



February 10, 2023

The Honourable Chrystia Freeland
Minister of Finance
via letstalkbudget2023.ca

Dear Minister Freeland,

On behalf of the Mortgage and Title Insurance Industry Association of Canada (MTIAC), we are pleased to offer recommendations in advance of the 2023 Federal Budget.

MTIAC represents a group of private-sector mortgage default insurers and title insurers. Collectively, MTIAC members are proud to have helped millions of Canadian families and individuals realise 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.

Prior to the pandemic years of 2020 and 2021, the housing market had already become unaffordable to a growing number of aspiring Canadian homeowners. This issue was exacerbated as the market was hit by a sudden increase in demand, without a corresponding increase in new housing supply. As a result, more and more Canadians experienced significant challenges finding suitable accommodations that were within their means.

In recent months, interest rates have increased from their historic pandemic lows, and housing prices have declined in response, however the underlying issue that led to that imbalance remains: namely, that there is not enough housing supply to service Canadian real estate markets.

Over the same time period, organised criminals were seeking to take advantage of the new market conditions by perpetrating high-value mortgage frauds, victimizing financial institutions, small businesses, investors, homebuyers, and homeowners.

The size and scale of some of these frauds have been the subject of recent media coverage, as have their devastating impact on victims.

In recognition of these challenges, and in support of the Government's commitment to improve housing affordability for Canadians, as well as combat the scourge of mortgage fraud, we are pleased to provide the following recommendations for your consideration:



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

- I. Continuing to work to increase housing supply; and
- II. Implementing the Government's 2021 election campaign commitment to increase the \$1 million cap for insured mortgages.

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

- I. Prioritising the ongoing work to create a Financial Crimes Agency; and
- II. Introducing a more secure Notice of Assessment (NOA).

MTIAC members are proud 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 MTIAC at ed.steel@mtiac-acahtc.ca at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to be "JR", written over a light blue horizontal line.

John Rider
President and Board Chair
MTIAC

A handwritten signature in black ink, appearing to be "Ed Steel", written over a light blue horizontal line.

Ed Steel
Executive Director
MTIAC

Att: MTIAC Memo - Priorities for a new Financial Crimes Agency of Canada: Recommendations to Deter, Detect and Prosecute Fraud in Canada's Housing Markets.



MTIAC's 2023 Federal Budget Recommendations

1. Improve housing affordability, especially for first time homebuyers

Multiple factors have been challenging housing affordability, especially for aspiring first time buyers and, in particular, those who are unable to save for or acquire sufficient down payments.

The chronic undersupply in Canadian real estate markets continues to challenge aspiring homeowners and resist the downward pressure on prices created by increased interest rates.

The effect of recent price gains, combined with the increased costs of other necessities, has left many aspiring homeowners with little hope of being 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, even in the face of rising interest rates.

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 and prevent the loss of their home. This is a valuable safety net for insured borrowers, that can not always be duplicated by the lenders of their uninsured counterparts.

Accordingly, and in support of the Government's firm and ongoing commitment to improve housing affordability for Canadians, we recommend that the Federal Government consider the following recommendations:

I. Work to increase housing supply.

For many years now, and especially during the height of the pandemic, demand for housing has been growing, while housing supply has not been keeping pace, forcing prices upwards. While rising interest rates have served to cool demand and bring prices down, the underlying supply issues remain.

In order to improve housing affordability, therefore, ongoing action is required to increase the supply of new housing



Despite this being primarily a provincial and municipal responsibility, we are grateful for the leadership shown by the federal Government in launching its Housing Supply Challenge and engaging the provinces on this issue to help bring more supply online.

We recommend that investments that support the creation of new housing units, including financial support for provincial and municipal initiatives that are designed to deliver more housing, be treated as an ongoing and urgent priority for this and the coming years.

II. Implement the Government's election campaign commitment to increase the \$1 million cap for insured mortgages

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 communities across the country, the \$1M cap has become a significant barrier for young families seeking to purchase a suitable home. This is especially true for those who do not have the means to save for the sizable downpayment of at least \$200K+ before closing costs required to access a conventional mortgage, or do not have access to down payment assistance from family.

We were pleased that the Government recognized this barrier during the 2021 general election and committed to addressing it by increasing the insured mortgage cut-off to \$1.25M and indexing it to inflation.

Such a change would mean that underwriting guidelines better reflect current market realities and continue to do so as markets change. It will also better position highly qualified aspiring homebuyers to be able to compete for and secure suitable housing for their families.



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 where home prices are elevated, 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. Similarly, career criminals can be incentivised to commit mortgage fraud in these markets, as the profit from one successful fraud can be in the hundreds of thousands of dollars.

Both of these scenarios have recently come to light in major Canadian media outlets, highlighting how innocent Canadians can become unwilling participants or, even worse, victims of these schemes.

In recognition of these issues, we congratulate the Federal Government on the important steps it has taken to date to combat such criminal activity. We are particularly enthusiastic about the Government's commitment to create a dedicated Financial Crimes Agency, and grateful that resources have been allocated to this project. We believe this initiative presents the opportunity to make a significant impact in the fight against mortgage crimes.

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. Prioritise the ongoing work to create a Financial Crimes Agency

Recent media coverage in print and on television has exposed both the mechanics of mortgage fraud, and its devastating consequences for innocent Canadians.

The need for increased Government action to combat these crimes has become acute, and as such, we recommend that the work to create and launch a new Financial Crimes Agency must be treated as an urgent priority.

In developing this new agency, we also refer the Government to the specific recommendations contained in our memo of November 28, 2022 entitled *Priorities for a new Financial Crimes Agency of Canada: Recommendations to Deter, Detect and Prosecute Fraud in Canada's Housing Markets*.

In that memo we outline the key elements we believe will need to be in place in order to ensure the success and effectiveness of the agency, namely:



1. A clear mandate to lead the investigation and prosecution of financial crimes across Canada, no matter in which province or territory they occur;
2. Sufficient resources to be effective;
3. A stronger criminal code; and
4. A more secure notice of assessment (NOA) and NOA verification

We believe that urgent action to launch the new FCA that delivers on the above recommendations will make concrete progress in the efforts to deter and detect these crimes, as well as imposing meaningful consequences on those who commit them.

In doing so, the Government will have made the mortgage marketplace safer for Canadian homeowners and buyers, as well as significantly reduced one of the sources of home price appreciation.

II. A more secure Notice of Assessment (NOA) and NOA verification

As we outlined in the above mentioned memo, verifying a mortgage applicant's income is a vital step in the application process. It helps to demonstrate the applicant's financial capacity and is required of lenders and insurers under federal regulation.

A key document lenders use to verify income is the NOA, which is issued by the Canada Revenue Agency (CRA). Unfortunately, however, the NOA is fairly easy to manipulate or falsify. It is also very difficult for mortgage industry professionals to identify altered or inaccurately reproduced NOAs as such.

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. They may also be used by those attempting to commit a fraud for profit, whereby a fraudster may generate a false NOA to support a mortgage application submitted under a stolen or fraudulent identity.

To address this, we recommend that the CRA make changes to the NOA verification system that would improve the security and reliability of the document, while making it electronically accessible to trusted third parties with the consent of the taxpayer.

When fully implemented, such a system should be accessible to all lenders, both federally and provincially regulated, as well as all mortgage default insurers. It should also include appropriate safeguards to protect the security of taxpayers' personal and private information, ensuring that access is only granted with their specific consent.



**Priorities for a new Financial Crimes Agency of Canada:
*Recommendations to Deter, Detect and Prosecute Fraud in Canada's Housing Markets***

Date: November 28, 2022

In the 2022 Budget, *A Plan to Grow Our Economy and Make Life More Affordable*, the federal government reaffirmed its intention to “establish a new Canada Financial Crimes Agency, which will become Canada’s lead enforcement agency in this area.”

The Budget also allocates \$2 million to Public Safety Canada “to undertake initial work to develop and design the new agency.”

MTIAC has long advocated for more robust enforcement to help deter, detect and prosecute mortgage crime and so we welcome this important commitment and are grateful for the leadership of the federal government in bringing this forward.

As leaders in the fight against mortgage crime, MTIAC members are eager to assist the Government in their work to create this new agency and set it up for success. As a starting point, we offer the following observations and recommendations.

Current State of Mortgage Fraud in Canada

Mortgage fraud is a crime that can devastate Canadian homeowners. Victims of fraud can face financial losses ranging from hundreds of thousands to millions of dollars, damaged credit, onerous legal challenges, mental stress and the potential loss of their greatest asset - their home.

As we outlined in our report *Combating Fraud and Money Laundering in Canada's Real Estate Markets*, which we provided to the Government in March of 2021, mortgage fraud schemes can be complex and well disguised, requiring specialized knowledge to be able to detect and investigate them.



They can also be connected to other, more nefarious criminal activities, such as drug trafficking, human trafficking or terrorist financing. Unfortunately, there is a lack of educational resources and training available to law enforcement bodies and the courts and as such these crimes and their connections to larger criminal enterprises tend not to be well understood.

Compounding the issue is that information about suspected frauds and fraudsters is not readily shared between enforcement bodies, making it easier for criminals to execute these offenses across Canadian jurisdictions.

Finally, there is a scarcity of resources available to pursue these cases. All of these factors have contributed to an environment where enforcement bodies generally place a lower priority on suspected mortgage fraud. This in turn means that the people who conduct these crimes are rarely prosecuted, let alone punished in any significant way.

Priorities for the new Financial Crimes Agency (FCA)

1. The FCA will require a clear **mandate** to lead the investigation and prosecution of financial crimes across Canada, no matter in which province or territory they occur.

To be successful, the FCA should also be tasked with working closely with the provinces and territories to ensure that all enforcement bodies are able to coordinate and cooperate as effectively as possible in their efforts to tackle this ongoing challenge.

This includes, but should not be limited to, actively sharing any and all information between enforcement bodies that can assist in the investigation and prosecution of financial crimes.

Lastly, the FCA should take the lead on maintaining up to date knowledge on how mortgage frauds are being conducted in Canada, and provide ongoing educational resources to its own staff and to partner enforcement bodies across the country.

As a starting point, the FCA could lead a pan-Canadian effort to assess and address the growing challenges associated with verifying a borrower's identification.



Organized criminals are now adept at forging Government issued ID, and as such it is no longer reliable enough on its own to confirm the identity of a potential borrower. As this issue is now prevalent in multiple jurisdictions, national leadership under the FCA could be brought to bear in order to strengthen the reliability of Government issued ID and to motivate all jurisdictions to implement more robust ID verification requirements for their regulated professions.

2. The FCA will need sufficient **resources** to be effective.

In order to investigate these crimes, prosecute offenders, coordinate activities and information between partner agencies and educate others in the field, the FCA will require sufficient and sustained financial investment from the Government.

The benefits of doing so can be expected to include a reduction in mortgage crime and its corresponding victimization, recovery of illegally obtained funds and assets, increased revenue from financial penalties assessed against convicted fraudsters and a safer housing and mortgage marketplace for Canadian homebuyers and homeowners.

Supplementary Activities to Support the Success of the FCA

1. A Stronger Criminal Code

Currently, the maximum penalty for fraud over \$5,000, pursuant to section 380 of the Criminal Code, is ten years in prison. However, mortgage frauds always exceed the \$5,000 threshold by many orders of magnitude, and perpetrators are rarely convicted, let alone sentenced to any significant prison time.

Furthermore, home owners who are victimized by this kind of fraud face the risk of massive financial loss, up to and including the potential loss of their home.

Through the Budget, the Government commits to “develop legislative proposals to strengthen...the Criminal Code, and other legislation, to investigate and prosecute financial crimes...and ensure the government has the tools necessary to preserve financial integrity and economic security in Canada.”

MTIAC fully supports this initiative, and has long called for such a change to reflect the severity of these kinds of crimes and ensure those who commit them are appropriately punished.



Accordingly, we believe that amendments to the Criminal Code should include specifically defined offenses for mortgage fraud and other mortgage crimes, carrying penalties in the form of significant fines and jail time.

2. A More Secure Notice of Assessment (NOA) and NOA Verification

Verifying a mortgage applicant's income is a vital step in the application process. It helps to demonstrate the applicant's financial capacity and is required of lenders and insurers under federal regulation.

A key document lenders use to verify income is the NOA, which is issued by the Canada Revenue Agency (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. They may also be used by those attempting to commit a fraud for profit, whereby a fraudster may generate a false NOA to support a mortgage application submitted under a stolen or fraudulent identity.

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