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Ms. Leah Anderson,
General Director
Financial Sector Policy Branch
James Michael Flaherty Building
90 Elgin Street, Ottawa, ON K1A 0G5

June 24, 2016

Dear Ms. Anderson,

My name is Paul Taylor and I am the President and CEO of Mortgage Professionals Canada (formerly the Canadian Association of Accredited Mortgage Professionals or CAAMP), a not for profit mortgage industry association representing the mortgage broker channel across Canada. We are a voluntary membership organization with approximately 11,500 individual mortgage broker, mortgage lender, mortgage insurer and supplier members.

You may recall we met in person back on March 8th, along with Jared Dreyer, our Board Chair, and Mark Kerzner, our board Vice-Chair. Also in the meeting were Cynthia Leech and Keith Walsh. At the time, our fall consumer survey was our most recent report. We have continued the tradition of producing our bi-annual surveys and our most recent report is enclosed with this letter. You may have seen some details about these reports in the Globe and Mail, or through my appearance on BNN or CP24. As previously discussed, while the recent increase in down-payment requirements were a metered approach attempting to cool the inflationary pressures in the Toronto and Vancouver housing markets, we suspected first time homebuyers to be the most affected by these changes; second and third time purchasers, as well as off-shore investors, would in most cases already have sufficient capital to exceed a 10% down payment. With this in mind, we decided to focus the report on the sentiments of next generation Canadian home buyers. Of note, you will see that 94% of those Canadians surveyed were aged 21-39 and do not currently own a home but plan to do so in the future.

The reason for my letter is to ask if you are conducting any public consultations or seeking industry input on potential policy changes regarding mortgages in Canada. Finance Minister Morneau stated in a speech in Toronto yesterday that the government of Canada is setting up a working group to discuss options to rein in rising house prices in the Toronto and Vancouver area. If so, Mortgage Professionals Canada would very much like to be part of these discussions.

I have read a number of articles in the mainstream press regarding inflationary pressures in both the GTA and GVA, and more recently, the CEO of Scotiabank has been calling for a further increase in down payments to further cool these markets. However, we believe a further increase in down payments would be very damaging for the housing sector as a whole and would only serve to exacerbate the prevailing consumer sentiment; that home ownership is becoming increasingly difficult to achieve for younger Canadian families. A higher down payment requirement would increase the barriers to entry to the marketplace while doing little to reduce the rate of increasing the price of properties.

To address the issue of escalating home prices in these two geographies, we would like to make 3 recommendations:

1. Conduct a scan of foreign ownership taxation or restriction policies with a view to implement best practices here in Canada;
2. Create incentives for construction of additional affordable and first time properties for young Canadian families to purchase.
3. Investigate introducing underwriting requirement changes rather than increasing down payment requirements. For example, require mortgage applicants who wish to purchase a home valued at over $1 million to qualify for their loan in accordance with the guidelines for a 5 year term and a 25 year amortization. Alternatively, if down payment changes are to be introduced, we suggest only increasing down payments for homes valued over $1 million.

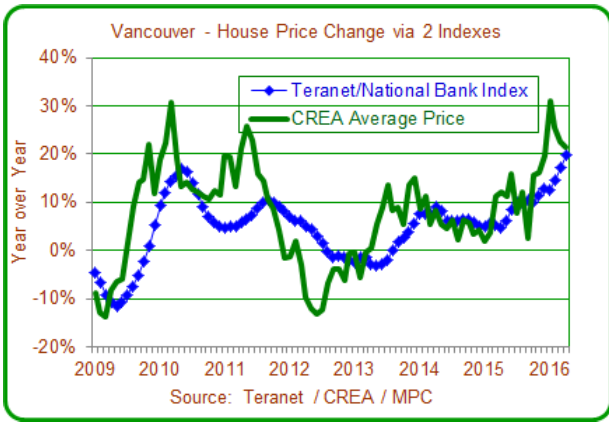
The Market Context

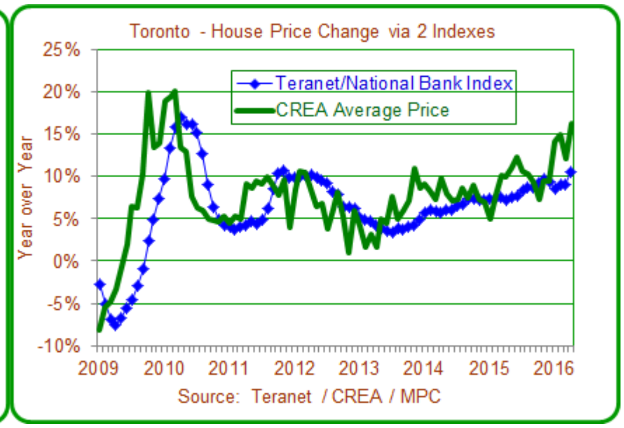
The hottest markets in Canada (particularly Toronto and Vancouver) have been challenged by a prolonged insufficiency of supply. Although exceptionally low interest rates have elevated demand, they have also sharply increased the cost of homes. Even with these rising prices, at current actual market interest rates (as opposed to “posted rates” which are misleading and not generally offered), housing affordability remains favourable. As such, there is still substantial demand from potential buyers who are able to afford current prices and who are qualified to borrow (using historically normal qualification criteria).

The Expanding Influence of Foreign Buyers

For some time now CMHC has attempted to estimate the extent of foreign buying in segments of the Canadian housing market. It strikes us as quite unlikely that reliable estimates can be developed on foreign buying within a time frame that would allow for effective policy responses. Yet, there is sufficient anecdotal evidence that the role of foreign buyers is very substantial in Vancouver, and consequently, is severely distorting Vancouver’s housing market. In Toronto, anecdotal evidence has been absent but recent events have led informed observers to question whether a similar set of effects is now developing.

Will Dunning, Mortgage Professionals Canada’s Chief Economist, prepared the pair of charts below to demonstrate market evidence indicative of distortion in the Vancouver and Toronto markets, most likely reflective of changing activity of foreign buyers.





We are comparing growth rates in two data sets of house prices: the average prices reported by CREA versus the price changes shown by the Teranet/National Bank index. Where there are big differences in the two data series, the most likely cause has been a change in the composition of the market: when the CREA data shows larger rises than Teranet, it is likely that activity has shifted into the higher reaches of the market (and conversely, there are periods when CREA shows less of an increase than Teranet, indicating a downshift in the composition). For a time, the Vancouver data has shown distinct waves of distortion that most likely have been due to changes in composition. In Toronto, by contrast, for most of this history, there have been smaller differences between the two sets of estimates, though a large gap has opened during the past year. This tells us that there has been a large shift in composition, with a substantial rise in high end activity. In both Vancouver and Toronto, we are currently seeing extremely high sales levels in addition to large amounts of price distortion. Our interpretation of the data is that there has been strong locally-generated demand across both markets (due to the favourable combination of job creation and affordability). On top of that, there is elevated activity within the high end housing markets in both Toronto and Vancouver, while the incremental activity from foreign buyers is increasing total sales. These factors are also accelerating the rates of price growth in these supply-constrained markets, causing distortion of average prices. This set of patterns is exactly what we would expect if foreign buying is being added to local demand; wealthy foreign buyers targeting prestigious, high-priced locations.

Policy Implications

Regarding foreign buyers, it is our opinion that there is little benefit and a greater potential for additional increases if some policy changes are not made quickly. Based on the anecdotes, we can now be confident that this is a major incremental factor resulting in the over-heating of Vancouver, and possibly, Toronto. We can also be confident that some substantial part of the influx of capital is funds that the buyers want to hide from their own governments; the influx has coincided with a crackdown on corruption in China, and more recently, with attempts to control the exit of their capital. Yesterday's Brexit vote in the United Kingdom will also have significant foreign investment implications, with Canada looking more and more appealing and comparatively stable as a real estate investment location within the G20. Furthermore, we are likely to get useful data on foreign buying only from administrative sources (in particular from taxation data or in declarations that buyers must make at the time of purchase).

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Proceeding with reasonable regulatory changes will, in addition to addressing policy needs, result in useful data for reviewing and fine tuning policies. As such, Mortgage Professionals Canada is strongly advising the federal government to undertake an urgent study of best practices internationally, and then to introduce policies in Canada, within the shortest reasonable period of time. It should also be expected that those policies will evolve over time as the resultant data is used in analysis.

Regarding current strong demand from Canadian buyers: we have a long-established and reasonable set of criteria for mortgage lending in Canada. We know that among Canadians who are currently borrowing via mortgages, an enormous majority are able to meet their payment obligations. Moreover, as our semi-annual reports have repeatedly demonstrated, Canadians are highly motived to repay their mortgages, with the majority being repaid in considerably less time than the original amortization periods. Changing mortgage lending criteria in response to pressures that are originating outside of the country would unnecessarily punish Canadians who have reasonable expectations of home ownership.

Collaboration in Research

In the past, Mortgage Professionals Canada has contributed to analysis of the Canadian mortgage market using a very large database of actual mortgages (provided by our members). Our research has included analysis of the impacts of higher mortgage interest rates on GDS and TDS ratios. We believe that we have considerable capacity to assist the government in its deliberations, through our research capabilities as well as via reality checking with our large network of key informants. We have also, through our semi-annual research reports, created new data on the Canadian mortgage market, which we know has been used by the federal government, as well as by industry and media. We are keenly interested in continuing to play a leading role in this challenging market environment.

In closing, I would like to thank you for taking the time to review our position and I would like to once again formally request that we be included in any policy discussions regarding mortgage criteria, down payment, housing financing or any related property policy deliberations. Mortgage Professionals Canada would be delighted to assist government with any research efforts and analysis work, with our Chief Economist, that you may find beneficial. Please do not hesitate to contact me if you have any questions, or to request our help in any way.

Yours Truly,

Paul Taylor
President and CEO
Mortgage Professionals Canada

CC: Cynthia Leach, Senior Advisor/Economist