data, testimonials from our members and/or their clients, or any other information on your own riding or province, we would be more than happy to provide any and all of it. Our Manager of Government Relations and Regulatory Affairs is J.P. Boutros; you may reach him at jpboutros@mympc.ca, 416-644-5466, or at our office address below.

We appreciate our discussions with policymakers on the important and transpartisan issue of Housing Affordability, and look forward to continuing this conversation in the coming days and months.

Sincerely,

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