



February 19, 2021

The Honourable Chrystia Freeland
Minister of Finance
via letstalkbudget2021.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 2021 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 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 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 you and the Prime Minister rightly point out, the COVID-19 pandemic brings both risks and opportunities. That's why the Federal Government is wise to give consideration to housing, as 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.

Accordingly, 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.



We are also very supportive of the Government’s commitment, through the 2020 Speech from the Throne and the Supplementary Mandate Letter to the Minister of Families, Children and Social Development, to “make a significant, long-term, sustained investment to create a Canada-wide early-learning and child-care system.”

Child care costs are a significant financial burden on young families at a time when many are struggling to pay existing student debt, gain stable employment and afford suitable housing, let alone save for retirement or a downpayment on a home.

By relieving that financial pressure, young Canadians, especially those without access to intergenerational wealth, will not only be much better positioned to be able to afford their daily expenses, but also to save towards a downpayment and ultimately achieve the financial security and stability of homeownership, which is a cornerstone of the middle class in Canada.

In the meantime, as the Government and industry both seek to ensure healthy real estate markets and focus on stability, we believe it will be crucial for all parties involved to work collaboratively before making changes that could affect the functioning of real estate and mortgage marketplaces, to ensure that all perspectives and potential impacts are well understood.

Therefore, in order to support stability in the housing market, and assist those Canadians who are ready to buy their first home, we are pleased to provide the following recommendations for your consideration:

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

- I. Maintaining flexibility for mortgage lenders and insurers;
- II. Considering macro prudential stability measures that could be employed post-pandemic and/or if housing markets require stabilization; and
- III. 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 plan for the post COVID-19 economic recovery, MTIAC 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 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

Cc: Hon MP Ed Fast, CPC Shadow Minister of Finance
MP Peter Julien, NDP Critic for Finance
Annamie Paul, Leader, Green Party of Canada



MTIAC's 2021 Federal Budget Recommendations

1. Improve housing affordability, especially for first time homebuyers

Before the onset of the COVID-19 pandemic, multiple factors 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 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 and prevent the loss of their home.

When the COVID-19 pandemic hit and public health measures caused significant economic upheaval, the existing challenges of housing affordability were further exacerbated for those highly qualified buyers seeking to purchase their first home.

Then, in June 2020, CMHC made the choice to change its underwriting rules, further restricting first time homebuyers' ability to access mortgage financing. Private insurers, however, made the decision to maintain their product offerings, to the benefit of these clients. Throughout this period, officials from the Department of Finance and other Government bodies have remained in regular contact with insurers, ensuring a constant flow of timely information to the Government, while maintaining the ability of insurers to quickly adjust their approaches as needed.

Now that vaccination has begun and Canada is planning for the end of the pandemic, many Canadians continue to struggle to find suitable and affordable housing for themselves and their families.

Accordingly, and in support of the Government's commitment to tackling this challenge head on, we recommend that the Federal Government consider the following recommendations to improve housing affordability for Canadians:



I. Maintain flexibility for mortgage lenders and insurers

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.

We recognise and respect the Government's desire not to destabilise housing or financial markets and to continue to control indebtedness, especially as the economy continues to face challenges brought on by 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.

Throughout these uncertain times, it is also 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.

Conversely, the use of macro prudential tools to tighten the outer boundaries of the mortgages that federally regulated lenders can issue, or that insurers can underwrite, could jeopardize their ability to respond to changing markets, further stressing housing affordability.

Instead, we recommend that the federal Government continue to work with financial institutions in real time to understand how they are adjusting their internal underwriting rules and processes to meet evolving circumstances.

We also recommend that the Government maintain current lending and underwriting criteria, so that Federally Regulated Financial Institutions can continue to be able to adjust their lending and underwriting policies and decision making as circumstances require.

This approach will ensure that institutions retain the flexibility they need, and that lenders, insurers, the Government and regulators can collaborate with the nimbleness required to react quickly and appropriately as evolving circumstances demand.



II. Consider macro prudential stability measures that could be employed post-pandemic and/or if housing markets require stabilization;

When our economy begins to emerge from the uncertainty of the COVID-19 pandemic, and recovery efforts can begin in earnest, housing markets may begin to change.

To prepare for this, we recommend that the Government begin to consider the potential impacts of macro-prudential tools that could help stabilize the market, should that be required. We further encourage the Government to consider how such measures could assist well qualified, financially responsible, aspiring first time homebuyers to be able to compete successfully against investors or other cash-rich buyers for housing that suits their family's needs.

Tools to consider should include:

a) Resume consultations on previously announced changes to the stress tests

The stress tests are achieving their stated objectives of encouraging responsible borrowing, managing default risk and helping to drive balance in our overall economy. These are important policy objectives that are consistent with MTIAC's goals of a safe and stable real estate marketplace.

Since their introduction, however, markets have changed, as have the impacts of the tool. That's why we were supportive of the announcement in February of last 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 look forward to that work recommencing.

When the Department of Finance and OSFI move ahead with changes to the stress tests/consultations, we encourage both entities to also consider measures that take into account aspects of the mortgage contract, such as term length and fixed 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.



b) Allowing qualified buyers to access 30 year amortizations for insured mortgages

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.

This disparity contributes to an unlevel playing field between insured and uninsured homebuyers.

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 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.

c) Adjusting 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. 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.

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 that is responsive to local market conditions, such as in the GTA and GVA, creating a pragmatic guideline for insured mortgage caps of over \$1M where market forces and regional realities suggest that it would be prudent.

We believe these measures will be important policy tools to consider as the Government seeks to stabilize markets, address regional market conditions, and help to improve the ability of middle class families to be able to afford to buy their own home.

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

Increasing supply across the housing spectrum is a necessary component of any solution to the affordability challenge. That's why we appreciate 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.

While conversations around housing supply have rightly focused on bringing new supply to market, 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 targeted 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.

We were also very pleased to note that the December 13, 2019 Mandate Letter to the Minister of Justice and Attorney General 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. **A more secure Notice of Assessment (NOA) and NOA verification**

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 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. 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;
- 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.