URBAN DEVELOPMENT INSTITUTE – PACIFIC REGION
#1100 – 1050 West Pender Street
Vancouver, British Columbia V6E 3S7 Canada
T. 604.669.9585 F. 604.689.8691
www.udi.bc.ca

February 20, 2019

Jeremy Rudin, Superintendent
Office of the Superintendent of Financial Institutions (OSFI)
255 Albert Street
12th Floor
Ottawa, Ontario K1A 0H2

Dear Mr. Rudin:

Re: OSFI Mortgage Stress Test Rules

The Urban Development Institute – Pacific Region (UDI) is concerned that the OSFI B-20 Guideline (the Stress Test) will continue to significantly erode the purchasing power of many young families including many first-time homebuyers. We ask that your Office consider reducing the requirements in the Guideline to mitigate its impact on housing affordability and the economy.

UDI – Pacific Region is the association of the building industry in British Columbia. We represent an industry that annually contributes over $17 billion to our Province's GDP and employs over 200,000 British Columbians (including dependent occupations). The overall Real Estate Sector represents 25% of the GDP in the Province, and contributes $4 billion in revenues to governments.

We are beginning to see a slowdown in economic activity in the housing sector caused by government policies that have come into effect over last decade. For instance, in British Columbia, successive governments have introduced several housing taxes such as the Foreign Buyers' Tax, the Enhanced Property Transfer Tax, a Speculation and Vacancy Tax and a School Tax to name a few of the key housing measures. At the Federal level, there were several restrictions on mortgage lending introduced before the Stress Test came into effect, including[1]:

- In 2008,
    - The maximum amortization period was shortened from 40 years to 35 years;
    - The requirement for a 5% minimum down payment was established;
    - New minimum documentation requirements were introduced, so lenders would be mandated to ensure sufficient evidence of a property's value and the borrower's sources and level of income; and
    - New rules established a credit score floor of 620 with some exceptions;

[1] *History of Mortgage Rule Changes in Canada*, https://www.ratespy.com/history-of-mortgage-rule-changes-03255560.

- In 2010,
    - Variable and fixed rate mortgages with terms less than five years were required to be qualified using the 5-year posted rate (qualifying rate); and
    - The maximum amount for insured refinances was reduced to 90% from 95%;

- In 2011,
    - The maximum amortization period was shortened to 30 years from 35 years on insured mortgages; and
    - The maximum amount for insured refinances was reduced to 85% from 90%; and
    - Home Equity Lines of Credit no longer qualified for government mortgage insurance;
- In 2012,
    - The maximum amount for insured refinances was reduced to 80% from 85%;
    - Mortgages on homes valued at more than $1 million would no longer eligible to be default-insured;
    - The maximum amortization period was shortened to 25 years from 30 years on insured mortgages; and
    - New gross debt service and total debt service limits of 39% and 44%, respectively, were implemented for borrowers with a credit score of 680+;
- In 2016,
    - For homes priced above $500,000, a 10% down payment would now be required for the portion of the mortgage above the half-million mark;
    - All high-ratio insured mortgages would now have to be stress tested using the 5-year posted rate (qualification rate); and
    - The elimination of low-LTV insurance for certain mortgages; and
- In 2018,
    - The Stress Test Regulation under the B-20 Guideline came into effect, which required potential borrowers (even those with uninsured mortgages) to qualify for underwriting using the higher of their contracted mortgage rate + 200 bps or the 5-year benchmark fixed rate published by the Bank of Canada;
    - Federally regulated financial institutions are disallowed from arranging (or appearing to arrange) a mortgage or combination of mortgages secured by the same property that would circumvent the maximum LTV ratio as defined in a lender's underwriting policies or legal requirements; and
    - The B-20 Guideline also introduced greater due diligence, including intended use of loan (e.g., purchase, refinancing), type of purchase (owner-occupied, recreational, investment, etc.), and type of refinancing (if applicable).

The accumulation of these housing measures will lead to a slowdown in the housing economy and ultimately to the loss of jobs. The Canadian Real Estate Association (CREA) has updated its 2018 forecast, and "*National home sales are projected to post a double-digit decline in 2018, falling to the lowest level in five years …*". One of the headwinds noted by CREA is the lack of access to mortgage financing. Housing starts across the Country are beginning to decline. In the third quarter of 2018 they fell 13% year over year, and in the fourth quarter the decline was 5% year over year. This is already resulting in job losses. In December, the Building Industry and Land Development association members in Alberta reported "… *layoffs of up to 25 per cent and a reduction in work orders of up to 50 per cent*." Substantial declines in homebuilding activity could have a significant impact on the Canadian economy as a whole. As Will Dunning, chief economist for Mortgage Professionals Canada, noted last year a "*15% reduction in housing starts would cost about 50,000 jobs in construction and other industries that contribute to the construction process*."

More importantly, however, is the fact that these measures will have an impact on many young families that are already struggling to own a home. Strong home ownership culture in Canada and the trend towards household savings by building housing equity over time have been at the very foundation of our Canadian economy which has proven to "weather the storm" during the various financial crises that we have seen in previous decades. The accumulation of these housing measures, and particularly the Stress Test, will chip away at this foundation which may prove to be detrimental to the financial welfare of our country, as a whole, in the long run.

The feedback we have received from our members is that new homebuyers and those seeking affordable homeownership opportunities are being impacted today by the Federal restrictions on mortgage lending – and especially the Stress Test. Many no longer qualify for mortgages. Rising interest rates will exacerbate the issue. This is also affecting access to affordable housing for others. Because potential homebuyers are not able to purchase homes, they are remaining in the rental market. This is contributing to very low vacancy rates in several communities such as Vancouver, where it remains below 1% - despite several new purpose built rental housing projects coming onto the market.

UDI appreciates that OSFI is monitoring the B-20 Guideline and is open to considering amending them "… *if conditions in the environment change*," as was noted by Assistant Superintendent Carolyn Rogers earlier this month in Toronto. However, it appears that OSFI is not considering a change in the Guideline (even minor ones) for some time. Given the impacts the Stress Test is having on access to homes in the affordable segment of the market and potentially on employment, we recommend that OSFI consider changes the Guideline now.

We ask that OSFI consider minor reductions in the Stress Test buffer. OSFI could reduce the buffer to 100 bps above the contracted mortgage rate. Alternatively, the buffer could be reduced as interest rates increase, which would offset the impact of rate increases. UDI has also recommended to the Federal Government that a regional approach be adopted for mortgage rules. The Stress Test could be reduced or eliminated in regions where there is less concern about the housing market and/or there is a need to encourage economic activity.

UDI recognizes that the critical mandate of OSFI to protect the depositors and creditors of banks. However, unlike other forms of consumer debt such as credit cards, mortgages are secured by collateral. According to CMHC, there is "… *a strong history of mortgage debt repayment in Canada*." The numerous mortgage rules outlined above would also still be in place, and OSFI is well positioned to monitor the impact of any changes, and act quickly if needed.

Beyond mortgage underwriting practices, other Federal priorities also need to be balanced with OSFI's mandate such as housing affordability. We recommend the impact of the B-20 Guideline on access to housing for lower and middle income Canadians be part of OSFI's monitoring program. OSFI also has to ensure that economy is not tipped into recession, in part, because of the Stress Test.

We ask that you and your Office consider our recommendations to amend the B-20 Guideline. If there are any questions, please do not hesitate to contact us.

Sincerely,

Anne McMullin
President and CEO

CC: The Honourable Bill Morneau, Minister of Finance
The Honourable Jean-Yves Duclos, Minister of Families, Children and Social Development and Minister Responsible for Canada Mortgage and Housing Corporation (CMHC)
Evan Siddall, President and Chief Executive Officer, Canada Mortgage and Housing Corporation (CMHC)