MORTGAGE PROFESSIONALS CANADA

PROFESSIONNELS HYPOTHÉCAIRES DU CANADA

Submission to the Senate Standing Committee on National Finance by Mortgage Professionals Canada

Re: Bill C-97, Budget Implementation Act, 2019

May 31, 2019

Dear Senators:

RE: Bill C-97, An Act to implement certain provisions of the budget tabled in Parliament on March 19, 2019 and other measures

After 14 months of a national housing slowdown largely caused by new federal lending regulations, including mortgage insurance eligibility changes and new lending guidelines, Mortgage Professionals Canada, along with other housing and lending industries from across Canada, had been looking to the March, 2019, Federal Budget to provide relief to existing and aspiring homeowners across Canada.

Mortgage Professionals Canada had been asking for a number of changes to the mortgage macro-prudential rules, but primarily:

a) a reduction in the mortgage rule stress tests (commonly described as "B-20"),
b) the re-introduction of an mortgage insurance eligible 30 year amortization for first time buyers,
c) a stress test exemption for borrowers who have paid as agreed through their first term and who wish to renew with another lender, and;
d) an increase in the RRSP withdrawal limit under the First Time Home Buyers Plan.

All of these requests were made in the interest of supporting access to home ownership for younger, aspiring middle class Canadians, whose long term economic well-being has been disproportionately disadvantaged by the recent changes.

The 2019 Budget included some measures that addressed our concerns, and also created some concerns. Firstly, we thank the government for implementing an increase in the Home Buyer's Plan RRSP withdrawal limit, from $25,000 to $35,000. This increase is appropriate given that the previous limit has been in place since the 1990s. In addition to the increase, and perhaps potentially of more supportive value, the program will expand eligible participants to include those who have experienced the breakdown of a marriage or common-law partnership beginning in 2020. We are very encouraged by this and are hopeful this program expansion will assist many broken families find their footing in a new home more quickly. We appreciate the amendments made to this program.

A highlight of the Budget, the **First Time Home Buyers Incentive Program** (FTHBI) has added to the national conversation on housing affordability; however, this program will likely not provide the support to the marketplace that we feel is needed.

Briefly, the new program aims to share equity in the home; for qualifying purchasers, CMHC will co-own either 5% of a home, if it is existing residential stock, or 10% if it is newly constructed, through a shared equity mortgage. Because CMHC owns 5 or 10% of the home, the purchaser's monthly living expenses will be reduced as the traditional mortgage will be smaller, reduced by the same percentage as CMHC's ownership.

The difficulty we see with this program is that it seems not to actually assist anyone to qualify to purchase a home who would not have otherwise qualified. In addition, those that do qualify will need to be comfortable with the government sharing ownership in their home, and

understanding that it also will share in the appreciation of the home value when the home is sold. Given that these purchasers won't need the new program to qualify, **the number of first time buyers who we expect to take advantage of FTHBI is very small.**

Additionally, the program restricts qualification to purchasers earning less than $120,000 annually, and limits the collective mortgage sizes to four (4) times the actual household income. All things being equal, most families with reasonable credit would generally qualify for a traditional insured mortgage of around 4.7 or 4.8 times household income. So while the new program would reduce carrying costs, it would also further limit purchase power of those in the lowest brackets, reducing the available stock of homes.

In our view, **the FTHBI program is an academic approach to solving a problem which we expect will have limited take up.** For comparison, the concept behind federal program is familiar to British Columbia legislators: The BC Home Owner Mortgage and Equity Partnership program ended March 31, 2018, 15 months after it was introduced, "due to its **low participation rate**." As the B.C. Government stated when ending the scheme, "When the program was first introduced, it was anticipated it would provide 42,000 loans over a three-year period, however, as of January 31, 2018, fewer than 3,000 loans were approved."

A similar fate may befall FTHBI, should it actually begin in September as planned. While the federal program is not quite the same structure, some could argue the BC program was more appealing to would-be home purchasers, providing interest free mortgages with no required payments for the first 5 years. Loans of up to 5% of homes purchased under $750,000, were permitted; a considerably higher values than the maximum purchase price possible through the First Time Home Buyers Incentive Program.

In discussions with our lender and insurer members, an additional consideration identified is **the considerable IT infrastructure spending required to enable the program**. Across the mortgage lending industry, the combined total expense will be significant. We suspect upon reflection, the required industry investment will prove excessive for the limited take up received.

(Of note, our testimony to FINA re Bill C-97, made May 16, 2019, is also of current relevance. Several Members of Parliament asked us questions, primarily focused on FTHBI. The transcript is available here: https://mortgageproscan.ca/docs/default-source/government-relations/fina-testimony-transcript-2019-05-16.pdf.)

For these reasons, we continue to **recommend the reintroduction of a 30-year amortized insured mortgage for first time buyers** as a more practical, accessible, inexpensive, and more assistive measure. This is a recommendation MPC developed in coordination with Canadian Home Builders Association (CHBA) and other associations and stakeholders in the Canadian real estate sector. We believe it to be a sensible, workable, easily implemented option for the government, **increasing the buying power of first-time homebuyers by approximately 20 percent**, and likely helping 15,000 to 20,000 aspiring homeowners nationwide, primarily from the Millennial cohort.

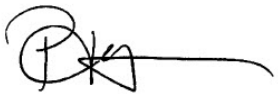
We were disappointed not to see any amendments to the B-20 stress tests in the budget. Given the continued reductions in real estate transactions across Canada, and the significant price erosions that are now taking place in many regions, usually in regions that are already

economically weaker, we anticipated some adjustment. Critics have suggested our recommended amendments will inflate house prices in hot markets. In our view, we are simply asking for a reduction in the suppression we are witnessing with the stress test at its current benchmark or 2% level. We feel a 75 basis point test would bring greater equilibrium to market activity, improving activity without adding excitement.

Lastly regarding stress tests, we continue to strongly **recommend that borrowers who wish to move their mortgage at renewal be exempt from a stress test**. (Currently, a borrower is exempted from mortgage stress testing only if they remain with their current lender, which, objectively, is seen as anti-competitive and anti-consumer.) This is to be a supportive measure to ensure Canadians who have a proven history of paying as agreed are able to access competitive interest rate and product offerings, and not be restricted solely to their incumbent lenders' renewal offer.

On behalf of our many members and their hundreds of thousands of clients across Canada, thank you for providing Mortgage Professionals Canada the opportunity to share our perspective.

Sincerely,



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About Mortgage Professionals Canada

Mortgage Professionals Canada (MPC) is the national mortgage industry association representing 11,500 individuals and 1,000 companies, including mortgage brokerages, lenders, insurers and industry service providers. Our members make up the largest and most respected network of mortgage professionals in Canada. MPC represents members' interests to government, regulators, media and consumers. With our members, the association is dedicated to maintaining a high standard of industry ethics, consumer protection and best practices.

The mortgage broker channel originates over 35% of all mortgages in Canada and 55% of mortgages for first-time homebuyers, representing approximately $80 billion dollars in economic activity annually. With our diverse and strong membership, Mortgage Professionals Canada is uniquely positioned to speak to issues impacting all aspects of the mortgage origination process.