MTIIAC
ACAHTC

September 23, 2020

The Honourable Chrystia Freeland
Minister of Finance
chrystia.freeland@canada.ca

Dear Minister Freeland,

On behalf of the Mortgage and Title Insurance Industry Association of Canada (MTIIAC), we are pleased to offer recommendations in advance of your upcoming Federal Budget.

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.

Since the onset of the COVID-19 pandemic, our members have worked tirelessly to support Canadian homeowners experiencing financial distress. Mortgage insurers have been active partners in assisting homeowners who required a deferment of their mortgage payments and have a number of tools available to support those who continue to experience financial difficulty after their deferment period concludes.

Similarly, by reacting quickly to new lockdown provisions and providing important and significant protections to the parties in a real estate transaction, title insurers have played an integral role in ensuring that markets were able to function safely while respecting physical distancing measures.

As we look towards and begin to envision what a post-pandemic Canada will look like, we know that the housing and real estate sectors will continue to be of major importance to Canadians and a significant driver of our economy.

Throughout these uncertain times, it will also be important for the Government to remain nimble as conditions change, and to consider various measures that could help stabilize the housing market and help support the ability of young Canadians to move responsibly from the rental market and into homeownership.

It will be similarly important for lenders and insurers to retain the flexibility to respond quickly to evolving market conditions in order to protect their clients from undue risk exposure and responsibly manage their portfolios.

That's why we believe that any plan to grow the economy must contain measures to support Canadians who are struggling to afford a suitable home for their families, while ensuring that the real estate market remains fair, safe and stable.

Moreover, as government and industry both seek to ensure healthy markets and manage risk, we believe it will be crucial for all parties to work collaboratively before making changes that could affect the functioning of real estate and mortgage marketplaces, in order to ensure that all perspectives and potential impacts are well understood.

To that end, we are pleased to provide the following recommendations for your consideration:

1. Improve housing affordability, especially for first time homebuyers, by:

I. Allowing qualified buyers to access 30 year amortizations for insured mortgages;
II. Adjusting the $1M cap on insured mortgages to reflect today's housing market and regional market realities;
III. Resuming consultations with stakeholders on the previously announced changes and reviews to the insured and uninsured mortgage stress tests; and
IV. Partnering with industry stakeholders to drive more research and discussion into better utilization of existing housing supply.

2. Combat mortgage fraud and money laundering in Canada's real estate markets by:

I. Introducing a more secure Notice of Assessment (NOA);
II. Working with the provinces to ensure that sanctions against mortgage brokers who have been found guilty of an offence are upheld interprovincially;
III. Strengthening enforcement in the areas of mortgage and real estate crime; and
IV. Improving consumer awareness and protection education.

As we recover from the onset of the COVID-19 pandemic, MTIIAC members will continue to work with borrowers, buyers and industry partners to support Canadians' dreams of homeownership in a responsible way that contributes to our country's economic growth and stability.

We appreciate this opportunity to provide our recommendations as you work to prepare the upcoming Budget. We invite you or a member of your staff 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,

Randal Slavens
President
MTIIAC

Ed Steel
Executive Director
MTIIAC

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MTIIAC's 2020 Fall Economic Update Recommendations

1. Improve housing affordability, especially for first time homebuyers

When the COVID-19 pandemic hit, the government took immediate action to support Canadians experiencing a sudden loss of income, through significant supports such as the Canada Emergency Response Benefit (CERB) and the Canada Emergency Wage Subsidy (CEWS). These rapid and vital interventions also helped stabilize the economy and housing markets, protecting them from near-certain collapse, while ensuring that Canadians remained able to make ends meet. At the same time, Canadian lending institutions and mortgage insurers worked together to provide homeowners the option to defer their mortgage payments for up to six months. The combination of these emergency response measures has enabled millions of Canadians to continue to afford a roof over their heads and prevent them from experiencing severe financial difficulty.

As we emerge from the first wave of the pandemic and the government seeks to present its plan for the new economic and health environments brought about by COVID-19, many Canadians continue to struggle to find suitable and affordable housing for themselves and their families.

Since the onset of the previous 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.

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 supply across the housing spectrum is a necessary component of any solution to the affordability challenge. We recognize the historic investments that the Government has made to support and build affordable housing, which are crucial in any effort to achieve greater housing security. We also recognize that a key mechanism for supporting affordability and freeing up supply in the rental and subsidized spaces is for capable Canadians to move out of those units and into homeownership.

Facilitating that move requires, among other things, a sufficient supply of market housing. Despite this being primarily a provincial and municipal responsibility, we are grateful for the leadership shown by the federal government in launching the Government's *Housing Supply Challenge* and engaging the provinces on this issue to help bring more supply online.

Housing is also, first and foremost, a place to live, which is why we remain supportive of 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, especially as the economy recovers from the initial impact of the pandemic. 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 or investor 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. <u>Adjust the $1M cap on insured mortgages to reflect today's housing market and regional market realities</u>

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 downpayment of the $200,000 or more that is required to access a conventional mortgage, and 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, working with insurers, 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.

III. <u>Resume consultations with stakeholders on the previously announced changes and reviews to the insured and uninsured mortgage stress tests;</u>

The stress tests are achieving their stated objectives of tempering home prices, encouraging 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, and recalibrating as appropriate.

That's why we were supportive of the announcement in February of this year that the insured stress tests would be decoupled from the Bank of Canada rate, and that OSFI would open a consultation on evolving the stress test on uninsured mortgages.

We understood, but were disappointed, however, that the announced change and reviews needed to be delayed due to the sudden onset of the pandemic. As we emerge from the initial economic shock of COVID-19, we recommend that the Government and relevant agencies and entities continue to engage and consult with lenders, insurers, and other stakeholders in monitoring developments in the housing finance sector, giving them flexibility to adjust their risk rules and procedures in response to potentially rapidly evolving circumstances, rather than moving regulatory boundaries.

When the Department of Finance and OSFI move again with changes to the stress tests/consultations, we encourage both entities to also consider measures that take into consideration aspects of the mortgage contract, such as term and fixed-rate versus variable rate, when assigning the size of the stress buffer. Such changes would make the stress tests more responsive to the risk characteristics of the mortgages lenders and insurers write and insure.

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

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 also 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.

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

Money laundering and other criminal activities can pose a risk to homeowners, buyers and 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 high HPA markets, as rapidly changing valuations can make such activity more difficult to detect. Moreover, as 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. <u>Work with the provinces to ensure that sanctions against mortgage brokers who have been found guilty of an offence are upheld interprovincially</u>

The Federal Government is the 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 work with 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

Police and courts across Canada are heavily burdened with a large volume and variety of cases. These heavy burdens place limitations on the justice system, in some cases restricting its capacity to develop a deep understanding of mortgage fraud and how various schemes and techniques evolve. Coupled with a scarcity of resources available to pursue these cases, this has contributed to an environment where enforcement bodies generally place a lower priority on suspected 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.

In spite of this risk, enforcement bodies generally do not have sufficient resources allocated to combat these crimes, leading to a number of challenges in detecting and prosecuting mortgage frauds.

There is also an inconsistent understanding among enforcement agencies that organized crime can be funded by mortgage fraud and money laundering, and that the proceeds fund or mask other activities. By providing enforcement bodies with sufficient resources to pursue these cases, they would be in a better position to detect and prosecute those larger criminal activities.

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:

- Improve education and training of enforcement bodies;
- Invest more funds to educate and train law enforcement agencies and the courts to ensure mortgage fraud is better understood;
- Provide targeted funds to prosecute mortgage fraud;
- Create specific federal laws that address mortgage fraud; and
- Increase penalties for mortgage fraudsters.

IV. <u>Improve consumer awareness and protection education</u>

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;
- Continue to work with industry stakeholders to ensure the most up to date information is included in any public education materials; and
- Work with industry to expand education campaigns targeting potentially vulnerable groups of potential homebuyers, including first time buyers, and buyers new to Canada who may be unfamiliar with the homebuying process in Canada.