MTIIAC
ACAHTC

February 12, 2020

The Honourable Bill Morneau
Minister of Finance
budget2020@canada.ca

Dear Minister Morneau,

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

MTIIAC represents a group of private-sector mortgage default insurers and title insurers. Collectively, MTIIAC 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 service of those goals, we are pleased to provide the following recommendations for consideration as part of the 2020-21 Federal Budget:

1. Combat mortgage fraud and money laundering in Canada's real estate markets

Money laundering and other criminal activities can pose a risk to Canada's real estate markets and have an adverse effect on affordability. Moreover, in markets experiencing high Home Price Appreciation (HPA), such as in the Greater Toronto and Vancouver Areas, that risk tends to increase, as borrowers and or those who have a stake in their mortgage application are incentivised to misrepresent their incomes and employment information in order to purchase a home.

Criminal organizations are similarly incentivised to commit fraud and money laundering in HPA markets, as rapidly changing valuations can make such activity more difficult to detect. Moreover, as recent events in British Columbia have suggested, the source of the funds to be laundered can originate from particularly reprehensible criminal activities, such as drug trafficking or human trafficking.

In recognition of these issues, we congratulate the Federal Government on the important steps it has taken to date to combat such criminal activity. Specifically, we were encouraged by the government's significant new investments in the RCMP and CRA to fight organized crime and money laundering, as well as the collaborative approach they have taken with the provinces.

Further, we recognise and appreciate that in the Mandate Letter to the Minister of Justice and Attorney General, the Government includes the direction to "..continue to develop new policies and legislation to reduce organized crime and gang activity in Canada, including money laundering."

To build off of this important progress, we are pleased to make the following recommendations to help fight fraud and money laundering in Canada's real estate markets:

I. <u>A more secure Notice of Assessment (NOA)</u>

One of the biggest challenges faced by lenders is the difficulty in verifying a mortgage applicant's income, particularly for the self employed or commissioned worker. A key document lenders use to verify income is the NOA, which is issued by the CRA.

The NOA has been simplified over the years, both from graphic design and informational perspectives, in an effort to make it easier to understand. Advances in technology, however, have also made it easier to manipulate or reproduce. This has, in turn, made it more difficult to identify altered or inaccurately reproduced NOAs.

Misrepresentations of a potential borrower's income are commonly encountered in suspected attempts at *fraud for shelter*, and altered or falsified NOAs can be used to support those misrepresentations. This creates a situation where a borrower appears to qualify for a mortgage based on sound underwriting principles and the caps on Total Debt Service (TDS) and Gross Debt Service (GDS), when in reality their income does not support it.

This may or may not involve the borrower as an active participant, but regardless, these misrepresentations put the homeowner, the lender, the Government-backed mortgage insurer, private insurers, depositors and investors at risk, while also serving to artificially inflate home prices.

Moreover, if a discrepancy between the NOA submitted to a lender and the NOA held by the CRA exists, it means that an attempted fraud or misrepresentation has likely occurred for one of two purposes:

1) To understate income to the CRA in order to avoid their tax obligations; or
2) To overstate income to a lender in order to bypass sound mortgage underwriting practices.

We recognize and appreciate that the CRA is aware of this issue and is exploring technological solutions to address it. We also recognize and respect the need to protect the security and privacy of taxpayer data.
Accordingly, we recommend that the CRA work towards changes to the NOA verification system that would improve the security and reliability of the document. Further, we urge the Minister of Finance and/or the President of the Treasury Board to specifically allocate funds for this work.

When fully implemented, such a system should be accessible to all lenders, both federally and non-federally regulated, as well as all mortgage default insurers and title insurers. It should also include appropriate safeguards to protect the security of taxpayers' personal and private information.

This will ensure that responsible parties are better able to verify the ability of borrowers to service their loans, as well as aid the CRA in their work to investigate tax evasion, while maintaining the highest standards for data security.

II. Work with the provinces to ensure that sanctions against mortgage brokers who have been found guilty of an offence are upheld interprovincially

The Federal Government is a leader in the Federation, as evidenced through their work with B.C., Ontario, Vancouver and Toronto on the issues of housing affordability and combatting real estate crime. Such leadership is a vital component of these efforts and we strongly support continued interjurisdictional cooperation of this kind.

An issue that could benefit from such leadership concerns the recognition of sanctions against certain provincially regulated real estate professionals. Currently, mortgage brokers found guilty of offenses in one province, and thus potentially suspended for a period of time, are not disqualified from operating in other provinces. Further, no national registry exists listing fraudulent brokers or those that have received disciplinary action.

We therefore encourage the Government to lead the provinces in creating a system for identifying those who have been found guilty of offences, so as to continue to hold them accountable when they move between jurisdictions.

III. Strengthen enforcement in the areas of mortgage and real estate crime

Overburdened police and courts tend to place low priority on mortgage fraud, in part due to being poorly resourced and often lacking the relevant knowledge and understanding of mortgage fraud.

While some are unsophisticated, mortgage frauds are also committed by organized criminals who do it to conceal or fund other crimes, including money laundering, terrorist funding, and the narcotics trade.

This was confirmed in March 2019, when the Expert Panel on Money Laundering in BC Real Estate released their report, which asserted that such activity “facilitates other criminal activities, contributing in particular to drug trafficking and the violent crime and opioid deaths that result.”

The Report further concluded that “Money laundering investment in BC real estate is sufficient to have raised housing prices and contributed to BC’s housing affordability issue.”

Mortgage frauds are clearly serious offences that threaten homeowners, buyers, industry professionals and the broader economy. And while the maximum penalty for fraud over $5,000, pursuant to section 380 of the Criminal Code, is ten years in prison, such schemes frequently exceed the $5,000, yet perpetrators are rarely convicted, let alone sentenced to any significant prison time.

To remedy this, we recommend that the Government:

- Create specific laws that address real estate fraud and money laundering;
- Increase penalties for money launderers and fraudsters;
- 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
- Ensure adequate and sustainable funding for enforcement activities.

IV. Improve consumer awareness and protection education

Consumer education is a vital component of any effort to combat fraud. It can help to protect the consumer by preventing victimization and decreasing the likelihood that they will become an unwitting participant in a fraud attempt. The Financial Consumer Agency of Canada (FCAC) is doing excellent work in this regard through their ongoing public education initiatives and by providing related educational resources. To build off of this foundation, we recommend that the Government:

- Increase investment in public education campaigns focused on how to detect and avoid red flags in the mortgage process. Such campaigns should be directed at those prospective buyers who are most likely to be targeted by fraudsters, namely first time buyers and newcomers to Canada; and

- Continue to work with industry stakeholders to ensure the most up to date information is included in any public education materials.

2. Improve housing affordability, especially for first time homebuyers

The Government has put growing the middle class at the centre of its policy agenda and made important strides to date towards this goal. The Canada Child Benefit, personal income tax cuts and historic investments in housing have all helped to ease some of the affordability challenges many Canadian families are facing.

As the government continues to place its focus on the issues contributing to these challenges, many Canadians still struggle to find suitable and affordable housing that is close to their work.

Since the onset of the global financial crisis, successive governments have taken important steps to strengthen Canada's mortgage and housing finance markets, control indebtedness in an environment of low interest rates, and help to maintain overall stability and soundness in our housing and financial systems.

In recent years, however, multiple factors have contributed to the growing challenge of housing affordability, especially for aspiring first time buyers and, in particular, those who are unable to save for or acquire sufficient down payments. This has left many aspiring homeowners with an increasingly uphill battle to be able to achieve the dream and security of homeownership.

Reduced affordability is incentivising them to move farther and farther away from employment centres in search of family friendly homes that they can afford and that are consistent with how they want to live and what they want to provide to their children.

This leaves them with the decision of whether to find new work closer to home, or whether to face long commutes, further stressing household budgets and costing them time away from family. As the number of commuters increases, it also adds an environmental and logistical burden to our transportation systems and trade routes, impeding the movement of goods and people and reducing productivity.

This is having an effect on local economies, especially in the GTA and GVA, where the lack of affordable housing and the burden of commuting is making it more difficult for employers to hire and retain the young workers they need to support their businesses.

The disadvantages faced by aspiring first time homebuyers are especially unfortunate because our members know that, when given the chance, they make great owners who work hard to pay their mortgages. This is reflected in the low mortgage default rates in the mortgages that our members insure. Additionally, in the event that an insured borrower should lose their job or run into other short-term difficulties, mortgage insurers have the opportunity to work with the lender to find solutions to help the borrower weather those difficult times to prevent the loss of their home.

Increasing housing supply is a necessary component of any solution to the affordability challenge. Despite this being primarily a provincial and municipal responsibility, we are grateful for the leadership shown by the federal government to engage the provinces on this issue and to bring more supply online. Housing is also, first and foremost, a place to live, which is why we support the Government's commitment to introduce a national speculation and vacancy tax for non-resident non-Canadians.

In addition to the work already underway, we believe there are fair and sensible actions that the Federal Government could pursue that would help to level the playing field for first time buyers to give them a more equitable opportunity to compete for housing. At the same time, we also recognise and respect the Government's desire not to destabilise housing or financial markets and to continue to control indebtedness. We agree that it is responsible to keep these concerns in mind when seeking to remove barriers to home ownership for aspiring first time buyers.

Accordingly, we recommend that the Federal government consider the following recommendations to improve housing affordability for Canadians:

I. <u>Allow 30 year amortizations for insured mortgages</u>

   Federal mortgage rules are currently limiting insured mortgages to 25 years, while uninsured mortgages are typically offered for up to 30 years. In Canada today, over half of uninsured mortgages are amortized over a period greater than 25 years.

   Most insured homebuyers are millennials and/or first time homebuyers. They are responsible buyers who buy within their means, will be in the workforce longer, and have upwardly mobile incomes and proven credit records. The 25 year cap, however, places them at a disadvantage when competing for housing against a cash-rich buyer who can access a 30 year amortization.

   Allowing 30 year amortizations for insured buyers would level the playing field and immediately help young and growing families to purchase a suitable home faster, by allowing them to lower their monthly mortgage payment and/or increase their maximum purchase price.

II. Review the mortgage stress tests

The stress tests are achieving their stated objectives of insulating Canadians against the various impacts of rising rates, while also serving to temper home prices, encourage responsible borrowing and helping to drive balance in our overall economy. These are important policy objectives that are consistent with MTIIAC's goals of a safe and stable real estate marketplace.

Since their introduction, however, markets have changed and affordability has declined in Canada's major markets. Like any policy tool, as circumstances evolve, it is prudent to evaluate how well the stress tests are achieving their goals, as well as what other impacts or incentives they may be creating. Accordingly we were pleased that the Government acknowledged this in its mandate letter to the Minister of Finance, by including direction to "(r)eview and consider recommendations from financial agencies related to making the borrower stress test more dynamic."

As the Government reviews the insured and uninsured stress tests, we encourage decision-makers to consider and study the merits of various mechanisms and principles that would serve to incent borrowers to consider safer and more stable mortgage product decisions. For example, borrowers who opt for the security of longer term mortgages could be tested to a lower degree of stress, in recognition that such mortgages offer greater stability and predictability for the borrower and reduce the number of renewals over the life of the loan.

We would also encourage the Government to consider employing alternative indicators to the Bank of Canada rate that more closely correlated with prevailing contract rates.

Such changes could serve to incent buyers to consider safer and more stable mortgage product decisions, while minimizing the impact that the stress tests have on housing affordability.

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. Since this cap was implemented in 2012, house prices have risen dramatically.

In the GTA and GVA in particular, the $1M cap has become a significant barrier for young families seeking to purchase a suitable home, especially those who do not have the means to save for the sizable downpayment required to access a conventional mortgage, or do not have access to downpayment assistance from their parents or other relatives.

These buyers must therefore qualify for an insured mortgage in order to realize their dream of homeownership, but the cap artificially prevents them from acquiring a mortgage and home they could otherwise afford.

To address this obstacle, we recommend that the Federal Government explore government backed and non-government backed policy options that would allow for insured mortgages on properties valued at over $1M. Such options could include allowing private insurers to offer mortgage insurance on these properties without a government guarantee. Alternatively, the government could develop a predictable, market-informed mechanism to introduce a system of regional caps within the government-backed system that recognises the diverse nature of local markets across Canada.

Such a change would not have a significant effect on the security of such loans, as borrowers would still be subject to rigorous qualification standards, including those regarding TDS, GDS, credit score, and income.

Buyers would also still be subject to the requirement of the Protection of Residential Mortgage or Hypothecary Insurance Act (PRMHIA) that they have a higher downpayment on mortgages tied to homes with a purchase price of over $500,000.

Updating the $1M cap would, however, make the rules governing insured mortgages more reflective of how housing markets have changed since the cap was set eight years ago.

IV. <u>Partner with industry stakeholders to drive more research and discussion into better utilization of existing housing supply</u>

Conversations around housing supply have rightly focused on bringing new supply to market, however there is a growing sense that existing supply could also be better utilized. For example, retired persons who may be interested in downsizing may be encountering barriers that prevent them from doing so, and people in economic centres may choose to stay in homes that are larger than they need.

To explore this further, we recommend that the Government work with stakeholders to drive more research and discussion into the issue of better utilizing existing supply.

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 MTIIAC at ed.steel@mtiiac-acahtc.ca at your convenience.

Sincerely,

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