February 24, 2022

The Honourable Chrystia Freeland
Minister of Finance
via letstalkbudget2022.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 the 2022 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.

Throughout the pandemic, housing affordability has become increasingly stressed, with more and more Canadians experiencing significant challenges finding accommodations that are within their means.

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.

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. Working to increase housing supply;
II. Implementing the Government's election campaign commitment to increase the $1 million cap for insured mortgages; and
III. Maintaining open dialogue with mortgage lenders and insurers

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

I. Fulfilling the commitment to create a Financial Crimes Agency, with the mandate and resources to strengthen enforcement in the areas of mortgage and real estate crime;
II. Introducing a more secure Notice of Assessment (NOA); and
III. Improving consumer awareness and protection education.

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

Sincerely,

| | |
|---|---|
| John Rider | Ed Steel |
| President and Board Chair | Executive Director |
| MTIIAC | MTIIAC |

## MTIIAC's 2022 Federal Budget Recommendations

**1. Improve housing affordability, especially for first time homebuyers**

Throughout the COVID-19 pandemic, Canadians have been facing mounting challenges of housing affordability. Multiple factors have contributed to these challenges, 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.

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

I. Work to increase housing supply.

As demand for housing has continued to grow, housing supply has not kept pace, forcing ongoing price escalation. In order to improve housing affordability, therefore, immediate and 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 were also grateful that the mandate letter to the Minister of Housing and Diversity and Inclusion includes the directive to "make critical investments and priority policy decisions to expand Canada's housing supply."

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.

III. Maintain open dialogue with 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 destabilize 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.

As such, 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. Similarly, we recommend that the

Government engage in robust consultations with industry stakeholders while considering any potential changes to lending or underwriting regulations.

This approach will ensure that institutions can 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.

**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), 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. This is especially concerning, as 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. We are particularly enthusiastic about the Government's commitment to create a dedicated Financial Crimes Agency, which we believe 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. <u>Fulfil the commitment to create a Financial Crimes Agency, with the mandate and resources to strengthen enforcement in the areas of mortgage and real estate crime</u>

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.

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.

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.

We recognize that the Government is committed to stepping up its efforts in the fight against this kind of crime, particularly through its commitment to create a new Financial Crimes Agency. In working to create such an agency, we recommend that the Government provide it with a specific mandate and resources to:

- Investigate and prosecute mortgage fraud;
- Improve fraud education and training of enforcement bodies; and
- Fund the education and training of law enforcement agencies and the courts to ensure mortgage fraud is better understood.

We also recommend that the Government create specific laws that address mortgage fraud, which include increased penalties for mortgage fraudsters, in order to ensure that deterrents and punishments are sufficient to support the work of enforcement bodies and ultimately affect a significant reduction in these kinds of crimes.

Finally, we encourage the Government to work with other Canadian jurisdictions to ensure that enforcement bodies at all levels are able to coordinate and cooperate as effectively as possible in their efforts to tackle this ongoing challenge.

II. <u>A more secure Notice of Assessment (NOA) and NOA verification</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.

III. <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.