



Potential Questions and Concerns from MPs

*regarding to CHBA's Recommendations
on the Stress Test and 30-year Mortgages for First-Time Buyers*

The MP makes the argument that...	Rebuttal
<p>The stress tests for conventional mortgages are doing what they intended to do: to cool down overheated markets in the GTA and Lower Mainland. Why would CHBA be against this responsible policy?</p>	<p>While reasonable measures to ensure borrowers will be able to service their mortgage debt are prudent and something CHBA supports, the current stress test simply goes too far, especially given changes in interest rates. The market conditions that existed when it was introduced have changed considerably (interest rates are up, more and more Canadians are being locked out of home ownership, and many regional economies are struggling), so the stress test needs to change as well.</p> <p>CHBA isn't asking for the stress test to be dropped, we're simply saying that it needs to be updated to reflect current market and financial conditions. We are basing our recommendation on the actual impact the stress test has had over the last year. We're concerned that without updating, the current stress test will cause considerable economic harm to Canada.</p> <p>As a result, the stress tests are preventing responsible and qualified home-buyers from entering the housing market. The stress tests are clogging up the rental market – which needs units freed up for the 530,000 Canadian families in housing need. Over 80% of rental stock that comes available each year comes from first-time homebuyers leaving the rental market—right now, that is being stagnated, causing rental shortages and higher rent.</p>
<p>The stress tests are preventing people from taking out new mortgages that they cannot afford. What is wrong with that?</p>	<p>While the stress tests are indeed preventing people from over-extending, the impacts of the current stress test go much further than that. Because it has not been updated, the stress test is also preventing many people, particularly first-time home-buyers, from taking on mortgages that they clearly can afford.</p> <p>This is causing many younger, well-qualified first-time home buyers considerable financial harm. In economically-strong cities it is also causing overly-tight rental markets and escalating rental rates that harm lower-income Canadians.</p>

<p>Moving back to 30-year amortization period for first-time home-buyers with insured mortgages is not a safe and prudent change.</p>	<p>This is simply not the case.</p> <p>At current interest rates, an insured first-time buyer with a 30-year amortization and a five-year term will pay off more than 10 percent of the mortgage principle before the mortgage renews. This increased equity provides increased flexibility.</p> <p>As well, the vast majority of first-time buyers are younger Canadians and families, near the beginning of their working careers. Equifax data shows that this group has the lowest rate of mortgage arrears of all age groups. They typically see greater increases in wages and income that make mortgage repayment easier as time goes by.</p>
<p>You claim that both recommendations would not cost the government any money or increase the risk to lenders or borrowers? What makes you so certain that you are correct?</p>	<p>Because both recommendations are quite conservative in nature and well targeted, we see no increase in risk as a result of making these changes. Our view is that both these recommendations simply update lending policies that were put into place when conditions were different than they currently are.</p> <p>If the return to insuring mortgages with 30-year amortization occurs, we would expect to see the market share for insured mortgages begin to return to more normal rates. This would actually increase federal revenues.</p> <p>Also, the recommendations to the stress test would encourage fixed-rate, longer mortgage terms (e.g. 5-years or more), removing risk from the system. The current stress test encourages short-term, variable rate mortgages—a much riskier proposition. In addition, the changes would help reverse the current risky situation of borrowers being pushed to unregulated and private lenders.</p>
<p>The current measures are making home-buying more affordable for young Canadians.</p>	<p>This is simply not true. Affordability is a combination of income, price and mortgage rules. Where prices are stagnating or lowering, this is largely because the mortgage rules are preventing people from being able to qualify and hence afford to buy. Both measures are therefore making it more and more unaffordable for young Canadians to enter the housing market.</p> <p>In many instances, young buyers are having to get financial support from parents to buy. Why would the government want younger Canadians to be dependent on having rich parents in order to become home owners? That seems very unfair. Not to mention if you don't have parents in a financial position to help, you are out of luck. This is creating a two-class society of families that own property and those that don't.</p> <p>At the same time, we are seeing middle-class parents refinancing their homes in order to help their kids with down payments. That is risky. Current policies are making this type of irresponsible behavior a reality.</p>

