Written Submission for the Pre-Budget Consultations in Advance of the 2019 Budget

By: Mortgage Professionals Canada

2005 Sheppard Ave E, Suite 401, Toronto, ON M2J 5B4
t: 416.385.2333 | 888.442.4625 ■ info@MortgageProsCan.ca ■ MortgageProsCan.ca

List of Recommendations

1. That the government implement an exemption to the Guideline B-20 stress test for mortgage holders who have completed and met the obligations of their original mortgage term and who wish to switch to a different lender upon renewal. Additionally, individuals who qualified prior to the implementation of B20 who need to port their mortgage to a different property should also be exempted if no additional funds are negotiated.

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

3. 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.

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

5. That the government implement an indexing to inflation of the RRSP Homebuyers' Plan.

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

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

8. That the government agree not to implement the proposed risk sharing policy for insured mortgages.

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

2005 Sheppard Ave E, Suite 401, Toronto, ON M2J 5B4
t: 416.385.2333 | 888.442.4625 ▪ info@MortgageProsCan.ca ▪ MortgageProsCan.ca

Body of Submission

Mortgage Professionals Canada 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 the country whose interests we represent to government, regulators, media and consumers. Together, we are dedicated to maintaining a high standard of industry ethics, consumer protection and best practices.

The mortgage broker channel we represent originates more than 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, we are uniquely positioned to speak to issues impacting all aspects of the mortgage origination process.

We are pleased to lend our collective membership's recommendations for how the 2019 federal budget can ensure Canada's competiveness and help grow the middle class. We are presenting nine recommendations that, if implemented, would strengthen the middleclass, the Canadian economy, and increase competition within the Canadian mortgage market. Details are as follows:

1. *That the government implement an exemption to the Guideline B-20 stress test for mortgage holders who have completed and met the obligations of their original mortgage term and who wish to switch to a different lender upon renewal. Additionally, individuals who qualified prior to the implementation of B20 who need to port their mortgage to a different property should also be exempted if no additional funds are negotiated.*

We propose that a technical adjustment be made for consumers who have a proven history of credit worthiness, evidenced by paying all obligations as agreed through their original mortgage term period, exempting them from stress test qualification when renewing a mortgage with a different lender. 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

2005 Sheppard Ave E, Suite 401, Toronto, ON M2J 5B4
t: 416.385.2333 | 888.442.4625 ■ info@MortgageProsCan.ca ■ MortgageProsCan.ca

property, and who have not altered the terms of their mortgage at any time to increase the amount borrowed. Accelerated payments would be permitted. Similarly, individuals who qualified prior to the implementation of B20 who need to port their mortgage to a new property should also be exempted.

These individuals are responsible borrowers who have a proven track record, have not accumulated additional debt, and have prudently managed their financial obligations. They are not the high-risk borrower 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.

2. *That the government adjust the November 30, 2016 change to allow for refinances to be included in portfolio insurance at 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 keep the integrity of the vast majority of the mortgage insurance changes intact.

3. *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 for Canadians. 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.

4. *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 new cap removes eligibility for mortgage insurance for a large number of homes in Toronto and Vancouver, which are liquid markets with high income 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 policy helps ensure mortgage insurers have a balanced and competitive portfolio.

5. *That the government implement an indexing to inflation of the RRSP Homebuyers' Plan.*

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 Homebuyers' 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 middleclass.

6. *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 for the financial system and 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 that are associated with unsecured household debt, such as car loans and credit cards.

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

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

8. *That the government agree not to implement the proposed risk sharing policy for insured mortgages.*

The proposed risk sharing for government backed insured mortgages would be negative and detrimental to the financial stability, competitive position, and security of the Canadian housing market for the following reasons:

- The current system is sound, with strong foundations that promote financial stability, including robust regulation, prudential supervision of regulated financial institutions, high underwriting standards and without moral hazards.
- The proposed model will increase the costs for insured mortgages and could create significant regional price disparities.
- The proposed model could potentially increase the risk of insolvency for some lenders and fundamentally change our mandatory insured mortgage structure.

- Finally, if the government is concerned about taxpayer risk and consumer indebtedness, continuing to target the insured mortgage space with national policies will further impact first-time homebuyers who are not responsible for any distortions within the Canadian housing market.

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 from CMHC. This can help with the costly development process and ensure that the primary infrastructure is in place to assist with community planning. Additionally, it 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.