



Association canadienne
des constructeurs
d'habitations

Suite 500
141 Laurier Avenue West
Ottawa, Ontario
K1P 5J3

613-230-3060
chba@chba.ca
www.chba.ca
@CHBANational

CHBA Submission on Revised Guideline B-20 Residential Mortgage Insurance Underwriting Practices and Procedures

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INTRODUCTION

On behalf of the Canadian Home Builders' Association (CHBA) and its more than 9,000 member companies across Canada, I am writing today regarding the the Office of the Superintendent of Financial Institutions (OSFI) consultation on the minimum qualifying rate for uninsured mortgages (or "stress test").

As the country looks towards recovery from the COVID-19 pandemic, several things are clear. A home is more important than ever to Canadians, and the serious affordability challenges and housing supply shortages that existed before the pandemic persist now. Homeownership is an essential part of ensuring that Canadians have a safe and healthy place to live, work, and relax. With 94% of Canadians wanting to own their own home, there is more we can do to support homeownership and a robust economic recovery, while also maintaining stable markets and avoiding excessive house price escalation.

The residential construction sector will continue to be a critical part of Canada's economic recovery and a key source of employment as the country moves through the pandemic. Prior to COVID-19 the sector was contributing 1.3 M jobs, \$83B in wages and \$142.6 B in economic activity to Canada's economy. Measures that risk reducing the job-creating engine of renovation and new home construction could have an impact on the economic stability of communities large and small across the country at a precarious moment in Canada's economic recovery.

HOUSING DEMAND

CHBA and its members recognize and are also concerned about escalating prices across the country. It is important to note that this is largely being driven by a long-standing lack of housing supply compared to demand. The lack of supply driving up prices in many Canadian cities has long been a key concern to the Association. The pandemic has increased demand further, driving up prices on still very limited supply. Increased demand for homes has been a result of a desire for more space (both inside and out), increased flexibility in location, and more flexible work arrangements, all driven by the pandemic.

Increased savings by those able to keep working through the pandemic, coupled with low interest rates, have increased purchasing power of consumers, with many first-time buyers accelerating home purchase plans as well, supporting this demand.

RECOMMENDATIONS

Based on the consultation letter, and the technical briefing, CHBA understands that OSFI is proposing to set the qualifying rate for uninsured mortgages as the greater of the mortgage contract rate plus 200 basis points (2%) or 5.25%.

It is also CHBA's understanding that OSFI has considered a set of transition rules, in that if a mortgage is pre-approved before June 1, 2021 the new proposed minimum qualifying rate would not apply, even if the sale closes after June 1. A signed purchase and sale agreement would be required. **These transition rules must be clearly articulated and included in the decision letter.**

If the measure does proceed as proposed, it will be critical that clear transition rules be in place. It is expected, and must be clear and well communicated, that buyers with completed purchase and sale agreements and pre-approved mortgages in place before the June 1 deadline be eligible to abide by the current stress test rules rather than the new ones coming into force on June 1. It is recommended that this be included explicitly in the final updated B-20 Guidelines and communicated clearly as a directive to lenders.

Given that the Association felt the stress test was more stringent than necessary in the first place and needed to be more dynamic, we do not feel this current proposal is a necessary change at this time. CHBA is always concerned about well qualified buyers being able to access the market, and this change will reduce that to a degree.

Since the inception of the guideline, the Association has recommended adjustment of the stress test to make it more dynamic and align better with market conditions to reduce its severity. Some of those changes were set to be implemented in April 2020, but then the pandemic hit. **CHBA recommends it is those changes that should be implemented.**

It is also our understanding that with the current proposal, the 5.25% minimum benchmark floor would not automatically rise should interest rates begin to rise slowly. Should the proposed changes go through, **CHBA urges OSFI not to raise the minimum benchmark floor as interest rates rise** to avoid affordability and access to homeownership being eroded further.

CHBA is always concerned about well qualified buyers being able to access the market. The proposed change for uninsured mortgages will reduce that access to a degree. A similar measure on the insured mortgage space would likely have an even greater impact on first-time buyers. **Before any measures are introduced for insured mortgages, there should be a thorough review of the existing mortgage system through a lens of fairness and access for first-time homebuyers.**

In terms of the proposed change for uninsured mortgages, CHBA undertook a brief analysis to confirm the potential impact on the buying power a model buyer, endeavouring to purchase a \$400,000 home. Under the current stress test rate of 4.79%, we can assume that a given buyer could afford a \$400,000 home. Holding all else equal, the stress test of 5.25% being proposed would result in a 3.5% reduction in buying power for that buyer, to achieve the same monthly mortgage payment as they would have had prior to the implementation of the revised stress test. Buyer A would now only be able to afford a \$386,000 home. The 3.5% reduction in buying power is prevalent across our other home price scenarios of \$500,000, \$600,000, and \$700,000.

A similar reduction in buying power for a first-time, insured buyer would likely be quite challenging given the characteristics of those buyers.

The federal government should consider other measures that can help prospective first-time buyers make responsible decisions about homeownership. For example, by supporting, through necessary regulatory changes and direction to financial institutions, longer mortgage terms, **including 7 – 10-year terms**. That would allow longer-term affordability and protect Canadians against future increases to interest rates, economic instability, and job uncertainty, while bolstering Canada’s financial system. Longer terms should also be used to **step down the stress test for the longer the term**, increasing affordable access to homeownership while also providing more financial market stability.

CHBA also recommends a return to 30-year amortization periods for first-time buyers. Such changes would go further support well-qualified home buyers access homeownership while strengthening the economy and the Canadian financial system.

CONCLUSION

From the Association’s perspective it is more important than ever that any measures to address escalating house prices should be aimed at the need for more housing supply. CHBA will continue to advocate for measures to increase housing supply to create a more balanced market.

CHBA remains concerned with the negative impact of overly strict, blanket macroprudential measures on housing affordability – particularly for first-time buyers. During the recovery from the pandemic, it is important to look at how to make the housing system work better, offering wider and more diverse pathway through the system, and better support Canadians on their chosen path.

It is a stated goal of the federal government to help all Canadians find an affordable place to call home. The proposal put in place in this consultation does not adequately address either supply or affordability. Should you have any questions, CHBA would welcome the opportunity to provide more insight into the measures outlined in our submission that will address housing stability in this country.

Should you have any questions, or require more information, please do not hesitate to contact Nicole Storeshaw, Manager, Government Relations at nicole.storeshaw@chba.ca or 613-230-3060 ext. 241.

Sincerely,



Kevin Lee, P.ENG., M.ARCH.
CEO, CHBA