MORTGAGE
PROFESSIONALS
CANADA

Housing Accessibility and Affordability:
A Pre-Budget Submission by Mortgage Professionals Canada

August 2023

Recommendations

1. Increase the insured mortgage cut off from $1 million to $1.25 million, and index it to inflation to better reflect today's housing prices;
2. Introduce a return to 30-year amortization periods for insured mortgages to allow greater opportunities for homeownership and to level the playing field for all homebuyers;
3. Eliminate the stress test on mortgage transfers, switches and renewals to help Canadians find the financing solutions that best fit their needs and budget;
4. The creation of a permanent roundtable on housing that brings together all orders of government, industry and civil society to develop harmonized solutions to the housing supply and affordability crisis; and
5. Grant an income verification tool to the mortgage industry to help crack down on fraud

Introduction

Mortgage Professionals Canada (MPC) on behalf of its more than 15,000 members, is committed to improving housing affordability, strengthening Canada's middle class, and bringing the dream of homeownership to life for Canadians across the country.

Canadians are facing persistent housing affordability challenges due to economic pressures. With interest rates now at the highest levels in 22 years, Canadians are facing significant challenges entering the housing market and continuing to make payments on their mortgage. The current environment is particularly tough on young professionals and families and their ability to afford a home.

With shifting market conditions, we believe our recommendations help address Deputy Prime Minister Freeland's and Minister Fraser's mandate to tackle housing affordability for middle class Canadians, giving people greater flexibility to face unforeseen economic circumstances, while improving mortgage affordability.

Canadians' biggest expense every month is keeping a roof over their head. With the latest series of Bank of Canada rate increases, that became even more difficult to pay for. After the July rate hike, the cost of mortgage borrowing increased more than 70% since the Bank of Canada's initial increase last March.

A crucial component to Canada's economic strength is a return to financial stability for Canadians. A significant component of this stability is ensuring Canadians can afford homes in which to live and raise their families. Canadians right across the country are feeling the pinch, with recent polling by Ipsos indicating that 68% of Canadian Gen Z and Millennials feel buying a home is more out of reach than their parents' generation. With the right policies in place, the federal government can help ensure the dream of homeownership remains available to Canadians.

Mortgage Professionals Canada Recommendations

1. Increase the insured mortgage cut off from $1 million to $1.25 million

Increasing the insured mortgage cut off to $1.25 million and indexing it to inflation will help to better reflect today's home prices, enabling first-time homebuyers and young families, particularly those in urban settings, achieve their dreams of home ownership.

Why It Matters to Canadians

Despite the transition to a higher cost borrowing environment and an overall decline in housing prices, many first-time homebuyers who do not have a 20% down payment are currently being priced out of the housing market.

The increased pressure is also reflected in the year-over-year increase in the number of people who required outside help from family members or others to make their down payment, who would otherwise have been unable to afford their home. This was at 56% at 2021 year-end, increasing to 62% by the end of 2022.

2. Return to 30-year amortization periods for insured mortgages

Expanding the maximum amortization period for insured mortgages to 30 years will allow greater opportunities for home ownership and will contribute to economic revival and recovery.

Why It Matters to Canadians

Housing costs are the largest and fastest growing expense for households in Canada, with housing prices having risen higher than income. Rising costs put a disproportionate burden on middle class households and young families.

CMHC recommends that "monthly housing costs should be no more than 32% of your average gross (pre-tax) monthly income." However, recommendation is far from the reality of the majority of Canadian homeowners. In December 2022, a report by RBC noted that 62.7% of household income is needed to cover home ownership costs, the worst level on record. The same report found that buyers in Vancouver and Toronto must earn $268,000 and $240,000 annually, to qualify for a home valued at the benchmark price, with 25-year amortization. Nationally, the income required to purchase a home at the benchmark price was $164,100.

Allowing homebuyers a choice between 25-year and 30-year amortization for insured mortgages would help level the playing field for first-time homebuyers and improve their ability to afford a home by lowering their overall mortgage payment.

3. Eliminate the stress test on transfers, renewals and mortgage switches

Eliminating the stress test on mortgage transfers and renewals will allow Canadians greater choice and create more affordability by promoting competition amongst mortgage providers, ensuring Canadians are getting the best mortgage rates and products that suit their needs. Similarly, we recommend that mortgages switched between properties should not be stress tested, provided that there is no increase in the principal.

Why It Matters to Canadians

Canadians looking to switch mortgage providers face the obstacle of repeating the stress test if they decide to transfer or renew their mortgage with another institution. With interest rates much higher than previously, there will be large numbers of renewing borrowers who risk failing the stress test if they choose to move their mortgage to another provider. The current situation creates the risk of trapping many Canadians in a precarious financial scenario; one that rewards predatory lenders at the expense of Canadians trying to make ends meet.

4. The creation of a permanent roundtable on housing that brings together all levels of government, industry, and civil society to develop harmonized solutions to the housing supply crisis.

In the OECD's latest economic outlook published in June 2023, the OECD notes "high costs of housing can make it hard for people to pursue jobs in high-wage, high-productivity cities. Paring back constraints on densification in urban areas, while investing in infrastructure, would help accommodate new residents and limit future growth in housing costs."

Jurisdictions such as British Columbia, Ontario, and the City of Toronto have been playing a leadership role in addressing barriers to supply such as zoning, municipal bylaws and approval processes and timelines. We believe that the federal government has a role to play in supporting provinces as they tackle the housing crisis and addressing barriers to supply. That is why we would support a permanent roundtable on housing that brings federal, provincial, and municipal stakeholders together, as well as civil society organizations, including the home financing and real estate sectors.

One example of the benefits of a permanent roundtable would be the federal government working with provinces and municipalities to expedite the use of surplus land and buildings for housing development. Another could include measures targeting immigration policy towards skilled trades such as construction workers, electricians and others who could boost housing supply, while slowing down international student visa approvals until provinces require universities and colleges to build more housing for them.

As shown by the Auditor General report released in November 2022, many federal housing initiatives have not delivered results on budget and on schedule and have been inefficient, with little data to demonstrate their impact. We believe that addressing housing supply is critical, and requires coordination across orders of government, along with industry and civil society.

Why It Matters to Canadians

C.D. Howe Institute recently released a study that shows between 2011 to the end of 2021, a single-detached home in Vancouver cost homebuyers nearly $1.3 million more than what it would physically cost to build in a market without barriers to supply. Homes in the Toronto area now cost homebuyers $350,000 extra over the cost to build. A permanent housing roundtable would help all levels of government, industry and civil society to come together to develop harmonized solutions to some of these pressing problems as well as the sharing of best practices across jurisdictions.

5. Grant a digital income verification tool to the mortgage industry to help crack down on fraud

*Data gathered by Equifax

Equifax Canada has warned that increasing financial pressures on Canadians could lead to a spike in fraud, particularly mortgage fraud. Mortgage fraud remains 29.5% higher than before the pandemic. This is a growing concern to be addressed.

We are encouraged that the Canada Revenue Agency is already engaged on validation options such as a tool which will help trusted third parties to obtain a simple yes or no validation of Line 15000 of a tax return to verify income. This tool is a timely and necessary solution required by the mortgage industry. which will help to reduce fraud across the housing sector. A digital income verification tool is an urgently required fraud prevention solution, particularly as client communications have evolved from traditional in-person to remote, technology-based client interactions.

From brokers to lenders and banks, our industry is committed to routing out and protecting against fraud. This starts with keeping the personal financial information of consumers safe, secure, and confidential. But it relies on secure access to confidential consumer information.

Currently, mortgage applicants can only provide the necessary income verification information (Line 15000) on a tax return, which lists gross income to brokers and lenders by:

- downloading their own T1 Assessment, Notice of Assessment, CCB Letter, Statement of Accounts, and T4 via the CRA's My Account service; or
- ordering a copy of a proof of income statement to be mailed to them, which can take up to 10 days to receive by mail.

Further complicating the ability of our industry to verify the validity of these documents is a recent revision to the My Account service, which removes an individual's name from their own T4 when downloaded. Without any official method of confirming the identity of the T4 in question, the risk of fraud has increased tremendously.

Mortgage Professionals Canada supports the Canada Revenue Agency assessment of the best delivery mechanism for a tool that would allow trusted third parties to validate whether a tax return is legitimate.

By enabling the option of digital income verification for mortgages by banks, brokers, insurers, and lenders – with clients granting the appropriate permissions – the CRA would be providing a tool to validate the accuracy of financial details in mortgage applications and protect the confidentiality of personal information.

By granting the mortgage industry a secure income verification tool would:

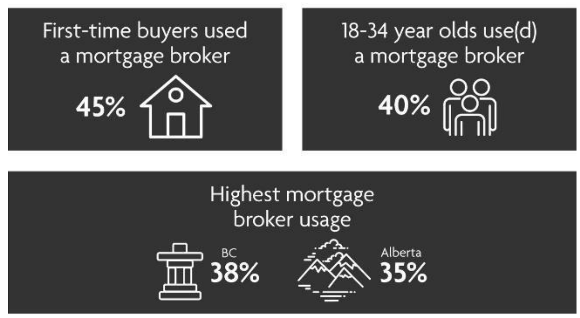
- ✓ significantly increase the ability for lenders to meet the requirements outlined in Guideline B-20, and
- ✓ ultimately better protect consumers, banks, credit unions and lenders from fraudulent misrepresentation.

Why It Matters to Canadians

In providing digital income verification to the mortgage industry, the CRA would help preserve the integrity and confidential financial security of Canadians when they are making the largest financial purchase of their lives and reduce potential opportunities for fraudulent misrepresentation. Income document fraud hurts consumers, undermines Canada's reputation, and ultimately impacts investment, as shown by reports of increased instances of title and mortgage fraud in the Greater Toronto Area and British Columbia and of money laundering in real estate transactions. The broader prevalence of artificial intelligence has also allowed for fraudsters to replicate documents more easily.

About Mortgage Professionals Canada

We are Canada's mortgage industry association with over 15,000 members and more than 1,000 member firms. We are a non-profit association representing mortgage brokers and agents, as well as banks, lenders, insurers, and service providers, making up the largest network across the country.



We are proud to be the industry that provides Canadians with choice when making the most important financial decision of their lives and help people achieve the dream of homeownership. You can find one of our licensed brokers on findmeabroker.ca