Office of the Superintendent of Financial Institutions Canada
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Remarks by Carolyn Rogers
Assistant Superintendent
Regulation Sector

Office of the Superintendent of Financial Institutions Canada (OSFI)

Before the House of Commons Standing Committee on Finance

Related to the study of:
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Thank you, Mr. Chair. I will begin by thanking the Committee for the invitation to be here today.

The health of the housing sector is important to the Canadian economy, and to the health of Canada's financial sector, and we welcome the opportunity to participate in the Committee's study.

The Office of the Superintendent of Financial Institutions (OSFI) is Canada's prudential regulator and supervisor of federally regulated financial institutions. Our oversight includes banks, insurance and trust companies, and private pension plans. OSFI's mandate is to protect the depositors, policyholders and creditors, of those institutions, while allowing them to compete and take reasonable risks.

Approximately 80 per cent of the mortgages issued in Canada are held by financial institutions under OSFI's supervision, and residential mortgages represent almost 30 per cent of the assets held by banks under our supervision. Our responsibilities also include monitoring and examination of the three mortgage insurers operating in Canada, including the Canada Mortgage and Housing Corporation (CMHC).

Accordingly, OSFI keeps a close eye on risks impacting the mortgage market such as underwriting and risk management practices of lenders and mortgage insurers, as well as broader risks including economic conditions and the interest rate environment.

At a policy level, OSFI fulfills its mandate through two key activities: the setting of principles and standards for sound risk management in financial institutions in the form of guidelines and other policy directives, and by setting minimum requirements for the quantity and quality of capital that financial institutions must hold.

OSFI's expectations with respect to risk management practices in the residential mortgage market are made clear in two separate guidelines — Guideline B-20, which sets out principles for mortgage lenders, and Guideline B-21, which sets out principles for mortgage insurers.

Minimum capital requirements for banks and insurers are evaluated by OSFI on an ongoing basis and are designed to ensure that lenders and insurers have sufficient capacity to absorb severe but plausible losses.

At an operational level, OSFI fulfills its mandate through a rigorous supervisory regime that combines continual monitoring and an examination process to ensure that financial institutions comply with our guidelines and continue to hold adequate capital and liquidity given their respective risk profiles.

Like all financial regulators OSFI has worked hard in recent years to incorporate the lessons of the financial crisis into our policies and practices.

Key among these lessons was that vulnerabilities that build up in the residential mortgage markets, such as stretched housing valuations and high rates of consumer debt, can lead to financial instability and sharp contractions in economic activity. Deteriorating lending standards and financing structures with misaligned incentives can fuel these vulnerabilities.

Since the financial crisis OSFI has made a range of adjustments to both our policy guidelines and our capital requirements for mortgage lenders and insurers. These adjustments reflect lessons learned and the vulnerabilities evident in the Canadian market.

Recent examples of these changes include requirements for certain mortgage lenders to hold additional capital for mortgages originated in markets where housing price increases are significantly outpacing income levels. We also recently adjusted the formulae mortgage insurers must use to calculate required capital to incorporate a wider set of risk indicators.

In addition to policy changes, OSFI has also increased its supervisory intensity of mortgage lending and tightened our expectations around mortgage underwriting practices.

Most recently, this past summer, OSFI issued a letter to the industry reminding them not be over-reliant on the collateral value of housing assets, and to be diligent in assessing a borrower's willingness and ability to make payments on a timely basis. The letter was followed up with a series of targeted examinations.

These are just a few examples of OSFI's work with regulated entities designed to promote prudent mortgage lending and insurance practices, thereby increasing the resilience of Canadian financial institutions to adverse shocks and ensuring they are prepared for the unexpected.

Before I conclude, I would add that while OSFI is an independent regulatory agency, it does not operate in isolation. At the federal level, OSFI cooperates with key federal agencies, notably the Department of Finance, the Bank of Canada, the Financial Consumer Agency of Canada, and Canada Deposit Insurance Corporation.

Although each player has a distinct role and area of focus, we all work in coordination to maintain a strong and stable financial system, a system in which Canadians can place their trust.

Thank you for your time today, I would be pleased to answer any questions the Committee might have.