CANADIAN MortgageBroker
FALL 2019 $6.95
THE MAGAZINE FOR PROFESSIONAL MORTGAGE BROKERS

MB

INSIDE
LISTINGS FOR
Private Lenders, MICs, Alternative Lenders and Syndicators

# ALTERNATIVE LENDERS GUIDE

## WHO YOU GONNA CALL?

+ Our advice for the incoming government p.8

How new anti-money laundering rules affect you p.11

PM No. 40065475

cmba-achc.ca


LOLA 1/5/18
LOLA 8-12-17
LOLA 2/5/17
LOLA 10/8/16
LOLA 7/5/15
LOLA 6-3-14
lola 1/20/14
Lola 7/5/13
Lola 6-2-13
It’s not about credit scores.
It’s about life scores.
Life happens. When a change in marriage, unexpected illness or even job loss come between your client and their dreams, we’re here. Let’s partner to look beyond their credit score and ask the right questions to understand the whole story. Together, we can find the best solution and help deserving clients focus on the scores that matter most in life. Visit hometrust.ca to learn more. **Home Happens Here.**
HOME TRUST

CANADIAN MortgageBroker

# inside

VOLUME 4 ISSUE 4 FALL 2019




## features




## departments



## columns

VOLUME 4 ISSUE 4 FALL 2019

CANADIAN MortgageBroker

THE CANADIAN MORTGAGE BROKERS ASSOCIATION

CO-CHAIRS ROB REGAN-POLLOCK (CMBA-BC), KIM MCKENNEY (CMBA-ONTARIO)

DIRECTORS MARIE-CHANTAL ROY (CMBA-QUEBEC), JANET MCKEOUGH (CMBA-ATLANTIC)

EXECUTIVE DIRECTORS SAMANTHA GALE, ROBERT GUBBINS

STAFF WRITERS RAY BASI, SAMANTHA GALE

CONTRIBUTORS LIVIO DI MATTEO, MALCOLM ECCLES, LISA GORDON, CANADIAN PRESS, CORY VAN IEPEREN, ISTOCK

BILLING DEBRA HILLER

CMBA - ONTARIO
INDEPENDENT MORTGAGE BROKERS ASSOCIATION OF ONTARIO
7 - 40 Winges Road, Woodbridge, ON L4L 6B2

CMBA - BC
MORTGAGE BROKERS ASSOCIATION OF BRITISH COLUMBIA
902 - 777 West Broadway, Vancouver, BC V5Z 4J7

CMBA - ATLANTIC
MORTGAGE BROKERS ASSOCIATION OF ATLANTIC CANADA
233 Bedford Highway, Halifax, NS B3M 2J9

CMBA - QUEBEC
L'ASSOCIATION DES COURTIERS EN HYPOTHÉCAIRES DU QUÉBEC
Email: info@achquebec.org

PRODUCED BY

CW media

CANADA WIDE MEDIA LIMITED | canadawide.com

230, 4321 Still Creek Drive
Burnaby, British Columbia, Canada
V5C 6S7 604.299.7311

CHAIRMAN, CEO PETER LEGGE, OBC, LLD (HON)

PRESIDENT SAMANTHA LEGGE MBA

DIRECTOR OF EDITORIAL & CUSTOM PUBLISHING MICHAEL McCULLOUGH

EXECUTIVE CREATIVE DIRECTOR RICK THIBERT

DIRECTOR OF PRODUCTION KIM McLANE

DIRECTOR OF CIRCULATION TRACY McRITCHIE

PRODUCTION MANAGER KRISTINA BORYS

IMAGING TECHNICIAN BERNARD HOLZMANN

*CANADIAN MORTGAGE BROKER* magazine is produced by Canada Wide Media Limited for the Canadian Mortgage Brokers Association (CMBA).


Publications mail agreement No. 40065475. Please return undeliverable Canadian addresses to: Suite 101 - 1765 West 8th Avenue, Vancouver, BC V6J 5C6
Printed in Canada by Transcontinental Printing.

CMBA CANADIAN MORTGAGE BROKERS ASSOCIATION

FSC MIX Paper from responsible sources FSC® C011825


RFA
BROKERS FIRST
WE'RE CREATING THE ULTIMATE OPPORTUNITY FOR MORTGAGE BROKERS.
Financial strength & competitive positioning / Enhanced end-to-end broker & client experience
Innovative products, capabilities & technology / Rates that will keep you coming back for more!
BELIEVE IT. WE'RE JUST GETTING STARTED.
Sign up at RFA.ca today!
RFA Mortgage Corporation
Ontario Mortgage Brokerage Licence #12980

# Advice for the New Government

## Provincial mortgage broker associations urge the new federal government to act on the following affordability recommendations

BY **SAMANTHA GALE**

The new Trudeau-led minority government has an opportunity to collaborate on housing solutions with MPs from the other, mostly regionalized, parties. Chances are a Liberal minority government will either leave current housing policies in a holding pattern or proceed with its pre-election plan to impose a national version of B.C.'s vacant housing tax on non-residents. The NDP makes a likely partner for the Liberals for collaborating on issues such as housing. It is worth noting that two elements of the NDP election platform on housing include waiving the GST/HST on the construction of new rental units and the "reintroduction of 30-year terms to CMHC-insured mortgages on entry-level homes for first-time home buyers."

CMBA will continue to advocate for sensible, meaningful change on the housing affordability front. CMBA consists of four provincial mortgage broker associations, united under the Canadian Mortgage Brokers Association umbrella. Following the recommendations of CMBA-BC, which collaborated with other B.C. real estate association sectors, CMBA urges the new federal government to adopt the following recommendations:

### ADJUST THE MORTGAGE STRESS TEST AND AMORTIZATION RULES

In 2018, the federal government enacted new mortgage rules, requiring borrowers to qualify for a mortgage at the higher of either the rate they've negotiated with their bank plus two per cent or the Bank of Canada's five-year rate. This B-20 stress test has had a pronounced impact in B.C., Ontario, Quebec and the Atlantic provinces, causing well over a billion dollars in lost economic activity.

The B-20 stress test should be a flexible policy that is adjusted regularly to respond to economic trends. B-20 is now due for an adjustment for the following reasons:

- the debt burden has increased for people unable to access conventional financing who must resort to more expensive alternative mortgage financing;
- personal incomes nationally have risen by 12.5 per cent over the last five years; and
- a borrower's equity position increases throughout the term of a mortgage due to principal payments.

Changing the stress test would help achieve the government's goal of ensuring Canadians don't take on more debt than they can bear, while acknowledging ongoing economic trends.

**WE RECOMMEND:**

■ reinstating 30-year amortizations for insured mortgages to make monthly payments more manageable;

■ qualifying all borrowers at their contracted amortization period (e.g. 30 years) instead of a 25-year period;

■ excluding the stress test for low-risk mortgages, including:

**a.** mortgages with terms greater than five years, which do not present borrowers with risks of debt overload due to payment stability and principal reduction over longer terms, and

**b.** mortgage transfers and switches, which better enable borrowers to shop for competitive mortgage terms at renewal time; and

■ reducing the risk buffer for stress testing to one per cent plus the contract interest rate for all other mortgages.

## REMOVE GST AS A MAJOR BARRIER TO NEW RENTAL HOUSING

Many urban areas throughout the provinces have a shortage of rental housing options. For instance, Metro Vancouver's overall rental vacancy rate has hovered at one per cent or lower for the last five years. CMHC estimates the region has had a net loss of 6,000 purpose-built rental units since 1991, while at the same time Metro Vancouver's population has grown by over one million people and is forecast to grow by an additional million in the next 20 years. This scarcity of rental housing has resulted in increased rental prices and stress for renters. This untenable situation will continue to be a significant challenge unless decisive action is taken.

A barrier to addressing the lack of new rental options is the punitive application of the five per cent GST on new purpose-built rental buildings. Under the current GST rules, a rental builder pays GST on the "self-supply" of a purpose-built rental building when construction is completed. This means that while a rental developer intends to keep, manage and operate the new purpose-built rental homes, GST rules require that they pay GST on the market value of the building and property at completion as if they had sold it. This is essentially a sales tax on an artificial transaction that adds millions of dollars to the cost of new rental buildings, even for non-profit home builders. A recent analysis of a 117-unit project in the City of Vancouver showed how removing the GST could reduce monthly rents between 3.04 and 6.06 per cent. Ultimately, this additional tax negatively impacts renters, because rental providers must recoup the costs through increased rents.

Removing the GST would make purpose-built rental projects more financially viable and could provide lower rental rates for affordable housing projects.

**WE RECOMMEND:**

■ Fully rebating or exempting the application of GST on new rental housing.

## LINK FEDERAL TRANSIT INVESTMENTS WITH FEDERAL HOUSING TARGETS

The federal government can encourage effective land use and transportation decisions by linking the need for more housing options with the significant federal transit funding that is planned. Setting new land-use guidelines with housing targets for transit investments would unlock additional home options by supporting the regional and local plans related to transportation.

**WE RECOMMEND:**

■ leveraging contributions to local rapid transit projects by requiring housing targets;

■ providing preferred terms/rates to projects within CMHC's Rental Construction Financing initiative that are within a certain distance from a current or planned frequent

■ topping up federal cost-share ratios for rapid transit projects, currently up to 50 per cent of non-land related capital costs, by a modest percentage for projects that meet or exceed housing targets; and

■ working with provincial and local governments to explore a transit-oriented affordable housing fund to encourage more purpose-built rental housing with a deeper level of affordability near existing and new transit. MB

# DON'T PLAY IN THE DIRT

In their quest to choke off money laundering, governments are raising the standard for vigilance on the part of professionals

BY **RAY BASI, LL.B., STAFF EDUCATION AND POLICY REVIEW**

## BACKGROUND

You are a mortgage broker assisting a client who purchases and sells real estate frequently, funds large private mortgages, drives a fancy car, goes on vacation often and lives the high life. You wonder how she funds the lifestyle. She doesn't have a job, as far as you know. Your client indicates she has investments that have paid off rather well. You notice she often pays for expensive things in cash.

What obligation do you have to ensure your client is not using you to launder money? By being involved in the process, are you a money launderer?

## MONEY LAUNDERING IN CONTEXT

Money laundering is the process of transforming "dirty money" into, in perception, "clean money." It creates a legitimate explanation for proceeds obtained from illegitimate activity, hiding the true origin and owner of the proceeds.

The battle against money laundering is related to the Criminal Code prohibition against possessing stolen property. The government has over time expanded legislation against activities related to stolen activity, both as to increasing the scope of prohibited activities and decreasing thresholds and safeguards in enforcing the laws.

This expansion puts workers in the real estate and financial sectors, including mortgage brokers, at greater risk of inadvertently violating the law and of having property forfeited to the Crown.

How far is too far for the government to go in fighting money laundering? Do the limitations on rights and freedoms of law-


abiding citizens outweigh the worthwhile goal? Are available remedies against wrongdoers disproportionate to the wrong? Is taking the medicine worse than bearing the illness?

Intelligent people will disagree as to the appropriateness of various measures, however there is little room for disagreement that the expansion is in fact occurring.

## THE EXPANSION

### Possession of Stolen Property

Possession of stolen property has always been an offence in Canada. The targeted property was the property obtained from the commission of the offence, for example the goods that were stolen in a burglary.

### Proceeds of Crime

The Criminal Code expands the type of property it is wrong to possess to include proceeds of crime. Proceeds of crime are property the person knew was obtained or derived directly or indirectly from the commission of an indictable offence. (Criminal Code, section 354.1) For our purposes, it is enough to understand that indictable offences are generally the more serious offences.

### Forfeiture

Forfeiture laws allow the government to dispossess wrongdoers of their ill-gotten possessions. They entitle the government to confiscate property, without paying compensation.

The Criminal Code allows forfeiture when:

- on a balance of probabilities (that is, more likely than not) the property is related to the offence for which there has been a conviction, or
- beyond a reasonable doubt the property is a proceed of crime, without regard as to whether there has been a conviction for the crime. (Criminal Code, section 462.37)

Other federal statutes allow forfeiture in similar circumstances (Controlled Drugs and Substances Act for example).

The provinces have expanded forfeiture considerably. All provinces, except Prince Edward Island and Newfoundland and Labrador, have enacted civil forfeiture statutes; none of the territories has done so. The provincial laws make it easier for the government to obtain forfeiture by:

- applying to property obtained not only by crime but by unlawful activity (the provinces use various terms to describe such activity);
- requiring proof only on a balance of probabilities;
- not requiring a conviction, trial, or even charge related to the conduct from which the proceeds are claimed to have been obtained (New Brunswick law allows forfeiture to occur even if the person has been acquitted);
- streamlining the process and thereby avoiding many of the protections provided in the criminal process; and
- not being concerned with whether the value of the property to be forfeited is

proportionate to the wrong committed (for example, in B.C. a Lamborghini was forfeited for having been involved in the unlawful activity of street racing). However, some provinces' laws do contain a provision allowing a court to not order forfeiture when it would not be just to do so.

The relative ease with which civil forfeiture can be obtained produces an incentive for the government to pursue it rather than pursuing a criminal conviction for the substantive charge. This can sometimes deprive a person of property without ever having their day in court concerning the primary accusation.

B.C. is considering expanding its civil forfeiture program further by allowing forfeiture:

- once the Crown links the asset to unlawful activity, unless the defendant proves the property is not an instrument or proceed of unlawful activity; and
- allowing the Crown to hold the asset before the Crown starts court proceedings (this in effect deprives the defendant of the use of the asset without a forfeiture proceeding, let alone not having been heard on the primary charge).

## MONEY LAUNDERING

Forfeiture is easier if people are prohibited from hiding proceeds of crime. Proceeds of crime that are converted into another form can be difficult to trace, locate and have forfeited.

The various methods of money laundering involve the following three stages:

- placing ("dirty money" is introduced into the financial system)
- layering
  - Proceeds of crime are converted into another form (such as real estate purchases, mortgage investments, stocks, and bonds).
  - Sequences of financial transactions, some complex, are created (to disguise the audit trail and the source and ownership of funds).
- integration
  - The laundered proceeds are in the economy (to be perceived as "clean" money).

The Criminal Code, in effect, makes it an offence to deal with proceeds of crime in any way (Criminal Code, section 462.31). This prohibits being involved in any of the conduct concerning any of the stages of money laundering. While not precise, suffice it to say that almost all (if not all) conduct engaged in by mortgage broker in dealing with proceeds of crime would contravene the section. The mortgage broker will have violated the section if the conduct was engaged in:

- with the intention to conceal or convert the proceeds and
- knowing, believing, or being reckless as to the property being proceeds of crime.

### Recklessness standard and implications for industry participants

The recent addition of recklessness being enough to satisfy the mental component lowers the standard for being charged with money laundering. Professionals who facilitate real estate and mortgage transactions might be charged with money laundering if they proceed with a transaction in the face of red flags. They may be said to have been reckless in the face of the red flags. The defence to such an allegation might be showing that the person did not ignore but rather conducted appropriate assessments in dealing with the red flags. Superiors might now have to be more attentive of alerts of money laundering raised by subordinates, or risk being found to have been reckless.

## DETECTION

Governments have enacted various laws to make detection of money laundering easier.

**FINTRAC:** The Proceeds of Crime (Money Laundering) and Terrorist Financing Act requires various entities conducive to conversion or concealment of funds (such as banks, credit unions, life insurance companies, securities dealers, money services businesses and foreign exchange dealers, accountants, real estate brokers, casinos, dealers in precious metals and stones, notaries, and real estate developers) to report suspicious transactions and those above certain amounts to FINTRAC. A suspicious transaction is one that is related to the commission or attempted commission of a money laundering offence or a terrorist activity financing offence. Even those who are not required to report suspicious transactions to FINTRAC are permitted to do so.

FINTRAC analyzes the information made available to it and as part of their reporting out provides money laundering/terrorist financing red flags/indicators for various industries.

### Corporate Shares Transparency Register

B.C. requires corporations to maintain a corporate shares transparency register indicating the true owners of their shares. This avoids true owners from hiding behind trustees and/or corporations who hold shares in other corporations. Other provinces are considering following suit.

### Landowner Transparency Registry

B.C. is on its way to having in place the Landowner Transparency Act (LOTA). When in place, LOTA will require corporations, partnerships and trusts that hold land in British Columbia to disclose the "true" ownership of that land. This information will be accessible by the public.

### Unexplained Wealth Orders?

The March 31, 2019 report to the B.C. government entitled "Combatting Money Laundering in B.C. Real Estate" recommended the government should consider introducing unexplained wealth orders. A person served with such an order would have the onus to show that the source of their wealth is legitimate, or risk forfeiture of their property. Presumably the targets of such orders would be persons whose assets and lifestyles are far greater than their known, legitimate income would support.

We will have to wait to see whether B.C. follows through, and whether other provinces follow suit. It will also be interesting to see whether successful enforcement of such orders leads to further allegations, such as tax evasion.

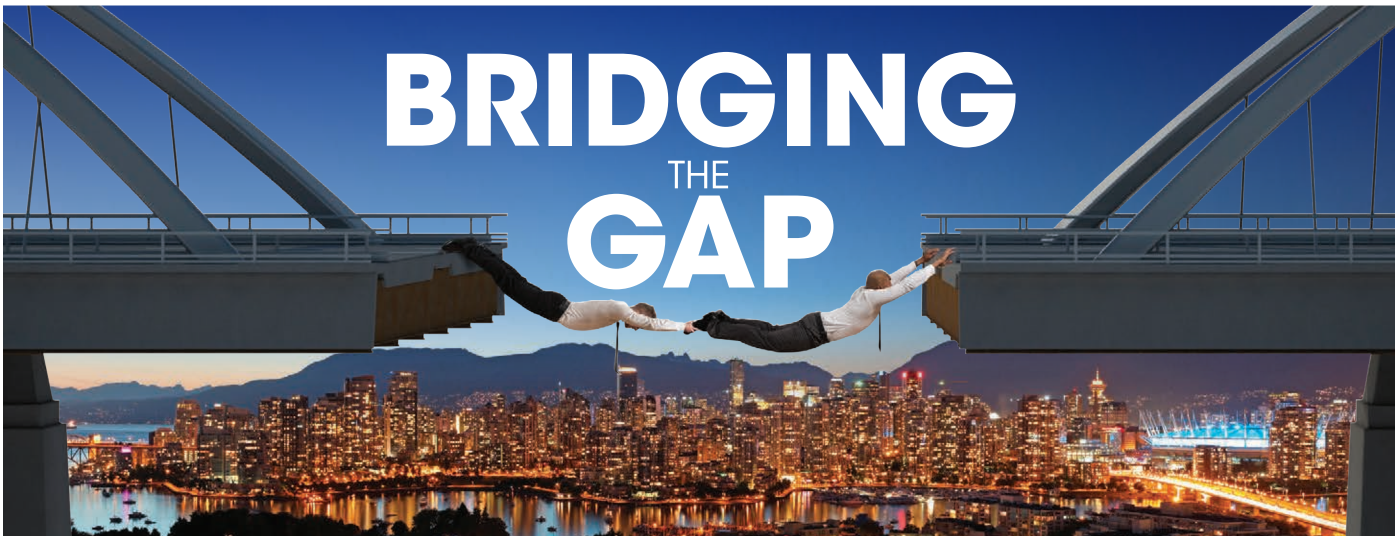
## TAKEAWAY

A mortgage broker would do well to be diligent in knowing/verifying the source of money they are handling. The law does not require that a thorough investigation be conducted; it does require diligence. MB

---

*This article is not intended as legal advice or to be authoritative. To address specific circumstances, the reader should obtain (as appropriate) legal, financial and other advice.*






**RESIDENTIAL MORTGAGE LENDING CRITERIA**

| Mortgage Type | Loan to Value (up to) | Loan Amount Range | Interest Rates Starting at |
|---|---|---|---|
| Single Family + Condo | 65% | $500K - $5 M | 6.50% |
| Luxury Condos | 60% | $500K - $5 M | 6.50% |
| Rentals/Vacation | 60% | $500K - $5 M | 6.50% |

**COMMERCIAL MORTGAGE LENDING CRITERIA**

| Mortgage Type | Loan to Value (up to) | Loan Amount Range | Interest Rates Starting at |
|---|---|---|---|
| Retail/Office/Industrial | 75% | $1 M - $20 M | 7.25% |
| Land (urban infill) | 65% | $1 M - $20 M | 7.75% |
| Apartments | 75% | $1 M - $20 M | 6.50% |
| Res. Condo Inventory | 65% | $1 M - $20 M | 7.25% |

Sam Fogell - *Commercial*
sfogell@lanyardgroup.com

Christine Perkins - *Residential*
cperkins@lanyardgroup.com

www.lanyardgroup.com
Phone 604.688.5388

Lanyard Financial Corporation

# Expanding our horizons

## WELCOME LOREN HAWKINS

Loren Hawkins
*National Manager, Broker Relations*

ThreePoint is a Canadian non-bank residential mortgage lender providing mortgage financing solutions to borrowers in British Columbia, Alberta, Manitoba and Ontario. Working exclusively through the professional mortgage broker channel, ThreePoint provides residential mortgage financing to borrowers who do not currently qualify for traditional institutional financing.

### Announcing the appointment of Loren Hawkins to National Manager, Broker Relations

ThreePoint Capital is pleased to welcome Loren Hawkins. Loren will be tasked with introducing ThreePoint's residential lending program to a greater number of mortgage brokers from BC to Ontario, as well as enhancing ThreePoint's existing relationships with mortgage brokers by finding where our value can be enriched.

Loren joins ThreePoint after a successful 22-year career within the BC Credit Union system including Coast Capital, Northern Savings and West First Credit Union. During that time, Loren spent nearly a decade building his skill set as a branch lender, followed by launching the broker channel and ultimately appointed to oversee the channel for all brands before deciding to step away from the credit union and become a licensed mortgage broker in 2015.

Loren remains very active within the mortgage broker industry, having served 12 years as an Executive Director on the board of the Canadian Mortgage Brokers Association-British Columbia (CMBA-BC) and currently sits as the President of the Mortgage Brokers Institute of British Columbia (MBIBC).

CEO CHAT

# Small-Town Trust

## A conversation with Matthew J. Robinson, CEO and portfolio manager at Ontario private lender Pillar Financial Services

BY **SAMANTHA GALE**

**Canadian Mortgage Broker(CMB): Tell us how Pillar get started with private lending?**

**Matthew Robinson (MR):** Pillar is currently a major alternative lender in Ontario, but we started out as a small fund designed for our own clients. This is a multi-generational story that goes back more than 30 years to my father, Wayne Robinson, who started a financial planning business in the early 1980s. He quickly identified an opportunity to bring together investors seeking consistent returns with underserved borrowers in the rural mortgage market.

When his business partner had a mortgage application turned down by the bank, my father realized that it wasn't a question of money. Instead, it was the bank's lack of familiarity with properties with well and septic systems.

Seeing this as an opportunity, my father gathered several people to pool their money and lend to borrowers seeking mortgages in Sharbot Lake, Ontario. He started with a handful of people putting in $25,000 each and grew the business organically over the years, meeting with friends and family and collecting cheques across kitchen tables. It took 10 years of grassroots growth to pull together the first million dollars; today, we have a fund with about $200 million and 600 mortgages.

The structure of the business has changed over the years. Today, Pillar is one of three related entities that work hand-in-hand: Frontenac, which is the mortgage investment corporation (MIC) that holds our capital; W.A. Robinson, which manages our investment fund and drives strategy; and Pillar, which partners with mortgage brokers and administers our lending operations.

> "We have built and sustained a thriving business over the decades because we have earned the trust of brokers, borrowers and investors. When we make a deal, the other party knows that we will deliver what we promised."

**CMB: What is the secret of Pillar's success?**

**MR:** It may sound a bit out of place in the financial sector, but one of the keys to our success is our caring approach. As a transitional lender, our goal is always to help borrowers reach a better financial position. We do this by providing short-term mortgages of one to two years that enable borrowers to build or buy a new home and get their finances into better shape so that they can then make the transition to an institutional lender offering lower rates.

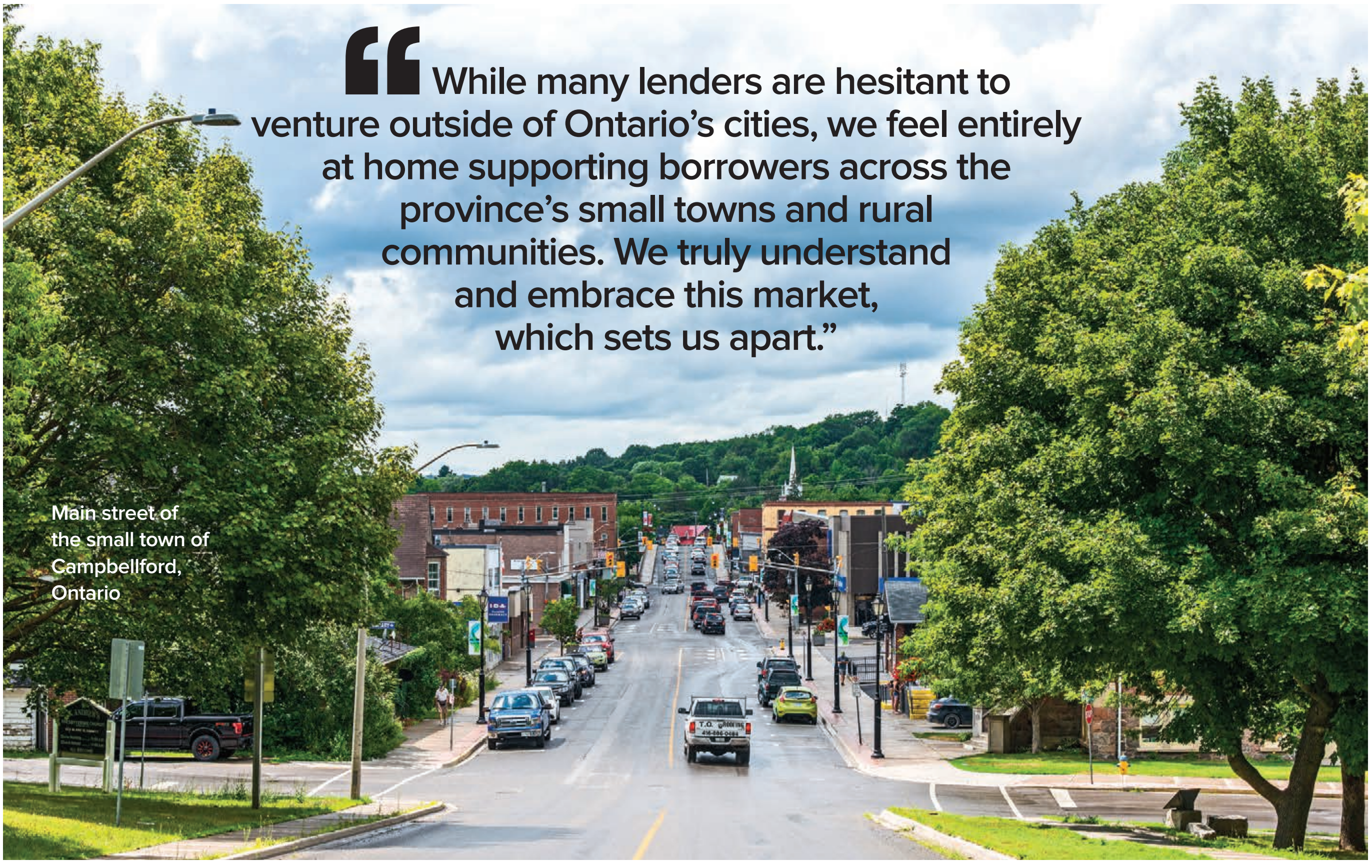
We also incorporate common sense as a key part of our underwriting process. We take the time to understand the full story behind a prospective borrower's personal and financial situation so that we can make a fair and informed decision on whether to lend.

Our focus on the rural market is another important differentiator that has helped Pillar thrive. While many lenders are hesitant to venture outside of Ontario's cities, we feel entirely at home supporting borrowers across the province's small towns and rural communities. We truly understand and embrace this market, which sets us apart.

None of this would be possible without trust, which is really the fundamental driver of our success. We have built and sustained a thriving business over the decades because we have earned the trust of brokers, borrowers and investors. When we make a deal, the other party knows that we will deliver what we promised. This kind of trust and goodwill is essential for the long-term success of a business.

**CMB: Pillar describes itself as a "solutions-based lender" – what does this mean?**

**MR:** This means that we work closely with



> "While many lenders are hesitant to venture outside of Ontario's cities, we feel entirely at home supporting borrowers across the province's small towns and rural communities. We truly understand and embrace this market, which sets us apart."

Main street of the small town of Campbellford, Ontario

brokers to come up with flexible solutions that allow borrowers to secure a mortgage when other lenders might simply say no. We have various tools at our disposal to customize our mortgages to borrowers' needs, whether that's adjusting amortization periods, interest rates or payment terms.

For example, with construction mortgage lending, we recognize that building a new home often involves unexpected hiccups or delays. This is problematic if the lender has a rigid draw schedule. Our solution to this challenge involves allowing an unlimited number of draws so that the borrower can keep the project moving forward even if the construction plans change along the way.

**CMB: Do you see any dangers or concerns from fintech in the sphere of private lending?**

**MR:** As a multi-trillion-dollar industry, real estate is the largest investment sector in the world. Yet despite its size and prevalence, real estate has seen far less technological and fintech disruption compared with other investment sectors. I don't believe this can continue forever.

Banks are already making some use of big data and fintech innovations to make decisions and drive their business. They recognize that data is a currency. And we're starting to see alternative lenders make some progress in this area as well. Nonetheless, the human part of the business remains crucial.

Overall, I think it's an exciting time for the real estate industry. Going forward, the big question is who will run from technology and who will embrace it, and how will the latter balance the potential of technology with the need for on-the-ground human involvement.

**CMB: What kind of changes do you see for the mortgage broker channel ahead?**

**MR:** Technology has been and will continue to be disruptive. For example, Realtors were previously able to derive power and generate value from their control of real estate sales data. Today, this information is readily available for anyone to access. Online mortgage rate calculators and comparison sites have similarly shaken things up.

For the mortgage industry, this disruption is forcing market players to take a look in the mirror and determine where they are best positioned to add value. With borrowers having easier access to information, the role of the mortgage broker is shifting more toward relationship-building and problem-solving.

Technology can now facilitate many of the functional aspects of the mortgage industry, but there continues to be an important role for brokers to help borrowers navigate complexity and make sound decisions based on their needs. Technology is not something that mortgage brokers should fear; instead, they should view it as an opportunity to increase their focus on the areas where they can provide greater benefits.

**CMB: How does the current low-interest-rate environment affect mortgage investing and borrowing?**

**MR:** We've been talking about bubbles in the real estate sector for more than a decade, yet I don't see any reason currently for interest rates to rise. I think it's going to remain a low-rate environment for some time, so we need to adjust to this reality. I also believe in doing business based on clear principles and sound practices, and the importance of this doesn't change based on the state of the market or the movement of interest rates. MB

# WHY RENT CONTROLS ALWAYS BACKFIRE

## Renters remain the biggest losers in rent-controlled cities


**BY LIVIO DI MATTEO**

Housing has been a big issue in this fall's federal election campaign. With high housing prices in most major centres creating more difficulties for first-time homebuyers, there has been a shift to renting – but even here, shortages have developed.

Even smaller cities such as Charlottetown and Kitchener are seeing shortages of affordable rental units with the vacancy rate in Charlottetown bottoming out at 0.2 per cent.

So why is this happening? Why are many Canadian would-be renters facing very low vacancy rates? Two reasons: rising demand and tight supply. And rent controls only exacerbate the situation.

Anyone who has taken (and understood) a basic economics course should be familiar with the basic flaws of rent control. In the short-term, rent controls put the rent growth rate of "controlled" units below the market-determined growth rate, which leads to excess demand at the lower rents. Given a fixed supply of units in the short term, this leads to a small shortage of units.

In the long run, however, there's a supply-side response to lower rents that results in relatively fewer new units being built and a failure to maintain existing ones. Combined with population and income growth, which fuel rising demand, the shortage is exacerbated.

A paper published in the September 2019 issue of the *American Economic Review*, by Rebecca Diamond, Tim McQuade and Franklin Qian, on the effects of rent control in San Francisco is the latest evidence yet of how rent controls in the long term impact tenants, landlords and even economic inequality.

San Francisco, like many other North American cities in the 1970s, imposed rent control in 1979 on all standing buildings (with five or more units) though new construction was exempt along with smaller multi-family buildings (although this exemption was removed in 1994). The authors make use of this 1994 legal change to compare a subset of suddenly rent-controlled San Francisco buildings relative to another set that were left without the change.

As a result, tenants covered by rent control remained in their units longer than those without rent control, slowing mobility to other housing over time and reducing apartment supply. At the same time, affected landlords responded over time by shifting resources to other real estate by converting their buildings to condos exempt from rent controls.

In the decade after this change, the authors found that this rent control change reduced renter mobility by 20 per cent while affected landlords reduced their rental housing supply by 15 per cent. The conversion to higher-end condominium buildings in turn attracted more high-income people to the San Francisco area, which in turn exacerbated income inequality given the reduced mobility of lower-income people in the rent-controlled units.

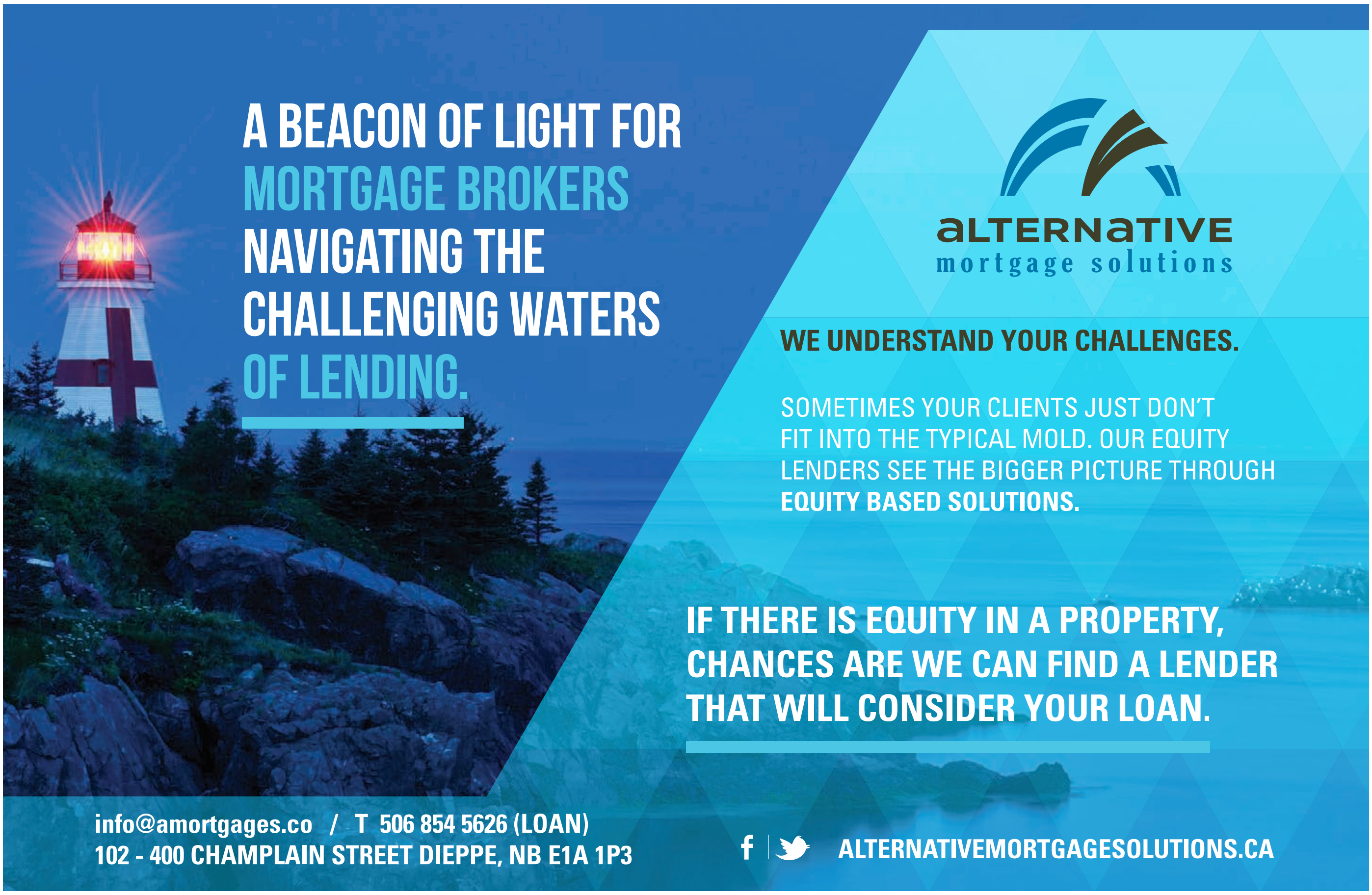
The lessons for Canada's major cities are obvious. Rent control combined with rising demand will only make the rental situation worse. In cities such as Toronto and Vancouver, the move away from apartment construction and towards condos is already well under way (although the Ford government in Ontario last fall eliminated rent control for new rental units).

All that condo construction is a response to incentives that, over time, has eroded the supply growth of affordable rental units. The solution is to relax rent controls and provide tax incentives to developers to build new apartment units, to increase the supply of rental units and make renting more affordable.

The sooner this is done, the sooner the benefits will come to renters, landlords and cities interested in mitigating economic inequality. MB

---

*Livio Di Matteo is a Senior Fellow at the Fraser Institute and Professor of Economics at Lakehead University in Thunder Bay, Ont. This article originally appeared in Fraser Forum, the Fraser Institute blog. More at* fraserinstitute.org


A BEACON OF LIGHT FOR
MORTGAGE BROKERS
NAVIGATING THE
CHALLENGING WATERS
OF LENDING.
ALTERNATIVE
mortgage solutions
WE UNDERSTAND YOUR CHALLENGES.
SOMETIMES YOUR CLIENTS JUST DON'T FIT INTO THE TYPICAL MOLD. OUR EQUITY LENDERS SEE THE BIGGER PICTURE THROUGH EQUITY BASED SOLUTIONS.
IF THERE IS EQUITY IN A PROPERTY, CHANCES ARE WE CAN FIND A LENDER THAT WILL CONSIDER YOUR LOAN.
info@amortgages.co / T 506 854 5626 (LOAN)
102 - 400 CHAMPLAIN STREET DIEPPE, NB E1A 1P3
ALTERNATIVEMORTGAGESOLUTIONS.CA


# A NEED FOR SPEED

## Troy Resvik on his 355-horsepower customized Audi

BY **LISA GORDON**

**IN THIS ISSUE OF *CANADIAN MORTGAGE BROKER***, *we're rolling out a fun new feature called "Brokers off the Clock." In every issue, we'll ask a mortgage broker to tell us what they most like to do when they're not behind a desk.* ▪ *Be it a passion for cars, travel to exotic destinations, working with animals, or community volunteering, we want to know how you unwind!* ▪ *In this issue, we chat with Troy Resvick, CMBA past president, about his favourite set of wheels.* ▪ *Would you like to be profiled in a future edition?* Contact info@cmba-achc.ca

**TROY RESVICK**
Past President, CMBA-BC
Managing Partner/Senior Mortgage Advisor at Invis – Resvick & Associates Mortgage Advisors

**CANADIAN MORTGAGE BROKER (CMB): Tell us how you like to unwind.**

**Troy Resvick:** I love getting behind the wheel of my car, a 2014 Audi S4 Technik in Brilliant Black.

**CMB: Why do you love driving this car?**

**TR:** I love the fact that it has the function and the fashion. It's a stylish-looking car, but it also has the supercharged 3.0L V6 and the horsepower and handling to go from being the daily driver to being track-ready very quickly. It has a lot of playfulness in it. It's a fun vehicle to drive – it's very therapeutic after a stressful day in the mortgage industry!

**CMB: What bells and whistles does it have?**

**TR:** The car is fully loaded with every


**"I've got another car on order with Audi, but I don't know if I'll get rid of this one."**

option you can get, including seven-speed, dual clutch DSG (direct-shift gearbox) transmission, with paddle shifters. You can put it in manual mode and drive it using just the shifter or the paddles, or sport mode, which stiffens up the suspension and pushes the engine up to performance modules. It's very customizable. I love the interior. It's trimmed with carbon fibre and has what they call the "Panda" two-tone interior, black leather seats with silvery-white insets.

**CMB: What have you done to make this car your own?**

**TR:** The horsepower from the factory was 333, and it's about 355 right now. I've done a few things to it. I've upgraded to braided stainless steel brake lines and cross-drilled and slotted rotors with Hawk HPS 5.0 performance brake pads – because if you need to go fast, you need to stop faster! I also put in an AWE Cat-Back exhaust system, H & R Sport springs for a little lower stance, and a set of ABT 19-inch aftermarket wheels.

**CMB: Would you say you're a speedster or a cruiser?**

**TR:** Definitely a speedster!

**CMB: What are some of the fun things you've done with this car?**

**TR:** Show and shines are typically what I go to. I was president and co-founder of Audi Club Western Canada and just stepped down at the beginning of this year. We have probably five or six different events a year, including cruise and drives, and performance driver education (PDE) where you have opportunities to go onto tracks or open facilities with professional instructors.

**CMB: Do you ever let anyone else drive your car?**

**TR:** I'm not really picky about things like that. I've had a few friends with whom I've swapped cars for the weekend. It's not that rare to let someone else drive it, but it's definitely not a rental!

**CMB: How long do you think you'll keep this vehicle?**

**TR:** I've got another car on order with Audi, but I don't know if I'll get rid of this one. I'll probably just get some more aftermarket parts and make it a toy car. I have a 600-square-foot detached shop on my property and I come from a couple generations of millwrights and auto mechanics, so I've inherited a lot of tools. Although I don't get into any major engine rebuilding, I handle a lot of the bolt-on parts myself. MB


CHIPReverseMortgage™
by HomeEquity Bank
Are you adapting to a changing market?
Don't miss out on your opportunity to capitalize on the needs of Canada's fastest-growing demographic.
A trend you don't want to ignore
23% of the Canadian population will be 65+ by 2036
75% of Canadians 65+ own their home
93% of Canadians 65+ want to continue living in their home throughout retirement
HomeEquity Bank has a solution. Contact your BDM by visiting CHIPAdvisor.ca/CMB
REMEMBRANCE DAY 2019
WE REMEMBER
HomeEquity Bank is The Proud Presenting Partner of the Royal Canadian Legion's Digital Poppy Fund. Visit MyPoppy.ca to share your Digital Poppy and honour Canadians who served.

# CLIENT VS. CUSTOMER

## Get to know when one becomes the other, and what your responsibilities to them are

BY **MALCOLM ECCLES**

Strictly defined, a customer is someone who buys goods or services from a store or business. The word "client" can also mean "customer" according to most dictionaries. But it has a separate definition when someone is receiving professional services. In business, the two terms are often applied differently based on the types of relationships built.

Customers could be one-time or repeat patrons, but generally lack loyalty to the company providing the products or services. Businesses such as retail stores, restaurants, service stations, supermarkets, banks and amusement parks typically consider their patrons as customers. Patrons' needs are met by the fixed-form goods and services priced to sell.

Where products or services need a lot of personalization and customization, patrons are often thought of as clients. Closer professional relationships are built with clients over time. Businesses such as law offices, graphic design firms, talent agencies, accounting firms, health-care providers and mortgage brokerages offer ongoing advice and specialized solutions to clients.

So a definition could be "customers buy

something from others," while "clients are under the protection of others."

On an average day a broker or agent may receive a call or inquiry from someone asking for a quote on mortgage rates or wanting to discuss their situation. So far all is good. What does the mortgage professional owe this person? They owe them the right to competent, qualified, knowledgeable information and advice. And as long as the mortgage professional does not mislead the person, they are extending their best attempts at professional instruction. The person can best be defined as a customer at this time.

If that individual chooses to actually formally retain that broker/agent to assist them to obtain financing, by way of an electronic or personal application for financing, they are now a client. What does this mean to a practicing mortgage professional?

When that individual becomes a client an absolute cavalcade of responsibilities may fall upon the shoulders of the mortgage broker/agent.

Recognizing that, the mortgage professional may assume fiduciary duties even when dealing with an unnamed customer. The broker/agent must deal with them in a capable, proficient manner, without being misleading or deceitful. This responsibility flows over to the patron when they become a client. But in addition to fiduciary duties, the duty of care and the requirement to meet a high standard of care also becomes a legal obligation upon the mortgage professional.

> “When that individual becomes a client, an absolute cavalcade of responsibilities may fall upon the shoulders of the mortgage broker/agent.

## WHAT IS THE DUTY OF CARE?

The duty of care responsibility falls upon the professional to take responsible efforts to avoid injury (financial or otherwise) to the patron by his/her actions or omissions of action or advice.

## WHAT IS THE STANDARD OF CARE?

The standard of care obligation is the level of care that the professional should extend their duty of care to their patron to the standards that is expected of their profession.

## WHY DO THESE LEGAL RESPONSIBILITIES MATTER?

The client is generally the naïve party in the mortgage transaction. They place their faith and trust in the mortgage professional to represent them and to manage their financial requirements to the best of the broker/agent's skills. If at a later point it is discovered that the broker/agent did not perform their duties to the best of their abilities and they failed in meeting the standard expected of them regarding "client suitability" then a lawsuit may very well ensue! This generally results to the detriment of the broker/agent and the brokerage!

In summary, when a mortgage broker/agent is dealing with a member of the public, whether it is a simple inquiry or an actual retained client, they have responsibilities and obligations to that party. Failure to assume and exercise those responsibilities could result in legal consequences.

# CMBA Advertisers Index



CANADIAN MORTGAGE BROKERS ASSOCIATION

*EACH ABOVE ENTITY IS SOLICITING BUSINESS ONLY IN THE LOCATIONS INDICATED FOR THAT ENTITY


Rick can park a rig in the most impossible loading dock.
BUT PLUMBING?
Not so much.
When your client is just managing to make ends meet, unexpected repair costs are never welcome. That's why we arranged for Rick and his family to get complimentary coverage with our Home Warranty program. Systems like Central and Water Heating, Air Conditioning, Electrical and Plumbing are safe with us.
Helping you help your clients
Visit HaventreeBank.com
Haventree Bank