Submission to the Standing Committee on Finance regarding
Pre-Budget Consultations for Budget 2018
July 24, 2017

About Mortgage Professionals Canada

Mortgage Professionals Canada is the national mortgage industry association representing 11,500 individuals and 1,000 companies, including mortgage brokerages, lenders, insurers and industry service providers. Our members make up the largest and most respected network of mortgage professionals in the country, whose interests we represent to government, regulators, media and consumers. Together with our members, we are dedicated to maintaining a high standard of industry ethics, consumer protection and best practices.

The mortgage broker channel originates more than 35% of all mortgages in Canada and 55% of mortgages for first-time homebuyers, representing approximately $80 billion dollars in annual economic activity. With this diverse and strong membership, we are uniquely positioned to speak to issues impacting all aspects of the mortgage origination process.

As part of the 2018 pre-budget process, we are pleased to submit our recommendations to the federal government to assist Canadian financial institutions be more productive and competitive and improve housing outcomes for Canadians. As always, we remain dedicated to working collaboratively to address these issues for the benefit of our industry and consumers.

Mortgage Professionals Canada is committed to supporting the federal government's efforts to maintain a strong, stable, affordable and competitive mortgage market. We believe that Budget 2018 presents an opportunity for the government to improve the competitiveness of the mortgage finance industry and improve housing affordability. Therefore, on behalf of our collective membership, we submit the following nine policy options to be considered within the context of Budget 2018.

Proposals to improve the competitiveness of Canada's mortgage finance industry:

We have four specific proposals related to the government's October 2016 changes to mortgage insurance and eligibility. To read our submission to FINA from January click here.

1. In light of the significant changes already made, that the federal government hold back on the measures yet to be implemented, most specifically its proposed risk sharing provision. We believe it prudent for the government to continue to take more time to examine and assess the impact of current changes before moving forward.

2. That the government adjust the November 30, 2016 change to allow refinances to be included in portfolio insurance. If 80% LTV is unpalatable, consider reducing the threshold to 75% rather than maintaining the ineligibility of these products entirely.

3. That the government decouple the stress test rate from the posted Bank of Canada rate. Instead, set the stress test on a market rate and consider having the Bank of Canada set a rate that is independent of the banks' posted rates. We would suggest taking the spread between the 5-year and 10-year bond yield which has over the past decade averaged approximately 60 basis points. We suggest then that a 75 basis point premium over available market pricing be used to set a market-based stress test. Use of this yield spread in the stress test would put the test on a more sound evidentiary basis, as opposed to the posted rate that exists solely as an administrative benchmark for mortgage lenders.

4. For the sake of ensuring competition is maintained in the mortgage market place, OSFI should require all mortgages to qualify at a new lower market- based stress test rate, not just insured mortgages. Mortgage Professionals Canada will also be submitting a response to the public consultations on OSFI's proposed changes to B-20.

Five proposals related to improve housing outcomes for Canadian consumers:

1. We recommend that the government consider indexing the RRSP Homebuyers Plan to inflation. Many young Canadians are needing to save more for a down payment as a result of the recent mortgage insurance changes. In fact, our recent consumer survey reveals that, among the 48% of Canadians who said they had less than 20% down – 31% of those said they would need to withdraw from their RRSP in order to afford their purchase. Indexing the RRSP Homebuyers Plan to inflation would be a positive way to help many young Canadians use more of their savings to purchase a home – without significant cost to the federal government.

2. We recommend that consideration be given to indexing the insured mortgage guidelines for home purchases over $1 million dollars. Currently homes over $1 million are not eligible to be insured. Indexing this number to inflation would strike the appropriate balance between risk and stability in the Canadian housing market.

3. Elevated levels of consumer debt in Canada remain a risk for the financial system. Instead of further tightening the mortgage finance market, we recommend that the government pursue polices to address the much greater risks that are associated with unsecured household debt, such as car loans and credit cards.

4. We recommend that the government consider creating an industry and consumer advocate advisory council that could prepare recommendations to the government on ways to reduce mortgage fraud. We believe that this expert advisory council could help Minister Duclos fulfill his mandate letter item to "bring forward a proposal to prevent mortgage fraud" (Minister of Families, Children and Social Development Mandate Letter).

5. Recent announcements regarding proposed changes to tax laws for corporations will likely hurt the financial position of many small businesses across Canada. Many of our mortgage broker members will use incorporated business structures to receive compensation directly from their lender partners and to hire employees. Mortgage Professionals Canada is supportive of a fair tax system but we caution the government to ensure a balanced view is used when determining the exact method of implementation. Entrepreneurs risk their own capital to create jobs for Canadians. Potentially removing the tax incentives to take these risks could have far reaching economic consequences for both the near and long term.

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