



June 28, 2019

To: The Select Standing Committee on Finance and Government Services

On behalf of the Mortgage and Title Insurance Industry Association of Canada (MTIAC), we are pleased to participate in the Government's 2020 Pre-Budget Consultations.

MTIAC represents a group of private-sector mortgage default insurers and title insurers. Our members are:

- Canada Guaranty
- Chicago Title Insurance Company Canada
- FCT Insurance Company Ltd.
- Genworth Canada

Collectively, MTIAC members are proud to have helped millions of Canadian families and individuals realize the dream of homeownership. We are committed to building on that success by continuing to work with governments across Canada to reduce barriers to responsible homeownership, including by improving housing affordability, and ensuring a safe, stable and fair real estate marketplace.

In recent years, policy changes at the federal level, combined with insufficient housing supply that has not kept pace with demand in British Columbia, have contributed to a decline in housing affordability.

Since the global financial crisis, government actions undertaken to temper the housing markets have focused on managing demand. All the while, British Columbia, and the Greater Vancouver Area in particular, has experienced increased housing demand without a corresponding increase in supply. While federal actions have succeeded in reducing indebtedness and have contributed toward stabilizing housing markets across Canada, they have also left many aspiring homeowners with an increasingly uphill battle to be able to achieve the dream and security of homeownership.

The impact of this has reverberated across the housing continuum, including in rental and subsidized housing. Our members, in particular our mortgage insurer members, are primarily focused on the first time buyer market. Our members are seeing firsthand that the growing imbalance between supply and demand has led many aspiring first time buyers to make tough choices: live with family, continue to rent, buy a smaller home not suitable for their growing family, or borrow from a private lender.



Many respected entities have pointed to how challenges with housing affordability have wider economic and socio-economic consequences. For example, the problem of decreased housing affordability in Canada was recently explored by the International Monetary Fund, who pointed out that “Deteriorating affordability raises not only important social concerns, but also economic ones, as it works against attracting and keeping talent in Canada’s most dynamic urban centers. Thus, it can have a negative effect on growth, productivity, and innovation.”¹

In light of these concerns, we are pleased to provide the following recommendations to improve housing affordability for British Columbians:

1. Combat fraud and money laundering

Money laundering and other criminal activities are a threat to B.C.’s real estate market and have an adverse effect on affordability. That’s why we were encouraged when the Expert Panel on Money Laundering in B.C. Real Estate acknowledged that “Money laundering significantly damages our society and causes ongoing harm...” and that “It affects real estate markets and contributes to the housing affordability problem.”

We congratulate the Government on taking the important step to form the Expert Panel and were pleased to make recommendations to them in support of their work. In our submission, we made a number of recommendations for increased penalties, improved enforcement, and enhanced education for enforcement bodies, in order to better prosecute offenders and deter future criminal activity.

In its findings, The Expert Panel agreed that “Core federal anti-money laundering legislation and practice are in urgent need of reform.” and that “Investigative capacity and cooperation also need to be enhanced.”

We were pleased that the Expert Panel made recommendations to the government aimed at increasing and improving enforcement activities, as well as providing greater educational resources to enforcers (Recommendations 19, 20 & 22).

As such, we encourage the Government give serious consideration to these recommendations from the Expert Panel and reiterate our suggestion that the government:

¹ International Monetary Fund. (2018). Canada, Selected Issues (IMF Country Report No. 18/222). Retrieved from: <https://www.imf.org/~media/Files/Publications/CR/2018/cr18222.ashx>



- I. Create specific laws that address real estate fraud and money laundering and create greater clarity for enforcement agencies and the courts;
- II. Increase penalties for money launderers and fraudsters and encourage the federal government to do the same;
- III. Invest more funds to educate, train, and resource law enforcement agencies and the courts to ensure that fraud and money laundering is understood and prosecuted; and
- IV. Ensure adequate and sustainable funding for enforcement activities.

2. Improve housing affordability by increasing supply

Housing supply is not keeping pace with demand, and government leadership is required to fix this problem.

According to the Urban Development Institute, municipalities in B.C. can take as long as five years to approve a proposal, and it can take another two to three years to get permits and build. At a time when affordability is already strained and supply is low, it is vital that this challenge be addressed.

That's why we are pleased that the government has undertaken a review of the development approvals process. This is an essential step to determine the most effective means to expedite development, which will in turn help to alleviate the chronic supply shortage that is contributing to the current housing affordability challenge. We congratulate the government on undertaking this important work and look forward to reviewing the findings of the Development Approvals Review Working Group.

While the province awaits their findings, we recommend that the Government of B.C. explore ways to enable and support municipal governments to increase housing supply and approve new housing construction projects. Further, the province should consider how to hold to account municipalities that fail to meet their duties to bring new housing online that is suitable and affordable for their communities, and reward those that do. This could include prioritizing investments in communities that prove their willingness to approve appropriate housing projects.



3. Increase Oversight of Unsophisticated Private Lending Activity

MTIAC's title insurance members know first-hand that private lenders play an important role in helping to facilitate mortgage loans for those individuals who are unable to find the solutions they need with other lenders. However, our members also see that the size, quality, and standards of private lenders can vary significantly, which can make some lenders a more likely and desirable target for fraudsters.

Increases in housing prices, coupled with recent federal government policy changes, have reduced the maximum mortgage that homebuyers are able to qualify for from federally regulated lenders, and have made it less possible for some borrowers to qualify for a loan from these lenders or from a credit union. With some borrowers unable to obtain a mortgage from these more heavily regulated lenders, private lenders are gaining market share and a greater percentage of new mortgage originations are being provided by less sophisticated and/or lightly regulated private lenders.

The Expert Panel on Money Laundering in B.C. Real Estate acknowledged this vulnerability in their finding that "BC regulation of mortgage lenders and intermediaries is antiquated and narrow."

Further, in Recommendation #9, the Panel suggests that "The BC government should replace the Mortgage Broker Act with a modern regulatory statute that is effective in regulating all those in the business of mortgage lending, with few exceptions."

We support this recommendation of the Panel and request that, to inform this work, the B.C. Government initiate a study of private lending activity, with a goal of bringing greater oversight, transparency, and consumer protection to this category of lending. This could potentially start with requiring brokers and lenders to disclose more information to their regulators, which would provide them with a better understanding of private lending activity and a more complete picture of the housing market as they consider future public policy decisions.

It could further involve engaging title insurers, who have direct exposure and claims experience with privately funded loans. These measures would serve to better protect consumers, as well as shine a light on a current blind spot for provincial regulators.



4. Continue to work with Federal Government to address housing affordability

Cross governmental cooperation is an essential component of efforts to improve housing affordability. MTIIAC recognises and congratulates the governments of Canada and B.C. for their demonstrated leadership in this regard, including their 2016 participation in a working group on housing affordability and their recent joint efforts to combat money laundering and fund enforcement resources.

Going forward, we encourage the Government of B.C. to continue to work with the Federal Government with an eye to addressing the following matters of Federal jurisdiction that are having a tangible effect on the ability of British Columbians to purchase a home:

I. Allow 30 year amortizations for insured mortgages

Since 2012, insured mortgages have been capped at a maximum amortization of only 25 years. Uninsured mortgages, on the other hand, can still be amortized for up to 30 years. This is a significant gap, as the difference in monthly payments between a 25 year and a 30 year mortgage effectively reduces the purchasing power of an insured borrower by about 20%.

As a solution, we recommend allowing insured buyers to enter into a 30 year amortization period.

Allowing 30 year amortizations for insured mortgages would be a significant benefit for those aspiring first time buyers seeking to compete for suitable real estate, closer to where they already live and work. It would level the playing field for insured borrowers by providing them with more opportunity to buy suitable homes that they can afford and help make their mortgage payments more manageable.

II. Reconfigure the stress test to be responsive to changing economic conditions and incent responsible borrowing choices

When the stress tests were introduced, Canada was in a lower interest rate environment, with expectations that rates would soon rise. The stress test is achieving its stated objectives of insulating Canadians against the various impacts of rising rates, while also serving to temper home prices.

Over time, however, markets change, and we believe that it is prudent to evolve the test so that it can be more responsive to today's market realities. Specifically, *we suggest that the degree of stress should be responsive to where rates are forecasted to peak, and incent borrowers to lock into safer and more stable mortgage products that serve to protect them against the risk of changing rates.*



III. Adjust the \$1M cap on insured mortgages to reflect today's housing market and regional market realities

Currently, the maximum sale price of a property that can have an insured mortgage secured against it is \$1M. This cap was implemented in 2012 and, as such, we believe it is time to recalibrate the cap to make it more responsive to current market conditions.

According to data available from the B.C. Real Estate Association (BCREA), the average residential price in Greater Vancouver in July 2012 was \$474,954, well below the \$1M cap. As of May, 2019, however, the average residential price in Greater Vancouver stands at \$1,012,097. Further, data from RPS Real Property Solutions shows that more than 50% of all house transactions in Vancouver are now above \$1M, ensuring that a large contingent of insured buyers are effectively shut out of the market.

To address this obstacle, we recommend that the Federal Government develop a predictable, market-informed mechanism to adjust the cap in a way that recognises the diverse nature of local markets across Canada.

Thank you for this opportunity to provide our recommendations as part of the Budget 2020 consultation. We invite you to follow up with us directly if we can be of any further assistance. Please feel free to contact Ed Steel, Executive Director of MTIAC at ed.steel@mtiac-acahtc.ca at your convenience.

Sincerely,

A handwritten signature in blue ink, appearing to read "Randal Slavens".

Randal Slavens
President
MTIAC

A handwritten signature in blue ink, appearing to read "Ed Steel".

Ed Steel
Executive Director
MTIAC