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CANADA'S HOUSING MARKETS: BENEFITS, BARRIERS AND BRINGING BALANCE

Report of the Standing Committee on Finance

Hon. Wayne Easter
Chair

APRIL 2017

42nd PARLIAMENT, 1st SESSION

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THE STANDING COMMITTEE ON FINANCE

has the honour to present its

FIFTEENTH REPORT

Pursuant to its mandate under Standing Order 108(2), the Committee has studied the Canadian real estate market and home ownership and has agreed to report the following:

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CHAPTER ONE: INTRODUCTION

On 14 June 2016, the House of Commons Standing Committee on Finance adopted the following motion:

> That the Standing Committee on Finance undertake a comprehensive study of issues surrounding the Canadian residential real estate market;
>
> That the Study focus on the impact of the housing market on the Canadian Financial System and challenges surrounding access to residential home ownership;
>
> That the Committee report on its findings and recommendations before the end of February 2017.

A. The Witnesses and the Committee's Context

Notwithstanding the reporting deadline indicated in the motion, the Committee started its study in January 2017 and, from 30 January 2017 to 22 February 2017, received testimony from witnesses representing federal entities, mortgage brokers and insurers, financial institutions and various trade associations, as well as a landowner, a potential first-time homebuyer, an economist and a not-for-profit housing corporation. Some witnesses appeared before the Committee but did not submit a brief, and others both appeared and submitted a brief; some submitted a brief but did not appear.[1]

During the study, the Committee was cognizant that Canada does not have a single housing market, but rather several markets across the country's regions. For economists, ensuring that a regional housing market is balanced involves considerations that are similar to ensuring equilibrium in any market: the relationship between demand and supply. While accepting the common notion of balance as equilibrium, the Committee – as legislators representing the nation's citizens – interprets the notion of housing market balance in Canada in a somewhat broader manner: a balanced housing market ensures access to affordable housing for the greatest number of Canadians, while maintaining stability in Canada's housing markets and in the country's financial system with a view to protecting borrowers, lenders and taxpayers.

The remainder of this chapter provides some context for the witnesses' views by identifying four federal entities that are involved in setting, overseeing and/or advising on policies and regulations relating to Canada's mortgage and housing markets. Chapter 2 discusses some of the benefits of a balanced housing market, while selected barriers to such a market are noted in Chapter 3. Finally, Chapter 4 identifies some existing and proposed federal measures that aim to – or would be designed to – bring balance to Canada's housing markets.

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1 As noted in Appendix A, 14 witnesses submitted a brief but did not appear before the Committee, 9 witnesses submitted a brief and appeared before the Committee, and 15 witnesses appeared before the Committee but did not submit a brief.

B. The Federal Advisors and Decision Makers

Canada Mortgage and Housing Corporation is typically viewed as having a key oversight role in relation to Canada's mortgage and housing markets. This federal Crown corporation was established in 1946 under the *National Housing Act*,[2] the purpose of which is to "promote housing affordability and choice, to facilitate access to, and competition and efficiency in the provision of, housing finance, to protect the availability of adequate funding for housing at low cost, and generally to contribute to the well-being of the housing sector in the national economy." Canada Mortgage and Housing Corporation uses several measures to achieve the Act's objectives, including loans and subsidies to facilitate the construction and operation of affordable and social housing, as well as providing mortgage insurance to homebuyers.

As well, Canada Mortgage and Housing Corporation has a role in First Nations and social housing. Regarding the former, it works with Indigenous and Northern Affairs Canada on housing issues. Specifically, it assists with the construction of new rental housing, the renovation of existing homes, and investments in training and other resources to help First Nations communities achieve their housing objectives. In relation to the latter, it works cooperatively with Employment and Social Development Canada to fund social housing initiatives and to address homelessness.

Canada Mortgage and Housing Corporation also works with a variety of other federal entities. For example, along with the Bank of Canada and the Office of the Superintendent of Financial Institutions, it advises the Minister of Finance about Canada's mortgage and housing markets.

As well, the Minister of Finance plays a role in Canada's mortgage and housing markets. For example, under the *Protection of Residential Mortgage or Hypothecary Insurance Act*,[3] the Governor in Council and the Minister of Finance can make regulations regarding mortgages. The *Protection of Residential Mortgage or Hypothecary Insurance Regulations*[4] are focused on mortgage lenders and insurers, while the *Eligible Mortgage Loan Regulations*[5] address mortgages. Among other issues, the latter regulations establish the minimum amount required for a down payment on a home, a mortgage's maximum amortization period, the types of mortgages that must be insured, and the maximum gross and total debt service ratio[6] that a borrower may have after purchasing a mortgage.

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2 *National Housing Act*, R.S.C. 1985, c. N-11.

3 *Protection of Residential Mortgage or Hypothecary Insurance Act*, S.C. 2011, c. 15, s. 20.

4 *Protection of Residential Mortgage or Hypothecary Insurance Regulations*, SOR/2012-231.

5 *Eligible Mortgage Loan Regulations*, SOR/2012-281.

6 According to the *Eligible Mortgage Loan Regulations*, the "gross debt service ratio" is the total amount of annual interest and principal payments required in relation to a household's mortgage debt as a percentage of the household's gross annual income, or the percentage of a household's income that must be devoted to servicing its mortgage debt. The "total debt service ratio" is the total amount of annual interest and principal payments required in relation to a household's mortgage and non-mortgage debt as a percentage of the

Furthermore, the Governor in Council and the Minister of Finance can make regulations under the *National Housing Act*. The *Insurable Housing Loan Regulations*[7] prescribe the types of loans that are eligible for mortgage insurance. As described in Chapter 4, on 3 October 2016, the Minister of Finance announced changes to the *Eligible Mortgage Loan Regulations* and the *Insurable Housing Loan Regulations*; these changes affected eligibility for mortgage insurance and for some kinds of mortgages.[8]

Thirdly, the Office of the Superintendent of Financial Institutions supervises federally regulated mortgage lenders and insurers, and the guidelines or regulations that it establishes for them can affect the availability and cost of mortgages. For example, in November 2014, the Office of the Superintendent of Financial Institutions published Guidelines B-20[9] and B-21,[10] which set out best practices for mortgage underwriting and mortgage insurance underwriting, respectively. As well, in January 2015, it published *Interim Capital Requirements for Mortgage Insurance Companies*,[11] which sets out the level of capital that mortgage insurers must hold; the level depends on the characteristics of the mortgages they hold in their portfolio. In December 2016, the Office of the Superintendent of Financial Institutions published the *Advisory Capital Requirements for Federally Regulated Mortgage Insurers*, which came into effect on 1 January 2017.[12] Among other changes, these capital requirements increase the amount of capital that must be held for mortgages in regions where home prices are above a given threshold that is determined by regional income. Changes to these capital requirements can affect the cost of mortgage insurance.

Finally, the Bank of Canada plays mainly an advisory role regarding Canada's mortgage and housing markets. As well, it publishes the biannual *Financial System Review*. Its December 2016 review indicated that two key vulnerabilities for Canada's financial system are elevated levels of household indebtedness – which includes both mortgage and non-mortgage debt – and imbalances in Canada's housing markets.[13]

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household's gross annual income, or the percentage of a household's income that must be devoted to servicing its mortgage and non-mortgage debt.

7 *Insurable Housing Loan Regulations*, SOR/2012-282.

8 Department of Finance, "Minister Morneau Announces Preventative Measures for a Healthy, Competitive and Stable Housing Market," News release, 3 October 2016.

9 Office of the Superintendent of Financial Institutions, *Residential Mortgage Underwriting Practices and Procedures,* Guideline B-20, November 2014.

10 Office of the Superintendent of Financial Institutions, *Residential Mortgage Insurance Underwriting Practices and Procedures,* Guideline B-21, November 2014.

11 Office of the Superintendent of Financial Institutions, *Interim Capital Requirements for Mortgage Insurance Companies,* 1 January 2015.

12 Office of the Superintendent of Financial Institutions, *Advisory Capital Requirements for Federally Regulated Mortgage Insurers*, 15 December 2016.

13 Bank of Canada, *Financial System Review*, December 2016.

CHAPTER TWO: THE BENEFITS OF A BALANCED HOUSING MARKET

As noted in Chapter 1, the Committee believes that one element of a balanced housing market in Canada is access to affordable housing for the greatest number of Canadians, which – ideally – would have social and economic benefits. Furthermore, ensuring that as many Canadians as possible are housed likely requires a housing sector that is able to construct new homes and renovate existing properties, which could have further economic benefits. The Committee's witnesses discussed a range of potential economic and social benefits relating to the housing sector and homeownership.

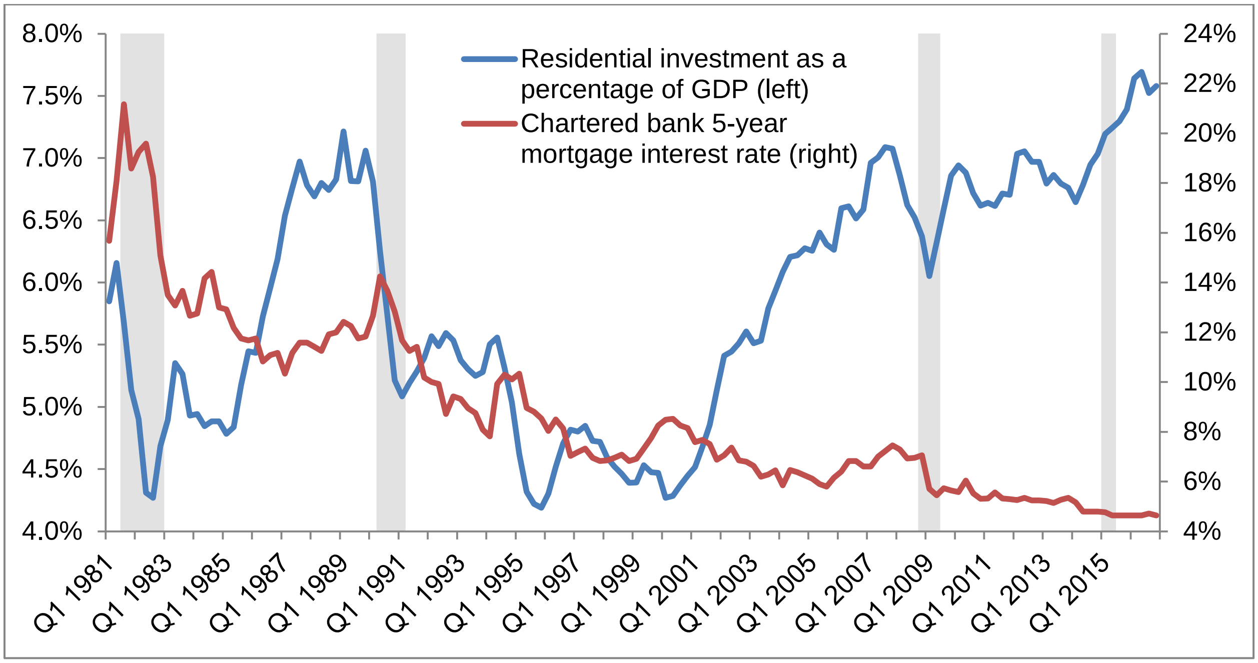
A. Potential Economic Benefits

1. Context

Canada's housing sector has a significant impact on the country's economy. For example, Figure 1 shows the contribution of residential investment[14] to Canada's gross domestic product (GDP) between 1981 and 2016.

14 According to Statistics Canada, "residential investment" is composed of: investment in new housing construction; investment in housing renovations; and acquisition costs, including sales tax, land development and service charges, and premiums and record-processing fees for mortgage insurance.

Figure 1 – Residential Investment as a Percentage of Gross Domestic Product and Chartered Bank Five-Year Mortgage Interest Rate, Canada, First Quarter 1981–Fourth Quarter 2016



Note: "Q1" is the first quarter.

"Residential investment" is composed of: investment in new housing construction; investment in housing renovations; and acquisition costs, including sales tax, land development and service charges, and premiums and record-processing fees for mortgage insurance.

Shaded areas represent recessions.

Source: Statistics Canada, "Table 380-0064: Gross domestic product, expenditure-based, quarterly," CANSIM (database) and Statistics Canada, "Table 176-0043: Financial market statistics, last Wednesday unless otherwise stated, Bank of Canada, monthly," CANSIM (database).

2. Witnesses' Comments

With a focus on GDP, employment and government revenue, witnesses made comments to the Committee about the potential economic benefits of Canada's housing sector.

Regarding the effects of the country's housing sector on GDP, the Association des professionnels de la construction et de l'habitation du Québec mentioned that housing construction, renovation, repairs and maintenance activities contributed $133 billion to Canada's economy in 2015, or 6.7% of GDP; it also noted that, for Quebec, these figures were $26 billion and 8% of provincial GDP. The Mortgage Centre, The Mortgage Architects and Dominion Lending Centres reported that Canada's real estate, rental and leasing sector represented 14% of the country's GDP in 2015. Verico Financial Group Inc. stated that Canada's housing sector is the largest contributor to provincial GDP for seven provinces, while Canada Mortgage and Housing Corporation said that – as a percentage of GDP – the sector is at an all-time high, a situation that it described as potentially problematic in the future. The Canadian Home Builders' Association highlighted that the 1 million employees in Canada's residential construction sector earn more than $58 billion in wages annually, and that the sector generates more than $128 billion in economic activity each year.

Several witnesses found that, in addition to its primary impacts on economic activity, Canada's housing sector has significant secondary effects. For example, the Canadian Real Estate Association commented that, in 2016, each home sale generated $52,000 in additional spending, which created one job for every three homes sold. Similarly, it explained that the resale of homes through the Multiple Listing Service[15] generated $28 billion in additional spending and created more than 198,000 jobs in 2016; it expected these amounts to be $28.4 billion and 196,900, respectively, in 2017.

A number of witnesses noted that Canada's housing sector contributes tax and other revenue to governments. For example, the Association des professionnels de la construction et de l'habitation du Québec mentioned that the construction and sale of a home valued at $270,000 in Quebec leads to $50,683 and $16,285 in revenue for the Quebec and federal governments, respectively. Also with a focus on Quebec, it estimated that home renovations valued at $25,000 generate $7,605 and $2,883 in tax and other revenue for the Quebec and federal governments, respectively.

Witnesses also commented that Canada's housing sector is growing in some provinces. Desjardins Group remarked that housing starts in Ontario had increased from 70,200 units in 2015 to 75,000 units in 2016, while home resales had risen by 9.4% over this period. It found that increases in housing sector activity in Quebec were relatively smaller, with housing starts growing from 37,900 units in 2015 to 38,900 units in 2016, and home resales increasing by 5.5% over this period. Also with a focus on Quebec, the Association des professionnels de la construction et de l'habitation du Québec reported that annual housing starts peaked in 2004, and have decreased by 33% since then; as a result, from year to year, about 1,800 fewer homes are built.

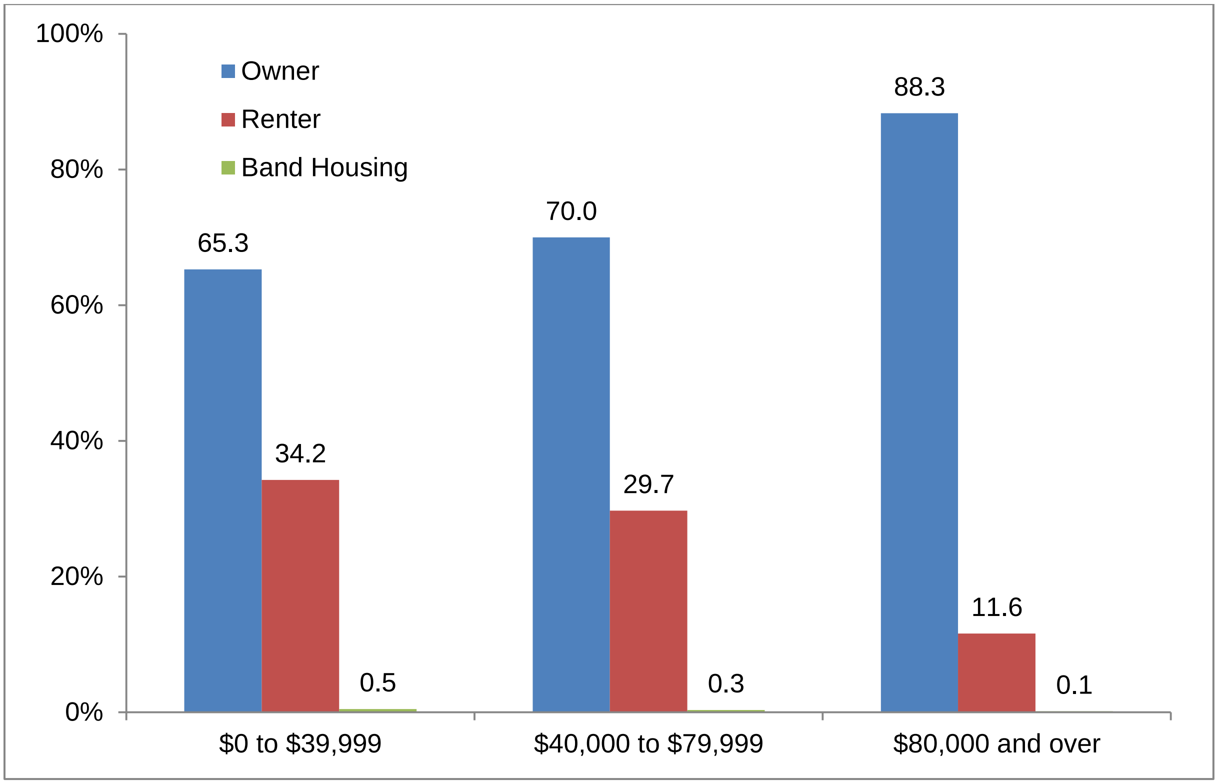
B. Potential Social Benefits

1. Context

In Canada, households can own their home, rent their home or live in band housing – that is, on reserve. As shown in Figure 2, in 2011, households with higher incomes were more likely to own a home than they are to rent or to live in band housing.

15 The Multiple Listing Service system contains detailed information designed to match buyers with properties that meet their requirements.

Figure 2 – Percentage of Households by Housing Tenure and Household Total Income, Canada, 2011



Source: Statistics Canada, 2011 National Household Survey, Catalogue Number 99-014-X2011028.

2. Witnesses' Comments

Witnesses told the Committee that access to housing and/or home ownership has several potential social benefits, including in relation to net worth, as well as health, family and educational outcomes.

Several witnesses stressed the positive contribution that homeownership makes to household net worth. For example, the Parliamentary Secretary to the Minister of Finance characterized housing as the most important investment that Canadians will ever make, and – like the Canadian Home Builders' Association – said that Canadians view homeownership as being associated with a middle-class lifestyle. The Canadian Mortgage Brokers Association, Mortgage Professionals Canada and the Québec Federation of Real Estate Boards commented that homeownership is like a forced savings plan, and remarked that – because homes generally increase in value – the net worth of homeowners tends to be greater than that of individuals who rent; according to the Association des professionnels de la construction et de l'habitation du Québec, homeowners have a median net worth of $464,500, compared to $18,000 for those who rent. Canada Mortgage and Housing Corporation, The Mortgage Centre, The Mortgage Architects and Dominion Lending Centres said that the higher net worth of homeowners leads to greater financial security in retirement, with the Association des professionnels de la construction et de l'habitation du Québec stating that retiree homeowners have financial benefits that are equivalent to 10%–15% of their income.

The Mortgage Centre, The Mortgage Architects, Dominion Lending Centres and Canada Mortgage and Housing Corporation indicated that Canada's current homeownership rate is 69%, with the Association des professionnels de la construction et de l'habitation du Québec and the Québec Federation of Real Estate Boards noting that the rate is 61% in Quebec. Citing the results of a survey that it had conducted, the Association des professionnels de la construction et de l'habitation du Québec found that nearly 90% of respondents aged 19 to 39 wanted to purchase their first home within the next few years.

The Canadian Real Estate Association stated that owning a home helps to stabilize neighbourhoods and communities, and enables individuals to have greater control – and exercise more responsibility – over their living environment.

Some witnesses said that, while homeownership is beneficial, housing – more generally – has advantages. According to the Canadian Housing and Renewal Association, it is access to housing – regardless of whether it is owned or rented – that is important. It suggested that such access is a precondition for positive health, family and educational outcomes. Similarly, Canada Mortgage and Housing Corporation believed that better housing conditions, which are not dependent on homeownership, are correlated with improved health and educational outcomes for children and adults.

CHAPTER THREE: BARRIERS TO A BALANCED HOUSING MARKET

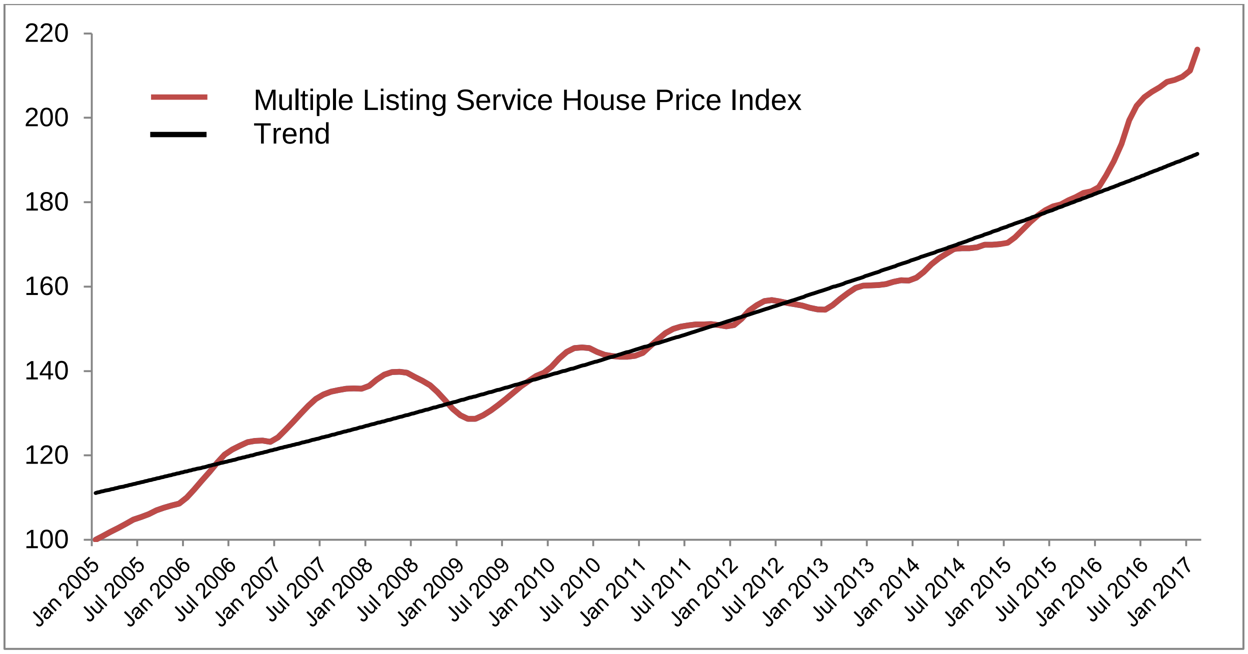
As mentioned in Chapters 1 and 2, the Committee believes that one element of a balanced housing market is access to affordable housing for the greatest number of Canadians; however, barriers – including certain social and economic factors, and perhaps the mortgage rule changes that are discussed in Chapter 4 – may inhibit this access. Furthermore, as noted in Chapter 1, the Committee feels that another element of a balanced housing market is stability, including in relation to Canada's financial system; in this context, the indebtedness of Canadian households may be of concern. Witnesses informed the Committee about barriers in relation to housing affordability and access, particularly in certain regional markets, and households' mortgage and non-mortgage debt.

A. Housing Affordability and Access

1. Context

Within the past three years, growth in home prices has been high in Canada, particularly in two housing markets: Toronto and Vancouver. Figure 3 shows the Multiple Listing Service Home Price Index for Canada from January 2005 to February 2017, while Figure 4 illustrates average annual growth in home prices in selected Canadian cities between February 2014 and February 2017.

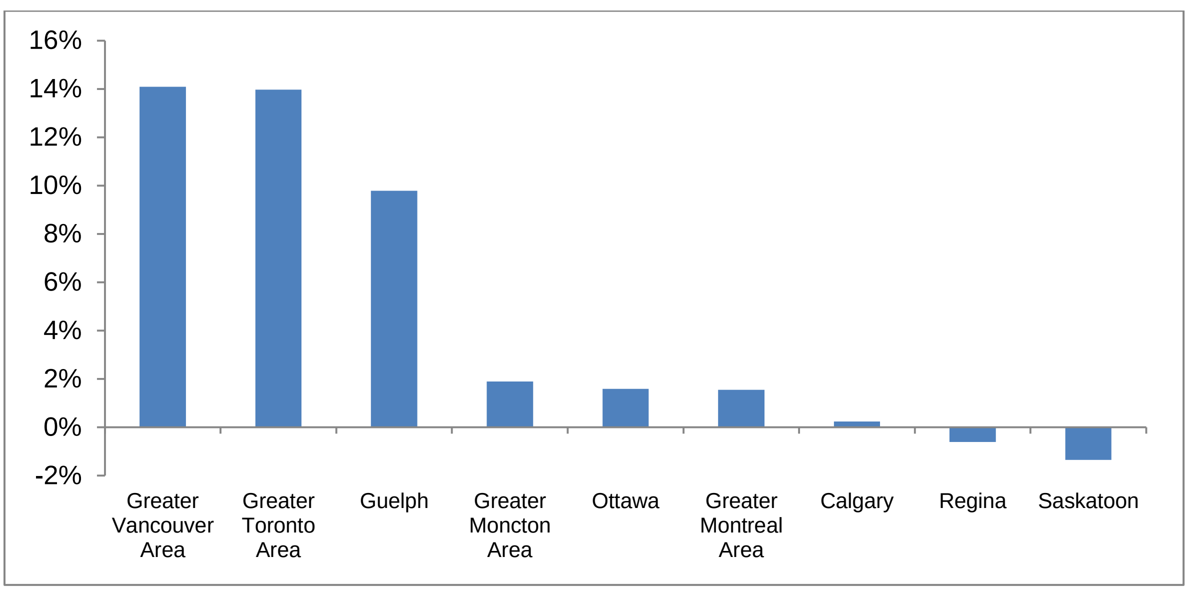
Figure 3 – Multiple Listing Service House Price Index, Canada, January 2005–February 2017



Note: The trend line is the exponential trend based on data from January 2005 to December 2014.

Source: Canadian Real Estate Association, Multiple Listing Service House Price Index.

Figure 4 – Average Annual Growth in Home Prices, Selected Canadian Cities, February 2014–February 2017



Source: Canadian Real Estate Association, Multiple Listing Service House Price Index.

Several federal measures are designed to increase housing affordability and access. For example, the Home Buyers' Plan[16] allows a first-time homebuyer[17] to withdraw up to $25,000 from his/her registered retirement savings plan to buy or build a qualifying home for himself/herself or a related person with a disability; generally, these funds must be repaid within 15 years of withdrawal. With the home buyers' amount,[18] which is a non-refundable tax credit, a first-time homebuyer can claim up to $5,000 when purchasing a qualifying home. The Goods and Services Tax/Harmonized Sales Tax new housing rebate[19] allows individuals who purchase or build a new home to receive, as a rebate, a portion of the Good and Services Tax or the federal part of the Harmonized Sales Tax paid for the home. Furthermore, the capital gains exemption in relation to a taxpayer's principal residence[20] allows individuals who sell their principal residence to avoid the payment of taxes on the capital gains from the sale provided the homeowner lived in this residence for the entire time that he/she owned it. Previously, individuals who qualified for this capital gains exemption were not required to declare the sale of their property for the purposes of income taxation; however, the changes to mortgage regulations that were announced by the Minister of Finance on 3 October 2016 require all such sales to be reported to the Canada Revenue Agency.

Canada Mortgage and Housing Corporation's involvement in the mortgage insurance market is another tool that is used to increase housing affordability and access. Since 1954, Canada Mortgage and Housing Corporation has sold mortgage insurance,[21] which protects mortgage lenders against the risks associated with default by mortgage borrowers. By reducing this risk, lenders are able to charge lower mortgage interest rates and to lend to more households. Today, borrowers with a down payment of less than 20% of the home's price must purchase mortgage insurance; lenders can choose to purchase mortgage insurance when the down payment exceeds this percentage. Two private sector institutions also sell mortgage insurance in Canada: Genworth Canada and Canada Guaranty Mortgage Insurance Company. In 2015–2016, Canada Mortgage and Housing Corporation collected $1.6 billion in insurance premiums and fees.[22]

In 1986, Canada Mortgage and Housing Corporation introduced the National Housing Act Mortgage–Backed Securities program.[23] With this program, mortgage lenders bundle insured mortgages that meet certain criteria into securities, the securities are sold to private investors, and Canada Mortgage and Housing Corporation guarantees timely

16 See: Canada Revenue Agency, *What is the Home Buyers' Plan (HBP)?*, 26 October 2016.

17 For the purposes of the Home Buyers' Plan and the home buyers' amount, a first-time homebuyer is someone who, within the four years prior to participating in the measure, did not occupy a home that he/she or his/her partner owned.

18 See: Canada Revenue Agency, *Line 369 – Home buyers' amount*, 3 January 2017.

19 See: Canada Revenue Agency, *GST/HST new housing rebate*, 14 September 2016.

20 See: Canada Revenue Agency, *Principal residence and other real estate*, 3 January 2017.

21 See: Canada Mortgage and Housing Corporation, *Mortgage Loan Insurance*, 2017.

22 Receiver General for Canada, "Section 11 – Contractual obligations and contingent liabilities," in *Public Accounts of Canada 2016: Volume I – Summary Report and Consolidated Financial Statements*, 2016.

23 See: Canada Mortgage and Housing Corporation, *The NHA Mortgage-Backed Securities Guide*, 2013.

payment of the interest and principal in relation to these securities. Because non-bank mortgage lenders are not deposit-taking institutions, they use alternative methods to obtain funds with which to make mortgage loans to borrowers. The program allows such lenders to sell these mortgage-backed securities, thereby generating funds with which to make mortgage loans. By expanding the funds available to mortgage lenders, this program expands access to – and increases the affordability of – mortgage financing.

In 2001, Canada Mortgage and Housing Corporation introduced the Canada Mortgage Bonds program,[24] which created a special purpose trust – the Canada Housing Trust – that purchases National Housing Act Mortgage–Backed Securities and issues Canada Mortgage Bonds. These bonds are fixed-interest coupon bonds that provide timely payment of principal and interest, and are guaranteed by Canada Mortgage and Housing Corporation. The difference between this program and the National Housing Act Mortgage–Backed Securities program is the method by which investors fund mortgages. With the former program, the investor purchases a bond that guarantees a fixed semi-annual payment; with the latter program, the investor purchases a security with variable payments that are based on the interest and principal payments of the underlying bundle of insured mortgages.

2. Witnesses' Comments and Proposals

Regarding barriers to housing affordability and access, witnesses told the Committee about growth in average home prices and rental rates in various regional markets, their effects and possible causes, and about the possible effects of a lender risk-sharing program on housing affordability and access.

The Bank of Canada reported that, in Canada, average national home prices are almost six times the average household income, which it characterized as a record high. The Canadian Home Builders' Association found that national growth in the average price of homes over the past decade, at $158,000, was much higher than average income growth among millennials, at $16,930. Referring specifically to Ontario, Desjardins Group stated that – in 2016 – the average home price grew by 15%, a rate that it described as unsustainable. As well, it noted that average home prices grew by 3% in Quebec in that year, a rate that – according to it – is similar to the province's usual rate of growth in average prices. Similarly, the Québec Federation of Real Estate Boards said that the median price of a single-family home in Quebec rose by 5% between 2012 and 2016. The Canadian Mortgage Brokers Association noted that – like home prices – rental rates are at an all-time high, while rental listings are at an all-time low.

In commenting on the effect that home prices have on housing affordability, the Canadian Home Builders' Association estimated that, for every $1,000 increase in home prices, 6,000 people can no longer afford to purchase a home. Citing the results of a survey that it had conducted, the Association des professionnels de la construction et de l'habitation du Québec found that 70% of respondents aged 19 to 39 identified the lack of a sufficiently large down payment as their main obstacle to purchasing a

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24 See: Canada Mortgage and Housing Corporation, *Canada Mortgage Bonds*, 2017.

home; according to these respondents, it will take approximately eight years to accumulate the required down payment.

Witnesses highlighted several possible causes for high home prices and rental rates in some of Canada's regional housing markets. For example, Canada Mortgage and Housing Corporation mentioned interest rates, incomes, jobs, immigrants, domestic and foreign investment, wealth and housing supply. The Bank of Canada highlighted several factors that it described as fundamentally affecting home prices, including demographics, interest rates and limits on increases in the supply of housing.

Some witnesses elaborated on specific factors that, in their view, tend to increase the demand for housing, putting upward pressure on prices. For example, the Department of Finance cited low interest rates and consumers' willingness to borrow, while the Canadian Home Builders' Association found that high levels of immigration and a significant increase in Canada's birth rate over the past decade have led to a shortage of family-oriented homes.

Canada Mortgage and Housing Corporation said that foreign investment could be a factor that is putting upward pressure on the demand for housing and home prices in Canada, although it stressed that currently available data suggest that about 5% of Canadian homes are owned by foreign residents at present. In its view, domestic investment is an even larger factor influencing home prices. It suggested that some home purchases by domestic residents could reflect speculation: properties are purchased with a view to selling them if their value rises. Canada Mortgage and Housing Corporation pointed out that government programs aimed at enhancing affordability could also lead to upward pressure on home prices by increasing the demand for housing.

The Department of Finance, Dominion Lending Centres, The Mortgage Architects and The Mortgage Centre thought that barriers that limit increases in the supply of housing are fundamental to explaining high home prices in Canada. DLC Canadian Mortgage Experts felt that the biggest issue limiting housing access is a lack of supply. Mortgage Professionals Canada believed that all of the upward pressure on home prices in Toronto and Vancouver reflects barriers that limit housing supply, which – as noted by Canada Mortgage and Housing Corporation – are Canada's two housing markets in which it is the most difficult to increase the supply of housing.

Finding that home construction in Canada has declined since at least 2007, while rental construction has risen, the Canadian Home Builders' Association estimated that – specifically in Toronto – the availability of low-rise housing and of single-family detached homes had dropped by 89% and 94%, respectively, over the last decade. The Royal Bank of Canada reported that there are about one half as many single detached homes being built in the Greater Toronto Area today than was the case 10 years ago. The Canadian Housing and Renewal Association commented that, while there is no lack of rental supply nationally, there may be regional shortages.

Witnesses mentioned that government fees and regulations sometimes limit the construction of new housing. For example, the Canadian Home Builders' Association noted that the supply of land for this purpose is limited by provincial and municipal land use policies, and highlighted the Ontario government's increasing role in land planning. It remarked that the infrastructure needed to support a potential new community – which it said includes transit infrastructure – often does not exist, or approvals are not made in a timely way. The Canadian Home Builders' Association also believed that provincial and municipal zoning and regulatory restrictions in major urban centres have reduced the amount of land available for home construction.

In the view of the Canadian Mortgage Brokers Association, municipal development approvals can be slow and often take up to seven years to complete in some regions of Canada. It added that municipal bylaws that require developers to dedicate land to the municipality for public goods, like schools or parks, have reduced the amount of land available for home construction. Also, the Canadian Home Builders' Association raised the issue of "NIMBYism" – not in my backyard – as a barrier to increasing the supply of housing.

The Canadian Home Builders' Association stressed that any new restrictions on land use in Toronto are not being caused by a few large developers owning the majority of the available land, a situation that it stated has existed for at least 50 years.

Witnesses also commented on the costs paid by developers and builders that lead to higher prices for homebuyers. For example, according to the Canadian Mortgage Brokers Association, regulatory delays lead to higher costs for land developers and home builders because carrying costs are incurred until the home is sold; these costs are often passed on to the homebuyer. The Canadian Mortgage Brokers Association and the Canadian Home Builders' Association emphasized that improvements to building codes increase the quality of housing, but often also make homes more costly to construct.

Some witnesses identified government taxes and fees as substantial costs that are passed on to homebuyers, with the Nova Scotia Home Builders' Association noting that taxes, development charges, levies, and water and sewer fees are equivalent to 27% of the price of a home in Halifax. The Canadian Home Builders' Association explained that municipal fees can be as much as 25% of a development's construction budget; in addition to these fees, it mentioned development taxes, on which the federal Goods and Services Tax is applied. The Canadian Mortgage Brokers Association highlighted the costs associated with municipal urban planning and livable community concepts. In providing examples of the amount of costs that can be passed on to homebuyers, the Canadian Home Builders' Association remarked that the cost of land and fees in the Toronto area has risen by about $300,000 over the last five years, and it particularly noted development charges in the Brampton and Caledon areas, which are currently between $85,000 and $90,000 per house.

The Canadian Home Builders' Association said that shortages of certain kinds of labour – for example, trades involved in constructing low-rise buildings – can lead to upward pressure on home prices in some regions of Canada.

Some witnesses noted that the potential implementation of a lender risk-sharing program[25] could have negative impacts on housing affordability and access, with Mortgage Professionals Canada emphasizing that such a program would increase the cost of – or reduce the supply of – mortgage financing in areas that are experiencing economic downturns, thereby causing regional disparities in access to mortgages. Equitable Bank stated that risk sharing would have a negative impact on Canada's housing markets.

Dominion Lending Centres, Mortgage Architects and The Mortgage Centre pointed out that Canada's banks would probably pass on the cost of risk sharing to mortgage borrowers, and Desjardins Group, Equitable Bank, First Foundation Mortgages Inc. and Genworth Canada speculated that a risk-sharing program would increase the cost of mortgages to borrowers. Canada Mortgage and Housing Corporation estimated that such a program would cause both a decrease in mortgage insurance premiums and a 0.1%–0.5% increase in mortgage interest rates.

The Canadian Credit Union Association, Mortgage Professionals Canada and The Mortgage Centre pointed out that small and local mortgage lenders would be negatively affected by the introduction of a risk-sharing program. According to Equitable Bank, if implemented, such a program would favour Canada's large banks over smaller institutions. Dominion Lending Centres, Mortgage Architects and The Mortgage Centre mentioned that Canada's small mortgage lenders are not capitalized at the same level as the country's large banks; if a risk-sharing program were to be implemented, these small lenders would have to increase mortgage interest rates, cease operations or merge with other lending institutions. The Canadian Credit Union Association noted that smaller institutions, including some credit unions, would be forced to charge higher mortgage rates in some regions, and it cited increases for Canada's rural and remote areas in particular.

Desjardins Group explained that risk sharing would affect individuals who are the most at-risk and indebted, while Genworth Canada predicted that risk sharing would reduce mortgage financing choices for potential borrowers. Equitable Bank speculated that risk sharing would make Canada's financial system more vulnerable in the event of a financial crisis, and Dominion Lending Centres believed that the implementation of a risk-sharing program would increase the risk associated with mortgage lending.

With a focus on down payments on a home, tax measures for homebuyers, federal policies to facilitate increased housing, and improvements to social and First Nations housing, witnesses made several proposals that they believed would lead to enhanced housing affordability and access. In highlighting measures that would help potential homebuyers to meet the minimum requirement for a down payment on a home, several witnesses encouraged the government to make changes to the Home Buyers' Plan, with the Canadian Real Estate Association, the Québec Federation of Real Estate Boards and the British Columbia Real Estate Association suggesting that the plan's amounts should

25 As part of the 3 October 2016 announcement about changes to Canada's mortgage regulations, the Minister of Finance stated that the government would conduct consultations regarding the implementation of a lender risk-sharing program. These consultations are ongoing.

be indexed to inflation. The Canadian Home Builders' Association and the Québec Federation of Real Estate Boards advocated an increase in the plan's threshold so that more savings could be withdrawn for home purchases. The Canadian Home Builders' Association and the Québec Federation of Real Estate Boards urged expansion of the plan so that children could use their parents' registered retirement savings plan contributions for a down payment, while the British Columbia Real Estate Association proposed that eligibility for the plan should be expanded to include individuals who relocate to secure employment, need to accommodate an elderly family member in their home, or become widowed or experience marital breakdown.

The Association des professionnels de la construction et de l'habitation du Québec requested that the government create a down payment assistance program, which it said would be similar to programs offer by the Government of British Columbia and the City of Montreal. It proposed a repayable federal contribution in an amount that is equal to the homebuyer's contribution to his/her down payment, up to the lesser of: 5% of the value of the home; and $15,000 for a new home or $10,000 for an existing home. It suggested that the federal contribution could be repayable over seven years, and that these contributions could be targeted to specific households, such as those with family incomes below a certain amount.

The Canadian Home Builders' Association proposed that one efficient way in which to increase housing affordability and access is shared appreciation mortgages; with this measure, a third party provides a certain portion of the down payment and is entitled to that portion of any capital gains that are realized when the home is sold.

Some witnesses advocated the use of tax measures to help homebuyers afford to purchase a home. For example, the Association des professionnels de la construction et de l'habitation du Québec called for a Goods and Services Tax/Harmonized Sales Tax rebate on home purchases; the rebate should be 5% of a home's value, up to $10,000 per household with children or $5,000 for childless households, and available to households with annual taxable income that is less than $150,000, or $80,000 in Quebec. The Association des professionnels de la construction et de l'habitation du Québec supported making the homebuyers' amount refundable, and increasing its value.

Recognizing that the federal government does not have jurisdiction over all aspects of Canada's housing markets, Genworth Canada, the Canadian Bankers Association, the Canadian Real Estate Association, Dominion Lending Centres and the Québec Federation of Real Estate Boards called on the federal government to work with provincial and municipal governments to address housing issues.

In the view of some witnesses, multi-stakeholder approaches designed to increase the supply of housing should exist, with Dominion Lending Centres, The Mortgage Centre and The Mortgage Architects advocating a multi-party strategy to find innovative ways to achieve this goal; the parties involved in the strategy should include city planners, developers, and provincial and municipal governments. Similarly, the Canadian Mortgage Brokers Association proposed that all levels of government should identify methods to increase housing supply and, noting that Canada will receive 300,000 immigrants in 2017, Canada Guaranty Mortgage Insurance Company asked that all levels of government work together to ensure that the housing needed for these new residents exists.

With a view to addressing the pressures created by high demand for housing, Alrica Jones urged the government to introduce a tax on foreign homebuyers, implement a ban on bidding wars in relation to homes, impose a fine on those who engage in bidding wars, and create a maximum selling price for homes in Canada.

The Canadian Mortgage Brokers Association requested that the federal government encourage all levels of government to remove red tape, excessive costs and delays in approving housing development, possibly by making grants to provincial and municipal government conditional on positive changes in these areas. Mortgage Professionals Canada suggested that the federal government should provide provincial governments with incentives to encourage the establishment of measures that would increase housing supply, while the Canadian Mortgage Brokers Association made a similar proposal in relation to municipal governments.

The Canadian Home Builders' Association made several proposals designed to increase the supply of housing, including: make federal funding to municipal governments conditional on increases in housing density along transit corridors; use infrastructure funding to help reduce the development taxes levied by municipal governments; provide federal land write-downs to support mixed-income, mixed-use, complete communities;[26] educate the public about the positive benefits of intensified, inclusive community growth; stop applying the Goods and Services Tax on development taxes; and invest in research and development to lower the cost of newly built homes.

The Québec Federation of Real Estate Boards supported any measure that would facilitate an increase in housing supply, while the Parliamentary Secretary to the Minister of Finance advocated an adequate supply of new homes as an important component of any strategy to promote housing access.

In making proposals regarding a lender risk-sharing program, Dominion Lending Centres, Mortgage Architects and The Mortgage Centre suggested that, because Canada's mortgage default rate is low and Canada Mortgage and Housing Corporation has adequate reserves in the event that the rate were to rise, such a program is not needed in Canada.

Canada Guaranty Mortgage Insurance Company, the Canadian Credit Union Association, Genworth Canada and The Mortgage Advisors urged the government to refrain from implementing a lender risk-sharing program. Desjardins Group supported the measures taken by the government to reduce household debt prior to the 3 October 2016 changes, but also requested that the government not proceed with a lender risk-sharing program.

26 According to Smart Growth Ontario, "complete communities" are communities in which "the needs for daily living" – schools, work, services and amenities, housing, recreation, etc. – are in close proximity.

Equitable Bank advocated consideration of alternatives to a risk-sharing program and, in particular, capital requirements that are the same for domestic systemically important banks, small banks and credit unions.

The Canadian Mortgage Brokers Association requested that the government allow 30-year amortization periods for first-time homebuyers, and DLC Canadian Mortgage Experts asked that 30-year amortization periods be permitted for both insured and uninsured mortgages.

Regarding social and not-for-profit housing, the Canadian Housing and Renewal Association urged the government to follow through on an aspect of the Minister of Families, Children and Social Development's mandate letter from the Prime Minister: make surplus federal lands available for social and not-for-profit housing. Also, it suggested that the government should introduce a social housing sector transformation initiative that would provide small amounts of capital to social housing providers to enable them to implement innovative social housing programs. Regarding financing for social housing, it called for new mechanisms, including a housing financing authority to oversee a dedicated program that would give loans to providers of social housing. To increase innovation in the social housing sector, it proposed that restrictions on innovative delivery of social housing should be removed.

In relation to the Investment in Affordable Housing program, Trillium Housing Non-Profit Corporation requested that the government review current program expenses and outcomes to ensure the best possible value per dollar spent.

Regarding First Nations housing, Canada Mortgage and Housing Corporation supported a whole-of-government approach to facilitate the sharing of housing expertise among communities. The British Columbia Real Estate Association advocated additional support for off-reserve housing to improve housing outcomes for Indigenous families.

3. The Committee's Recommendations

The Committee recommends that:

The Government of Canada work with its provincial/territorial counterparts to ensure that – when needed – they implement responsible measures that will result in stable, affordable regional housing markets.

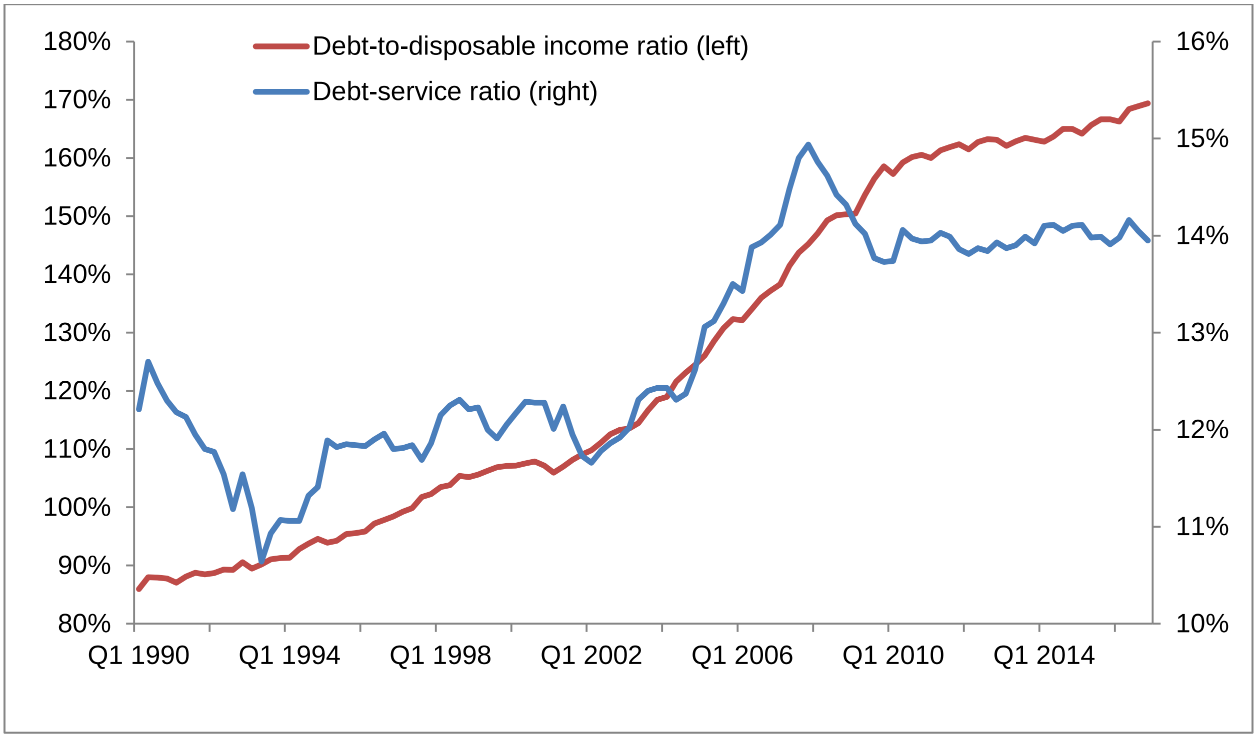
The Government of Canada examine increased support for first-time homebuyers.

B. Household Mortgage and Non-Mortgage Debt

1. Context

On average, the mortgage and the non-mortgage debt-to-disposable income ratios[27] of Canadian households have been rising since at least 1990; consequently, the percentage of their incomes that must be devoted to repaying debt has also risen over time. Figure 5 shows Canadian households' debt-to-disposable income and debt service ratios between the first quarter of 1990 and the fourth quarter of 2016.

Figure 5 – Household Debt-to-Disposable Income Ratio and Debt Service Ratio, Canada, First Quarter of 1990–Fourth Quarter of 2016



Note: "Q1" is the first quarter.

Source: Statistics Canada, "Table 380-0073: Selected Indicators – Households, quarterly," CANSIM (database) and Statistics Canada, "Table 378-0123: National Balance Sheet Accounts, financial indicators, households and non-profit institutions serving households, quarterly," CANSIM (database).

27 The "household debt-to-disposable income ratio" is total household debt as a percentage of total household disposable income, or the percentage of a household's disposable income that would be required to repay all of that household's debt.

2. Witnesses' Comments and Proposals

Witnesses informed the Committee about the high level of household indebtedness in Canada, which includes both mortgage and non-mortgage debt, and about some of its potential risks and causes.

The Bank of Canada reported that the household debt-to-disposable income ratio in Canada, which has been rising since the early 2000s, is nearly 170%. Canada Mortgage and Housing Corporation emphasized that household debt levels vary across provinces and regions, with Alberta's households having debt that is – on average – higher than those in other provinces, and households in Calgary, Vancouver and Toronto having higher average debt than those in other cities. It noted that one reason that average debt is higher in some locations than in others could be high home prices, which are associated with relatively higher debt service ratios. The Department of Finance pointed out that the number of borrowers with debt-to-income ratios exceeding 450% has been increasing significantly across Canada, especially in Vancouver and Toronto. Canada Mortgage and Housing Corporation stated that household debt levels are influenced by many factors, including interest rates, income growth, job creation and immigration.

Witnesses highlighted several risks that could arise from high levels of household debt. According to Canada Mortgage and Housing Corporation, one concern is that households could lose their home if they are unable to pay their mortgage obligations. As well, in identifying risks to Canada's economy, it cited research suggesting that financial crises have tended to be preceded by growth in household debt, and by housing boom-and-bust cycles. The Office of the Superintendent of Financial Institutions noted that a key lesson from the recent global financial crisis was that high household debt-to-income ratios and high home prices were vulnerabilities for national and international economies. Canada Mortgage and Housing Corporation recognized that Canada experienced negative economic effects because of the recent U.S. financial crisis, but also said that – compared to the United States – home prices in Canada did not fall as significantly and the stress on the country's economic system was less intense.

The Bank of Canada highlighted two risks that – in its view – are associated with high household debt: a significant and sustained increase in unemployment in Canada; and rising interest rates. According to it, in either case, households could have difficulty paying their debt obligations, which could ultimately lead to stress on the country's financial system. Also, the Department of Finance believed that high household debt-to-income ratios can be a symptom of what it described as risky borrowing by households, which could put stress on Canada's financial system; it stated that, at present, that system is stable.

Similarly, Canada Mortgage and Housing Corporation thought that an economy's weakness might be amplified if highly indebted households experience financial difficulties related to their debts. It noted that such households tend to be younger and have less work experience, and may therefore be more likely to lose their jobs during an economic downturn. Also, it indicated that high levels of mortgage debt can lead to decreased consumer spending because households are more likely to pay their mortgage obligations than to make household purchases.

Some witnesses identified the importance of distinguishing among the various kinds of debt held by households because some types may lead to relatively fewer vulnerabilities for them and Canada's financial system. For example, the Canadian Mortgage Brokers Association and DLC Canadian Mortgage Experts characterized mortgage debt as safer than other forms of consumer debt for two reasons: it is backed by an asset; and mortgage borrowers undergo a strict underwriting process. Mortgage Professionals Canada said that mortgage debt represents about 73% of Canadian household debt, while the Canada Mortgage and Housing Corporation reported that this figure is 90% for first-time homebuyers.

The Mortgage Centre, Dominion Lending Centres and The Mortgage Architects believed that mortgage debt in Canada does not pose significant challenges because the mortgage arrears rate[28] is approximately 0.28%, which is significantly lower than the rate that existed in the United States during the recent financial crisis. The Québec Federation of Real Estate Boards found that this proportion is approximately 0.3% in Quebec. The Alberta Mortgage Brokers Association pointed out that, even though the unemployment rate in Alberta rose from 4.7% in 2014 to 8.5% in 2016, the mortgage arrears rate increased from 0.27% to 0.41% over this period; it described this change in the arrears rate as moderate.

Mortgage Professionals Canada said that the national mortgage arrears rate is historically low, and the Canadian Bankers Association indicated that this rate – which has not surpassed 0.65% since the 1990s – was 0.45% in Canada and more than 5.0% in the United States during the recent global financial crisis. The Canadian Credit Union Association stated that this rate averaged 0.36% in Canada between 2010 and 2015, while Canada Mortgage and Housing Corporation stated that the rate is trending downward. However, it described Canada's low arrears rate as worrisome because households may be purchasing fewer goods and services in order to pay their mortgage obligations. In characterizing the mortgage arrears rate as a rear-looking indicator, the Office of the Superintendent of Financial Institutions commented that – although this rate is currently low – the negative effects of high levels of debt are already being felt by the time the number of defaults rises.

Canada Mortgage and Housing Corporation pointed out that the percentage of indebted homebuyers entering Canada's housing market with high credit scores has grown from 4% to 8%. Genworth Canada indicated that it has recently observed a decline in the number of foreclosures. The Canadian Bankers Association noted that, although the national household debt-to-income ratio has increased, low interest rates have put downward pressure on the debt service ratio, and Canadians' net worth is high because the assets that are backing their debt have been rising in value. The Urban Development Institute of Nova Scotia mentioned that Canada's mortgage market is much different than

28 The mortgage arrears rate is the percentage of households with residential mortgages in respect of which payments have not been made in at least three months.

was the market in the United States prior to the global financial crisis; in the U.S. market, borrowers could self-assess their income for the purposes of qualifying for a mortgage and sometimes had a 0% down payment. Canada Guaranty Mortgage Insurance Company noted that Canada's first-time homebuyers are likely already subject to more housing market regulations than any other group, and are not contributing to housing market imbalances in Canada.

The Appraisal Institute of Canada highlighted the dangers of mortgage fraud, pointing out the significant impact that it can have on Canada's financial system. It cited an Equifax Inc. study that said that the number of potentially dishonest mortgage applications has grown by 52% over the past four years.

The Bank of Canada highlighted that recent regulatory changes may lead more homebuyers to use private mortgage lenders, with the Appraisal Institute of Canada and Genworth Canada noting that these tend to have limited regulatory oversight. The Appraisal Institute of Canada noted that the market share of mortgage lenders that are not federally regulated is rising.

Witnesses provided a range of proposals that they believed would address issues relating to household debt, commenting in particular on measures to reduce certain kinds of non-mortgage debt, the introduction of forced-savings plans, the implementation of loan-to-income limits, changes to amortization periods, an expansion of federal regulatory oversight, and the creation of measures to address mortgage fraud. Regarding unsecured non-mortgage debt, the Canadian Mortgage Brokers Association advocated measures that would ensure that lenders of unsecured credit qualify borrowers for loans based on their income and reasonable debt ratios, and not only on the basis of credit scores and product matches to existing portfolios. It also proposed that, because the current availability of insurance for collateral mortgages gives incentives to take on unsecured debt, the government should prohibit these mortgages from being eligible for mortgage insurance.

The Québec Federation of Real Estate Boards requested that the government consider implementing measures aimed at ensuring that households do not take on too much non-mortgage debt. The Nova Scotia Home Builders' Association said that, if the government is concerned about the level of household indebtedness in Canada, it should consider two actions: restricting individuals' ability to take on debt in order to buy depreciating assets, like a car; and creating forced-savings plans.

In the view of Canada Mortgage and Housing Corporation, although no regulatory changes should occur until sufficient time has passed to assess the full effects of recent mortgage regulation changes, it stated that – if asked for its advice – it would propose the implementation of loan-to-income limits, such as those that exist in the United Kingdom.

To address concerns that rising interest rates could lead to repayment difficulties for mortgage borrowers who have high levels of debt, Will Dunning suggested that the effects of rate increases could be mitigated by lengthening amortization periods and decreasing principal repayments.

In order to ensure that no mortgage lender poses undue risk to Canada's financial system, the Appraisal Institute of Canada advocated the application of Guidelines B-20 and B-21 regarding mortgage and mortgage insurance underwriting practices to all institutions that provide mortgage financing. Furthermore, regarding mortgage fraud, it proposed both that all organizations involved in lending should work together to detect potential fraud, and that on-site appraisals by qualified professionals should occur more often.

CHAPTER FOUR: BRINGING BALANCE TO CANADA'S HOUSING MARKETS

In Chapter 3, the Committee considered some of the barriers that inhibit balance in Canada's housing markets, and witnesses' comments and proposals to address some of these imbalances were outlined. In examining other means by which to bring balance to these markets, the Committee looked at a variety of factors. For example, in order to be able to make evidence-based policy decisions, adequate data are required. In this context, witnesses identified housing-related data that are not currently available, and plans to address the lack of availability.

Furthermore, the Committee recognizes that certain federal policies may benefit from consultations with stakeholders; in the housing context, it is important to determine the extent to which contemplated policies achieve the appropriate balance between ensuring access to affordable housing and the stability of Canada's financial system. Witnesses discussed the changes to mortgage regulations announced by the Minister of Finance on 3 October 2016, as well as the changes to capital requirements for federally regulated mortgage insurers announced by the Office of the Superintendent of Financial Institutions that took effect on 1 January 2017.

A. Data Availability

1. Context

Several federal entities collect housing-related data. They include Canada Mortgage and Housing Corporation and Statistics Canada, both of which make data publicly available regarding various aspects of the Canada's housing markets. As well, other federal entities do – or may – have a role to play in collecting and/or disseminating relevant data, including the Department of Finance, the Office of the Superintendent of Financial Institutions, the Bank of Canada, Indigenous and Northern Affairs Canada, and Employment and Social Development Canada.

2. Witnesses' Comments and Proposals

Several witnesses supported improved data in relation to Canada's housing markets, with the Parliamentary Secretary to the Minister of Finance observing that data are lacking about foreign investors in these markets, and about factors that affect the supply of housing. She indicated that the federal government has created a working group comprised of federal officials, as well as representatives of the governments of Ontario and British Columbia, and the cities of Vancouver and Toronto; the working group's task is to examine the range of factors that affect regional housing markets in Canada.

According to Canada Mortgage and Housing Corporation, one of its goals is to increase the availability of data regarding the following aspects of Canada's housing markets: foreign and domestic investors and speculation in housing; housing supply issues, including regulations that limit supply; land availability; and the factors that motivate individuals to consider purchasing a home. As well, it mentioned that it hopes to collect data on the share of Canadian condominium units that are owned by foreign residents, the turnover rate in Canada's rental markets, and the square-foot price for newly built condominiums in the country's urban centres that have a population that exceeds 50,000 people. It indicated that, over the next two years, it will be working with Statistics Canada and the Office of the Superintendent of Financial Institutions to acquire new data.

In making a specific proposal that – in its view – would lead to better data in relation to Canada's housing markets, the Canadian Housing and Renewal Association urged the creation of a housing research hub that would conduct and disseminate world-class research on housing policy. According to it, because the participation of provincial/territorial and municipal governments – as well as existing research organizations – would be required, Statistics Canada would not necessarily be able to play a leading role in this initiative. The Royal Bank of Canada had a different perspective, pointing out that Statistics Canada currently interacts with various levels of government.

3. The Committee's Recommendation

The Committee recommends that:

The Government of Canada use Statistics Canada to address the gaps in housing-related data by creating a nationwide database that incorporates research from provincial/territorial and municipal governments, as well as research organizations. Such a database should provide data on home purchases and sales, homes purchased with cash, non-primary mortgage lending, foreign ownership of homes, loan-to-value statistics in relation to Canadian homes, Canada's rental markets, investors in Canada's housing markets, and the demographic profile of homeowners.

B. The 3 October 2016 Changes To Mortgage Regulations

1. Context

On 3 October 2016, the Department of Finance announced changes to Canada's mortgage regulations (hereafter, the 3 October 2016 changes).[29] According to the Department, the changes are designed to reduce the amount of borrowers' mortgage debt and, through new mortgage insurance eligibility requirements, to promote stability in Canada's housing markets.

Typically referred to as the mortgage rate stress test (hereafter, new stress test), in order to qualify for mortgage insurance, mortgage borrowers must have a gross debt service ratio and a total debt service ratio that does not exceed 39% and 44%, respectively. In addition, the new mortgage eligibility requirements stipulate that – effective

29 See: Department of Finance, *Technical Backgrounder: Mortgage Insurance Rules and Income Tax Proposals (Revised October 14, 2016)*, 3 October 2016.

17 October 2016 – for all high-ratio[30] homebuyers, these debt service ratios are calculated using an interest rate that is the greater of two rates (hereafter, the qualifying rate): their contract mortgage interest rate;[31] and the Bank of Canada's conventional five-year fixed posted interest rate.[32]

The 3 October 2016 changes also introduced low-ratio mortgage insurance eligibility requirements. With the changes, eligibility is now based on criteria that include the borrower's credit score, the home's value, the mortgage amortization period and whether the loan will be used to renew a loan or purchase a property. Since 30 November 2016, low-ratio refinanced mortgages[33] can no longer be insured, and low-ratio mortgages that are insured using portfolio insurance[34] must meet the eligibility criteria that previously applied only to high-ratio mortgages.

In recent years, the Minister of Finance has announced several sets of changes to Canada's mortgage. Table 1 summarizes some elements of these changes. Appendix A contains a more detailed description of these and other changes.

30 A "high-ratio mortgage" is a mortgage with a loan-to-value ratio greater than 80%.

31 The "contract mortgage interest rate" is the interest rate specified in the mortgage contract signed by the borrower.

32 The "Bank of Canada's conventional five-year fixed posted interest rate" is the five-year fixed mortgage interest rate that is most often advertised by Canada's six largest banks.

33 A "refinanced mortgage" replaces an existing mortgage, and the terms of the former differ from those of the latter.

34 "Portfolio insurance," which is also known as bulk pooled insurance, is mortgage insurance that is acquired after the mortgage has been issued; the premium is generally paid by the lender.

A "low-ratio mortgage" is a mortgage with a loan-to-value ratio that is less than 80%.

Table 1 – Selected Changes in Mortgage Regulations, Canada, 2008–2016

2008	• Maximum amortization period: decreased from 40 years to 35 years • Total debt service ratio: capped at 45%
2010	• Loan-to-value limit for mortgage refinancing: decreased from 95% to 90% • All borrowers are required to meet the standards for a five-year fixed-rate mortgage even if choosing a mortgage with a lower interest rate and shorter term
2011	• Maximum amortization period: decreased from 35 years to 30 years • Loan-to-value limit for mortgage refinancing: decreased from 90% to 85%
2012	• Maximum amortization period: decreased from 30 years to 25 years • Loan-to-value limit for mortgage refinancing: decreased from 85% to 80% • Gross debt service ratio: capped at 39% • Total debt service ratio reduced from 45% to 44%
2016	• All insured mortgages must qualify under maximum debt-servicing standards based on the higher of: the mortgage contract rate; or the Bank of Canada's conventional five-year fixed posted mortgage rate • Minimum down payment for the portion of a home price exceeding $500,000: increased from 5% to 10%

Source: Adapted from: Bank of Canada, *Financial System Review*, December 2012; and Department of Finance, *Balancing the Distribution of Risk in Canada's Housing Finance System*, 28 February 2017.

2. Witnesses' Comments and Proposals

In focusing on the 3 October 2016 changes, the Committee's witnesses made general remarks about the changes and commented specifically on the new stress test, refinanced mortgages, portfolio insurance, the impact of the changes on Canada's housing markets, consultation about mortgage regulation changes and region-based housing-related policies.

a. General

While the Department of Finance noted the federal revenue from insurance premiums collected by Canada Mortgage and Housing Corporation, it questioned the extent to which taxpayers should financially support government-guaranteed mortgages. It said that the 3 October 2016 changes were designed to address the situation of homebuyers who take on excessive amounts of debt in order to purchase more expensive homes, and it asserted that lenders rely on portfolio insurance because the mortgage insurance sold by Canada Mortgage and Housing Corporation is guaranteed by the federal government. According to it, the presence of risk in Canada's housing markets can be explained by low interest rates, growth in home prices and support for the country's housing market through Canada Mortgage and Housing Corporation. While it does not think that mortgage interest rates will rise as a result of the changes, it indicated that it is possible that rates could increase slightly.

The Parliamentary Secretary to the Minister of Finance stated that ensuring stability in Canada's housing markets is important, especially in regions where household indebtedness is high. Also, she indicated that managing housing-related risks is necessary in order to create the conditions that will enable an increase in the number of people who are in the middle class. She said that the 3 October 2016 changes are designed to reduce housing-related risks, ensure compliance with the mortgage regulations and prevent households from taking on a level of debt that is unsustainable for them. As well, she emphasized that, although the situation is most acute in Toronto and Vancouver, borrowers with excessive household debt are located in all regions of Canada.

According to Canada Mortgage and Housing Corporation, the 3 October 2016 changes will contribute to Canada's long-term economic growth. It emphasized that the changes were not designed to address market imbalances in the Greater Toronto Area or in the Greater Vancouver Area, but rather to prevent increased household indebtedness in any region of the country from having negative economic repercussions. As well, it said that the changes were not aimed at controlling growth in home prices in Canada's overheated housing markets. It stated that it is undesirable for first-time homebuyers to lose their home because they lose their job or have excessive debt.

First National Financial stated that it has supported the changes that have been made to Canada's mortgage regulations since 2008, while Canada Guaranty Mortgage Insurance Company indicated that it has supported all changes since that time, with one exception: the 3 October 2016 changes. It felt that the previous changes have had a positive impact on Canada's housing markets, but doubted that the new stress test's qualifying rate is appropriate.

DLC Canadian Mortgage Experts felt that the 3 October 2016 changes were not needed. Canada Guaranty Mortgage Insurance Company mentioned that the insured mortgage market is tightly underwritten and regulated, and that insured first-time homebuyers are screened twice: by the lender; and by the mortgage insurer.[35] Canada Mortgage and Housing Corporation remarked that the changes were not aimed at restricting access to housing for first-time homebuyers. Dominion Lending Centres and Genworth Canada characterized the changes as overreaching.

In addition to proposing changes to specific aspects of Canada's mortgage regulations, which are discussed below, witnesses made general suggestions in relation to those regulations. Verico Financial Group Inc. asked the government to study the economic effects of the 3 October 2016 changes on Canada's economy. Mortgage Professionals Canada, the Canadian Home Builders' Association, First National Financial, Canada Guaranty Mortgage Insurance Company, The Mortgage Centre, Dominion Lending Centres, The Mortgage Architects, TMG The Mortgage Group Canada Inc., the Canadian Bankers Association, the Canadian Credit Union Association, the Canadian

35 "Underwriting" is the process through which a mortgage's risk is evaluated.

Real Estate Association, the Appraisal Institute of Canada, Desjardins Group and Genworth Canada called on the government to refrain from introducing further regulatory changes in relation to Canada's housing or mortgage markets until the effects of all previous changes are evaluated. The Urban Development Institute of Nova Scotia proposed a tiered system, in which the recent changes would apply only in relation to homes valued above a certain threshold.

b. The New Stress Test

In commenting on the new stress test, witnesses focused on its effects on housing affordability and its qualifying rate. The Québec Federation of Real Estate Boards estimated that, because of the new test, between 5,000 and 6,000 Quebec households will delay their purchase of a home beyond 2017, resulting in $220 million in housing-related spending being foregone. Mortgage Professionals Canada said that the new test has caused the gross debt service and the total debt service ratios to increase by 5 and 7.5 percentage points, respectively.

Desjardins Group pointed out that the new stress test has reduced both the mortgage amount for which borrowers can qualify and the number of mortgage pre-approvals issued. It thought that first-time homebuyers are the most affected by the new test, while Canada Guaranty Mortgage Insurance Company and First National Financial said that these homebuyers are not responsible for creating imbalances in Canada's housing markets. Canada Mortgage and Housing Corporation and the Department of Finance stated that the new test will lead first-time homebuyers either to take on less debt or to save more, a trade-off that Canada Mortgage and Housing Corporation characterized as vital to ensure Canada's financial stability.

Mortgage Professionals Canada and The Mortgage Advisors felt that the new stress test reduces the amount that households can spend on housing. Citing Genworth Canada, Mortgage Professionals Canada said that one third of existing borrowers with insured mortgages would have difficulty meeting the new test's required debt service ratio, and it explained that the previous stress test applied only to mortgages with a term of less than five years; the new test applies to all mortgages. TMG The Mortgage Group Canada Inc. stated that, because mortgage borrowers with a 7- or 10-year term are protected against interest rate changes for the length of the term, the new stress test makes the least sense for them.

The Canadian Bankers Association mentioned that Canada's banks apply their own stress tests to mortgage borrowers in order to ensure borrowers' ability to pay their mortgage obligations if interest rates were to rise. The Canadian Mortgage Brokers Association observed that a small portion of borrowers might qualify for a mortgage under the new stress test, then take on more debt and fail the test if it were to be applied a second time.

Canada Mortgage and Housing Corporation explained that the new stress test was implemented to ensure the country's financial stability in the event that interest rates were to rise, and that all households that have excessive debt – regardless of their geographical location – would be affected by rate increases. Dominion Lending Centres remarked that Canada's low mortgage default rate should be considered when stress tests are developed.

Dominion Lending Centres, Mortgage Architects and The Mortgage Centre emphasized that the new stress test has made housing less affordable. First National Financial pointed out that borrowers are not affected uniformly by the new test. According to it, 70% of homebuyers borrow at the contract mortgage interest rate, while the other 30% do so at the Bank of Canada's conventional five-year fixed posted interest rate.

Recognizing Canada's low inflation and moderate economic growth, Dominion Lending Centres, Mortgage Architects and The Mortgage Centre thought that using the Bank of Canada's conventional five-year fixed posted interest rate as a qualifying rate in the new stress test is excessive because a 2-percentage-point increase in the mortgage interest rate is unlikely to occur. The Alberta Mortgage Brokers Association, First National Financial and Genworth Canada felt that the test's qualifying rate of 200 basis points above the average contract mortgage interest rate is too high. Genworth Canada added that the test is causing borrowers with loan-to-value ratios[36] greater than 80% to seek a mortgage from a private lender, which it described as an expensive option for them.

Mortgage Professionals Canada stated that borrowers could typically qualify for a five-year mortgage with a mortgage rate of 2.5% before the 3 October 2016 changes, but would not be eligible for a mortgage at the new qualifying rate. While agreeing with the concept of a stress test, First National Financial indicated that the new qualifying rate does not reflect current market interest rates.

A number of witnesses made proposals for change that were specific to the new stress test, with some focusing on the test's qualifying rate. The Alberta Mortgage Brokers Association, First National Financial and Genworth Canada advocated a qualifying rate equal to the contract mortgage interest rate plus 100 basis points, while Will Dunning suggested that it should be the contract mortgage interest rate plus the yield spread between 5- and 10-year Government of Canada bonds. Dominion Lending Centres, Mortgage Architects and The Mortgage Centre called for a qualifying rate mid-way between the contract mortgage interest rate and the Bank of Canada's conventional five-year fixed posted interest rate.

Mortgage Professionals Canada asked that an independently calculated qualifying rate be used, rather than the Bank of Canada's conventional five-year fixed posted interest rate. The Alberta Mortgage Brokers Association proposed that the qualifying rate be calculated on the basis of the market interest rate plus a markup. TMG The Mortgage Group Canada Inc. requested that the qualifying rate be based on market rates and on the term of the mortgage.

First National Financial suggested that, to remove liquidity from Canada's housing markets, the qualifying rate in relation to mortgages with loan-to-value ratios greater than

36 The "loan-to-value" is the amount of loan relative to the assessed value of the property.

80% should be increased. The Canadian Mortgage Brokers Association advocated the inclusion of all federally regulated lenders, rather than Canada's six largest banks, in the calculation of the new stress test's qualifying rate.

Other witnesses highlighted aspects of the new stress test other than its qualifying rate that they believed should be changed. For example, Alrica Jones, Canada Guaranty Mortgage Insurance Company, Dominion Lending Centres, First National Financial, Mortgage Architects, Mortgage Professionals Canada and The Mortgage Centre requested that the test apply to all mortgages, both insured and uninsured. The Mortgage Advisors asked that insured high-ratio mortgages alone be stress-tested at the qualifying rate. The Canadian Mortgage Brokers Association urged that two types of mortgages be assessed using the contract mortgage interest rate, rather than the test's qualifying rate: insured mortgages with principal not exceeding $499,000; and mortgages with a fixed term of more than five years. Alrica Jones suggested that a stress test should exist in relation to equity in overvalued homes. In the view of Dominion Lending Centres and Genworth Canada, the new stress test should be changed to better represent future interest rates expectations.

c. Mortgage Refinancing

With a focus on mortgage refinancing, witnesses mentioned the lack of refinancing options, competition among lenders and the cost of refinancing. For example, according to Dominion Lending Centres, Mortgage Architects and The Mortgage Centre, a lack of mortgage refinancing options leads to higher debt service costs for mortgage borrowers. First National Financial thought that, because the 3 October 2016 changes preclude homeowners from using the equity in their homes for borrowing purposes, the most significant aspect of the changes is the elimination of mortgage insurance for refinanced mortgages. It predicted that this elimination will reduce competition among providers of mortgage refinancing because borrowers can only seek a refinanced mortgage from a deposit-taking institution. First National Financial emphasized that the elimination of the ability to insure refinanced mortgages is leading borrowers to seek a mortgage from one of Canada's large banks, rather than from non-bank lenders.

Meridian Credit Union Limited remarked that the 3 October 2016 changes have increased the cost of providing mortgages because refinanced mortgages can no longer be included in a securitized portfolio of mortgages. The Canadian Credit Union Association estimated that the elimination of the ability to insure refinanced mortgages could lead the portfolio insurance activities of some credit unions to decrease by up to 70%.

Dominion Lending Centres, Mortgage Architects and The Mortgage Centre stressed that, with the 3 October 2016 changes, mortgage lenders may be less likely to offer mortgage refinancing because refinanced mortgages can no longer be securitized, while Verico Financial Group Inc. predicted that it will generally be more difficult to provide mortgage financing. Canada Guaranty Mortgage Insurance Company, DLC Canadian Mortgage Experts and First National Financial stated that making low-ratio refinanced mortgages ineligible for mortgage insurance, as is required by the changes, will have a negative effect on the competitiveness of non-bank mortgage lenders, while Dominion

Lending Centres, Equitable Bank, First National Financial, the Québec Federation of Real Estate Boards, The Mortgage Advisors and Verico Financial Group Inc. felt that the changes will increase the cost of mortgage refinancing. Dominion Lending Centres, Mortgage Architects and The Mortgage Centre stated that the changes will increase non-mortgage costs for households, such as commuting costs.

Witnesses made a variety of proposals about mortgage refinancing. The Alberta Mortgage Brokers Association, Dominion Lending Centres, First National Financial, Mortgage Architects, Mortgage Professionals Canada, The Mortgage Advisors, The Mortgage Centre and Verico Financial Group Inc. requested that the government reverse the 3 October 2016 changes so that refinanced mortgages could be included in mortgage insurance. In the view of Dominion Lending Centres, Mortgage Architects and The Mortgage Centre, refinanced mortgages and mortgages on homes valued at up to $1.5 million should be eligible for mortgage insurance in the event that the changes are not fully reversed. According to Dominion Lending Centres, Mortgage Architects, Mortgage Professionals Canada, The Mortgage Centre and TMG The Mortgage Group Canada Inc., as an alternative to the changes, the government should allow refinanced mortgages with loan-to-value ratios of up to 75% to qualify for mortgage insurance. With a focus on the effects of the changes on refinanced mortgages, Canada Mortgage and Housing Corporation suggested that the government should not support mortgage refinancing.

d. Mortgage Insurance

In commenting on mortgage insurance, the witnesses mentioned availability, premiums and eligibility requirements. For example, the Québec Federation of Real Estate Boards indicated that, because of the 3 October 2016 changes, mortgage financing companies will no longer be able to compete with Canada's large banks because some types of loans are now ineligible for mortgage insurance. Canada Mortgage and Housing Corporation said that the changes were designed to eliminate some of the distortions created by portfolio insurance. The Department of Finance commented that the changes will affect the availability of portfolio insurance for mortgage lenders that rely on it to finance their business. Mortgage Professionals Canada stated that, because portfolio insurance is now more difficult to obtain, mortgage lenders that depend on portfolio insurance for liquidity and access to capital purposes will be disproportionately affected by the changes.

The Canadian Credit Union Association used 2016 data to estimate that, because of the 3 October 2016 changes, sales of low-ratio transactional insurance[37] will decrease by approximately 50% because of the elimination of mortgage insurance for refinanced mortgages. The British Columbia Real Estate Association remarked that the changes will exclude many prospective homebuyers from Canada's housing markets, and Genworth Canada expected a 20% decrease in approved insured mortgages in 2017 as a result of the changes.

37 "Transactional insurance" is mortgage insurance that is acquired on the date that the mortgage is issued; the premium is generally paid by the borrower.

The Alberta Mortgage Brokers Association, the British Columbia Real Estate Association, Meridian Credit Union Limited, the Québec Federation of Real Estate Boards and Verico Financial Group Inc. stated that the 3 October 2016 changes will increase mortgage insurance premiums. Genworth Canada said that it has noticed an increase in these premiums since the changes became effective. Dominion Lending Centres remarked that the biggest impact of the changes is the inability to insure a portfolio of mortgages. Mortgage Professionals Canada, TMG The Mortgage Group Canada Inc. and Verico Financial Group Inc. explained that the changes might result in borrowers with uninsured mortgages who have a large down payment paying higher mortgage interest rates than borrowers with insured mortgages who have a smaller down payment. First National Financial commented that the changes will have a limited impact on Canada's housing markets that it characterized as overheated because portfolio insurance cannot be used in relation to homes valued at more than $1 million. DLC Canadian Mortgage Experts mentioned that homeowners with homes valued at more than $1 million must now pay higher mortgage interest rates because these mortgages cannot be insured, and that separated couples can no longer buy each other out of their matrimonial home. It added that, among the changes, the most important was the standardization of eligibility criteria for high- and low-ratio insured mortgages.

Desjardins Group observed that many of its mortgage borrowers are unaffected by the 3 October 2016 changes because their down payment was sufficiently large that they qualified for an uninsured mortgage. First National Financial emphasized that the changes will only affect insured mortgages, which represents less than 30% of all mortgages. Verico Financial Group Inc. noted that the changes will cause mortgage borrowers to move away from non-bank lenders that are no longer able to provide financing for some mortgages, and cause mortgage lenders to increase mortgage interest rates because of their ineligibility to insure some types of mortgages. Genworth Canada noted that mortgage borrowers' choices for mortgage financing will be affected because the changes will eliminate refinancing for low-ratio mortgages.

The Canadian Credit Union Association indicated that regulated mortgage lenders now transfer risk directly to mortgage insurers, as well as indirectly to the federal government through the government-guaranteed mortgage insurance sold by Canada Mortgage and Housing Corporation.

Witnesses made proposals in relation to mortgage insurance. Meridian Credit Union Limited advocated that the eligibility requirements for portfolio insurance on low-ratio mortgages be made more lenient, while the Canadian Mortgage Brokers Association urged the establishment of Canada Mortgage and Housing Corporation mortgage insurance premiums that reflect cost recovery. Parkbridge Lifestyle Communities Inc. proposed that Canada Mortgage and Housing Corporation's mortgage insurance portfolio should include housing options that are available through the land-lease model,[38] including modular and stick-built homes.

38 In the land-lease model, homeowners own their dwelling but not the land on which the dwelling is situated; the land is leased from the land-owner for a fee. Because the homeowner is not required to purchase the land, the cost of purchasing the home is reduced.

e. The Impacts on Housing Markets, Competition, Affordability and First-Time Homebuyers

In focusing on the impacts of the 3 October 2016 changes, witnesses made comments about the consequences for Canada's housing markets in general, competition among mortgage lenders, housing affordability and first-time homebuyers.

The Canadian Credit Union Association and the Canadian Real Estate Association said that they expect the 3 October 2016 changes to have a negative impact on Canada's housing markets. Desjardins Group predicted that the changes will be detrimental for Ontario's markets, causing lower home resales and reduced home prices in 2017, particularly in Toronto. Canada Mortgage and Housing Corporation and the Canadian Credit Union Association commented that the changes will have a greater impact in Vancouver, Toronto and Alberta than in other Canadian locations. Equitable Bank thought that the uncertainty associated with the changes will affect Canada's housing markets negatively. In the view of the British Columbia Real Estate Association, the November 2016 decline in Canada's housing markets – the first since 2012 – was likely due to the changes. The British Columbia Real Estate Association expected that, because of the changes, home prices will increase in the future as a result of pent-up demand by millennials. Will Dunning estimated that, as a result of the changes, Canada's housing markets in which the rate of increase in home prices is high will grow more slowly; there may be declines in markets where price growth is weaker, leading to reduced economic activity.

First Foundation Mortgages Inc. and Verico Financial Group Inc. speculated that the 3 October 2016 changes will cause home equity to fall, with First Foundation Mortgages Inc. believing that this decline may induce Canada's mortgage arrears and default rates to rise. The Nova Scotia Home Builders' Association mentioned that seniors' access to the equity in their home will be restricted, which may disrupt their retirement plans. The Appraisal Institute of Canada stated that the changes will lead to an increase in both household indebtedness and the mortgage default rate. The Canadian Mortgage Brokers Association felt that the changes will encourage homeowners to take on two mortgages for the purpose of assisting with the accumulation of a down payment.

The Canadian Credit Union Association believed that the 3 October 2016 changes will affect all types of housing markets, regardless of whether rural or urban, and whether characterized by high or low rates of growth in home prices. In the context of the changes, the Appraisal Institute of Canada said that the lack of a balanced housing policy for the country will affect mortgage borrowers and Canada's housing markets. It stated the changes might create a two-tiered lending system.

The Canadian Real Estate Association estimated that the 3 October 2016 changes will reduce Canada's GDP by 0.3% by the end of 2018. Mortgage Professionals Canada indicated that, on a year-over-year basis, there was a reduction in the number of applications for new mortgages in January 2017, with the result that there may be fewer housing starts. Citing Canadian Real Estate Association calculations, Mortgage Professionals Canada remarked that the changes have led to 42,000 fewer home sales, resulting in 15,700 lost jobs; it added that a substantial decline in housing activity in Canada could contribute to a national debt crisis. The Association des professionnels de la construction et de l'habitation du Québec anticipated that, because of the changes, 74,000 Canadian households will have difficulties purchasing a home in 2017, and that there will be 6,900 fewer housing starts in Quebec; Desjardins Group predicted 66,500 fewer housing starts, a decline that it attributed to the impacts of the changes on insured mortgages and to higher mortgage interest rates.

The Association des professionnels de la construction et de l'habitation du Québec predicted that Canada's resale market and home improvement sector will be affected by the 3 October 2016 changes. The Nova Scotia Home Builders' Association thought that the country's home construction sector will also be negatively affected by the changes, and it predicted that 2017 will be worse for that sector than 2015 or 2016, which were the worst on record in Atlantic Canada. Using Canada Mortgage and Housing Corporation data, it said that housing starts in Nova Scotia remain below the 10-year trend of 900 units annually, and noted that a mortgage lender in Newfoundland and Labrador expected that 25%–30% of its existing borrowers would not qualify for a mortgage because of the changes. The Nova Scotia Home Builders' Association said that its members may have to lay off employees as a consequence of the changes, while the British Columbia Real Estate Association predicted that new home construction, employment and economic growth will fall with the decline in the demand for housing.

The Québec Federation of Real Estate Boards forecasted a 7% reduction in residential sales in Quebec in 2017 as a consequence of the 3 October 2016 changes. Citing Will Dunning, Mortgage Professionals Canada and Verico Financial Group Inc. said that, as housing demand declines because of the changes, housing activity in Canada will be reduced by 6%–10%. DLC Canadian Mortgage Experts estimated that the changes led its mortgage brokerage activity to fall by 30% between December 2016 and February 2017. The Association des professionnels de la construction et de l'habitation du Québec and the Québec Federation of Real Estate Boards said that the changes will have a negative effect on housing starts in Canada; according to the Association des professionnels de la construction et de l'habitation du Québec, the effect will be similar to what it said had occurred in 2013 following the reduction in the maximum amortization period from 30 years to 25 years: a 21% decline in housing starts.

The Canadian Credit Union Association asserted that the number of approvals of high-ratio mortgages could fall by 37% as a result of the 3 October 2016 changes, while TMG The Mortgage Group Canada Inc. expected 10%–12% of homebuyers to be unable to purchase a home. The Canadian Mortgage Brokers Association remarked that military personnel who are being posted to another location are unable to buy a home, and it said that nearly 20% of its existing clients and 15% of relocating military personnel would not qualify for a mortgage because of the changes; The Mortgage Advisors explained that decreased purchasing power has negative effects on military personnel, who may have reduced options when they are posted and must relocate. Equitable Bank felt that the changes will make access to mortgage financing more difficult, while the Canadian Mortgage Brokers Association thought that it will be more difficult for households to obtain mortgage financing and enter the middle class. The Association des professionnels de la construction et de l'habitation du Québec stated that prospective homebuyers who do not qualify for a mortgage as a result of the changes will accumulate other types of non-mortgage debt instead of purchasing a home.

The Bank of Canada, Canada Guaranty Mortgage Insurance Company, Canada Mortgage and Housing Corporation, Desjardins Group, Genworth Canada and the Royal Bank of Canada emphasized that it is too early to evaluate the effects of the 3 October 2016 changes. Canada Mortgage and Housing Corporation cited seasonality in housing-related data as a particular reason for not yet evaluating the impacts of the changes, but estimated that the negative impact on Canada's housing markets was not as severe as predicted because some homebuyers have purchased less expensive homes rather than postponing their purchase; that said, Canada Mortgage and Housing Corporation and the Québec Federation of Real Estate Boards noted that some households have delayed their decision to purchase a home. While the Department of Finance said that it is working with mortgage lenders and insurers to compile housing data, it indicated that it is too early to assess the effect of the changes.

Although the Québec Federation of Real Estate Boards expected the 3 October 2016 changes to have a negative impact on the number of home sales, it recognized that it is premature to conclude that the changes will mean that fewer first-time homebuyers will enter Canada's housing market. The Royal Bank of Canada observed a reduction in home resales, but also said that it is too soon to assess the effect of the changes; in its view, uncertainty about their impact continues to exist. Mortgage Professionals Canada said that it expects a decrease in the number of applications for loans as a result of the changes.

The Canadian Mortgage Brokers Association commented that the 3 October 2016 changes will reduce growth in Canada's housing markets and possibly increase rental costs, and the Canadian Housing and Renewal Association asserted that rental costs must remain at affordable levels. Dominion Lending Centres, Mortgage Architects and The Mortgage Centre mentioned that, because of the changes, there is greater pressure on Canada's rental markets because lenders now charge higher mortgage rates and mortgage borrowers have fewer borrowing options, and that the rental market will be harmed by the changes because they prohibit non-owner occupied homes from being insured. DLC Canadian Mortgage Experts stated that the changes have meant that, in order to purchase a rental property, a borrower must now obtain a mortgage from one of Canada's banks.

Verico Financial Group Inc. thought that the 3 October 2016 changes will have a negative impact on mortgage brokers. In the context of the changes, Desjardins Group said that any new housing market policy creates confusion, uncertainty and urgency among homebuyers, partially because of a potential increase in mortgage interest rates.

Witnesses also made comments about the impact of the 3 October 2016 changes on competition among mortgage lenders. First Foundation Mortgages Inc., TMG The Mortgage Group Canada Inc. and Verico Financial Group Inc. felt that the changes have created an uneven playing field because banks do not need to securitize loans, and Verico Financial Group Inc. said that the changes will reduce the profitability of non-bank mortgage lenders. The Canadian Bankers Association pointed out that some small banks have been negatively affected by the changes, and the Canadian Credit Union Association explained that – unlike Canada's large banks – the changes will be a problem for some credit unions because they cannot diversify their activities.

Canada Guaranty Mortgage Insurance Company, the Canadian Credit Union Association, DLC Canadian Mortgage Experts, Dominion Lending Centres, First Foundation Mortgages Inc., Mortgage Architects, the Québec Federation of Real Estate Boards, The Mortgage Advisors and The Mortgage Centre predicted that the 3 October 2016 changes will reduce competition among mortgage lenders. DLC Canadian Mortgage Experts, Dominion Lending Centres, First Foundation Mortgages Inc. and TMG The Mortgage Group Canada Inc. remarked that the changes will advantage Canada's large banks, while Mortgage Professionals Canada and The Mortgage Advisors claimed that the new stress test's qualifying rate also benefits these banks. The Canadian Credit Union Association thought that credit unions will have difficulty competing in certain mortgage financing markets, while the Canada Mortgage and Housing Corporation remarked that a balance must be struck between supporting competition and promoting financial stability.

First Foundation Mortgages Inc. stated that a competitive mortgage financing market is one in which borrowers can choose from among different mortgage interest rates and delivery options, but – in its view – the 3 October 2016 changes will harm small non-bank mortgage lenders. The Canadian Mortgage Brokers Association commented that the changes may induce many mortgage lenders to reduce their presence in – or withdraw from – rural areas because of an increased risk of lending there, while Verico Financial Group Inc. said that mortgage borrowers in the Greater Toronto Area and in the Greater Vancouver Area will have difficulty finding non-bank lenders willing to provide a mortgage with a value exceeding $1 million.

As well, witnesses discussed the impact of the 3 October 2016 changes on housing affordability. DLC Canadian Mortgage Experts and Mortgage Professionals Canada remarked that the 3 October 2016 changes will be ineffective in addressing imbalances in Canada's housing markets because housing supply is the biggest challenge in these markets. Verico Financial Group Inc. noted that a lack of housing supply is the cause of high home prices, and predicted that the changes will lead to only a temporary decline in these prices. In the context of the changes, Mortgage Professionals Canada said that policies regarding housing supply – not housing demand – are needed to address imbalances in home prices in Canada.

The Canadian Bankers Association, Dominion Lending Centres, First National Financial, Mortgage Architects, the Nova Scotia Home Builders' Association, the Québec Federation of Real Estate Boards, The Mortgage Advisors and The Mortgage Centre emphasized that the 3 October 2016 changes will lead to an increase in mortgage interest rates, and hence the cost of borrowing for potential homebuyers. Mortgage Professionals Canada estimated that the changes have increased the average conventional mortgage interest rate by 0.25 percentage points.

Dominion Lending Centres, First Foundation Mortgages Inc., First National Financial and TMG The Mortgage Group Canada Inc. indicated that the 3 October 2016 changes will make housing less affordable, a situation that TMG The Mortgage Group Canada Inc. said is inconsistent with the principles of the *National Housing Act*. The British Columbia Real Estate Association, Dominion Lending Centres, Mortgage Architects, The Mortgage Centre and Verico Financial Group Inc. expected a 20% reduction in housing affordability as a result of the changes.

First Foundation Mortgages Inc. stated that borrowers with reduced purchasing power will no longer be able to purchase a suitable property because of the 3 October 2016 changes, and that – as a result of the increased cost of portfolio insurance – mortgage interest rates have increased for borrowers who have more equity in their homes. Within the context of the changes, the Association des professionnels de la construction et de l'habitation du Québec asserted that some borrowers will have to make a larger down payment, or postpone or cancel their home purchase; as well, it said that these borrowers may have to look for a home in a region that is more affordable for them. Meridian Credit Union Limited thought that the changes will affect the purchasing power of mortgage borrowers outside the Greater Toronto Area.

The Mortgage Advisors indicated that, because of the 3 October 2016 changes, some of its clients may need to rent, rather than purchase, a home; the former option may be more expensive for them. The Nova Scotia Home Builders' Association remarked that the changes have led some of its clients to no longer qualify for a mortgage, and highlighted one such couple who instead used the money initially intended for their down payment to purchase a car. According to the Appraisal Institute of Canada, some financial institutions that are not regulated by the Office of the Superintendent of Financial Institutions may attract borrowers who no longer qualify for a mortgage following the changes.

The Québec Federation of Real Estate Boards said that, compared to years prior to 2008, it is now harder to qualify for mortgage financing as a result of the changes.

Finally, witnesses made comments about the impacts of the 3 October 2016 changes on Canada's first-time homebuyers. According to Canada Mortgage and Housing Corporation, the changes have led to a 15%–20% reduction in the volume of its underwriting activity, mostly for first-time homebuyers. It anticipated that the changes will negatively affect first-time homebuyers' ability to borrow, lead to higher mortgage interest rates, and lessen competition in the mortgage financing sector. The British Columbia Real Estate Association, DLC Canadian Mortgage Experts, Genworth Canada, Mortgage Professionals Canada, the Urban Development Institute of Nova Scotia and TMG The Mortgage Group Canada Inc. said that the changes will reduce the number of first-time homebuyers entering Canada's housing markets, with Genworth Canada expecting the number of such homebuyers to fall by approximately 15%–25%.

The Canadian Credit Union Association estimated that, because of the 3 October changes, almost 20% fewer mortgage applications from first-time homebuyers are likely to be approved in 2017 than was the case in 2016. Genworth Canada and TMG The

Mortgage Group Canada Inc. predicted that one third of Canada's first-time homebuyers who were approved for a mortgage in 2016 would not have been approved at the new stress test's qualifying rate.

According to the Urban Development Institute of Nova Scotia, the reduction in the number of first-time homebuyers resulting from the 3 October 2016 changes will have a negative effect on Canada's housing markets, and – in its view – detrimental indirect effects on Canada's economy; TMG The Mortgage Group Canada Inc. pointed out that a decrease in the number of these homebuyers will reduce both the demand for housing and the economic benefits associated with home resales. The Nova Scotia Home Builders' Association mentioned that the changes are likely to result in delayed asset accumulation by young people.

The British Columbia Real Estate Association and Mortgage Professionals Canada indicated that, because of the 3 October 2016 changes, some first-time homebuyers will have to reconsider the amount that they can spend on housing; they and the Canadian Real Estate Association said that some of these buyers will no longer be able to afford a home in some of Canada's housing markets. The Canadian Real Estate Association also predicted that the changes will lead first-time homebuyers to reduce the amount that they borrow for a mortgage. The Association des professionnels de la construction et de l'habitation du Québec, DLC Canadian Mortgage Experts and the Québec Federation of Real Estate Boards speculated that some households will have to purchase smaller homes as a consequence of the changes.

The Department of Finance said that the effects of the 3 October 2016 changes on first-time homebuyers are likely to be short term. The Québec Federation of Real Estate Boards emphasized that the changes will limit homeownership for Canada's first-time homebuyers, and Verico Financial Group Inc. claimed that they will reduce the availability of mortgage financing and increase the cost of borrowing, particularly for first-time homebuyers. The Canadian Mortgage Brokers Association pointed out that the changes affect those who had planned on selling their home to first-time homebuyers that had a down payment of less of than 20% and that no longer qualify for a mortgage.

The Nova Scotia Home Builders' Association remarked that the 3 October 2016 changes, which it said were aimed at the 1% of first-time homebuyers who default on their mortgages, have made home purchases more difficult for 99% of Canada's first-time homebuyers. Dominion Lending Centres, Mortgage Architects and The Mortgage Centre thought that the country's low mortgage default rate makes the changes unnecessary, and The Mortgage Advisors observed that underwriting standards for first-time homebuyers are already strict and default rates for these homebuyers are low.

Recognizing the impacts of the 3 October 2016 changes on first-time homebuyers, the Canadian Real Estate Association urged the government to prioritize assistance for these homebuyers, and – in mentioning British Columbia's new loan program and Ontario's increased land transfer tax rebate – it advocated more incentives for them.

f. Consultation

In commenting on consultations prior to changes being made to Canada's mortgage regulations, the Alberta Mortgage Brokers Association, the Association des professionnels de la construction et de l'habitation du Québec, Canada Guaranty Mortgage Insurance Company, the Canadian Bankers Association, the Canadian Credit Union Association, the Canadian Home Builders' Association, the Canadian Housing and Renewal Association, the Canadian Mortgage Brokers Association, the Canadian Real Estate Association, DLC Canadian Mortgage Experts, Dominion Lending Centres, First National Financial, Genworth Canada, Mortgage Professionals Canada, the Nova Scotia Home Builders' Association, the Québec Federation of Real Estate Boards and Verico Financial Group Inc. indicated that they were not consulted prior to the 3 October 2016 changes.

The Canadian Home Builders' Association, the Canadian Real Estate Association, Dominion Lending Centres, First National Financial and Mortgage Professionals Canada noted that, in the past, they have been consulted about potential changes to Canada's mortgage regulations. The Canadian Bankers Association mentioned that it often consults with the Department of Finance, Canada Mortgage and Housing Corporation and the Office of the Superintendent of Financial Institutions about Canada's housing markets, while First National Financial and Genworth Canada said that they regularly meet with the Department of Finance. The Canadian Home Builders' Association stated that, after the 3 October 2016 changes were implemented, the Department of Finance worked in collaboration with it to address contract issues that arose as a result of the implementation.

The Association des professionnels de la construction et de l'habitation du Québec, Canada Guaranty Mortgage Insurance Company and the Canadian Mortgage Brokers Association commented that they have never been consulted about changes to Canada's mortgage regulations. DLC Canadian Mortgage Experts said that, while it has not been consulted, its predecessor organization – the Canadian Association of Accredited Mortgage Professionals – had been. Dominion Lending Centres and First Foundation Mortgages Inc. thought that the 3 October 2016 changes were implemented too quickly and without consultations. According to DLC Canadian Mortgage Experts and First National Financial, the government did not request insight from relevant stakeholders.

In focusing on consultations about Canada's housing markets, the Parliamentary Secretary to the Minister of Finance highlighted the importance of confidentiality, and mentioned that the Department of Finance, the Bank of Canada, Canada Mortgage and Housing Corporation and the Office of the Superintendent of Financial Institutions frequently consult about housing policies. She further emphasized the difficulty of consulting with stakeholders while respecting confidentiality. Canada Guaranty Mortgage Insurance Company commented that consultations could help the Department of Finance to gain insight about Canada's housing markets.

The Department of Finance stated that the 3 October 2016 changes were implemented immediately in order to prevent upward pressure on home prices caused by homebuyers attempting to purchase a home before the changes came into effect.

It indicated that it sometimes accepts public comments following the publication of portfolio insurance regulations, as it did – for example – with the eligibility rules for portfolio insurance. Regarding the six sets of changes to Canada's mortgage regulations since 2009, the Department of Finance said that it has not held formal consultations, but has had continuous discussions with relevant stakeholders. Regarding the new stress test, it highlighted that most stakeholders with which it spoke prior to making decisions about the stress test were supportive.

Witnesses made a variety of proposals regarding consultations. For example, the Alberta Mortgage Brokers Association suggested that key stakeholders should be consulted about potential changes to Canada's mortgage regulations. The Québec Federation of Real Estate Boards urged the government to consult with stakeholders about best practices in Canada's housing market. Verico Financial Group Inc. requested further consultation with key stakeholders regarding housing market measures.

g. Region-Based Housing-Related Policies

Witnesses commented on the extent to which Canada's housing-related policies should be national, or regional, in scope. The Canadian Home Builders' Association, DLC Canadian Mortgage Experts and First Foundation Mortgages Inc. felt that the 3 October 2016 changes were designed to address housing market imbalances in the Greater Toronto Area and in the Greater Vancouver Area, but noted that the changes have impacts nation-wide. The Nova Scotia Home Builders' Association characterized the changes as a blanket policy that is having unintended consequences, and it mentioned that a nation-wide policy is not appropriate because it will harm the country's entire economy.

Canada Guaranty Mortgage Insurance Company observed that the housing markets in the Greater Toronto Area and the Greater Vancouver Area have characteristics that distinguish them from markets elsewhere in Canada.

The Québec Federation of Real Estate Boards emphasized that, because home prices are lower in Quebec than in the rest of Canada, excessive household debt affects housing affordability relatively less in that province. The Canadian Credit Union Association expected fewer mortgage approvals in Canada's rural and remote regions as a consequence of the 3 October 2016 changes. Meridian Credit Union Limited asserted that the changes are resulting in stricter mortgage qualification requirements in Ontario's housing markets outside of the Greater Toronto Area, where home prices are relatively lower.

Canada Guaranty Mortgage Insurance Company pointed out that, because Canada comprises several regional housing markets, national housing-related policies are not always appropriate. The Canadian Mortgage Brokers Association mentioned that region-specific housing-related policies have been effective in the past. Equitable Bank stated that the 3 October 2016 changes will disproportionately affect homeowners and homebuyers outside of large urban areas, thereby creating an uneven playing field that will affect the availability of mortgage financing and the potential for homeownership. Verico

Financial Group Inc. doubted that the changes were effective in reducing home prices because they affected regions where home prices were not as high as in the Greater Toronto Area and in the Greater Vancouver area.

Witnesses also made general comments about region-based housing-related regulations. For example, the Nova Scotia Home Builders' Association, Canada Guaranty Mortgage Insurance Company and Dominion Lending Centres stated that, since housing markets differ across Canada's regions, so too should housing-related policies. First National Financial said that having a bifurcated market with top-up and loan amounts that would be insured could be beneficial.

Some witnesses made proposals about region-based housing-related policies. The Alberta Mortgage Brokers Association, Dominion Lending Centres, The Mortgage Centre, The Mortgage Architects and Mortgage Professionals Canada called for a review of the long-term impact of region-based insurance pricing on Canada's housing markets. The Mortgage Advisors requested that the government study the long-term effects of region-specific pricing in areas of the country where the local economy is currently weak. Meridian Credit Union Limited urged the government to consider the development of mortgage regulations that would differ across geographical locations, while the Canadian Home Builders' Association proposed the implementation of two sets of mortgage regulations: one for homes valued at less than $500,000 and another for those with a higher value.

3. The Committee's Recommendations

The Committee recommends that:

The Government of Canada ensure that further changes to Canada's mortgage regulations do not occur until sufficient time has passed to assess the effects of the 3 October 2016 changes to those regulations.

The Government of Canada endeavour to ensure that mortgage regulations treat all mortgage lenders fairly.

C. The 1 January 2017 Capital Requirement Changes

1. Context

Effective 1 January 2017, the Office of the Superintendent of Financial Institutions implemented changes to the capital requirements for federally regulated mortgage insurers (hereafter, the 1 January 2017 changes).[39]

With these new capital requirements, mortgage insurers that fall under the purview of the Office of the Superintendent of Financial Institutions must hold sufficient capital to ensure that they are able to finance the obligations of mortgage insurance contracts in the

39 See: Office of the Superintendent of Financial Institutions, *Advisory Capital Requirements for Federally Regulated Mortgage Insurers*, 1 January 2017.

event of borrower default. The amount of capital that a mortgage insurer must hold in relation to an individual mortgage or a portfolio of mortgages is the sum of the base requirement and, if applicable, the supplementary requirement, and is determined by such factors as the borrower’s credit score, the mortgage’s loan-to-value ratio and the location of the property for which the mortgage is being sought.

Table 2 shows the threshold value for the supplementary capital requirement indicator and the scaling factor, by metropolitan area. The threshold value and scaling factor are used in the calculation of the supplementary capital requirement indicator. If the calculated supplementary capital requirement indicator exceeds the threshold value for its area, mortgages issued for borrowers in that area are subject to the supplementary capital requirement.

Table 2 – Threshold Values for the Supplementary Capital Requirement Indicator and the Scaling Factor, by Metropolitan Area, 1 January 2017

Metropolitan area	Threshold value	Scaling factor
Calgary	10.0	2,500
Edmonton	9.0	2,100
Halifax	8.5	1,900
Hamilton	9.5	2,000
Montreal	11.0	2,500
Ottawa-Gatineau	11.0	2,400
Quebec	9.0	1,700
Toronto	14.0	3,300
Vancouver	18.5	4,200
Victoria	12.5	3,300
Winnipeg	7.5	1,400

Note: The supplementary capital requirement indicator determines whether supplementary capital is needed in relation to a mortgage. The indicator is defined as the value of the Teranet index relative to the per capita income for the metropolitan area, times a scaling factor. The Teranet index is an index of home prices based on the growth in the price of identical houses sold over time.

Source: Office of the Superintendent of Financial Institutions, *Advisory Capital Requirements for Federally Regulated Mortgage Insurers*, 1 January 2017.

2. Witnesses' Comments and Proposals

According to Mortgage Professionals Canada, the 1 January 2017 changes will lead mortgage insurance premium rates, and access to mortgage insurance, to vary across Canada's regions. Specifically, it noted that the changes will increase mortgage insurance premiums by more than 1 percentage point for some mortgages. The Québec Federation of Real Estate Boards thought that the changes will cause mortgage interest rates to rise, and mortgage financing liquidity and profitability to fall.

Verico Financial Group Inc. thought that the 1 January 2017 changes would lead to higher mortgage interest rates which will lead home prices to fall, and it claimed that, because of the addition of a geographical criterion to determine the amount of capital that mortgage lenders must hold, mortgage interest rates will increase in those small or rural communities in which the mortgage default and unemployment rates are high.

First National Financial indicated that, in relation to the same individual mortgage or portfolio of mortgages, the 1 January 2017 changes will require mortgage insurers to hold between two and three times more capital than the amount held by large financial institutions. In its view, the changes will make insuring mortgages more expensive for non-bank lenders that use securitization to fund mortgages, and lead to less competition among providers of mortgage financing.

TMG The Mortgage Group Canada Inc. remarked that the 1 January 2017 changes will advantage Canada's large banks because they do not have to insure all of their mortgages; the changes will particularly favour large banks in regions for which the Office of the Superintendent of Financial Institutions requires mortgage lenders to have high capital reserves. It predicted that the large banks will take either of two actions: raise their mortgage interest rates; or keep mortgage interest rates low and increase their share of the mortgage market at the expense of non-bank lenders.

The Alberta Mortgage Brokers Association stated that the cost of implementing the 1 January 2017 changes will be passed on to mortgage borrowers, and Mortgage Professionals Canada felt that the changes will require mortgage lenders to hold too much capital.

Witnesses made proposals regarding the 1 January 2017 changes. For example, the Alberta Mortgage Brokers Association, Dominion Lending Centres, Mortgage Architects, Mortgage Professionals Canada, The Mortgage Advisors and The Mortgage Centre asked the government to reconsider the changes. To ensure a level playing field among mortgage lenders, TMG The Mortgage Group Canada Inc. proposed that the 1 January 2017 changes should also apply to non-insured mortgages.

LIST OF RECOMMENDATIONS

RECOMMENDATION 1

The Government of Canada work with its provincial/territorial counterparts to ensure that – when needed – they implement responsible measures that will result in stable, affordable regional housing markets. 20

RECOMMENDATION 2

The Government of Canada examine increased support for first-time homebuyers. 20

RECOMMENDATION 3

The Government of Canada use Statistics Canada to address the gaps in housing-related data by creating a nationwide database that incorporates research from provincial/territorial and municipal governments, as well as research organizations. Such a database should provide data on home purchases and sales, homes purchased with cash, non-primary mortgage lending, foreign ownership of homes, loan-to-value statistics in relation to Canadian homes, Canada's rental markets, investors in Canada's housing markets, and the demographic profile of homeowners. 28

RECOMMENDATION 4

The Government of Canada ensure that further changes to Canada's mortgage regulations do not occur until sufficient time has passed to assess the effects of the 3 October 2016 changes to those regulations. 45

RECOMMENDATION 5

The Government of Canada endeavour to ensure that mortgage regulations treat all mortgage lenders fairly. 45

APPENDIX A: RECENT CHANGES TO HOUSING FINANCE

Effective October 2008:

- Maximum amortization period of 35 years
- Minimum down payment of 5%
- Consistent minimum credit score requirement
- New loan documentation standards

Effective April 2010:

- Debt servicing standards calculated based on the higher of the mortgage contract rate or Bank of Canada conventional five-year fixed posted mortgage rate, for mortgages with variable interest rates or fixed interest rates with terms less than 5 years
- Maximum refinancing limited to 90%of the property value
- Minimum down payment of 20% on non-owner-occupied investment properties

Effective March 2011:

- Maximum amortization period of 30 years
- Maximum refinancing limited to 85% of the property value
- Withdrawal of government guarantees on low-loan-to-value non-amortizing secured lines of credit (effective April 2011)

Effective July 2012:

- Maximum amortization period of 25 years
- Maximum refinancing limited to 80% of the property value
- Maximum gross debt service ratio at 39% and the maximum total debt service ratio at 44%
- Maximum purchase price of less than $1 million

Effective February 2016:

- Minimum down payment of 10% for the portion of a house price above $500,000

Effective October 2016:

- Requiring all insured mortgages to qualify under maximum debt-servicing standards based on the higher of the mortgage contract rate or Bank of Canada conventional five-year fixed posted mortgage rate

- Standardizing eligibility criteria for high- and low-ratio insured mortgages (effective November 2016)

Source: Department of Finance, *Balancing the Distribution of Risk in Canada's Housing Finance System*, 28 February 2017.

APPENDIX B
LIST OF WITNESSES

Organizations and Individuals	Date	Meeting
Bank of Canada	2017/01/30	67
Don Coletti, Advisor to the Governor		
Sylvain Leduc, Deputy Governor		
Canada Mortgage and Housing Corporation		
Michel Laurence, Vice-President Housing Markets and Indicators		
Michel Tremblay, Senior Vice President Policy, Research and Public Affairs		
Canadian Bankers Association		
Alex Ciappara, Director Credit Market and Economic Policy		
Canadian Credit Union Association		
Robert Martin, Senior Policy Advisor		
Christopher White, Vice-President Government Relations		
Canadian Housing and Renewal Association		
Jeff Morrison, Executive Director		
Genworth Canada		
Stuart Levings, President and Chief Executive Officer		
Winsor Macdonell, Second Vice-President and General Counsel		
Office of the Superintendent of Financial Institutions		
Judy Cameron, Senior Director Legislation, Approvals & Strategic Policy		
Carolyn Rogers, Assistant Superintendent Regulation Sector		
Royal Bank of Canada		
Robert Hogue, Senior Economist		
Association des professionnels de la construction et de l'habitation du Québec	2017/02/01	68
Georges Lambert, Senior Economist		
François Vincent, Policy Director		
Canada Guaranty Mortgage Insurance Company		
Andrew Charles, President and Chief Executive Officer		

Organizations and Individuals	Date	Meeting
Canadian Home Builders' Association	2017/02/01	68
Jason Burggraaf, Government Relations and Policy Advisor		
Bob Finnigan, President		
Canadian Mortgage Brokers Association		
Nicholas Hamblin, President Atlantic Chapter		
Kim McKenney, Secretary and Board Member Ontario Chapter		
Ajay Soni, President National		
DLC Canadian Mortgage Experts		
Michael Lloyd, Mortgage Expert, Team Lead		
First National Financial		
Stephen Smith, Chairman and Chief Executive Officer		
Mortgage Professionals Canada		
Paul Taylor, President and Chief Executive Officer		
Nova Scotia Home Builders' Association		
Tamara Barker Watson, President		
Sherry Donovan, Chief Executive Officer		
Alberta Mortgage Brokers Association	2017/02/08	70
Adil Mawji, Vice-President		
Katherine McDowell, President		
Amanda Roy, Executive Director		
Appraisal Institute of Canada		
Dan Brewer, President		
Keith Lancastle, Chief Executive Officer		
Canadian Real Estate Association		
Shaun Cathcart, Senior Economist		
Gary Simonsen, Chief Executive Officer		
Dominion Lending Centres		
Gary Mauris, President		
David Teixeira, Vice-President Marketing, Public Relations and Communications		
Québec Federation of Real Estate Boards		
Paul Cardinal, Manager Market Analysis		
Pénéla Guy, Chief Executive Officer		

Organizations and Individuals	Date	Meeting
Urban Development Institute of Nova Scotia	2017/02/13	71
David Graham, Director		
Canada Mortgage and Housing Corporation		
Steven Mennill, Senior Vice-President Insurance		
Evan Siddall, President and Chief Executive Officer		
Michel Tremblay, Senior Vice President Policy, Research and Public Affairs		
Department of Finance		
Cynthia Leach, Chief Housing Finance, Capital Markets Division Financial Sector Policy Branch		
Rob Stewart, Associate Deputy Minister and G7/G20 and Financial Stability Board Deputy for Canada		
Ginette Petitpas Taylor, Parliamentary Secretary to the Minister of Finance		

APPENDIX C
LIST OF BRIEFS

Organizations and Individuals

Appraisal Institute of Canada

Association des professionnels de la construction et de l'habitation du Québec

British Columbia Real Estate Association

Canadian Home Builders' Association

Canadian Mortgage Brokers Association

Canadian Real Estate Association

Desjardins Group

Dominion Lending Centres

Dunning, Will

Equitable Bank

First Foundation Mortgages Inc.

Genworth Canada

Jones, Alrica

Meridian Credit Union Limited

Mortgage Architects

Mortgage Professionals Canada

Parkbridge Lifestyle Communities Inc.

Québec Federation of Real Estate Boards

The Mortgage Advisors

The Mortgage Centre

TMG The Mortgage Group Canada Inc.

Trillium Housing Non-Profit Corporation

Verico Financial Group Inc.

REQUEST FOR GOVERNMENT RESPONSE

Pursuant to Standing Order 109, the Committee requests that the government table a comprehensive response to this Report.

A copy of the relevant Minutes of Proceedings (Meetings Nos. 67, 68, 70, 71, 73, 75, 78 and 79) is tabled.

Respectfully submitted,

Hon. Wayne Easter
Chair

Dissenting Report from the Official Opposition

As Members of the Official Opposition, we would like to thank the witnesses who appeared before the committee and those who submitted briefs as part of the study on the real estate market.

As the government continues to raise taxes on Canadians, we thought that a study on the real estate market would be appropriate, since people need to save money in order to make the biggest investments they will ever make in their lives.

Following several weeks of testimony, with 44 witnesses heard and 23 briefs submitted, it is clear that the October 3rd, 2016 changes to mortgage rules have had negative effects on the Canadian housing market and economy.

Namely, these changes have made it more difficult for homebuyers to get approved for a mortgage. This has both negatively impacted homebuyers, mortgage brokers and the construction industry.

In the long term, these changes will create a less competitive marketplace, making it harder for Canadians in rural areas to apply for a mortgage and thus alienating a generation of first time homebuyers.

Moreover, these changes, which were designed to solve problems in so-called ‘heated home markets’, are a one-size-fits all solution that has unfortunately hurt other housing markets across the country.

These changes were implemented with no consultation and the results have been clear.

In developing this Dissenting Report, we, members of the Official Opposition on Finance Committee, focus on recommendations that respond to the testimonies given at Finance Committee.

In expressing our concerns, we can categorize them under four categories: impact on first-time homebuyers; impact on the construction industry; impact on mortgage brokers & credit unions; and impact of ‘one-size-fits-all’ policy.

Impact on First-time Homebuyers

The October 3rd changes have made it harder for Canadians to get a mortgage, putting the dream of home-ownership out of reach for many. In fact, the Bank of Canada estimates that 1/3 of mortgages issued in the past 2 years would not qualify under the new rules.

Stakeholders broadly supported this view. Desjardins Group pointed out that first-time homebuyers were the most affected by the new test, with 66,500 fewer housing starts as a result. The Quebec Federation of Real Estate Boards estimated that between 5,000 and 6,000 Quebec households will delay their purchase of a home beyond 2017.

The Association des professionels de la construction et de l'habitation du Quebec anticipated that 74,000 Canadian households will have difficulties purchasing a home in 2017 because of the changes. Mortgage Professionals Canada said that one third of existing borrowers with insured mortgages would have difficulty meeting the new stress test requirements. They went on to remark that the changes have led to 42,000 fewer home sales, resulting in 15,700 lost jobs. The Nova Scotia Home Builders' Association said that a mortgage lender in Newfoundland expected that 25%-30% of its existing borrowers would not qualify because of the changes. A number of stakeholders, including Genworth Canada, expected a large reduction in the number of first-time homebuyers entering Canada's housing market. Genworth speculated that the reduction could be as large as 25%.

In responding to these concerns, we believe that the Minister of Finance shall reverse changes made on October 3rd, 2016 based on the impact they are having on Canada's economy, including the real estate and mortgage industry, the residential construction industry, and household consumption.

We also believe that the Minister of Finance shall direct his department to study options to modify the stress test so that it doesn't negatively affect first-time home buyers.

Finally, we believe the minister of Finance shall conduct broad stakeholder consultations prior to unilaterally introducing changes to the mortgage rules.

Going forward, we will continue to advocate for the needs of first-time homebuyers. The dream of homeownership is important and policies like the October 3rd changes which damage this goal should be reversed.

Impact on the Construction Industry

It is expected that these changes will harm the Canadian economy by lowering economic activity in the construction industry. In fact, the Bank of Canada has estimated that the blow to the construction industry could cost the Canadian economy as much as $6 billion by 2018.

Many of the testimonies at the Finance Committee supported this view. The Quebec Federation of Real Estate Boards estimated that these changes would result in $220 million in housing-related spending being foregone. Moreover, the Association des professionels de la construction et de l'habitation du Quebec suggested that Canada's home improvement sector will be affected by these changes. The Nova Scotia Home Builders' Association thought that the country's home construction sector would also be negatively affected by the changes and predicted that 2017 would be worse for the sector than 2015 or 2016, which were the worst years on record in Atlantic Canada.

In order to attempt to alleviate this pressure, we believe that the Minister of Finance should work with provincial and territorial governments and examine ways to reduce the excessive regulatory burden at all levels of government that cause delays in the approval of housing development projects including red tape, fees, and taxation.

Going forward, the Official opposition will continue to advocate on behalf of policies that grow our economy and foster job creation. We will continue to oppose measures, like the October 3rd changes, that hinder economic activity and reduce jobs.

Impact on Mortgage Brokers & Credit Unions

It is clear based on testimony that these changes have adversely affected mortgage brokers and credit unions across Canada, particularly in rural areas. These changes have made them less competitive, particularly vis-à-vis the larger banks.

First Foundation Mortgages Inc., The Mortgage Group Canada Inc., and Verico Financial Group Inc. felt that the changes have created an uneven playing field because banks do not need to securitize loans. Verico went on to suggest that these changes will reduce the profitability of non-bank mortgage lenders. The Canadian Bankers Association pointed out that small banks are affected by these changes and the Canadian Credit Union Association explained that – unlike Canada's large banks – the changes will be a problem for some credit unions who cannot diversify their activities. Ten stakeholder groups (referenced in the Committee Report on p.66) predicted that the changes would reduce competition among mortgage brokers, while a number of small mortgage brokers made it clear that these changes would advantage the large banks.

As it affects rural communities, the Canadian Mortgage Brokers Association commented that the changes may induce many mortgage lenders to reduce their activity in rural areas because of an increased risk of lending there. The Canadian Credit Union Association also expected fewer mortgage approvals in Canada's rural and remote regions.

To add to this, many stakeholders in this group responded negatively to the suggestion that the Liberal government was considering further changes to risk-sharing on mortgages. A large majority of testimony advocated a "pause" on any further changes.

We believe the government needs to ensure that these small mortgage lenders and Credit Unions remain competitive, rather than advantaging the large banks. Also, it needs to ensure that no further changes are introduced that could cause further damage. Since the changes on October 3rd were made without prior consultation, they were not evidence-based policies and they hurt rural communities and reduce the competitiveness of Canada's small mortgage lenders and credit unions.

Going forward, the Official Oppositon will continue to advocate on behalf of small businesses and Credit Unions to ensure that Canadians have a healthy and competitive financial sector that does not adversely impact Canada's rural communities.

Impact of 'One-size-fits-all' Policy

It is clear that these policies were designed with only specific regions of Canada in mind – specifically the "heated" housing markets of Toronto and Vancouver. Unfortunately, the policies have had a negative impact on other housing markets across the country, given the vast difference in housing markets from coast to coast to coast. One witness went as far as to say that the changes were akin to “bashing a nut with a sledgehammer”.

While the Canada Mortgage and Housing Corporation (CMHC) President suggested that the measures were “not targeted at escalating house prices in the greater Toronto and Vancouver markets”, this was directly contradicted by the Parliamentary Secretary to the Minister of Finance, who stated “it is vital that we do what we can to ensure that the market is stable, and to provide peace of mind to home owners across Canada. Especially in markets like Vancouver and Toronto, there is a risk that some middle-class families buying their first home could be taking on high levels of debt as house prices climb, reducing the likelihood that they would be able to afford their properties over the long-term if economic situations or circumstances occurred”. It is clear that the Liberal Government is not even on the same page regarding the desired effect of these policies, which is not surprising given the lack of consultation on these changes.

Much of the testimony supported the view that these changes were a “one-size-fits-all” solution. The Canadian Home Builders’ Association, DLC Canadian Mortgage Experts, and First Foundation Mortgages Inc. felt that the October 3rd changes were designed to address housing market imbalances in the Greater Toronto Area and the Greater Vancouver Area, but noted that the changes had nation-wide impacts. The Nova Scotia Home Builders’ Association concurred, suggesting that the blanket policy is having unintended consequences and that the notion-wide policy is not appropriate given that it is harming the country’s entire economy. Canada Guaranty Mortgage Insurance Company pointed out that, because Canada comprises several regional housing markets, national housing-related policies are not always appropriate. The Canada Mortgage Brokers Association also suggested that region-specific housing-related policies have been successful in the past.

We believe that the Minister of Finance needs to work with provincial and territorial governments and the industry to develop mortgage and housing strategies that reflect our diverse housing markets across different regions, rather than imposing ‘one-size-fits-all’ solutions. Consultations prior to the changes on October 3rd would have identified the dangers of this one-size-fits-all policy.

Going forward, the Official opposition will advocate for regionally-tailored solutions to local problems, rather than imposing national policies that hurt Canadians from coast to coast to coast, particularly in rural and remote communities.

Conclusion

In conclusion, it is clear that these measures were poorly developed and poorly received. The Liberal Government did no effective consultation, which could have identified the challenges to first-time homebuyers, the construction industry, and mortgage brokers. Moreover, they are unwilling to admit their mistake in the face of mounting evidence that these changes are hurting these groups, along with others.

Going forward, the Official Opposition recommends that these changes be reversed. Housing policies in Canada should encourage, rather than discourage home ownership. They should help foster a more competitive mortgage lending industry, rather than advantaging the large banks. And they should not adversely impact rural and remote communities. By designing a policy that does these things and takes into account the regional nature of Canada’s diverse housing markets, we could see a much stronger housing market in Canada.