

October 13, 2016

The Honourable Bill Morneau  
The Honourable Jean-Yves Duclos  
House of Commons  
Ottawa, Ontario K1A 0A6  
[Jean-Yves.Duclos@parl.gc.ca](mailto:Jean-Yves.Duclos@parl.gc.ca);  
[Bill.Morneau@parl.gc.ca](mailto:Bill.Morneau@parl.gc.ca)

Dear Ministers Morneau and Duclos:

**Re: New Mortgage Rules – Exemption Request and Recommendations**

The Canadian Mortgage Brokers Association (CMBA) wishes to address some concerns with the new mortgage rules announced by the Honourable Minister Morneau on October 3, 2016, and to propose specific solutions to address housing affordability.

CMBA is an association representing over 4,000 mortgage brokers and agents, their lender and service partners and millions of mortgage consumers throughout Canada.

**Recommendations for Housing Affordability**

The overall goal of the new mortgage rules is to stress test borrowers to ensure that they can afford financing should interest rates rise. While the CMBA acknowledges that this is an important goal which ensures long term stability in the housing market, the new rules will have a profound impact on reducing competition in the mortgage market and raising mortgage costs for borrowers. Requiring that all insured homebuyers qualify for mortgage insurance at the Bank of Canada's conventional five-year fixed posted rate has been estimated by the mortgage industry to reduce the purchasing power of buyers by as much as 20%<sup>1</sup>. This change will impact the millennial generation the hardest and magnify current housing affordability challenges for this segment of the population multifold.

Accordingly, CMBA is of the view that consultation with stake holder groups should have occurred prior to adoption of the rules. Mortgage brokers in Canada fund approximately \$70 billion annually, and are key stakeholders in decisions impacting mortgage borrowers.

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<sup>1</sup> See BCREA economist, Cameron Muir's analyses at <http://www.bcrea.bc.ca/docs/economics-forecasts-and-presentations/millennials-bear-the-brunt-of-fed-policy-changes.pdf>

Prime Minister Trudeau, in his November 2015 mandate letters to the Department of Finance and CMHC advised of the following mandate: “to invest in growing our economy, strengthening the middle class, and helping those working hard to join it.” In addition, and specifically in relation to CMHC, the Prime Minister provided a mandate to undertake a review of escalating home prices in high-priced housing markets and to consider all policy tools that could keep home ownership within reach for more Canadians.

In keeping with the additional mandates of the Department of Finance and CMHC to strengthen the middle class and to ensure housing affordability, the CMBA proposes the following:

**Recommendation 1 and Exemption Request:** Exempt all insured mortgages with terms greater than 7 years from the requirement to qualify borrowers at the Bank of Canada’s conventional five-year fixed posted rate, and permit qualification at the true contract rate associated with the term. Contract rates on a conventional 10 year term are already relatively close to the posted rate of 4.64, being approximately one per cent lower. There is also inherent stability in longer term mortgages, as borrowers do not experience fluctuations in mortgage payments as interest rates change. This means that stress testing borrowers of longer term mortgages is not necessary, and exempting them from the mortgage rules would help the government meet its mandates to make housing more affordable and strengthen the middle class.

The CMBA notes that Canada is unusual in its lack of availability of longer term mortgages in the mortgage market. By contrast, the majority of mortgages in the United States (and numerous other countries) are for terms of 15 or 30 years<sup>2</sup>. Economic stability can be achieved by providing mortgage borrowers with a greater array of term options, including long term mortgages.

**Recommendation 2:** Permit first time home buyers to amortize insured mortgages over 30 years, instead of 25 years. A one-time exception to the 25-year amortization rule for first time home buyers would balance the need to make home ownership affordable with the need for Canada to have a stable economy. First time home buyers have the most significant challenge in affording housing, and may be just starting out in employment with more limited income to both save for a down payment or make monthly mortgage payments.

**Recommendation 3:** Modify the requirement of limiting amortizations on insured mortgages to 25 years, by enabling borrowers with a loan to value ratio of 70% or less to amortize up to 30 years. Borrowers with loan to value ratios of 70% or

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<sup>2</sup> For a discussion on the comparison of international mortgage markets see Richard K Green, Susan M Watcher, “The American Mortgage in International and Historical Context” [http://repository.upenn.edu/cgi/viewcontent.cgi?article=1000&context=penniur\\_papers](http://repository.upenn.edu/cgi/viewcontent.cgi?article=1000&context=penniur_papers)

less are low risk, and making them qualify with more stringent requirements serves a negligible benefit, and poses little risk to economic stability.

**Recommendation 4:** Exempt all insured mortgages with principal amounts of \$499,000 or less from the requirement to qualify borrowers at the Bank of Canada's conventional five-year fixed posted rate, and permit qualification at the true contract rate associated with a 5 year fixed term. Many lenders will only lend in rural or smaller urban areas of Canada using portfolio insured mortgages and as a result, the new rules will disproportionately impact home owners or potential borrowers hoping to acquire housing in smaller markets. This exemption would help ensure affordability in areas outside major city centers where escalating house prices are not an issue.

#### Impact of the New Mortgage Rules on Housing Affordability

In light of the mortgage rule changes which seriously worsen the housing affordability crises in Canada, the CMBA implores the Federal Government to take immediate action on its mandates to strengthen the middle class and make housing more affordable by amending the new mortgage rules as recommended above.

We would be pleased to meet with you to discuss the above recommendations in more detail.

Thank you in advance for your attention to this matter.

Sincerely,

Samantha Gale  
Executive Director, the Canadian Mortgage Brokers Association

Ajay Soni  
President, Canadian Mortgage Brokers Association – BC

Geoff Carnevale  
President, Canadian Mortgage Brokers Association – Ontario

Nicholas Hamblin  
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