January 30, 2017

Standing Committee of Finance
Parliament of Canada
Ottawa, Ontario
K1A 0A9

Dear Committee Members:

Re: Canadian Real Estate Market and Home Ownership

The Canadian Mortgage Brokers Association (CMBA) wishes to make submissions to your committee on the subject of the "Canadian Real Estate Market and Home Ownership". We understand that the Committee has adopted a motion to undertake a comprehensive study of:

- issues surrounding the Canadian residential real estate market;
- the impact of the housing market on the Canadian Financial System; and
- the challenges surrounding access to residential home ownership.

About the CMBA

The CMBA is an inter-jurisdictional umbrella association consisting of provincial mortgage broker associations in Canada, which include associations in Atlantic Canada (Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland and Labrador), Ontario and British Columbia. We estimate that mortgage brokers in Canada fund over $ 70 billion in mortgages annually. According to the Canada Mortgage and Housing Corporation (CMHC) over 55% of first time buyers use a mortgage broker to finance their purchase. Mortgage brokers therefore, represent a vitally important sector of the Canadian economy, and are directly connected to home buyers, including those who have "challenges surrounding access to residential home ownership". Accordingly, the CMBA is uniquely qualified to comment on the subject of the Committee's study.

Housing as a Necessity, and Affordable Housing a Priority

It goes without saying that people have to live somewhere: if they are not able to purchase housing, they must rent. In doing so, they are no longer paying down a mortgage on their appreciating asset, but instead that of their landlord. However, most Federal Government policies, such as latest crop of federal mortgage rules, which are intended to promote economic stability by curbing consumer debt, only have only a singular, narrow focus on the economy. These policies fail to consider that housing affordability problems impact both lower and middle income households, renters, first time buyers, and even established home owners.

Persons without the ability to purchase a home must rent at time when vacancy rates are at an all time low and rents are accordingly, at an all time high. In a November, 2016 Canada wide rental market report from CMHC, it was found that:

- Saskatoon (10.3%), St-John's (7.9%), Edmonton (7.1%), Calgary (7.0%) and Saguenay (7.0%) are the major Canadian centres with the highest purpose built rental housing vacancy rates;
- Victoria and Abbotsford-Mission (0.5%), Kelowna (0.6%) and Vancouver (0.7%) are the major Canadian centres with the lowest purpose built rental housing vacancy rates;

- On average across Canada's 34 larger centres, rental rates for a two-bedroom apartment rose by 2% compared to last year; and
- The average rent for a two bedroom apartment is $995/month.

In many communities, home ownership provides a more permanent and cost effective alternative to rental housing. Government policies which are intended to curb Canadians from incurring mortgage debt fail to recognize that renters incur a significant financial burden without the benefit of owning an appreciating asset.

Government policies and programs specifically intended to support housing needs have predominately focussed on providing social housing, but few government initiatives support the majority of Canadians who wish to access market housing. Federal Regulatory changes to mortgages in recent years, and most notably those implemented October 2016, have made it more and more challenging for Canadian consumers to secure mortgage financing and enter the middle class. To offset these changes, and delayed market entry, the provinces (IE: Newfoundland, New Brunswick, Ontario, British Columbia) are developing programs to assist first time buyers entering the markets. For example, British Columbia introduced a program in December 2016 to fund second mortgages for first time home buyers who qualify for CMHC insured mortgages for homes purchased under $750,000. Clearly, government policies, such as new CMHC stress testing rules on portfolio insured mortgages, need to be balanced with policies and government action which make market housing accessible to Canadians.

<u>Factors Contributing to Housing Costs and Affordability Challenges</u>

Housing affordability and home ownership are linked by the need for accessible mortgage funds. Affordability is also linked to upward pressures on housing costs. Many factors serve to increase the cost of housing, which are all ultimately born by consumers, either through increased mortgage principal amounts or increased monthly rents.

The factors that impact housing costs and affordability include the following:

1. **Increased costs for new housing developments**

Housing development activity is essential to help alleviate housing shortages and increase the housing supply. However, the cost of development and construction has continued to rise for a number of reasons, such as:

- Building Code- as improvements or changes are made to municipal building codes, constructions costs inevitably increase. The end user gets a better housing product but the developer passes those costs onto the buyer.

- Municipal fees- Municipal fees are charged for building and development permits. Development cost charges, school fees, road fees, and other charges can amount to as much as 25% of the budget to construct a development. It is challenging for developers to finance projects with high "soft costs" that may not impact land value due to the risk of non-completion and concern about recovery from lenders. Developers often need to sink many of their own dollars into paying for municipal costs; if they do not have the funds, often developments do not get built.

- Municipal Bylaws- Many municipal bylaws require developers to dedicate land to the municipality for schools, parks and other municipal services. Land dedication for municipal use can be extraordinarily costly and are ultimately passed on to the end user.

- Slow and frustrating development process- Municipal development approvals can take years to obtain. It can take as long as five to seven years to bring construction product to the market, over which time the land and development carrying costs are passed on to end buyers.

- Urban planning and livable community concepts – Urban planners seek to create "livable community concepts". Integrated land development planning results in vastly improved master planned communities. While this is very laudable long term goal, it like other planning initiatives, does come at a cost which is passed onto home buyers.

2. High ratio insurance fees

Most Canadians finance housing costs by way of a mortgage. High ratio mortgage insurance is necessary to mitigate the risk of mortgage defaults. However, stringent qualifications guidelines for these high ratio mortgages has now mitigated that risk.

Although mortgages rates are at historical lows, the high ratio insurance premiums for home buyers with minimum down payments continues to rise. Premiums have steadily risen over the past five years, and it is not clear how these increases are justified. CMHC should not profit from insurance premiums and should justify each increase by ensuring the program is revenue neutral.

CMHC recently announced that high ratio premiums will be increasing on March 17, 2017 (See Appendix A, Table 1).

According to the Canadian Real Estate Association (CREA) the average home purchase in Canada was $474,590 in September 2016. Remove the markets of Toronto and Vancouver, and this decreases to $358,884.

Working with the national average of $474,590, and the default premium increase effective March 17, 2016 the cost of home ownership has been impacted as noted in Appendix A, Table 2.

In the attached example (Appendix A), a 1st time home buyer using the BC second mortgage down payment assistance program will experience an increase in insurance premiums from 3.85% to 4.50%. In dollar terms this would be an increase from $18,288 to $21,375. To put this premium cost in perspective, the buyer's 2nd mortgage would be for $12,500.00. Their insurance premium is 171% of the down payment assistance received from the BC government 2nd mortgage program and 171% of their own down payment funds. From this perspective, the insurance premiums are extraordinarily high and appear usurious.

Some public commentary has been critical of buyers using second mortgages to assist with obtaining a conventional mortgage in lieu of obtaining a single high ratio insured first mortgage, and has suggested that this is a dangerous practice that will sink buyers deep in debt. However, given the challenges around securing high-ratio mortgages, this is being considered by additional provinces and appears to be a legitimate and desirable alternative.

3. Regulatory change

Regulatory change has an impact on affordability. The CMBA wrote to the Honourable Ministers, Bill Morneau and Jean-Yves Duclos on October 31, 2016 to express concerns over mortgage rule changes which were implemented at that time. For reference, we attach a copy of that letter.

The concerns raised in the letter have been become a reality. For instance, various branches of the Federal Government, including the Department of Defence and RCMP, as well as private companies, often require their employees to relocate. Mortgage brokers have witnessed firsthand the impact of the new stress test qualifying rate on military members, and others, who needed to sell their home at their last post, but have been unable to purchase a home at their new post. Under the new qualifying rules, these individuals are unable to qualify for a mortgage large enough to purchase a home in the vicinity of their relocation. This inability to buy means they are have no choice but to become a tenant. Paying high rents at a time of record vacancy rates, means that they will be challenged to save the necessary funds for a down payment for a future home purchase. In addition, relocation benefits, such as funding assistance for closing costs, will simply expire and have no value to the employee.

Other unintended consequences have been the impact of lender appetite for the provision of mortgage financing in rural markets. With many lenders reducing their geographical boundaries for lending and/or withdrawing from these markets entirely, mortgage consumers have now fewer options and potentially higher rates to offset the perceived risk of lending in these areas.

Recommendations for Improving Access To Home Ownership~~:~~

The CMBA urges the government to take action to remove barriers to housing affordability. However, it should be recognized that: mortgage lending practices in Canada are amongst the best in the world, qualification criteria is already strong, mortgage defaults are at all-time lows and insured portfolios (both high-ratio and conventional) attract investors which creates competition, choice and ultimately, is a win for Canadian Mortgage Consumers.

Specifically, we make the following recommendations:

- Exempt all insured mortgages with fixed interest rate terms of 5 years or greater from the requirement to qualify borrowers at the Bank of Canada's benchmark rate and permit qualification at the true contract rate associated with the term.

- Permit first time home buyers to amortize insured mortgages over 30 years, instead of 25 years.

- Modify the requirement of limiting amortizations on insured mortgages to 25 years, by enabling borrowers with a loan to value ratio of 80% or less to amortize up to 30 years.

- Exempt all insured mortgages with principal amounts of $499,000 or less from the requirement to qualify borrowers at the Bank of Canada's benchmark rate, and permit qualification at the true contract rate associated with a fixed term of 5 years or more.

- The Bank of Canada benchmark rate should be the mode average of the 5 year posted rate of all federally regulated lenders, and not just the "Big 6".

- Find ways to require and encourage all levels of government to remove red tape, excessive costs and delays in approving housing development. In its 2016 budget, the Federal Government has provided an unprecedented level of funding to municipalities for infrastructure improvements, housing and transit. Consider tying municipal funding grants and investment to a municipality only if it has a comprehensive red tape reduction strategy in place to efficiently deliver services to the public. Work with the Federation of Canadian Municipalities to make local government red tape reduction a priority. As a corollary, all levels of government need to look at the supply side of housing rather than just regulations to curb demand.

- Reduce high ratio insurance premiums so that they are revenue neutral.

- Recognize that housing becomes more affordable when consumers can better afford mortgage costs due to having less unsecured credit. Focus efforts to curb Canadians from overextending unsecured credit, such as credit card debt, by prohibiting collateral mortgages to be default insured. Collateral charges limit consumer options at time of term maturity and also permit, with ease, the transfer of lender unsecured debt to the collateral charge.

- Ensure that lenders of unsecured credit qualify borrowers on income and reasonable debt ratios, and not just based on credit scores and complimentary product matches to existing portfolios. (IE: Unsecured line of credit or credit card with mortgage.)

Thank you for the opportunity to present submissions to your committee on the subject of housing affordability. Please know that any one of the undersigned are available for further discussion on this subject.

Yours truly

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Executive Director, the Canadian Mortgage Brokers Association

Ajay Soni
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Appendix A
CMHC Insurer Premium & Related Impact

Table 1:

Loan-to-Value Ratio	**Standard Premium (Current)**	**Standard Premium (Effective March 17, 2017)**
Up to and including 65%	0.60%	0.60%
Up to and including 75%	0.75%	1.70%
Up to and including 80%	1.25%	2.40%
Up to and including 85%	1.80%	2.80%
Up to and including 90%	2.40%	3.10%
Up to and including 95%	3.60%	4.00%
90.01% to 95% Non-Traditional Down Payment	3.85%	4.50%

Example of insurance costs as of February 1, 2017:

$500,000.00 Purchase Price
$ 25,000.00 5% Down payment

$475,000.00 Mortgage required
$ 17,100.00 Current CMHC Insurance premium 3.60%

$492,100.00 Total Mortgage

Example of insurance costs as of March 17, 2017:

$500,000.00 Purchase Price
$ 25,000.00 5% Down payment

$475,000.00 Mortgage required
$ 21,375.00 Current CMHC Insurance premium 4.50%

$494,000.00 Total Mortgage

Corresponding Impact To The Average Canadian Mortgage Consumer
Average Home Price $474,590

Table 2:

	Standard (Current)	Premium (Effective March 17, 2017)	Using BC Down Payment Assistance
Mortgage Required (95% Financing)	450 860.50	450 860.50	450 860.50
Premium	16,230.98	18,034.42	20,288.72
Total Mortgage	467,091.48	468,894.92	471,179.22
Monthly P&I	2196.13	2204.61	2215.21
Total Payments over 25 years	658,841.11	661,384.63	664,564.30
Total Interest Paid over 25 years	191,749.63	192,489.71	193,415.08

Appendix B
National Housing Overview

Province	Rent Provincial Average	Rent Provincial CMA	Provincial Average Home Price	Monthly P&I Contract Rate	Monthly P&I Benchmark Rate
Alberta	1195	1258	404,000	1869.48	2231.75
British Columbia*	1215	1450	663,000	3028.29	3615.12
Manitoba	1033	1068	276,000	1277.17	1524.66
New Brunswick	763	958	165,000	763.53	911.48
Newfoundland	865	958	253,000	1170.74	1397.61
Nova Scotia	1008	1063	222,000	1027.29	1226.36
Ontario*	1154	1327	518,000	2392.63	2856.27
Prince Edward Island	852	872	180,000	832.94	994.35
Quebec	751	808	285,000	1318.82	1574.38
Saskatchewan	1053	1109	303,000	1402.11	1673.82
National Average	962	995	481,000	2225.80	2657.11

- Rental information provided by the Canada Mortgage & Housing Corporation (CMHC) as of October, 2016
- Rental CMA is the primary "Census Metropolitan Areas"
- Provincial Average Home Prices provided by the Canadian Real Estate Association (CREA) as of September 2016.
- Contract Rate = 2.94% ; Benchmark Rate = 4.64%
- With the exception of British Columbia and Ontario, monthly P&I are based on 95% financing. British Columbia and Ontario monthly P&I are based on 95% of the initial $500,000 and 90% financing on the balance.

October 13, 2016

The Honourable Bill Morneau
The Honourable Jean-Yves Duclos
House of Commons
Ottawa, Ontario K1A 0A6
Jean-Yves.Duclos@parl.gc.ca;
Bill.Morneau@parl.gc.ca

Dear Ministers Morneau and Duclos:

Re: New Mortgage Rules – Exemption Request and Recommendations

The Canadian Mortgage Brokers Association (CMBA) wishes to address some concerns with the new mortgage rules announced by the Honourable Minister Morneau on October 3, 2016, and to propose specific solutions to address housing affordability.

CMBA is an association representing over 4,000 mortgage brokers and agents, their lender and service partners and millions of mortgage consumers throughout Canada.

Recommendations for Housing Affordability

The overall goal of the new mortgage rules is to stress test borrowers to ensure that they can afford financing should interest rates rise. While the CMBA acknowledges that this is an important goal which ensures long term stability in the housing market, the new rules will have a profound impact on reducing competition in the mortgage market and raising mortgage costs for borrowers. Requiring that all insured homebuyers qualify for mortgage insurance at the Bank of Canada's conventional five-year fixed posted rate has been estimated by the mortgage industry to reduce the purchasing power of buyers by as much as 20%[1]. This change will impact the millennial generation the hardest and magnify current housing affordability challenges for this segment of the population multifold.

Accordingly, CMBA is of the view that consultation with stake holder groups should have occurred prior to adoption of the rules. Mortgage brokers in Canada fund approximately $70 billion annually, and are key stakeholders in decisions impacting mortgage borrowers.

[1] See BCREA economist, Cameron Muir's analyses at http://www.bcrea.bc.ca/docs/economics-forecasts-and-presentations/millennials-bear-the-brunt-of-fed-policy-changes.pdf

Prime Minister Trudeau, in his November 2015 mandate letters to the Department of Finance and CMHC advised of the following mandate: “to invest in growing our economy, strengthening the middle class, and helping those working hard to join it.” In addition, and specifically in relation to CMHC, the Prime Minister provided a mandate to undertake a review of escalating home prices in high-priced housing markets and to consider all policy tools that could keep home ownership within reach for more Canadians.

In keeping with the additional mandates of the Department of Finance and CMHC to strengthen the middle class and to ensure housing affordability, the CMBA proposes the following:

> **Recommendation 1 and Exemption Request:** Exempt all insured mortgages with terms greater than 7 years from the requirement to qualify borrowers at the Bank of Canada’s conventional five-year fixed posted rate, and permit qualification at the true contract rate associated with the term. Contract rates on a conventional 10 year term are already relatively close to the posted rate of 4.64, being approximately one per cent lower. There is also inherent stability in longer term mortgages, as borrowers do not experience fluctuations in mortgage payments as interest rates change. This means that stress testing borrowers of longer term mortgages is not necessary, and exempting them from the mortgage rules would help the government meet its mandates to make housing more affordable and strengthen the middle class.
>
> The CMBA notes that Canada is unusual in its lack of availability of longer term mortgages in the mortgage market. By contrast, the majority of mortgages in the United States (and numerous other countries) are for terms of 15 or 30 years[2]. Economic stability can be achieved by providing mortgage borrowers with a greater array of term options, including long term mortgages.
>
> **Recommendation 2:** Permit first time home buyers to amortize insured mortgages over 30 years, instead of 25 years. A one-time exception to the 25-year amortization rule for first time home buyers would balance the need to make home ownership affordable with the need for Canada to have a stable economy. First time home buyers have the most significant challenge in affording housing, and may be just starting out in employment with more limited income to both save for a down payment or make monthly mortgage payments.
>
> **Recommendation 3:** Modify the requirement of limiting amortizations on insured mortgages to 25 years, by enabling borrowers with a loan to value ratio of 70% or less to amortize up to 30 years. Borrowers with loan to value ratios of 70% or

[2] For a discussion on the comparison of international mortgage markets see Richard K Green, Susan M Watcher, “The American Mortgage in International and Historical Context” http://repository.upenn.edu/cgi/viewcontent.cgi?article=1000&context=penniur_papers

less are low risk, and making them qualify with more stringent requirements serves a negligible benefit, and poses little risk to economic stability.

Recommendation 4: Exempt all insured mortgages with principal amounts of $499,000 or less from the requirement to qualify borrowers at the Bank of Canada's conventional five-year fixed posted rate, and permit qualification at the true contract rate associated with a 5 year fixed term. Many lenders will only lend in rural or smaller urban areas of Canada using portfolio insured mortgages and as a result, the new rules will disproportionately impact home owners or potential borrowers hoping to acquire housing in smaller markets. This exemption would help ensure affordability in areas outside major city centers where escalating house prices are not an issue.

Impact of the New Mortgage Rules on Housing Affordability

In light of the mortgage rule changes which seriously worsen the housing affordability crises in Canada, the CMBA implores the Federal Government to take immediate action on its mandates to strengthen the middle class and make housing more affordable by amending the new mortgage rules as recommended above.

We would be pleased to meet with you to discuss the above recommendations in more detail.

Thank you in advance for your attention to this matter.

Sincerely,

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Executive Director, the Canadian Mortgage Brokers Association

Ajay Soni
President, Canadian Mortgage Brokers Association – BC

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