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Chair

The Honourable Wayne Easter

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● (1535)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): If members are ready, we'll call the meeting to order. Welcome to the first session of the new year 2017.

This afternoon, pursuant to Standing Order 108(2), we're starting a study on the Canadian real estate market and home ownership in relation to housing prices increasing in certain areas across the country.

We have three witnesses, and we'll start with Sylvain Leduc, deputy governor of the Bank of Canada, and Don Coletti, adviser to the governor.

The floor is yours, Sylvain. Welcome.

[*Translation*]

Mr. Sylvain Leduc (Deputy Governor, Bank of Canada): Good afternoon, Mr. Chair and distinguished members of the committee.

Thank you for the invitation to appear before this committee. My colleague Don Coletti, who is an advisor to the Governor, is joining me today.

We are pleased to be able to contribute to your timely study on the Canadian real estate market. The Bank of Canada has a mandate to keep inflation low, stable and predictable. Given the importance of a well-functioning financial system in achieving our inflation goal, we provide our assessment of the stability of the Canadian financial system twice a year through our *Financial System Review*. Let me thus focus my remarks on financial stability.

Our assessment starts by identifying the financial system's most significant vulnerabilities; this is important since financial vulnerabilities can help propagate and amplify shocks to the economy, leading, among other things, to larger deviations of inflation from our 2% target.

Over the past few years, we've highlighted two key vulnerabilities that are relevant to your study: high levels of household indebtedness and housing market imbalances. These two vulnerabilities clearly interact with one another, as households borrow more to buy more expensive homes.

Let me briefly discuss these two vulnerabilities in turn.

The first one, indebtedness, is well known. The ratio of debt to disposable income in Canada is now approaching 170%. This ratio has been rising steadily since the early 2000s. Additionally, the aggregate number masks worrisome patterns regarding how this debt is distributed. For example, our analysis shows that debt has become more concentrated over time in households with higher levels of indebtedness. Compared with their less indebted counterparts, these households tend to be younger and have lower incomes.

[*English*]

The second vulnerability concerns house prices, which now stand at a record of almost six times the average household income on a national basis. What's more concerning here are the imbalances in some cities, most notably Toronto and Vancouver. The price increases we've seen in those cities have been caused by a number of factors, ranging from demographics to low interest rates to constraints on land use. We've also highlighted our concern that expectations of future price growth may be a contributing factor. Because these expectations can change rapidly, the imbalances that have emerged make it more likely that shocks to the economy could cause a drop in prices.

In light of these vulnerabilities, the most important risk to the financial system remains a large and persistent rise in the unemployment rate across the country, which creates both financial stress for many highly indebted households and a correction in house prices. In this scenario, households significantly cut back their consumption spending, while a rise in defaults and a decline in collateral values exert stress on lenders and mortgage insurers. Although we see a low probability of this risk materializing, its impact would be substantial if it were to occur. This is why we judge this risk to be elevated.

That said, I hasten to add that we've concluded model simulations to analyze the effects of such a shock and found that the buffers in the Canadian financial system would be sufficient to absorb its impact. While there would be stress, the financial system would remain resilient.

[*Translation*]

As you know, the federal government made important changes to housing finance rules last fall. These changes should reduce the rise in highly indebted households over time by ensuring that borrowers are more resilient to potential future headwinds. We are not expecting the regulatory measures to lessen this vulnerability overnight, because it will take time for the number of highly indebted households to decline significantly.

It's also worth emphasizing that under the new mortgage finance rules, the ability of all insured borrowers to make debt service payments must now be assessed using an interest rate that is higher than the prevailing market rate. As well, applicants must show they can cover the costs associated with servicing not only their mortgage but also their total consumer debt.

We expect this more stringent test will reduce vulnerabilities not only in Toronto and Vancouver, but also in cities where house prices are not as high relative to incomes, such as Montreal, Halifax and here in the Ottawa-Gatineau region.

The last point I'll make is that the Bank of Canada can best contribute to long-term financial stability by keeping inflation low, stable and predictable.

To achieve our inflation mandate, we cut interest rates after the financial crisis and have done so twice since 2014, after oil prices collapsed.

Our actions supported income growth and the economic recovery we've seen, helping mitigate households' financial stress along the way. This policy, coupled with other macroprudential tools aimed directly at financial vulnerabilities, is helping to preserve the stability of our financial system.

Thank you for your attention. We will be happy to answer your questions.

● (1540)

[*English*]

The Chair: Thank you very much, Sylvain.

Turning to the Canada Mortgage and Housing Corporation, we will now hear from Michel Tremblay, senior vice-president of policy, research, and public affairs; and Michel Laurence, vice-president, housing markets and indicators.

Welcome, the floor is yours.

Mr. Michel Tremblay (Senior Vice-President, Policy, Research and Public Affairs, Canada Mortgage and Housing Corporation): Thank you, Mr. Chair. It's a pleasure to be here.

As you know, our president and CEO, Evan Siddall was scheduled to meet with the committee today. Unfortunately, Mr. Siddall cannot be here, but he asked that I deliver these remarks on his behalf.

[*Translation*]

We welcome this opportunity to contribute to the committee's study of issues surrounding the residential real estate market and home ownership.

As Canada's authority on housing, CMHC continuously monitors housing markets and undertakes research and analysis to support informed policy and decision making. This is key to fulfilling our legislative mandate to facilitate access to housing and contribute to the stability of Canada's financial system.

[*English*]

A robust statistical modelling exercise undertaken last year by our housing market analysis team confirms that the most important factors accounting for house price increases over the long term are economic in nature: rising disposable incomes, increased inflows of people, and lower mortgage rates.

Three additional factors are contributing to the shorter term price dynamics that are currently being felt in certain urban centres, notably Toronto and Vancouver. These include financial acceleration effects from both domestic and foreign investments and the implications of rising income and wealth inequalities. In regard to the latter, people with higher incomes can get larger mortgages and buy bigger, more luxurious homes. Coincident with increased income inequality in Toronto and Vancouver, price increases in these cities in recent years have been led by more expensive single detached homes.

Perhaps an even larger factor impacting house prices in some markets is the weak and lagging supply response. Geographic constraints in Toronto and Vancouver, as well as municipal land use regulation fees and extended approval processes, are limiting new construction and pushing home prices higher. It is clear that more supply would moderate price increases and alleviate the challenge this represents to home ownership.

At 69%, Canada's home ownership rate is among the highest in the world, and that includes countries such as the U.S., the U.K., France, Australia, and many other OECD countries. Although more work needs to be done, research from other countries supports the premise that home ownership is associated with positive social and economic outcomes, such as improved education results, greater community engagement, and wealth accumulation. I should caution, however, that much of the research predates the last financial crisis.

There is growing concern that escalating prices are putting home ownership out of reach for many Canadians, including young, middle-income families. This has potential implications, not only for these families, but also for the wider economy. For example, high housing costs may provide an economic incentive for workers to resist moving from less productive economies to more productive ones. This is a very human reaction that results in a significant net loss to the country as a whole.

CMHC has a mandate to facilitate access to housing, including by supporting the efficient functioning of the housing finance market to enable home ownership, but also to contribute to the stability of the financial system. In pursuing these objectives, we must be careful not to facilitate Canadians' buying homes they may not be able to afford.

Household debt is at a record level in Canada at 165% of disposable income, and residential mortgages account for about 72% of consumer debt. Our colleagues at the Bank of Canada continue to flag this as a top vulnerability to financial stability in Canada.

Concerns have been voiced about the ability of first-time homebuyers to buy homes. Support should not be unlimited, however. Ample support exists for first-time homebuyers, including the federal government's homebuyers' plan, federally guaranteed mortgage insurance itself, and various provincial measures. Too much encouragement to buy a home exposes vulnerable people to excessive financial risk, and pushes prices higher where supply inelasticity exists, making sellers better off, but not buyers, and jeopardizes our economic prospects. The last thing we want is for somebody to lose their home.

CMHC's most recent housing market assessment report, released just days ago, confirms that there is good reason for concern about housing market conditions. It indicates strong evidence of problematic housing market conditions in Canada as a whole. This was first noted in our fall 2016 housing market assessment. Since then, conditions have worsened in Victoria, although evidence shows problematic conditions have eased in Calgary.

We have, therefore, supported the Minister of Finance's efforts to rein in excessive housing market activities in our role as the government's policy adviser on housing.

● (1545)

[*Translation*]

Last fall, the Government of Canada tightened the eligibility rules for insured mortgages to reinforce the Canadian housing finance system and to help protect the long-term financial security of borrowers and all Canadians.

These changes addressed rather a chorus of commentary, from the IMF and OECD among others, that the federal government carried too much exposure in housing markets.

Notably, a “stress test” has been introduced for all insured mortgages. The Bank of Canada posted rate, which is typically higher than contract rates, must now be used to underwrite all guaranteed mortgages. This buffer will help offset the highly stimulative effect of low interest rates.

Secondly, while lenders are free to offer more flexible terms for uninsured mortgages, government-backed mortgage insurance will no longer be available for any mortgages on properties valued above $1 million or with amortizations beyond 25 years.

We expect these macroprudential policy changes will moderate demand for housing, which will have the effect of limiting price increases, making houses more affordable, and support sustainable economic growth.

[*English*]

We have observed modest reductions in activity, but it is too early to say whether the changes are in fact achieving these objectives. The spring season, which is typically very busy for housing markets, will help confirm any long-term trends.

Finance Minister Morneau has also initiated a public consultation on lender risk sharing for government-backed insured mortgages, which wraps up at the end of February. We look forward to exploring this idea, which we believe would result in a more resilient housing system by more fully involving lender in risk management and adjudication.

Currently, regulated lenders do not have to hold capital for risks associated with guaranteed mortgages. We are concerned about the misalignment of interests that could result, even to the extent of moral hazard in such cases.

Lender risk sharing aims to rebalance risk in the housing finance system by requiring lenders to bear a modest portion of loan losses on any insured mortgage that defaults. This will ensure that the incentives of all parties to an insured mortgage loan are aligned toward managing housing risks and further strengthening Canada's housing market and financial systems.

At CMHC, we estimate that a modest level of lender risk sharing could increase the typical five-year fixed rate mortgage by 10 to 40 basis points, depending on the default risk of a particular mortgage.

As a crown corporation with a mandate to contribute to Canada's financial stability, CMHC must be a leader in housing risk management. We have significantly strengthened our risk management policies and practices recently, and we will continue to do so.

In the interest of accountability, we have been deliberately more transparent and open in our reporting, analyses, and public presence. We are therefore grateful for the opportunity to be here and to support your work.

Thank you.

● (1550)

The Chair: Thank you very much, Michel.

Turning then to the Office of the Superintendent of Financial Institutions, we have Carolyn Rogers, assistant superintendent; and Judy Cameron, senior director, legislation, approvals and strategic policy.

The floor is yours.

Carolyn, go ahead.

Ms. Carolyn Rogers (Assistant Superintendent, Regulation Sector, Office of the Superintendent of Financial Institutions): Thank you, Mr. Chair.

Thank you, on behalf of the superintendent and the rest of my colleagues at OSFI, for the invitation to be here today.

The health of the housing sector is important to the Canadian economy and to the health of Canada's financial sector, and we welcome the opportunity to participate in the committee's deliberations.

OSFI is Canada's prudential regulator and supervisor of federally regulated financial institutions. Our oversight includes banks, insurance and trust companies, and private pension plans. Approximately 80% of the mortgages issued in Canada are held by financial institutions under OSFI's supervision, and residential mortgages represent almost 30% of the assets held by the banks we supervise. Our responsibilities also include the monitoring and examination of the three mortgage insurers operating in Canada, including my colleagues from CMHC. Accordingly, OSFI keeps a close eye on the risks impacting the mortgage market, such as underwriting and risk management practices of lenders and mortgage insurers, as well as the broader risks, including economic conditions and the interest rate environment. OSFI's mandate is to protect the depositors, policyholders, and creditors of the institutions we supervise, while allowing them to compete and take reasonable risks.

At a policy level, OSFI fulfills this mandate through two key activities: setting principles and standards for sound risk management in financial institutions in the form of guidelines and other policy directives, and setting the minimum requirements for the quantity and quality of capital that financial institutions must hold.

OSFI's expectations with respect to risk management practices in the residential mortgage market are made clear in two separate policy guidelines: B-20, which sets out the principles for mortgage lenders, and B-21, which sets out the principles for mortgage insurers.

Minimum capital requirements for banks and insurers are evaluated by OSFI on an ongoing basis and are designed to ensure that lenders and insurers have sufficient capacity to absorb severe but plausible losses.

At an operational level, OSFI fulfills its mandate through a rigorous supervisory regime that combines continual monitoring and an examination process that ensures financial institutions comply with our guidelines and continue to hold capital and liquidity given their respective risk profiles.

Like all financial regulators, OSFI has worked hard in recent years to incorporate the lessons of the financial crisis in our policies and practices. Key among these lessons was that the vulnerabilities that build up in the residential mortgage markets, such as stretched housing valuations and high rates of consumer debt, can lead to financial instability and sharp contractions in economic activity. Deteriorating lending standards of lenders and insurers, and financing structures with misaligned incentives, can fuel these vulnerabilities.

Since the financial crisis, OSFI has made a range of adjustments to both our policy guidelines and our capital requirements for mortgage lenders and insurers. These adjustments reflect the lessons we've learned and the vulnerabilities evident in the Canadian market. Recent examples of these changes include requirements for certain mortgage lenders to hold additional capital for mortgages that originated in markets where housing price increases are significantly outpacing income levels. We've also recently adjusted the formulae mortgage insurers must use to calculate the capital, to incorporate a wider set of risk indicators.

In addition to policy changes, OSFI has increased its supervisory intensity of mortgage lending and tightened our expectations around mortgage underwriting practices. Most recently, just this past summer, OSFI issued a letter to the industry reminding them not to be overreliant on the collateral value of housing assets and to be diligent in assessing a borrower's willingness and ability to make payments on a timely basis. This letter was followed up by a series of targeted examinations.

These are just a few examples of OSFI's work with regulated entities designed to promote prudent mortgage lending and insurance practices, thereby increasing the resilience of Canadian financial institutions to adverse shocks and ensuring they are prepared for the unexpected.

Before I conclude, I would add that while OSFI is an independent regulatory agency, it does not operate in isolation. At the federal level, OSFI co-operates with key agencies, notably the Department of Finance, my colleagues here from the Bank of Canada, the Financial Consumer Agency, and the Canada Deposit Insurance Corporation. Although each of us has a distinct mandate, role, and focus, we all work in coordination to maintain a strong and stable financial system, a system in which Canadians can place their trust.

Thank you for your time. I look forward to your questions.

● (1555)

The Chair: Thank you, all, for your presentations.

Before we go to questions, Ron, did you still want to raise that point?

Mr. Ron Liepert (Calgary Signal Hill, CPC): Yes, Mr. Chair. I understand that the CEO of the Canada Mortgage and Housing Corporation had a family emergency and couldn't be here today, but I do think it's critical for this study that we have him appear before the committee. I know, from talking to other committee members and with the clerk, it was quite a challenge getting folks scheduled to appear before this committee. I would like to propose that we set aside at least one more day to hear witnesses, and hopefully we can get the CEO to appear at that time.

The Chair: I do know the CEO had a family emergency. That's understandable, and there's no criticism there.

I think we had talked earlier as well with some of the members on our side, and it seems that due to the demand we're getting for witnesses for this study, we will be holding two four-hour sessions, but we will likely have to hold at least one more, if not two. I think we can agree that we will hold at least one more hearing. We'll talk about this at the steering committee to see how we will finalize it, if that's okay.

We may not expect another brief, but if the CEO is here to answer any further questions that might come up, that would be fine. That's the way we'll try to proceed.

We'll turn now to questions.

Mr. Sorbara, for seven minutes.

Mr. Francesco Sorbara (Vaughan—Woodbridge, Lib.): Thank you, Mr. Chair.

It's good to be back at work in Parliament again. Let me start with a little dialogue with everyone. I've taken the time to read the FSR report of December and June, and the comments of Mr. Siddall from CMHC from Vancouver and from London, and the CMHA report. I take an interest in OSFI's work all the time, because it was part of my past life.

Mr. Rudin's speech on sound residential mortgage underwriting in a changing environment, delivered on November 28, 2016, plus his remarks on bank capital, was interesting, along with all of our government's actions with regard to the housing market.

I look at this and I ask myself what worries me. If I can use a term from a book, where is the black swan? Is there one out there, and can we even identify it? Usually you can't until it's passed. What may trigger some sort of event in our housing market?

I look at what happened in the United States. We don't have NINJA loans; we don't have adjustable-rate mortgages; we don't have the large subprime market that they had. Our underwriting standards are top-notch, but we have household indebtedness. We have housing market imbalances due to the supply side, and we have a lot of regulatory change that is happening. So when I look at it, I ask myself what event out there may cause trouble for us and what exogenous event even more so. It could be a regulatory event in consequence of a regulatory action, and it's the exogenous side that scares me.

The simplest one that comes to mind is employment, or some sort of employment shock to the system, and you will see it in auto delinquencies or housing delinquencies. But we know that Canadians pay their bills. We are the best consumers in the world, basically. You can look at the data. I saw it in my past life and I follow it currently.

I look at the Canadian housing market, and we are regional markets. Measures that are introduced nationally may have unintended consequences in some markets. Toronto and Winnipeg are two different housing markets. I would argue that the housing markets in Toronto and Vancouver are like those in London and New York City 20 to 30 years ago, in which a million-dollar purchase price, which is not covered by an insured loan anymore, is just a million-dollar purchase price. The dream of having a backyard isn't there. You have to move to the suburbs.

A lot of the actions our government has taken pertain strictly to the insured market, which is 20% of the mortgage market, while 80% of the mortgage market is conventional. Please correct me if I'm wrong, but 20% is insured and 80% is conventional, uninsured. The housing price equation is not being driven by the first-time buyer; it's being driven by the conventional buyer, i.e., the low-ratio buyer.

In terms of the housing price equation, to me it's the housing market imbalances that are of greater concern, the supply factor, not the first-time buyer. That's one thing. My question, in a roundabout way, is what concerns us? I understand that financial stability is important. Since 2008 we've introduced a ton of measures—B-20 and B-21 and so forth. The new higher CMHC premiums for mortgage insurance came out earlier this week.

Mr. Tremblay, sir, risk sharing is a bad idea. It's going to result, in some mortgage markets in Canada, in consumers being dinged 30 to 50 basis points, especially in areas where economic growth is not as buoyant as in other areas.

I'm going to stop there. There are three minutes for remarks. I can go on for an hour on this thing, as you can tell.

I'm going to leave it there, but what black swan should we be worried about that is concerning for the Canadian housing market? Leave yourselves 45 seconds each.

● (1600)

The Chair: We're going to give you a little more time than that.

Who wants to start?

Mr. Sylvain Leduc: I'll start.

I'm not sure my swan is going to be as black as you want. One of the things we've been worried about in the risk scenario that we have in the FSR is really this idea that you could have another recession in Canada, an increase in the unemployment rate at the national level, which could impose stress on highly indebted households, with their having difficulties in making payments potentially, as well as stress on the financial sector as a whole.

We think this probability is still very low at this point, but as I said before, if this risk were to materialize, the impact would be substantial.

The other thing we've highlighted is that term premiums on interest rates are very low right now and we've had risk retrenchment over the past two years associated, for instance, with developments in China. It could be that we will have similar events in the future, with term premiums rising, pushing up interest rates and mortgage rates as a result. That's one of those scenarios that are a bit more difficult to predict because they involve confidence and risk aversion. This maybe speaks a little to your black swan.

Mr. Francesco Sorbara: We've also had a backup in global bond yields since the new president was elected, and prior to that, of about 50 basis points. My concern is that the employment verification, collateral verification, should also be added.

Mr. Sylvain Leduc: Yes, we've noted that in our latest monetary policy decision, this backup in bond yields. I think this situation might be slightly different in part because this seems to be driven by expectations of future growth in the U.S., maybe because of fiscal policy and higher inflation expectations. It may be more driven at this point by fundamentals and just a retrenchment of risk appetite, but....

The Chair: Do any of the other witnesses want to respond?

Mr. Michel Tremblay: With respect to lender risk sharing, that is why there's a consultation going on. It's to make sure that the government—the Department of Finance in particular—considers all impacts to the system. We are looking at that. I'm sure they're going to get some good feedback on that.

The Chair: Carolyn.

Ms. Carolyn Rogers: What I would add is in relation to your comment about the nature of our regional markets. I would say that the policies that OSFI has introduced around residential mortgage lending are regionally neutral. A good loan is a good loan regardless of where it's written. It has appropriate serviceability, it doesn't over-rely on collateral, and it takes account of the borrower's capacity—all of those things.

I think the fact there are externalities and issues that are unique to some of the housing markets in Canada is true, but I think that underwriting sound risk management and capital-reserving appropriate for risk is pretty universal.

● (1605)

The Chair: Thanks to all of you.

Mr. Albas.

Mr. Dan Albas (Central Okanagan—Similkameen—Nicola, CPC): Thank you, Mr. Chair.

Thank you to all our witnesses both for the work you do every day on behalf of Canadians and for your appearance and your expertise here today.

I'd like to start by saying first that there are a lot of concerns in my area. I'm from British Columbia. Obviously, I've had people throughout my riding who felt they were on a good path towards home ownership, particularly young Canadians, but because of these rule changes, that's been pushed back. I understand some of what you've said today, but I think most of us would agree that home ownership has served Canadians quite well. It is a place where people can store away equity over the long term. I think we should be very cautious before there are any future changes, as we heard in our pre-budget consultations. Time after time, we heard from credit unions and others that these changes need to be digested further.

I'd like to start with a question about these changes enacted by the government. Were they enacted under the Canada Mortgage and Housing Corporation Act? Is that where their authority came from?

Mr. Michel Tremblay: Not to my knowledge, no. I think they're under the legislative power of the Department of Finance.

Mr. Dan Albas: Okay. The reason I ask is that obviously there's not a “Canadian” real estate market. There are hundreds of real estate markets, some small and some large, and obviously these changes really seem to be constructed to deal with some issues that are specific to places such as Toronto, or Vancouver in my home province.

The question I would have, besides noting what some mortgage lenders have described to me as applying a sledgehammer to a very specific problem, is this: were there tools that the government ignored using in order to be able to apply some of these changes to regions rather than nationally in scope? Can anyone give some inkling of an idea as to whether or not that would have been more appropriate?

Mr. Sylvain Leduc: I'm not going to comment on the tools per se, but in terms of the impact across cities and across regions, we've done some work on this in looking at who would be impacted and which cities would be impacted. What we found is that not only the GVA and the GTA are impacted, but a host of cities are impacted. That's because the measures have different requirements in terms of people's ability to repay their debt. There's a requirement in terms of mortgage debt but also in terms of total debt.

It turns out that there are highly indebted households in many different parts of the country. For instance, in Montreal and Halifax house prices are low, but consumer debt is very high, so those folks are being impacted by the measures. This thing is a bit broader, if you want.... It's really, in a sense, about targeting it and having an impact on total indebtedness, not only on mortgage debt.

Mr. Dan Albas: But I think we should also note that this basically does prohibit certain people from being able to get a home and to get into it. That's really what this is doing; it's pushing that back further. We can spin it however we want, but the fact is, we're not allowing people to get into debt because we're not allowing them to get into a home. Is that not correct?

Mr. Sylvain Leduc: No, that has this impact. At the same time we want to make sure that people who are buying homes are resilient to future shocks, so this comes as a stress test. We completely agree that this has the impact of reducing demand at the margin. But again, we don't want people to get into loans they cannot repay.

Mr. Dan Albas: I think the criticism I've heard from a number of people is that this only taps down demand. David Dodge, the former governor of the Bank of Canada, has said there are policy tools to deal with supply to encourage more affordability that way. I'm deeply disappointed that this government has yet to do that. By the Bank of Canada's own report, they say $6 billion will be pulled out of the economy as far as construction is concerned, and I think that's a big issue.

Perhaps this question might be more appropriate for OSFI, given the fact that certain types of mortgages with amortizations of more than 25 years and refinancings in particular will no longer be by monoline lenders, non-financial-institution lenders like the big traditional banks, who will not be able to give loans and refinance existing mortgages. To me, that seems to create a situation that gives banks an inherent advantage because if they cannot refinance under these new rules, there will be a lot of people in Alberta and other economically depressed places who are going to be surprised that they can't go back to their existing lender. They would have to go to either a traditional bank or pay a much steeper price. Are we concerned about that, a lack of competitiveness in Canada?

● (1610)

Ms. Carolyn Rogers: It's not my understanding that the rules will preclude mortgage finance companies from doing renewals. What the rules do is they reprice portfolio insurance. That is how some of the mortgage finance companies fund their mortgages. For finance companies that don't have their own balance sheet from which to fund their mortgages, it's true that these recent measures have a disproportionate impact, but they don't preclude any one lender from being able to do refinancing.

Mr. Dan Albas: Okay, but it's just that about 39% of loans in Canada are done outside the traditional banks, and that's quite a big lump. In fact, when we had a briefing from officials from the Department of Finance in October of last year, we were told that consultations were only done with the larger banks. We've received a briefing note—members can see—from Dominion Lending Centres, which says that the government is actually taking away the refinancing option from Canadians because of these new rules. Hey, I'm just reading what the briefs here say.

I'd appreciate it if you could clarify this, but I'm worried about affordability and also about the competitiveness of the mortgage industry in Canada. We have to be able to give young people an opportunity to join the 69% of Canadians who enjoy home ownership. I tell you what, it's spinning it. We're trying to think of people by not letting them get into debt, but that's not how they feel. They feel they're being denied an opportunity that their parents and other people were given. I'd be quite surprised....

How much time do I have, Mr. Chair?

The Chair: If you go to your question, that's fine.

Mr. Dan Albas: You know what, we'll have other questions, but as you can see my constituents are concerned, and I would hope that the witnesses would be able to lend some clarity to this, or else this study won't give Canadians the transparency they need about these new changes.

The Chair: Ms. Rogers.

Ms. Carolyn Rogers: I think 80% of the mortgages originating in Canada end up on the balance sheets of banks under OSFI supervision, the larger banks. What Dominion Lending Centres is describing is the origination of mortgages. There's a difference between who originates a mortgage and who ultimately funds a mortgage. It's the funder who ultimately holds the risk. Regardless of whether their mortgage is brokered or originated by a broker, for the most part the risk of those mortgages in Canada is held by the banks.

The challenge that Dominion Lending Centres is communicating to you is that the options available to brokers on where they can send their mortgages are reduced when some of the finance companies are less able to fund their mortgages through portfolio insurance. It's more common for finance companies to use mortgage brokers than it is for banks, so measures that affect mortgage finance companies by design affect mortgage brokers. That's what that brief that you have is telling you.

The Chair: Do you want a supplementary question on that?

I know you're out of time, but this is a fairly good point.

Mr. Caron.

[*Translation*]

Mr. Guy Caron (Rimouski-Neigette—Témiscouata—Les Basques, NDP): Thank you very much.

I will begin with you, Mr. Leduc.

Much is said about household debt and the mortgage debt component. I remember that in the previous Parliament, the government insisted that this was not very important, since the net worth of households was growing. At a certain point and for the first time, Canadian households were richer than American ones.

My position on this has always been that a large part of this household wealth was due to the value of homes, or the real estate equity. We can't really determine whether there are bubbles or not. We all have our own views on that. Most of the time, we know that there was a bubble on the day on which it starts to deflate, or has collapsed.

I would like to know whether household net worth is a parameter that can be considered or taken seriously. We worry about household debt. Can we be reassured by the net worth of households, or is that component of the value of homes a problem in itself?

● (1615)

Mr. Sylvain Leduc: It is always a bit difficult to answer that question, because we have to be mindful of the effect that that could have on the markets.

In our last review, published in December, we noted that several fundamental factors impact price increases, such as demographics, interest rates and low mortgage rates, as well as constraints on supply which we discussed earlier. These are all factors that keep the price of homes high, but there is at least something concrete and real.

In June and December, the Bank of Canada said that it was a little concerned by the fact that expectations could become self-fulfilling prophecies. People think that the cost of homes will be higher in the future, so they buy today and this causes the cost of homes to increase. That is to some extent what is happening. Expectations can change rapidly when there are shocks.

That is an abiding concern, but the fact remains that fundamental factors linked to jobs and incomes support the price of homes in Greater Toronto and Vancouver. Nevertheless, we still have concerns along the lines of those you have expressed.

Mr. Guy Caron: The measures taken by the government were subject to some criticism. I think they were well received in certain markets, but the danger is that they may have a perverse effect in certain other markets. That could be the case in Quebec, where home ownership is below the Canadian average. There is certainly no real estate bubble in Montreal or Quebec City, nor anywhere else in that province, and Quebeckers fear that the measures that were taken may constitute an additional obstacle to home ownership.

My question is somewhat political, but I'm trying to keep it from being partisan. In your opinion, has the government gone as far as it can go to tighten up requirements for home ownership, or mortgage conditions?

Mr. Sylvain Leduc: That's difficult to say. We don't have a lot of data on that right now. These policies are relatively new and have not been put in place in many countries. It is difficult to assess their impact given the data and tools at our disposal.

Before we can know whether the government did everything it could, we would have to know the impact of the measures it has taken. That is one of the reasons why, when we published our report on monetary policy in October, we said that there was a lot of uncertainty around these measures.

Our expectation is that this will cut approximately 0.3% of GDP by 2018. We note that there is a lot of uncertainty because once again we don't have a lot of experience with such measures. What we have to do now is wait and see where these measures take us.

Mr. Guy Caron: I have another question for the representatives from the Office of the Superintendent of Financial Institutions, but before that, I will give a minute to the CMHC representatives to add to their answer to my last questions if they wish to do so.

Mr. Michel Tremblay: As Mr. Leduc mentioned, it is early days yet to determine what impact these measures will have, because only a few months have elapsed since they were put in place. To date, volumes at the CMHC have remained more or less the same, but there are several factors that may be at play as compared to 2015, so it is a bit soon to answer that.

Mr. Guy Caron: Thank you very much.

My question is first and foremost for you, the representatives of the Office of the Superintendent of Financial Institutions. Of all the witnesses on the list, you are probably in the best position to answer.

Among home ownership facilitation measures, there is the use of an RRSP to purchase a first house. This is a good measure, since it allows people to use their savings to make their purchase. However, certain economists and tax specialists have warned of the possibility of creating supply that is higher than it should be, because of the possibility of transferring sums to one's spouse to purchase a second property.

Have you seen people access RRSPs in order to purchase a second home for the same household? Of course, both spouses are considered individually.

● (1620)

[*English*]

Ms. Carolyn Rogers: Thank you for your question, and I apologize that I must answer it in English.

I'm actually not going to answer it, really, because I don't think I have appropriate data. I don't think that's a piece of information that our office would necessarily gather.

Mr. Guy Caron: Do you know who could answer my question? Is it the CRA? Is it the bankers? Who would be in a position to give me some data on this?

Ms. Carolyn Rogers: I imagine the banks would have it. If I understand your question, you're looking to determine the usage of RSP programs for down payments and whether they're being used for a primary residence or second houses. Is that right?

[*Translation*]

Mr. Guy Caron: Yes.

[*English*]

Ms. Carolyn Rogers: I think it's the banks that have to track that information. They would have it. It's not a question that's necessarily pertinent to our prudential mandate. I can ask at the office to see if it's data that we have, but I suspect not.

The Chair: If you do have information on that, Ms. Rogers, just send it to the clerk, and we'll provide it to the committee.

Mr. Grewal.

Mr. Raj Grewal (Brampton East, Lib.): Thank you, Mr. Chair.

Thank you to our witnesses for coming today.

If you look at the data, there's a 7% year-over-year increase in prices, but if you remove the GTA from the data, it's flatlined across the country, which I found very interesting. I think that we're well regulated in the housing market, and I think that the latest regulations from the federal government were the right thing to do to control the temperature in the housing market.

My concern is, are we asking the right questions? In terms of foreign investment—and I don't know if you'll be able to answer this question, but this is something I'm concerned about at a local level and on a broader macro level across the country—does the data track if a foreign investor buys the house in cash? If somebody from China, for instance, or anywhere in the world, to be honest, purchases a property in the GTA or anywhere in Canada and pays cash for it, is that data tracked in terms of foreign home purchases?

The Chair: Is anybody willing to take a stab at it? If we don't have the data, that's fine. That's all we need to know.

Mr. Laurence.

Mr. Michel Laurence (Vice-President, Housing Markets and Indicators, Canada Mortgage and Housing Corporation): CMHC has done some survey work to cover the extent of foreign investment in condominiums. Typically, the percentages are very low. We don't make any distinction whether it is through cash transactions or with or without mortgages. There's that bit of information, but we don't track cash per se.

Mr. Raj Grewal: My follow-up question would be this: if there were a restriction in foreign countries, specifically China, on taking money out of China, restricting their citizens from removing the money, how would that impact the Canadian market?

Mr. Sylvain Leduc: We don't have that much data. You probably know the data I'm going to cite as well as I do. Before the taxes were implemented in Vancouver, about 10% of purchases were made by foreigners. This has fallen to about 4% of 5% in the latest data. That's the range we know about in terms of that magnitude. We don't exactly know where the data is coming from internationally, but restrictions on movement would have an impact. It's difficult to gauge by how much, but it would impact that 10%. That is about as much as we know from the data.

Mr. Raj Grewal: Thank you.

My last question is for the Office of the Superintendent of Financial Institutions, OSFI. You monitor how lenders practise, how they approve mortgages, how they decline people. On a practical level, as Canadians walk into a bank or a mortgage lender and apply for a mortgage, they have to prove their income. I've heard stories, especially in my neck of the woods in Brampton, that income verification isn't as stringent as it needs to be. The documents are provided and that's it. There are no follow-up calls; there's no practical analysis; and fraudulent documents are having a big play in the approval of mortgages. This will very much be a regional problem, but is something that your office is looking at?

I ask because if I feel there's going be a risk to this whole thing from people getting mortgages fraudulently.... Yes, they may be working on cash businesses and may have the money to meet their short-term requirements, but if something in the economy were to change, for instance, if we were to have an economic slowdown or resource prices start to go down, those people would be the first ones to leave. That would not be to the extent of what happened in 2008, but it's a real risk for the Canadian market in certain regions.

● (1625)

Ms. Carolyn Rogers: Do we pay close attention to that? Yes, absolutely. The letter that I mentioned in my opening remarks included comments on exactly that issue, reminding lenders that it's very important to be diligent about assessing a borrower's capacity to repay, and particularly where that capacity may be originating outside the country or from sources other than a typical pay cheque where you can look at a pay stub.

Mr. Raj Grewal: Right now, and correct me if I'm wrong, as I could be wrong because I haven't dealt with a transaction since I was elected, but I was a corporate lawyer, when you provide the bank with a notice of assessment, they take it for what it is on paper. They don't pick up the phone and call the CRA to double-check that income. I've heard of and seen fraudulent NOAs out there, and I think if there is a risk to the housing market that is a real risk to banks. This may not have a major impact, but there will definitely be an impact. I'd suggest that all of you look into this.

Thank you so much.

The Chair: Are there any further comments from anyone?

Just to follow up on the cash question, if I could, in terms of data collection, in terms of housing stats and the pressure on housing prices, does it make a difference to data collection if the payment is in cash or if it's through a mortgage lender? Do we have that information on cash purchases? Do we know? I do know from my own area in Prince Edward Island that there are a lot of cash purchases in the tourism industry. Some tourism businesses are being purchased with cash. It's documented, but it's cash. I'm wondering about this in terms of the housing market. Related to Mr. Grewal's question, is that data collected? It would be important to know in terms of the pressure on housing prices. It would have an impact. Does anybody know?

Ms. Rogers.

Ms. Carolyn Rogers: In my last job, I was in British Columbia. We were looking at this question in earnest a year or so ago. We determined that about the closest thing to a source of information that would give you this information is the real estate sector. They'll track through their contracts of purchase and sale, but what we found in British Columbia is that it's not aggregated anywhere in a way that you can do any form of analysis on it.

To your first question, Mr. Grewal, I think the only jurisdiction that is tracking purchases according to the source of the income, whether it's foreign or domestic, is British Columbia now, and that has only been since June or July.

The Chair: Mr. Laurence has a comment.

Mr. Michel Laurence: I would just like to add that we're in consultations with Statistics Canada to collect that kind of information, starting with information from land registry data in the larger census metropolitan areas across the country. We may not collect the data right now, but we're in the process of putting forward a proposal to collect such information. Whether it is cash or through the use of mortgages or not, we would collect that information.

● (1630)

The Chair: Okay, it's something we'll have to keep in mind.

Mr. Liepert.

Mr. Ron Liepert: Thank you, Mr. Chair, and thank you to the witnesses for being here.

Mr. Chair, I just wanted to make a comment that I think would be helpful going forward when we do these sorts of studies. To me, it would be much more beneficial if we had these folks here after we heard from all of our witnesses, so that we could ask them about some of the statements that have been made by witnesses. I just think it's something we should think about as a committee as we go forward.

I want to first focus a bit on policy development. I'm always interested in how policy is developed. This situation reminds me of the old saying, “Hi, I'm here from government, and I'm here to help.” I'd be curious to know if you could help us with the development of this policy. Is this something where the finance minister said to each one of your organizations, “This is what I want to do. Do you think it'll fly?” Or would each one of your organizations have gone to the Minister of Finance and said, “We see an impending problem here”?

I'd just ask each one of you how you would respond to that.

The Chair: Who wants to start?

Mr. Sylvain Leduc: As I mentioned, the imbalances in the housing market and the vulnerability to indebtedness is something we've been flagging for about the past two years. It's something that's really been a concern for us in terms of financial stability, in particular the indebtedness. The two really work in tandem, if you will. House prices are going up. People are reaching maybe a little bit more and getting into more debt. The fact that the indebtedness is rising the most for highly indebted people is really worrisome, because again, the macro conjecture might change very quickly, putting people under stress and under duress. Having to repay their loans, their debt, might be more complicated, putting stress not only on the macroeconomy but also on the financial system as a whole. We think that these risks have a low probability at this point, but again, they could have material impacts and so they are clearly something to watch for.

This is something we've been really preoccupied with at the Bank of Canada over the past two years. Our way to flag this is through our financial stability review. That's our tool. As you know, we're not overseeing banks per se, but we have a seat at the table with the senior advisory council. We provide advice to the Minister of Finance through that means, but to try to steer the debate in a different direction we use our financial stability review.

Mr. Ron Liepert: Are there other comments?

Ms. Carolyn Rogers: As I said in my opening remarks, each of us here today has a very distinct mandate and a role to play in the financial sector, but we work very closely. There are a number of committees, some of which are actually empowered in legislation, through which we share information. We also have close working relationships with each other and with the Department of Finance. When policies that will impact our roles and our day-to-day work are being developed, we provide technical expertise when asked. We share information as well, to support each other in achieving our mandates.

Mr. Michel Tremblay: We have ongoing discussions with the Department of Finance on these issues. As Sylvain mentioned, obviously the vulnerability to household debt has been a concern to all three of us, but to the Department of Finance also. We've been having discussions over the last few years on this file.

Mr. Ron Liepert: Obviously, the policy development was on the advice of and discussion with each one of the three organizations. In those discussions, did you ever give consideration to something other than a one size fits all?

I represent an Alberta riding and I can tell you that this has caused a great deal of problems, as it has for Mr. Caron's province of Quebec and Mr. Albas' province of British Columbia, outside the Vancouver region. I've talked to builders in Alberta recently. Their new housing construction has dried up. We have enough problems with unemployment in Alberta, and this is just going to layer on another problem with unemployment.

Did you give any thoughts to or make any recommendations about doing selective areas to address a problem that existed in, from what I understand, two specific areas only, and if you didn't, why not? If you did, were they rejected by saying, “No, we're going to do one size fits all”?

● (1635)

The Chair: Who wants to start?

Ms. Rogers, go ahead.

Ms. Carolyn Rogers: Our role at OSFI is to give advice relative to our mandate, which is the protection of depositors and policy holders—the stability of banks, basically. We talked to the Department of Finance about a narrow slice of the many policy considerations that somebody in their chair needs to consider. Having said that, I would say that I don't view the changes as one size fits all. Where they have a common impact across Canada, it is where there are common vulnerabilities or common risks across Canada. As I said earlier, sound underwriting is sound underwriting, and where there are differences in risk in the regions of Canada, there is nothing in OSFIs guidelines that precludes the lenders in those areas from reflecting those risks in their policies.

We don't dictate that a rule has to be the same or that a risk appetite for an institution has to be the same across Canada. In particular, I would draw your attention to recent changes we've made to capital requirements for banks where we have targeted the policy. We have told banks that for mortgages in regions where housing price appreciation is outstripping income, they should be holding more capital. In regions where that's not the case, there is no expectation for that additional capital.

I think where it makes sense to have targeted policies, where the risks are differentiated by region, we have done that. Consumer indebtedness, as Sylvain said, is not unique to Vancouver and Toronto; it's a concern across Canada. It's something that we watch in all regions.

The Chair: Go ahead, Mr. Leduc.

Mr. Sylvain Leduc: As my colleague just mentioned, we think targeted policies are always better. That's why we prefer macro-prudential policies, let's say, rather than monetary policy—a bit for the reason you highlighted. Monetary policy points would be a very blunt tool to deal with financial stability issues compared to more targeted policies of the form that have been introduced, and they quite clearly involve trade-offs. Again, in our monetary policy report of October we highlighted that the policy would have a negative impact on GDP growth potentially over the next two years, subtracting something like 0.3% from the level of GDP by the end of 2018. So it's something we're aware of.

As for whether it's one size fits all, again, as I said, in our financial system review, we've noted that the policy would have an impact not only in the GVA and the GTA, but also in other regions where consumer debt is very elevated. They buy it because of that, not only because of house prices. Because we've been concerned by household indebtedness, this is something we've highlighted in the FSR.

The Chair: Mr. Liepert, you had a quick supplementary question. We're over time, but go ahead.

Mr. Ron Liepert: It's probably more of a comment than a supplementary question. One of the things I abide by in political life is that I never answer a question that starts with “if”. In looking through your reasoning behind making this policy recommendation, I have seen nothing but “ifs” ahead of the rationale for making this decision. If unemployment goes up, then you say the risk is low. If something else happens, then the risk is low. I just don't understand why this kind of a blunt instrument was used because certain people from government are here to help to say you're in over your head.

That's my comment.

● (1640)

The Chair: Ms. O'Connell.

Ms. Jennifer O'Connell (Pickering—Uxbridge, Lib.): Thank you, Mr. Chair.

Thank you all for being here. I guess following up a little bit, it's not really a surprise that I somewhat disagree with my colleague. In terms of the targeted approach versus the one size fits all, I somewhat see the changes in borrowing to be a more targeted approach because—and correct me if I'm wrong—if I'm understanding it, it's all relative. It doesn't matter about the housing market or the price of a house in a relative market; it's your indebtedness level. So if you're in debt in P.E.I., or you're buying a house in Toronto, but you have low debt, that's where you're going to come into issue. If you don't have high indebtedness, then it doesn't matter the market you're in, as you'll be able to deal with this. If your debt is too high to your income, then it's a big risk, and the government is concerned about making sure that the system doesn't crash, essentially, or that you can still pay your bills based on your relative income.

Where I see a larger concern is when you see.... With all due respect, I have no qualms about the fact that, for example, when you see in B.C. or in Vancouver these approaches by those governments, I'm sure it's incredibly important or what's needed. But for me, coming from the GTA, when you deal with something in one place, it just pops up worse in the other. It's still early days, but from what we're seeing in the market in Vancouver, there seems to be some indication or acknowledgement that some of the recent changes to address foreign investment are working. In Toronto in the GTA, where I'm from, it is actually increasing.

So how do we deal with creating a system that is fair and controlled without having other individual or additional markets also getting involved or pressured? It's somewhat of a very broad statement, but I think a more appropriate question would be in and around where Mr. Grewal's questions were going. If you're not tracking foreign investment, for example cash, then you're not really highlighting some of the risks. There are areas within the GTA that, if the Vancouver market has now shifted, for example, and we're not tracking this foreign investment in cash payments, we are not really assessing the associated risks that are trickling elsewhere, the first being appraisal prices, the value of homes. Are you confident in the appraisal process if homes are being bought in ways that are not even being tracked?

It's a broad question, and so anyone can jump in.

Mr. Sylvain Leduc: In terms of the relationship, of course in theory, if a tax is imposed in Vancouver, for instance, investors who are affected would have an incentive to try to maybe shift to other cities for a roughly comparable investment. I think the one thing to keep in mind here is that, again, there are many factors that are underlying house price growth, and it's not only foreign investment. Foreign investment is one part, but it may not even be the most significant part. There are demographic factors that are really important. There are interest rate factors that are important. There are supply constraints that are important. Just looking at GVA and GTA and seeing one still going up, and one maybe having early signs of cooling off, I think it's too early to just ascribe that to a particular source. We just have to be cognizant that these factors are really underlying the two markets.

Mr. Don Coletti (Advisor to the Governor, Bank of Canada): On the foreign purchases element, these types of measures have been tried in other countries before. Hong Kong is a classic example where they've tried this. What typically tends to happen is that house prices tend to stabilize after these measures are put in, and then they just start picking up and growing again. Usually the reason behind that is there are many factors that are driving up house prices, and maybe foreign purchases are one of them, but it's much more complex. Many other factors are doing it. These measures are definitely not a solution for that.

● (1645)

Mr. Michel Tremblay: Exactly, and you've raised the spectre of appraisals. We are definitely comfortable with the appraised values. We ensure at CMHC...and I'm sure that our competitors are also doing their due diligence in terms of the appraisal values.

To support my colleagues' response in terms of the house price escalation, the price increases, there are a variety of factors, and foreign investments have been getting a lot of press, but they are not necessarily the biggest driver of house prices in Canada.

Ms. Jennifer O'Connell: You feel confident in that, even knowing that we don't collect all the statistics, for example, for cash? If something is an investment property and people can afford it, how do we know that's not a bigger problem than it is if we don't actually have that data? It might not be a bigger issue, but how do we feel comfortable in that?

Mr. Michel Laurence: Again, we don't track the data for foreign investment with a mortgage, or without a mortgage through cash. We are looking to collect that information. We recognize there is a data gap and we are looking to fill or address that gap. What we do know from our own analysis is that foreign investment is a factor, but not necessarily a large factor. In fact, if you look at it, you could also say that some of the surge in pricing in Vancouver and Toronto can be attributed as much to domestic investment as foreign investment. That's something to look at as well.

Ms. Jennifer O'Connell: I think, though, depending on specific areas, the problem will be that foreign investment might be isolated in very specific neighbourhoods, for example. What are the impacts then when you have a high concentration? It might be a very low risk nationally or not a big issue, but when it's highly concentrated in entire neighbourhoods—and I know them offhand, not so much in my community but right next door—are there further risks because it's not evenly spread out in small amounts nationally? That would be my bigger concern when it comes to the foreign investment. I agree, it's probably not the highest risk, but it's that higher concentration and what that means for those communities.

Do I have time for one more? I'll go very quickly.

The Chair: We seem to have lots of time, so go ahead, but quickly.

Ms. Jennifer O'Connell: My question is similar to Mr. Grewal's again. I read a study, but I don't know if this is true or if it's credible because it was a self-identified study. It's the idea that young people who want to enter the market for the first time, first-time home buyers, are often asking their parents for their down payments. That's fine if their parents have cash, essentially. But perhaps their parents are taking out loans or lines of credits and saying to their kids, “Here you can use this, but just make the payments”. But that amount is not really being accredited to them in terms of their indebtedness, because they'd be walking into the bank with a certain amount of cash, essentially. How is that being factored into ensuring that this indebtedness level is not just being offset by other means that is further debt, and if interest rates were to rise they would rise on both ends? Where are the checks and balances to the institutions to ensure that where that down payment is actually coming from is not just a further loan by other means?

The Chair: I hope you didn't think that was a quick question.

Who has a quick answer?

Ms. Carolyn Rogers: I think I can give a short answer. The underwriting requirements that most banks have in place look for the down payment not to be in the form of debt. If it isn't a form of debt, then that debt gets factored into the overall debt service ratio, and these are the measures that were recently tightened, particularly as they relate to ensured mortgages. Lenders are meant to factor in the source of the down payment and whether or not that source is further debt. Now, whether or not the bank of mom and dad would adjust the interest rate in the same way as conventional lenders is something that's always hard to predict.

● (1650)

The Chair: Thank you.

I would say to the parliamentary secretaries that, since we normally have six witnesses and we have three, there may be time if either one of you has a question, to ask one. So just raise your hand.

Mr. Aboultaif, go ahead.

Mr. Ziad Aboultaif (Edmonton Manning, CPC): Thank you very much.

In this situation, we see a blanket policy over the market, over the lending and all that, and we know that what triggered this whole policy is Vancouver and Toronto. The bubbling market, the hot market in both cities, has triggered this whole policy, in addition to the measures we took when we were under Prime Minister Harper's government.

Outside of Toronto and Vancouver, we now hear from small builders in Alberta, 10-15 houses, that they are selling their units without a profit. They're letting the profit go because they can't afford to keep those units there, because there is no buyer to qualify for these units.

Is there flexibility in the policy, and have we regarded markets other than Vancouver and Toronto in this policy? How can we really make sure that the policy itself makes sense? We believe it makes sense in Toronto and Vancouver, but is going to hurt other places, major cities in Canada. There are some unanswered questions out there that we'd like to have some clarification on. Whoever wants to participate to answer, we'll be thankful.

The Chair: I know some of these questions go back to your earlier “what-if” question, Ron.

Some of these questions really amount to questions that are more about government policies. Part of the mandate of the three agencies here is actually to deal with the what-ifs. Some of the general questions are more along the lines of what a minister should have to answer. In any event, you do provide advice.

Who is starting? Mr. Leduc, go ahead.

Mr. Sylvain Leduc: In terms of tailoring, if we want to have policies that are really tailored to specific markets, they would have to be more along the lines of provincial policies or even municipal policies. We've had some of that. That's the only thing I can really offer here. Again, I would go back to the idea of indebtedness and the fact that indebtedness is due not only to mortgages but also to consumer loans. Some people have high level of debt because of that. That's an important fact to keep in mind.

The Chair: Ms. Rogers, go ahead.

Ms. Carolyn Rogers: There has been a range of policies, so I guess it's difficult to talk about any one of these policies, but in general the things that OSFI has done and some of the recent things that changed the mortgage insurance market are actually not designed to target housing. They are designed to target debt related to housing. We take an interest in it because that debt, as I said, is 80% on the balance sheets of the institutions that we regulate.

Looking at these policies through the lens of what they are doing to housing is, in my view, and probably my colleagues' view, not the lens that we tend to look at them with. We look at how they affect mortgages, not the houses, and how those mortgages then affect consumer debt, the risk profile of financial institutions, and the broader economy.

We may be talking apples and oranges here, in terms of their effect on the actual housing market relative to their effect on consumer debt or the mortgage market.

Mr. Don Coletti: Again, in terms of the focus on debt, I think the policies go far beyond the idea of preventing a particular household from getting itself in trouble. The concern here is that if there are enough households that are highly indebted and we should have the misfortune, say, of having a rise in the unemployment rate around the country, the fact that households are highly indebted will make the circumstances in the economy even worse and, in the worst case, increase the stress in the financial system. That just comes back to bite the original people we are all trying to protect in the first place, to make the system safe.

● (1655)

Ms. Carolyn Rogers: If there's a sudden sharp rise in interest rates, which I think is a genuine risk, whether you live in Kelowna or the greater Toronto or greater Vancouver region, the cost of your mortgage payment will go up because interest rate policies aren't regional. If you have entered that mortgage already stretched to make your payments and the interest rates go up, it will put an enormous amount of pressure on consumers, which in turn will put an enormous amount of pressure on banks and insurers, which in turn will put pressure on the economy. That tends to be the lens through which we look at it. I don't think that's regional. I don't know how you would fix that on a regional basis.

The Chair: We'll give you another one.

Mr. Ziad Aboultaif: Thank you very much.

The default rate is only 0.28% in Canada, which is very safe. It's very low. It seems as though we have a lack of statistics. I'm not pointing at anyone. I'm saying here that the Minister of Finance and the finance department will have to look at and listen to your opinion, because you are on the market, and you're somehow dominating certain areas of statistics that will be helpful to shape up any policy going forward.

In that fashion, we are saying that the default rate is very low, so why the hurry to have that blanket policy across Canada? That's one question.

As well, do you have any statistics on the effect of these measures on residential construction, on GDP, and on unemployment? That's very important.

These are very legitimate questions for people. The public needs to know and we need to know. Can anyone give us an answer here, please?

Mr. Sylvain Leduc: On the last question, if I understood correctly, just in terms of the impact on GDP, yes, we subtract about 0.3% to the level of GDP by 2018. That's the impact we have. As I said, there's a lot of uncertainty around that number, and we've noted that, just because these policies are relatively new. We don't have a whole lot of experience on which to base—

Mr. Ziad Aboultaif: So that's about $60 million, the 0.3%?

Mr. Sylvain Leduc: That would be the rough impact.

In terms of the default rate being low, I think this is meant to be preventive. We don't want to implement policies while the default rate is really rising. That probably would be problematic. I think we want to put the policies in place before we have to deal with these problems. I'm sure the U.S. would have liked to have had these policies in place before they dealt with the subprime crisis. I think the idea of prevention, which we've seen since 2008 with different governments introducing different macro-prudential measures, is important.

Ms. Carolyn Rogers: I would come back to the first question this afternoon from Mr. Sorbara, about what we worry about. I'm a regulator. I get paid to worry. But my biggest worry is that we keep thinking the history is what will happen in the future, and we get complacent. We get asked that question a lot. Banks will often point to their historical default rate as a reason they don't need to hold as much capital or be as careful going forward. Our position is always that your default rate is your rear-view mirror and you need to be looking in the windshield. That's how we approach both our risk management and our capital reserves.

The Chair: Thank you, all.

Mr. Whalen, welcome to committee.

Mr. Nick Whalen (St. John's East, Lib.): Thank you very much, Mr. Chair.

Thank you each for coming. As Canadians, we rely on your institutions to give us confidence that the markets are functioning effectively, and as parliamentarians and policy-makers we rely on the evidence you provide to help us make sure that our policies are going to help make the economy better, not worse.

When Mr. Sorbara asked what you think the number one risk is, I disagreed with some of the things that were put forward. I hope you can convince me that my concern about the number one risk is wrong.

My concern is about the aging demographic of baby boomers. They have been holding onto their mortgages longer through the use of reverse mortgages and tightening supply in the housing market with those tools, driving home prices up as a result of that tightening of supply. Then, of course, as they all pass on with higher levels of debt associated with their homes, they're going to release all that supply back into the market very quickly over a 20-year span, starting very soon.

The number of people aged zero to 20 is about 7.9 million. The number of people in Canada aged 50 to 70 is 9.64 million. You'll see this extra supply of housing as those people move out and the new generation coming in to take the supply is not enough—and I'll leave immigration aside for a second. This new intergenerational problem we have is that these mortgages or these homes that are being released back into the supply are coming in with large amounts of debt associated with them, which is not the same as in previous generations.

Mr. Leduc, when you say that you've conducted model simulations to analyze the effects of such a shock and found that the buffers in the Canadian financial system would be sufficient to absorb its impact, you're talking about your view that unemployment rates, coupled with increased debt and then a rise in interest rates, is your number one concern.

Can you just give me some comfort that you've actually analyzed the situation that I've laid out, that it's not a bigger risk than the one you've raised, that you've modelled my concern?

● (1700)

Mr. Sylvain Leduc: I'm not sure we've modelled your exact concern, but the stress tests we conduct are really potent. We look at scenarios that are dire to really make sure that the financial system is resilient to shocks that are maybe unlikely, but would be, if they were to happen, substantial in terms of their impact. To be honest, in terms of reverse mortgages, I don't have a whole lot of knowledge about that specifically in terms of the supply.

Mr. Nick Whalen: You haven't modelled my concern about a 5% increase...a 5% change in the population, and all the—

Mr. Sylvain Leduc: Not in terms of demographics, but we've dealt with a substantial increase in mortgage rates, let's say through term-premium increases, and substantial increases in the unemployment rate, that type of thing.

Mr. Nick Whalen: Do you think your institution has the intergenerational data? It's never reported. When we talk about these important numbers such as debt-to-income ratio, it's always reported as one number for the entire population, but of course, there's going to be huge variability of that number over the lifespan of citizens.

Do you have the data available to you on that number for every five-year demographic? Have you seen any problem or any blips that have happened in that cohort of people who are just about to retire or who have just retired and are carrying significantly more debt than they used to, and should we be concerned about that as part of our housing study?

Mr. Don Coletti: We do have data locked on that. We think about these demographic factors as being longer-term factors that happen more gradually. You raised some really good points. As part of the stress scenarios that we're focused on, they are more short term, things that can happen in the next few years, things that would happen abruptly—a big change, for example a big rise in the unemployment rate or something like that.

So yes, we have that data. I'd have to get back to you on that. But that's not been a part of our scenarios, because it's not something that we would see happening in the next, say, four or five years.

Mr. Nick Whalen: When I think about the housing market, I think in generational terms, because it's a generational investment. You're hoping to get into your house and raise your family, and then move into a smaller property, or not, when you retire. In terms of that aspect of the market, I'd love to have the thoughts of your group on the question I raised. And if you haven't considered that climate change type of scenario, where the whole nature of the Canadian housing market changes over the next 20 years due to the retirement and the demise of the baby boomers, I'd love to have your thoughts on it, because that's the one that keeps me awake at night.

Thank you.

The Chair: Mr. Laurence, go ahead.

Mr. Michel Laurence: At CMHC we have done some long-term demographic projections. These are based on census data.

We look at cohorts over time and how their demand for housing evolves. From what I can remember, going out as far as 2020 or 2030, there's still an ongoing demand for more housing. Even if the population is aging, the number of units continues to rise. A big reason for this is immigration, where there continue to be large inflows. That offsets it and contributes to the demand.

Mr. Nick Whalen: Thanks, Mr. Laurence.

I have a quick follow-up question. There are many regions of the country where the immigration is net neutral or negative. When we look at long-term housing policy, should we be differentiating our policy between those markets that are growing as a result of immigration and those that are contracting as a result of no net or falling migration patterns, or those that are neutral, and stop considering Canada as a single market as a result of this more pronounced issue?

● (1705)

Mr. Michel Laurence: We started going down that path in terms of looking at it from a provincial perspective and even from the perspective of large centres versus rural areas. From what we've seen in the Atlantic region, as an example, our estimations or projections are showing that the Halifaxes, the larger centres, continue to grow, but the rural areas do not. There is some shifting of populations towards larger centres, and that continues to grow. There's that going on, but we will continue to do this, though, in other centres.

The Chair: Thank you.

We'll turn to Mr. Caron, then come back to Mr. Sorbara, and then to anyone on the Conservative side.

Mr. Caron, you have five minutes.

[*Translation*]

Mr. Guy Caron: Thank you.

I would like to come back to a few things that have been mentioned, including by Mr. Liepert, and also to discuss demography.

The measures announced and taken by the Department of Finance generally affect demand. We are trying to decrease demand, and the growth in demand is caused by factors *x*, *y*, and *z*. It is often independent of what we or the federal government want.

The problem is that by affecting the demand, we also affect supply. The number of housing starts was mentioned. In Quebec, they feel that there will be a drop of about 10% next year, largely due to measures taken by the federal government. And there is the demographic aspect, as well. A growing number of houses are being put on the market and, therefore, new house starts aren't needed.

How can the federal government have a real effect, if any, on demand, especially when the situation is different from province to province?

This leads me to a second question, which I'll ask at the same time. As MPs, we like to give power to the federal government. However, wouldn't it be possible to give more power to the provincial governments, since the reality of the provinces, or at least of the regions, is different?

The measures taken by the federal government can be positive for some sectors and extremely negative for others. Why couldn't the federal government encourage the provinces and even help them deal with their specific realities?

The question is for anyone who wants to respond, but it is specifically for the representatives from the Bank of Canada and CMHC.

In fact, the first question is whether there is a way to change demand without altering supply, otherwise the two measures are likely to cancel each other out. The second question is whether it would be desirable for the federal government, instead of acting directly in the marketplace, to assist the provinces so they can act in their respective markets.

Mr. Sylvain Leduc: The two measures are closely related, in a way. My impression is that it depends a bit on the speed at which housing starts can take place. There is a reaction time that can, in the short term, affect demand more than supply. Of course, in places like Vancouver and Toronto, there may be more constraints and administrative delays in terms of housing starts. There are not only physical constraints, but also administrative delays related to the approval of the various levels that can come into play.

So, in the short term, the measures could have a greater effect on demand than on supply. Naturally, in the long run, the two will interact. There will be price expectations, which will also have an impact on supply, but in the short term, in some markets at least, there will probably be a greater effect on demand than on supply, given the time required to approve the plans.

Mr. Michel Laurence: Our analysis suggests that demand may be affected in several centres, but supply does not follow as quickly in Vancouver and Toronto as in other centres. We are seeing that. The idea is to hold a discussion on how to help the supply respond to demand. So we have to do a comparative analysis between various municipalities and determine where things are going well and where they are doing not so well.

In this vein, the Fraser Institute has produced an analysis that examines the parameters of regulation in various centres to demonstrate that the situation is better in some centres than in others. It is therefore a question of sharing this knowledge and improving the capacity of supply to respond to demand, everywhere.

● (1710)

Mr. Guy Caron: In the specific case of the Vancouver market, the decrease in demand was caused by two things: the federal government imposing constraints on access to real estate, and the provincial government imposing a sales tax on foreign buyers.

Is it possible to separate the effects of these measures in order to determine the extent to which the increase in the sales tax or the federal government's measure has played a positive role in achieving the desired outcomes? Has it been attempted?

Mr. Sylvain Leduc: Without time data, it is very difficult to do. It could be modelled, but it would be necessary to see if the model is really good, and if it can follow the data. Naturally, it is always a little more difficult to do with financial data, in the economic context. Empirically, I feel it would be very difficult to do. However, the more theoretical models that we have could give us a glimpse.

Mr. Guy Caron: Right.

I understand that you also agree.

Thank you.

[*English*]

The Chair: Are you done, Guy?

Mr. Sorbara.

Mr. Francesco Sorbara: Thank you, Mr. Chair.

I have a couple of follow-up comments. When we look at the Canadian housing market, one of the really good things is that about 40% of homeowners don't have a mortgage. The last time I looked, the numbers in my riding were 37%.

The other thing is that our interest expenses are tax deductible as they are south of the border, which encourages Canadians to pay down their mortgage as quickly as possible.

Another great thing in Canada is that we have about 100,000 new folks who want to live, work, study, raise a family in the greater Toronto area. The downside is that we have a housing market imbalance where the supply of new housing takes a very long time to come to market, whether it's due to municipal rules or to land zoning issues that have come down from the province onto municipalities.

Demographics support housing growth because so many new folks are coming in, whether they're immigrants or just people moving from different areas of Canada. We've now put in some measures.

If you want to go back to 2008 or if you just want to comment for now, with the new measures that have been introduced, what anecdotally are you seeing for consumers? What are you seeing on choice, competition, and from my perspective, liquidity in the Canadian mortgage market? I think those are things that we need to consider. The BOC forecasts that housing will have a negative impact on growth of GDP of 0.3% for next year. There may be tail risk on that, if I can use the word on that side.

I'm curious to see your early anecdotal evidence or data that you've seen from the housing market changes. If you want to go back to the 15 changes or just go back to those from October, what have the individual organizations seen on that front?

Thank you.

The Chair: Ms. Rogers.

Ms. Carolyn Rogers: Is your question specifically around the availability of funding for mortgages when you mention liquidity?

Mr. Francesco Sorbara: Yes, liquidity and the availability of funding.

Ms. Carolyn Rogers: I don't have any particular data around individual institutions' liquidity. One of the things that we're tracking both at the bank and OSFI is the proportion of mortgages that are secured through us, whether or not the originators of mortgages hold the mortgage on their balance sheet and therefore are incented to manage the risk on a long-term basis versus whether they're sold into the securitization market. As you well know, that was one of the things that in hindsight was considered a contributory issue to the U. S. housing crisis.

I think that was the comment earlier by Mr. Albas and his question around the difference between mortgage finance companies and banks and who has access to the different forms of funding or liquidity to fund mortgages on a go-forward basis.

I don't know, but Sylvain may have more specific information on that.

● (1715)

Mr. Sylvain Leduc: I don't have that much to add about liquidity here or from what we've heard on the ground.

Mr. Francesco Sorbara: Is there any other comment or feedback on the activity in the housing market?

The Chair: Could I get in on that for a second, Francesco?

Mr. Caron asked a question earlier that suggested a potential decline in the housing market or housing construction in Quebec as a result of these decisions.

I know a lot of your work concerns the stability of the financial markets, debt loads, and so on, but do we have anywhere to turn to and get concrete information on how these decisions impact the home construction industry? The home construction industry is an important economic factor.

Second, a question that's been rolling around in my mind is that a lot of these decisions relate to the insured mortgage industry. What's the impact of these decisions in the uninsured mortgage industry and the ability of people who have to go to that market in order to finance a home?

Does anybody have any response to either of those?

Mr. Sylvain Leduc: I think in terms of the first one, the impact on construction activities and so on, one thing we had looked at was the impact of different measures such as the increase in the amount of cash you have put down on a house. We look at these different measures and we look at what resale activity would do around the implementation period, whether it had gone down and by how much, to sort of try to get an average. It's difficult to test very specifically for those measures, just because we don't have a whole lot of data. Then we do it case by case, and take a case-study approach looking at resale activity after the implementation of certain measures or residential investment and so on, so we can get at least a sense of magnitude. Our estimate is in part informed by those types of analyses.

The Chair: What about the insured and uninsured markets?

Mr. Sylvain Leduc: This is a concern that we have, that consumers might migrate towards the uninsured market because of those measures. This is definitely something we're really keeping a close eye on.

The Chair: Have you detected anything to date? You're keeping a close eye on it.

Mr. Sylvain Leduc: Not quite. For instance, if you think about co-lending, there have been some stories about the fact that you can get a loan from a non federally regulated institution. The problem with that is that we have data from the second quarter of 2016, but we don't have.... We know that these are very small. They may be rising, but we don't have the data. So, we have a big lag between today and the data. That's why I'm saying we're keeping an eye on this.

The Chair: Okay. Thank you.

Mr. Sorbara, do you have another question before I cut you off?

Mr. Francesco Sorbara: I have just a quick one, or more of a comment, to OSFI specifically. I'm very happy with the work that's been done with regard to B-20 and the superintendent's speech. Going back to the comment of my colleague Mr. Grewal about employment verification and collateral, OSFI took a regional approach to putting that out. It wasn't a broad-based approach. It was a regional approach in terms of the capital requirements and so forth. I read through the papers. I do want to applaud them, not that the other institutions have done anything different, but on that level, I was actually happy to see that, because I think if there is an issue, it may come from that side in terms of employment verification, income verification, and collateral verification.

● (1720)

The Chair: Okay.

We'll go to Mr. Albas for the last round of questions.

Mr. Dan Albas: Thank you, Mr. Chair. We have so much brain power here that I was a little bit disappointed that we didn't know that if you talk to any realtor, they are forced to disclose any transaction of over $10,000 in cash, and that FINTRAC is the one that tracks all of that. If some members are concerned about that area, perhaps we should ask FINTRAC to see what they do with the data. Now, obviously they are doing it with the lens more towards organized crime or terrorism, but whether or not that information is being referred to different decision-makers, I don't know. It would be interesting to find that out.

You had an interesting comment, sir, about co-lending. You said specifically that you're not always tracking whether or not someone has been given money so they can put a down payment down and where that would come from. Am I paraphrasing you correctly?

Mr. Sylvain Leduc: Just the idea that you would get another loan to finance your down payment.

Mr. Dan Albas: Oh, yes, okay. Pardon me. Thank you for sharing that.

My home province, British Columbia, has announced a new policy for first-time homebuyers. Are you tracking when these loans made by the Province of British Columbia are made to first-time homebuyers as part of your modelling?

Mr. Sylvain Leduc: Again, I think what we've said on this is that there are many features keeping house prices up. One worry that we have, a bit like CMHC's, is that by extending those loans they might feed into higher house prices. It's not clear that it's really benefiting the people we're trying to get into the market. We just have to make sure they don't get ahead of themselves. We want the quality of mortgages to—

Mr. Dan Albas: When the province decides to put in a foreign-buyers' tax that technically gives the power to the City of Vancouver through their charter to be able to charge a foreign national, and then suddenly the Department of Finance or the minister puts down these new rules and could perhaps, as some people thought, cause a huge shock to that area, is that not getting ahead of ourselves? But I digress.

There was some discussion earlier, Mr. Chair, on concerns about consumer debt. I do know, and I have seen many ads that shock me, of some people buying very expensive vehicles on very extended, long-term payment arrangements. You're concerned about that, but we also have here in Ottawa a government that's adding payroll taxes, carbon taxes, and is making it more difficult for people to be able to get a home from which they can actually save money in the form of equity. We all know our homes are our biggest source of equity.

I find it interesting that you're all concerned about consumer debt and the ability to be able to afford a mortgage. I guess maybe this comes back to your point that you just offer a slice of advice to the person in the chair who makes the decisions. I just find it dumbfounding sometimes that we criticize other levels of government for doing things, and yet we often do these things ourselves.

Anyway, it's been a very useful conversation, at least to me.

I'd like to go back, though, to mortgages. We talked a little about this earlier. I said that I was worried about the competitiveness of the industry, particularly what monoline lenders are suggesting. I'm going to read this and I'd like to hear your comments, ma'am, and perhaps those of anyone else:

> The federal government backs 100% of the mortgage insurance obligations of CMHC, a unique approach compared to other nations. A lender risk-sharing program would raise the risk associated with funding mortgage[s] and increase the capital lenders require. Once again, while the banks are sufficiently capitalized to retain loans on their books, smaller lenders are not, and thus would need to increase mortgage lending rates to offset additional risk, thus increasing costs to consumers. Additionally, as monoline lenders, who are unable to raise sufficient capital close their doors or merge with others to remain in the market, there will be less competition among lenders, thus increasing rates and costs for borrowers....
>
> From a consumer perspective, the net effect again would be that housing become[s] less affordable, not more affordable. In our view, this is unnecessary given Canada's low default rate of circa 0.28% and the fact that CMHC has more than enough in reserves to cover outstanding mortgages in the unlikely event of a major rise in defaults.

To me, this seems to say that if we continue this, first of all you're going to have Canadians who cannot refinance. They're going to be shocked to find that out. You're going to see the market becoming far less competitive and overall prices going up. Isn't that the opposite of what we want to see? Can you explain to me the positive side of this policy?

● (1725)

The Chair: Coming back to your quote, Dan, do you want to give us the source of the quote.

Mr. Dan Albas: Yes. Again, sir, it is the submission from Gary Mauris, the president of Dominion Lending Centres. Again, it is a third party. However, I do think it's an excellent point. I'd like to know if we're not just making life tougher for consumers, but also making the market less competitive. To be fair, we have a stable system, but stable does not also mean competitive.

The Chair: Okay, thank you, Mr. Albas.

I think you're ready to answer, Ms. Rogers.

Ms. Carolyn Rogers: I might have guessed that was the source of the quote. I think in that particular quote, if I caught the first part right, he's talking about a scenario under lender risk sharing? Is that correct?

Mr. Dan Albas: Yes.

Ms. Carolyn Rogers: I would start by saying that lender risk sharing is a concept out for consultation right now. What Mr. Mauris is doing is forecasting how a lender risk-sharing program would eventually be priced into the market, and I don't think that's a given at this stage.

Mr. Dan Albas: Okay, but is that not...? We did touch upon it in my earlier intervention, the fact that people are not going to be able to refinance and that will also cause a similar increase.

Ms. Carolyn Rogers: Yes, and I don't agree with that. I'm happy to have an offline conversation to understand how he's connecting the ability to refinance with the recent policy changes, because I'm missing how he's making that connection.

But with respect to lender risk sharing, which I understand is his underlying—

Mr. Dan Albas: Okay, maybe we shouldn't go there, but I'd like for us just to elaborate a bit more on the original conversation. People are going to be shocked to find out they can't go to their same mortgage broker to get refinancing from the same lender at a particular juncture. That will encourage them to go to a traditional lender, because they have the capital to be able to meet these rules.

The Chair: We'll give you a minute, Ms. Rogers, to answer the question, because we're going to have to end it at that, unless somebody else wants to ask a supplementary to Ms. Rogers.

Go ahead.

Ms. Carolyn Rogers: Pricing decisions belong to the lender. We don't set prices. We set capital requirements, and if lenders and insurers choose to pass the capital requirements on to consumers in the form of higher prices, that's a business decision and not a regulatory decision.

I think Mr. Mauris is making a series of assumptions about how risk sharing or business models or other business decisions are going to change as a result of these decisions, then forecasting price increases, and then forecasting bad things as a result of those price increases.

I would say lender risk sharing, as it's contemplated in the current consultation paper, talks about moving risk between the mortgage insurer and the lender. Logically the capital requirements would then move down for the insurer and up for the lender. As to whether they would all then move to the consumer, I would be surprised if it gets fully downloaded to the consumer. The insurer would hold less capital. The lender would hold more capital. The insurance premium would be reflected downward to consumers. The interest rate or the pricing to lender may be reflected upwards. We don't know that though. That's the purpose of the consultation, to think these things through.

Mr. Dan Albas: I'm just going back to our original discussion about people who own property of over $1 million or who are doing refinancing that wouldn't qualify under the new rules who will, because of the increased costs, have to go to a traditional lender.

I ended up going off topic.

The Chair: I know. Thank you.

Do any of the other witnesses want to add anything?

All right. With that, we'll thank the representatives from the Bank of Canada, Canada Mortgage and Housing Corporation, and OSFI. Thank you for your testimony and your answering of questions before the committee.

Before we suspend for the next four witnesses to come up, I wonder, since there's been some off-the-side discussions here, if this will fit with people's approval. There is a citizen initiative for a vigil on Parliament Hill in solidarity with the Muslim communities of Quebec and Canada for the people who were killed at the mosque in Quebec. It is a two-hour vigil. I know there are some members who would like to attend.

I have a suggestion. We have a number of witnesses who are supposed to meet until 7:30. Would it be acceptable that once we hear the testimony of the witnesses, we have a moment of silence in solidarity with those who are on Parliament Hill, rather than disrupting the witnesses and closing the committee down? It is a two-hour vigil.

Would that be acceptable?

● (1730)

Mr. Ron Liepert: We would support that, Mr. Chair.

The Chair: Is everyone okay with that?

That's what we'll do. Following the presentation of the witnesses in the next round, we'll have a moment of silence in solidarity with the vigil that's on Parliament Hill.

We'll suspend now.

● (1730)

——————————— (Pause) ———————————

● (1740)

The Chair: We'll reconvene for the second session of the study on the Canadian real estate market and home ownership.

We'll start with the witnesses from the Canadian Bankers Association. Mr. Ciappara is with the CBA and Mr. Hogue is with the Royal Bank of Canada. Mr. Ciappara will be going first.

Mr. Alex Ciappara (Director, Credit Market and Economic Policy, Canadian Bankers Association): Thank you very much, Mr. Easter.

Good evening, everyone. We would like to thank the committee for the opportunity to contribute to its study on the Canadian real estate market and home ownership. The Canadian Bankers Association works on behalf of 59 domestic banks, foreign bank subsidiaries, and foreign bank branches operating in Canada and their 280,000 employees.

Accompanying me today is Robert Hogue, a senior economist at the Royal Bank of Canada. As you may know, Robert is one of the leading experts on the Canadian housing market.

At the outset I should note that, as has been widely discussed even today, there is not one single housing market in this country but rather several different markets across the country impacted by a range of supply and demand factors that affect housing prices. One factor common to all these markets is the historically low interests rates. Of course there are other more local factors, such as the city or region's attractiveness as a place to live and work, land use and zoning restrictions, the relative availability of certain housing types, and population and job growth.

For instance, Vancouver and Toronto have seen growing housing prices over the past few years. Meanwhile, oil-producing regions have seen either declining or negligible housing price growth. In the rest of the country, we have seen housing prices grow more moderately. Accordingly, when developing housing policies and regulations, it's important to account for the variability that characterizes these housing markets.

As the committee is well aware, the federal government has introduced a number of changes to Canada's mortgage and housing markets over the last several years. For example, on insured mortgages, the government has reduced the maximum amortization period, increased minimum down payments, and implemented more rigorous stress testing.

We understand and support the federal government's objective of maintaining stability in the Canadian real estate market in all parts of the country. Given that the impact of some of these changes has yet to fully materialize, we believe it would be prudent to wait and assess the impact of recent changes before contemplating any additional new measures. Canadian banks have a strong track record of careful, prudent mortgage lending. Moreover, the vast majority of Canadians are responsible borrowers who use credit wisely. This is evidenced by the performance of banks' mortgage portfolios before, during, and after the global financial crisis.

The CBA closely monitors mortgages-in-arrears statistics. A mortgage is classified as being in arrears when the borrower is 90 days behind on their payments. Currently the Canadian mortgages-in-arrears rate sits at 0.28%, which is close to the low rate prior to the global financial crisis. The rate in Canada during the global financial crisis peaked at 0.45%. By way of comparison, the arrears rate in the United States during the crisis peaked at above 5%, more than eleven times the Canadian rate.

Since the 1990s the rate in Canada has never climbed greater than 0.65%. That's over two decades of stability, in times of both high and low unemployment, fluctuating interests rates, and a fluctuating Canadian dollar. Canadian banks have a solid mortgage lending record, rooted in high underwriting standards that have only strengthened since the financial crisis. Whether a mortgage is insured or uninsured, banks apply the same prudent application and underwriting processes.

Banks are rigorous in the origination of new mortgages, including the verification of a borrower's identity, employment status, income, and credit history. Furthermore, in making a decision to extend the mortgage, banks take as paramount a borrower's demonstrated willingness and capacity to make debt payments on a timely basis.

Canada's banks also undertake rigorous stress testing to ensure that Canadians can pay off their mortgages during changing economic conditions. This includes requiring potential borrowers to qualify at higher interest rates to ensure that they are able to make future payments under higher interest rate conditions. It is also important to note that the Office of the Superintendent of Financial Institutions plays an important supervisory function over bank underwriting practices.

In closing, banks take seriously the role they play along with governments, regulators, and Canadian borrowers in ensuring that the Canadian mortgage and housing market remains stable and sound.

I would like to thank the committee again for this opportunity to provide the banking industry's perspective on Canada's real estate markets. We would be happy to answer your questions.

● (1745)

The Chair: Thank you very much, Mr. Ciappara.

Turning to the Canadian Housing and Renewal Association, we have Mr. Morrison, the executive director.

Welcome, Jeff.

Mr. Jeff Morrison (Executive Director, Canadian Housing and Renewal Association): Thank you, Mr. Chair, for the opportunity to speak to the committee today to discuss home ownership in Canada.

As many of you may know, the Canadian Housing and Renewal Association represents the interests of the social, affordable, and non-profit housing sector in Canada.

When most of us think of home affordability and ownership we of course tend to think of the private market. Many of us have followed this traditional path towards home ownership, which includes entry into the rental market, saving for that first down payment, taking on a mortgage, refinancing, and, for the lucky of us, maybe paying off the mortgage. Although this path has been made more difficult with housing prices that have generally exceeded inflation over the past few years, we know that based on CMHC's fourth quarter 2016 report that MLS sales in 2016 will exceed 2015, demonstrating that this traditional path to home ownership remains viable.

[*Translation*]

However, I would ask the committee to consider the path to home ownership from different and non-traditional perspectives, where the social and non-profit housing sector and social enterprise would play a leading role.

As we all know, the traditional route to property is simply not a possible scenario for many Canadians. Even saving the down payment is out of reach for many low-income Canadians.

[*English*]

Within the social and non-profit housing sector there are models that seek to encourage and lead to home ownership. The Habitat for Humanity model is one example where sweat equity acts as a form of down payment. There are also innovative social housing models where the housing organization or provider provides financial literacy programs as well as matching incentives for families who save and build their assets in escrow. This pool of capital can then be used by households for such investments as a down payment.

There are also models such as the Attainable Homes Calgary Corp., which is a city-owned corporation that enables first-time buyers to buy with a down payment of as little as $2,000. This corporation works with builders, developers, lenders, and others, in order to bring down the upfront costs of ownership to deliver entry-level homes. As another example, there's the Trillium Housing social enterprise model, or the Options for Homes model, both in Toronto, which are non-profit housing organizations that employ a “pay it forward” model, where the non-profit provider co-invests with the homeowner by taking out a second mortgage on a property. Costs are kept down by partnerships with local suppliers, no payments on the second mortgage are required until the unit is sold or rented out, and the price appreciation covers the difference. In Toronto, the Options for Homes model has helped about 3,500 households enter the home ownership market when they otherwise wouldn't have been able to.

[*Translation*]

So what can the federal government do to encourage and promote some of these non-traditional routes or models of home ownership, and reduce inequity?

In general, we are saying that in the forthcoming national housing strategy, the federal government needs to focus on the needs of Canada's most vulnerable populations to better address gaps in terms of fairness. In our brief on the national housing strategy, we made 24 recommendations on how the federal government could do that. I would be happy to share a copy of that brief. However, for the purposes of the committee's mandate, as specific policy measures to strengthen the capacity of the social housing sector to encourage home ownership, we suggest the following three.

[*English*]

Very quickly, first, follow through on Prime Minister Trudeau's mandate letter directive to make surplus federal lands available for social and non-profit housing purposes. Enactment of such a policy would cover a significant capital expenditure for social housing providers. CHRA has recommended vastly expanding the already existing surplus federal real property for homelessness initiative to enact this policy.

Second, introduce a social housing sector transformation initiative that would provide social housing providers with relatively small amounts of capital to introduce innovative programs such as the Trillium Housing or Attainable Homes Calgary model. This is especially important in light of the end of operating agreements that thousands of social housing providers are already facing.

Lastly, in fact we saw this in your first round of questions, there is a need for better research and collection of domestic and international best practices on the interconnections within the housing spectrum. By researching and disseminating information on housing policies and models that work, we can facilitate the move to ownership. In our submission to the national housing strategy, CHRA has recommended the creation of what we call a housing research hub similar to the Canadian Institutes of Health Research, that would, among other things, conduct and disseminate world-class research on housing policies.

● (1750)

The road to home ownership is traversed in a lot of different ways. If we want housing policy that meets the needs of all Canadians, not just those with the greatest incomes, we need to think holistically and creatively to ensure that ownership is a dream that all Canadians can access. The social and non-profit housing sector is here to help make that happen.

[*Translation*]

Thank you.

[*English*]

Thank you, Mr. Chair.

The Chair: Thank you, Jeff.

From the Canadian Credit Union Association, we have Mr. Martin and Mr. White.

[*Translation*]

Mr. Christopher White (Vice-President, Government Relations, Canadian Credit Union Association): Good afternoon.

The Canadian Credit Union Association welcomes the opportunity to brief you in relation to the Canadian housing market. Our comments focus on recent regulatory developments and the government's proposed mortgage insurance risk-sharing framework. Our message to this committee is two-fold.

[*English*]

Credit unions believe, much like the CBA, that it is time for a pause and review. The myriad regulatory measures that have targeted the housing finance market and mortgage insurance over these last number of years have created a situation where consumers and associations such as ours need to take a step back to really understand the objectives of the government, and particularly what the impact of these measures on first-time homebuyers and those in rural and remote regions really looks like. It's not clear to us that the government has allowed itself that opportunity.

CCUA does not support the government's proposal to introduce a mortgage insurance risk-sharing framework for lenders. In our view, there is no strong empirical justification for introducing the framework, and the models will likely exacerbate mortgage price and availability issues for first-time homebuyers and for Canadians living in rural and remote regions.

Since the financial crisis, the federal government has announced at least 15 housing finance-related measures aimed at addressing household debt vulnerabilities, housing price pressures, and managing government exposure. These cascading measures have produced a secular decline in the rate of mortgage origination in Canada since 2008, with the rate falling from a peak of around 13% to its current value of around 6%.

The recent changes to high-ratio and low-ratio insured mortgage underwriting requirements are still working their way through the market. Observers, including ourselves, expect them to exert a significant downward impact on market activity.

[*Translation*]

A CCUA survey of credit unions indicates that, if the rules announced in late 2016 had been in place on January 1, 2016, high-ratio mortgage volumes, on average, could have been down by nearly 37% last year.

[*English*]

The largest impacts are in B.C.'s Lower Mainland, with potential denials of high-ratio mortgage applications ranging from 35% to 69.5%, depending on the credit union. The second-largest projected impact would be in the GTA with potential denials of high-ratio mortgage applications ranging from 22% to 50.7%. In Alberta we saw ranges from 13% to 46.4%.

Based on 2016 approvals, our survey suggested that first-time homebuyer approvals could be down nearly 20%.

We also expect significant declines in rural and remote Canada. Tougher qualifying requirements for low-ratio transactional mortgage insurance would have made the product unavailable to nearly 50% of qualified borrowers based on our 2016 data. Low-ratio transactional insurance is often used by credit unions in rural and remote areas to give the lender greater protection in the event the home cannot be easily sold in a liquid market. It appears that mortgage credit in these areas will be less available or come at a higher cost.

We stress that these are estimated impacts based on credit union 2016 approvals. Of course, people may choose to delay buying or buy smaller homes, and the bank of mom and dad may contribute further to a down payment. That said, we believe that when the spring buying season commences, these measures will have a significant impact on the market, whether it be urban or rural, with high or low growth.

Tightening mortgage insurance eligibility requirements also impacts the competitive balance in the financial sector. New eligibility requirements have reduced the pool of mortgages eligible for insurance. This hits the mortgage funding side because these insured mortgages can be securitized. This is a concern for credit unions that have been involved in securitizing mortgages to help fund growth across the country.

This funding channel has now been significantly curtailed and this forces credit unions to fall back on deposits and retain earnings to fund growth. Meanwhile, large banks are able to attract funding through other channels not available to co-operatively-owned credit unions. Inadvertently, these new rules have tilted the competitive balance towards the already dominant banks.

In our ongoing policy dialogue with the Department of Finance—and congratulations on your appointment as the new parliamentary secretary—we have recommended that it is time for the federal government to pause and review the impact previous measures are having on the market. We reiterate that recommendation today. Officials must consider whether, from a policy perspective, the impacts on first-time homebuyers, rural and remote regions, and the competitive balance in the financial sector are necessary, desirable, and well calibrated.

● (1755)

CCUA would welcome such an ongoing dialogue.

[*Translation*]

In late October 2016, the Department of Finance announced it would be consulting Canadians and stakeholders in relation to implementing a risk-sharing mortgage insurance framework. The proposals envision a significant departure from Canada's current practices.

[*English*]

Currently, many regulated lenders are required to transfer mortgage risk to mortgage insurers and indirectly to the federal government's guarantee of mortgage insurer obligations. Borrowers pay premiums to obtain this blanket coverage, and lenders can also choose to transfer risks on other mortgages that they elect to insure. Lenders pay premiums on those mortgages. It should also be noted that these lenders can see insurance claims denied if they do not meet underwriting standards set by mortgage insurers and the government.

The risk-sharing proposals would see lenders accept more losses associated with defaulting mortgages and make more of their capital available to cover these losses. Lenders would be exposed to loan losses in both a normal loss situation as well as in extreme loss events. Policy-makers expect that this prospect of losses will further discipline lender risk management practices and result in a tightening of lending criteria.

CCUA acknowledges the federal government's theoretical rationale behind their risk-sharing proposals; however, we don't believe that a strong empirical argument has been made to date for these proposals. To elaborate, the logic underlying the government's proposals suggests that incentives exist that promote risky lending because lenders can use mortgage insurance to off-load the risk associated with mortgage lending.

However, we have not been presented with evidence that illustrates this happening. In fact, CMHC numbers suggest that arrears on insured mortgages are incredibly low. Between 2010 and 2015, the 90-day arrears rate on insured mortgages averaged 0.36%. As of September 30, 2016, arrears on mortgages in the CMHC's National Housing Act mortgage-backed securities program sat at 0.2% for federally regulated institutions and 0.13% for provincial institutions, including credit unions. These numbers hardly suggest lax insured mortgage underwriting practices in Canada. While this lack of supporting data should give the federal government pause before implementing their risk-sharing proposals, there are other issues that should also be considered.

These remarks that I have just given have noted concerns about mortgage credit for first-time homebuyers and those living in rural and remote regions. In our view, the introduction of risk sharing will exacerbate the challenges already faced by those consumers. Lenders will respond by increased capital provisioning to offset anticipated losses, reduce lending as a result, and increase the cost of credit to demographics and regions perceived to be higher risk yet also very much in need of mortgage credit. It is also possible that insurers will increasingly calibrate premiums to assessment of local markets and the concentration risk of the lender that the insurer now has exposure to. This could further increase mortgage costs in rural and remote regions and negatively impact small local lenders.

● (1800)

[*Translation*]

Of course, these developments are a particular concern to credit unions that often service rural and remote regions and with a membership that will face these practical consequences.

[*English*]

Thank you for your time.

[*Translation*]

We welcome your questions.

[*English*]

The Chair: Thank you very much, Chris.

Genworth Canada, Mr. Levings and Mr. Macdonell.

Mr. Stuart Levings (President and Chief Executive Officer, Genworth Canada): Good evening. Thank you, Mr. Chair.

Genworth Canada is this country's largest private-sector mortgage insurer, with about 30% market share, and CMHC's largest competitor. The insurance we provide reimburses lenders for their losses when homebuyers default. Mortgage insurance is mandatory for homebuyers who put down less than 20%, and thus we serve primarily first-time homebuyers.

With insurers taking default risk, lenders are able to offer first-timer buyers competitive interest rates and to have confidence to do so across Canada and throughout economic cycles. We're housing-risk aggregators with specialized expertise. We're well capitalized, tightly regulated, and deeply experienced to properly manage mortgage-related risks.

Regarding the topic of mortgage rule changes, I will speak to two key points tonight.

First, the government has made numerous changes in the insured-mortgage segment over the past couple of years, some with impacts yet to be felt. To avoid a potential tipping point, it's critical that we take a pause and assess the cumulative impact prior to considering any additional changes, including the current risk-sharing proposal.

Second, the changes to date have largely targeted aspiring first-time homebuyers, making it harder for them to gain a foothold in the housing market today. Home ownership and the opportunity to build equity through the forced savings mechanism of a mortgage payment is an important cornerstone of the financial plan for many young families. We believe they aren't the problem and that further targeting of this segment is not the best solution.

Insured first-timers are the most tightly regulated and rigorously underwritten borrowers in the market today. These buyers reside in all regions across Canada, range in age from 25 to 40, and typically demonstrate stable employment, with average household incomes of $80,000 to $100,000. They buy homes they can afford, often below market averages, especially in Toronto and Vancouver. Their credit scores reflect fiscally prudent responsible borrowers, averaging a score of 752 last year.

Canada's mortgage finance system is a proven model. The rest of the world views our mortgage insurance structure as a best practice and a key contributor to our mortgage finance stability. During the global financial crisis, U.S. delinquencies rose above 5%. By contrast, Genworth's worst vintage year to date is 2007, which peaked in 2009 at 0.95%.

Our submission highlights nearly two dozen federal interventions since 2008, primarily targeting the insured market and first-time buyers. While many of these changes have contributed to the overall strength of our mortgage finance system, some may have gone too far. The most recent changes, last October, for example, are significant, the impacts of which are yet to be fully observed. I can't stress enough that it's going to take time before we know their total cumulative effect on the market.

We believe implementing any more changes could tip the market too far, creating the kinds of housing challenges these measures seek to prevent and hurting new buyers, existing homeowners, and the broader economy in the process.

Let me address the last two changes specifically.

In December 2015 the government increased minimum down payments on homes selling over $500,000. While targeting the strong Toronto and Vancouver markets, these changes had an impact on other markets too. Calgary, in particular, was hit quite hard, with approximately 12% of insured buyers affected by the change. As you know, this market was already under pressure and didn't need any additional cooling. In fact, only 13% of the Toronto and Vancouver buyers were making down payments small enough to be impacted, despite the much higher average price in these regions. Given how little the first-time buyer participates in these two cities, it's not surprising that, despite these and other changes to date, significant home price appreciation in Toronto and Vancouver continued.

National solutions are perhaps ill-suited to address local market challenges. Recently Vancouver's market has started to slow. However, it appears to be driven by a local solution to a local challenge—specifically, foreign buyers.

Last October brought more changes, including an interest rate stress test for insured buyers. While we support the concept of a stress test, we believe the target was set too high. Let me be clear; this was a significant change. Under this new test, approximately one-third of the first-time buyers we approved in 2016 would now be offside.

● (1805)

These buyers face stark choices: buy a less expensive home, perhaps a condo or a home further from work; ask their parents for more money; delay their purchase to save for a larger down payment; or consider a bundled loan from a private lender. It's this last option that should concern us most, pushing first-time buyers into the private lending space, a segment that continues to grow as mortgage insurance rules tighten. This segment represents a higher-cost option, with limited transparency and regulatory oversight.

To conclude, in 2010 the insured market represented approximately 40% of annual originations. With the cumulative changes, it's expected to drop to around 20% this year. Home prices and related mortgage debt are growing the fastest in segments of the market that are not accessible to first-time buyers, yet even though they're not driving the problem, they're the ones absorbing all the consequences, making it even harder for them to access responsible home ownership.

The big question we need to ask is this. What's the cumulative impact of all these changes for home prices, demand, first-time buyers, and the growing unregulated sector?

What should the government do? In our view, take a pause. Study the impact of all the changes made to date before considering any more. Second, if after that study it is deemed that more change should be considered, modify the stress test to better reflect future rate expectations. Third, given the number of potentially damaging consequences, do not proceed with a risk-sharing model. Finally, continue to work closely with other levels of government to study and address individual housing markets at the regional level.

Thank you for your attention to these issues. We're happy to take any questions you might have.

The Chair: Thank you, Stuart, and thank you to all the witnesses for their presentations.

As I indicated earlier, before we go to Mr. Grewal and the first round of questions, we will ask the room to take a moment's silence in solidarity with the vigil outside for the Muslim communities of Quebec and Canada who have tragically lost someone.

[*A moment of silence observed*]

Thank you.

We will turn to Mr. Grewal and a first round of seven minutes.

Mr. Raj Grewal: Thank you, Mr. Chair.

Thank you to the witnesses for coming today.

I've heard the word “pause” a bunch of times. I've heard that the government should pause and see the impact of the regulations. Thank you for making that so abundantly clear. I couldn't agree with you more that we should pause, because I think we're at a sensitive place in our housing market. There's regulation, which I think protects Canadians, but we also don't want to over-regulate this market, which would have negative economic consequences.

I want to get more information on the default rate. A few of you commented on the default rate and said that it's historically low. How does it compare to that of other countries, if you have that data? If you don't, it's okay.

Mr. Alex Ciappara: The CBA does collect data on mortgages in arrears. The mortgages-in-arrears rate right now is 0.28%. What that means is that about 1 in 350 mortgages is in arrears. You can compare that to the financial crisis, when that number went up to about 0.45% in Canada around 2008. In comparison, in the United States that figure went up to above 5%, which is 11 times that figure, which I think demonstrates the differences between the Canadian and U.S. markets.

If you go back further, you'll see that the mortgages-in-arrears rate has gone no higher than 0.65% nationally. There are some regional variations, but nationally that figure has been no higher than 0.65%.

● (1810)

Mr. Raj Grewal: Is there any insight into the economic slowdown in Alberta and default rates there in that regional market in Calgary?

Mr. Alex Ciappara: We do collect that data. We've seen a slight uptick in mortgage arrears, but it's manageable and the same thing on the consumer delinquency side where we've seen an uptick there. Because the books of the Canadian banks are just so broad, so diverse, they can diversify that risk to, say, other regions with lower mortgages in arrears like Ontario and B.C.

Mr. Raj Grewal: The arrears' number is one statistic and then I'm assuming there's another statistic for mortgage defaults, like actual power of sales. Has that increased in the last couple of years?

Mr. Alex Ciappara: We don't collect those figures, but I don't imagine their being particularly high, given that the mortgages in arrears are just so low. Because the mortgages in arrears are the mortgages that would then be in default, but quite often we would.... In the instance of the insured mortgages, which have the lowest amount of equity, the banks and other lenders would work with mortgage insurers to help keep the owners in their house.

Mr. Raj Grewal: Stuart.

Mr. Stuart Levings: Yes, I can speak to the foreclosure side. We deal with the first-time homebuyer and of course that does represent small down payments and naturally the highest risk segment of the market. We've seen an overall decline in the number of foreclosures over the last number of years.

Now that's obviously a function of both the strength of the economy and the housing market, and we know from experience that unemployment is the key driver of mortgage default and claim or foreclosure. Obviously, with the economy doing as well as it has been that has helped, but even when you go back in time to, say, the 2007 or 2008 time frame, our delinquencies were only marginally higher than what you heard from Alex as far as the overall CBA delinquency rate, and it improved over that period of time. That is a testament to a number of the changes that the government made that, as I referenced earlier, were positive and took out some of the marginal risk in the market.

We're at a danger now, as you alluded to, of tipping it too far by going any further. Those changes that were made early in the years of 2007, 2008, 2009, 2010, and 2012 were good changes and have helped to improve the overall performance of mortgages in this country, including the highest-risk mortgages or low down payment mortgages.

Mr. Raj Grewal: Thank you.

In terms of application track, has there been an increase in the number of Canadians applying for mortgages on a year-over-year basis? That's a broad-based question, so anybody can respond to it.

Mr. Stuart Levings: I can certainly again speak to it from a first-time homebuyer point of view, which is the area we see. There has not been an increase. That market has been under pressure throughout most of 2015 and increasingly so into 2016.

Again, a number of changes were made. You've also had the ongoing affordability pressure that has really driven more and more first-time buyers out of the market, and the most recent round of changes were just another blow to that situation. For sure, the number of first-time buyers in 2016 was smaller than the number in 2015. We expect that to drop this year by another 15% to 25%, based on the changes that were made.

Mr. Alex Ciappara: It's a close figure, a correlation. You mentioned applications; we look at mortgage credit growth. In 2008 mortgage credit growth was about 14% per year. That has declined to about 6%, so mortgage credit growth has slowed.

In addition to that, the nature of that growth has changed in composition. In 2008 and 2009 about four out of 10 mortgages were insured mortgages. That has declined to about two out of 10 right now, so not only has mortgage credit growth declined, the composition of that credit growth has changed as well.

Mr. Raj Grewal: Is there an increase or decrease in the applications that are approved?

One is the statistic of how many people are applying for a mortgage. The second statistic would be what is the increase, or decrease, on approval numbers year over year?

Mr. Robert Martin (Senior Policy Adviser, Canadian Credit Union Association): I can speak to a bit of it. We don't have the exact numbers, but we did some estimates based on 2016 approvals. We modelled what the impact of the October 2016 changes would have been on our books and the decline in it by about 37% nationally in the number of approved high-ratio mortgages. That's what we were estimating. It depends on which region you are in. It could be higher in the Lower Mainland of B.C., and of course, in Toronto and in Alberta, somewhat higher than that.

● (1815)

Mr. Stuart Levings: In answer to your question as far as actual approvals in 2016, again, they're down over 2015, the down payment rule change being the driver of that.

Mr. Raj Grewal: Perfect.

You mentioned the unregulated sector and how that could be a potential concern. Can you comment a little bit more on that and on how you think that could be a concern to the overall market?

Mr. Stuart Levings: This is anecdotal, but what we've observed is that as the mortgage insurance rules have tightened, more and more borrowers are being forced into what we would call the private banking space, not necessarily unregulated because there are the MFCs that are in a way regulated, but really into private banking.

What that means is that they're obtaining a first mortgage up to 80% loan-to-value that isn't insured and that then doesn't require the 25-year amortization or the interest rate stress test. They are going to a private lender to obtain another 10% or 15% for the remaining portion of their loan. That will be at a higher cost, but it's still reasonable to the consumer because it's the only way they can now afford a home.

Our view is that those borrowers represent good-quality borrowers who we were insuring all day long before the change. They are now being forced into this more expensive option simply because the interest rate stress test is very severe, and in our view, too severe.

Mr. Raj Grewal: My last question.... I'm sorry, it will be just 30 seconds.

The Vice-Chair (Mr. Ron Liepert): Okay.

Mr. Raj Grewal: Thanks, Ron. You're a gentleman.

Is there data on how many second and third mortgages are on a property? If RBC, TD, or Genworth has the first mortgage on a property, but then the homeowner has a second mortgage on the property, I would conventionally assume those are more risky mortgages to be in. Is there data being collected on that?

Mr. Alex Ciappara: I certainly have not seen that data. That data is not available publicly, so the answer right now is no.

Mr. Raj Grewal: But technically it would be through PPSA searches, so the bank would know if somebody took out another security on their security.

Mr. Alex Ciappara: Yes, probably, but I'm not sure if I've seen that aggregated. I don't know if anyone has really taken the time to do that and taken, sort of, an economy-wide, financial market-wide perspective of that.

Mr. Raj Grewal: Get Robert to do it.

Mr. Stuart Levings: There is reporting. The credit bureaus do report when there is a mortgage so you could, to Alex's point, look through that, but there has been no aggregation on that data at this point to my knowledge either.

Mr. Raj Grewal: Thank you, gentlemen. I really appreciate it.

Thank you, Mr. Chair.

The Vice-Chair (Mr. Ron Liepert): Thanks, Mr. Grewal.

We'll deduct that time from Ms. O'Connell.

We'll move to Mr. McColeman who, during his former time as a member of this committee, actually proposed the motion that we're examining here tonight.

Mr. McColeman, you have 10 and a half minutes, like Mr. Grewal had.

Mr. Phil McColeman (Brantford—Brant, CPC): I was going to ask, do I get his extra time?

To our representatives from Genworth, what's your overall view of CMHC's mortgage risk portfolio?

Mr. Stuart Levings: I would say that portfolio is of a high-quality nature, much like ours. The reason for that is that the regulator has been very active in this space for some time now and more recently, a couple of years back, introduced something called B-21, which has really helped to converge all levels of mortgage insurance underwriting to the same standard, in addition to B-20, which was rolled out for lenders. It has really raised the bar on mortgage underwriting as a whole. We can't really say that there are a lot of material differences between the portfolios of the three mortgage insurers.

Mr. Phil McColeman: It seems to me the government wants to off-load some risk, so it seems to me that what is perhaps underlying some of their portfolio is the fact that maybe we have too much risk applied to what could happen in a market disaster to the taxpayer. I'll just make that as a comment.

Mr. Hogue, you were introduced by your colleague as being an expert in the housing field. When you look at affordability, when you look at first-time homebuyers, when you look at the profile, if it was a pie chart like you see on the gas pumps of what the costs of a new home are in terms of builder input, materials, labour, land, development charges.... I've made my own pie chart: land, labour, materials, financing costs, profit, and the last one is government-imposed regulation, fees, and taxation. What is the percentage of government fees, regulation, taxes, and imposed fees?

● (1820)

Mr. Robert Hogue (Senior Economist, Royal Bank of Canada): It probably depends on which jurisdictions you're talking about.

Mr. Phil McColeman: An average jurisdiction....

Mr. Robert Hogue: I've seen numbers of probably 15% to 20%.

Mr. Phil McColeman: Fifteen per cent to 20%.... I've been told by the home-building industry that it's more like 25% to 40%, depending on the jurisdiction.

When we talk about people wanting to get into the market, first-time homebuyers, and get insured, and they come to you.... The price of a house in my jurisdiction, Brantford, Ontario, is being influenced by the GTA prices that are now filtering down through Hamilton, Oakville, Burlington, Ancaster, and Brantford. We're an hour away from Toronto and you see the huge spike in prices. Every spike in price, would you agree, as a panel, just knocks a whole lot of people out of the market. Is that correct?

Mr. Stuart Levings: That is absolutely correct. One of the issues we've been facing all this time is that affordability is eroding as prices get knocked up—starting in the cities, whether it's Toronto or Vancouver, and then effectively filtering out through neighbouring suburbs as people drive further and further to be able to find something they can afford.

Mr. Phil McColeman: What governments do—all three layers but more the upper two tiers—is take hot markets like Vancouver and Toronto and say, “We have a problem. It's too hot; we have to cool it down,” so they bring in the rules and regulations that you want them to take a pause on doing any more on. Is that correct? But it's specific to those markets.

What's your view in terms of how government policy should react to hot markets like that and not affect the people who are building affordable housing right across my province of Ontario—four, five, or six houses a year—and building in their own local communities? They are dealing with a whole different market than those, but governments put a one-size-fits-all regulation in place. Does anyone want to jump on that one and make a comment?

Mr. Stuart Levings: I would agree that the issue we are facing is that the measures introduced are trying to target those two cities but are national by nature. The impact is felt oftentimes elsewhere and not in those cities, because they are targeting first-time insured buyers who are very modest players in those two big cities that you're talking about.

Our view is that there really is a need to think about levelling the qualifying criteria between the insured and the uninsured space, the uninsured space being where today a borrower can get a 40% larger mortgage than an insured borrower can get with the same income. That's part of the problem.

The Vice-Chair (Mr. Ron Liepert): I think Mr. White wanted to —

Mr. Christopher White: Thank you.

You heard it on the last panel, and I think the reflection of a lot of the members was, “You have a problem, a challenge in two cities, but you propose this blanket policy or pan-Canadian policy.” I think what you are hearing from this panel is that we understand, and no one is suggesting that the government hasn't acted prudently post-2008, but there comes a point where they need to engage stakeholders more.

When the provisions were introduced last fall, it caught everybody off guard in the marketplace. When we look at the credit union system, for example, we see credit unions across Canada that were implementing policies that had been sanctioned by Finance and the Bank of Canada but now have come back to bite them, and they had no warning. I understand that you need to address the Toronto market and the Vancouver market, but there has to be a way that you can calibrate your policies so they are specifically targeted, much like you do for EI, for example. You have targeted regions, and you have targeted, segmented markets across Canada. Having worked at HRDC on the political side, I know it's a really challenging policy to implement, but it does work. That's where the government has an opportunity.

The last point would be—

Mr. Phil McColeman: Can I just interrupt you? I'm sorry. I'm going to cut you off. I have a certain period of time and I have a lot to cover.

Were you consulted on the changes last fall?

Mr. Christopher White: No.

Mr. Phil McColeman: Were you consulted?

A witness: No.

Mr. Phil McColeman: Were you consulted?

A witness: No.

Mr. Phil McColeman: Were you consulted?

A witness: No.

Mr. Phil McColeman: So no one in your realm, across the board, was consulted by the Minister of Finance on bringing in those changes. Am I correct? Thank you for that.

The realtors weren't consulted, by the way. The Canadian Home Builders' Association was not consulted. We're talking about internal government bureaucratic decisions that are flowing up from the bureaucrats, who, in their wisdom, seem to see how they need to cool the market. They tell the minister, through the deputy minister, “Oh, here is something we should do to cool these markets.”

Do you think it's going to work? Do you think it's going to work in Brantford? Do you think it's going to work in Simcoe, Ontario? Do you think it's going to work somewhere in Calgary, when the market is going down the tubes? No, it's not. It's only going to harm the market. I like your idea of a pause. I'd rather see a pause and three steps backwards, frankly, to get this market healthy in most of the country and out of the hot market. Those are my personal comments.

● (1825)

The Vice-Chair (Mr. Ron Liepert): Mr. McColeman, one more quick question and then you will equal Mr. Grewal in time.

Mr. Phil McColeman: I'll actually stop there. Thank you.

The Vice-Chair (Mr. Ron Liepert): All right.

Mr. Caron, go ahead.

[*Translation*]

Mr. Guy Caron: Thank you very much.

I will continue along the same lines. I am really curious about that, because I'm not familiar with the usual practices when it comes to CMHC or government decisions.

I would like to know if you were consulted on the latest changes. From what I can see, 10 different changes have been made since 2006, generally to restrict accessibility.

Are you consulted about these changes, normally? Were you consulted on the changes that were made in 2011, 2012, 2013 and 2014?

[*English*]

Mr. Robert Martin: I can take up that one. What CMHC...and I think the finance officials call them sandbox measures. They tend not to consult when they implement them, and they usually play with the parameters around eligibility and things that are already in place. When they do move to actually change the structure of the regulatory regime, whether it's through OSFI or..., then they tend to consult on their guidelines and there's time there. But the sandbox measures all the way along have tended to surprise us.

Mr. Alex Ciappara: I would say that as federally regulated financial institutions, we speak to government stakeholders often—the Department of Finance, CMHC, OSFI. As regulated entities, we let them know what's going on in the marketplace. But to Rob's point, they don't present us with “Hey, this is what we're doing. What do you think?” But we do have regular consultations and dialogue with federal stakeholders as we are federally regulated financial institutions.

[*Translation*]

Mr. Guy Caron: That's why I'm asking you. You still have these kinds of meetings on a regular basis. Whether decisions are made by the Department of Finance or not, you have that kind of regular communication, don't you?

[*English*]

Mr. Alex Ciappara: The federally regulated financial institutions such as banks provide them with our views. It's really up to the government to determine how to utilize those views.

Mr. Stuart Levings: I would just add that we certainly consult regularly with the Department of Finance and, to Alex's point, provide a lot of data. Because we're specifically in the high-ratio space, we often get a sense from them on areas that they're exploring and can guide on potential impacts from that. This example in October of last year was one where we were absolutely caught off guard in terms of the interest rate stress test and the elimination of the refinance from the low-ratio product.

[*Translation*]

Mr. Guy Caron: What about relatively big changes, such as a reduction in the amortization period, which could be a maximum of 40 years in 2006, and is now a maximum of 25 years? Gradual changes have been made, but they are still significant: the maximum amortization period has been reduced by 15 years in less than 10 years.

As for changes that have had a direct impact on your business, have you been consulted in the past, or are you simply asked, at the time, what impact these changes had on your business?

[*English*]

Mr. Stuart Levings: No, I would say that those original changes through the years of 2009, 2010, 2011, 2012, and 2013 were items that we absolutely supported and were in discussion once again with the government along the way. We were certainly not told, “We're going to do this”, but there was discussion around “We're evaluating potential changes along the lines of this”.

Again, those are changes that have contributed to the the overall strength of the market today. I think our point now is that the most recent change actually generated an incredible amount of confusion in the market, has had probably the most impact of any of the changes to date, and was something that caught the industry pretty much off guard.

Mr. Guy Caron: Would I go too far by saying that for all these changes that we have witnessed since 2006, this is really the first time that you're not in support of the announcement that was made?

● (1830)

Mr. Stuart Levings: That is correct. We believe it went too far.

[*Translation*]

Mr. Guy Caron: Right.

I have another question.

In many cases, I hear people say that they don't have the information. In fact, I remember that one of your colleagues, Mr. Tal from CIBC, had criticized the lack of reliable information in the housing market, the residential market in particular, across the country.

I would like to know if you think this issue is being corrected. I would also like to know what the needs are now. If changes of this magnitude are made without the right data, what guarantees do we have that the desired effect will be achieved?

Mr. Robert Hogue: There are still gaps in the data that are made public. Efforts have been made, and CMHC should be congratulated for putting additional information on its portfolio into the public domain, which is fairly representative of the market, in many cases. However, there are indeed still holes.

Mr. Guy Caron: Okay.

Is there still a need to improve the diversity or richness of available data?

Mr. Robert Hogue: You're speaking to an economist, so basically, the more data, the better.

Mr. Guy Caron: Actually, I'm asking the question to follow up on a question I asked the previous panel. The federal government made the decision to change the greatest constraints on property access, and at the same time, the BC government decided to impose a sales tax on buildings purchased by foreign interests. A price decrease followed, which can be attributed to one or the other, or both. Is there a way to differentiate the respective impact of these two measures?

Mr. Robert Hogue: It's very difficult with the existing data. Some of the measures were mentioned, but others were established to regulate the real estate industry. A set of factors led to that.

Mr. Guy Caron: There has been a decline in housing prices in Vancouver. There wasn't…

Mr. Robert Hogue: It is still slight.

Mr. Guy Caron: At least it has stabilized.

Mr. Robert Hogue: It's mainly resale that has dropped a lot.

Mr. Guy Caron: Toronto hasn't experienced the same strong effect from these measures, isn't that so?

Mr. Robert Hogue: Basically.

Mr. Guy Caron: I think it's the same in Montreal.

Mr. Robert Hogue: Yes, but as has been mentioned previously, it is still very early to pass judgment on the measures that have been put in place.

Mr. Guy Caron: Would it be going too far to conclude that what happened in Vancouver, at least in terms of the stabilization of prices, is more a factor of the provincial decision than of that of the Department of Finance?

Mr. Robert Hogue: Since the provincial decision came before the federal government decision, in theory, it should have had a greater effect on the market.

[*English*]

The Chair: I think Mr. Morrison wanted to add something as well.

Mr. Jeff Morrison: Yes.

[*Translation*]

I will answer in English.

[*English*]

On the general question of the need for better and more data, and more and better research within the housing spectrum, I think your questions really underscore the need for a dedicated body, a dedicated forum, whereby greater demands for data and for research can be conducted.

As we move very shortly into a new national housing strategy framework, which Minister Duclos will be announcing shortly, there will probably be an even greater need for that data, for which CMHC at present does not have the capacity. Let's have a dedicated forum in which we can do that.

The Chair: Mr. Martin.

Mr. Robert Martin: I have just one follow-up on that. We are aware that CMHC is actually trying to expand the data it's going to make public and also what it collects. The credit union, as a system, is beginning work with them to be able to provide a conduit for expanded data in the future. I think they're doing it with other institutions also. Alex could speak to that.

The Chair: Thanks to all of you.

Ms. O'Connell.

Ms. Jennifer O'Connell: Thank you, Mr. Chair.

Thanks to all of you for being here.

I want to speak to you, Mr. Morrison, because you spoke about social housing and the housing strategy. Often when we're studying these impacts, those low-income earners are a somewhat different issue. One issue is about getting into the market, but the other is about anything that's somewhat affordable and just being able to get there.

I wanted to talk a bit about some of the things you raised. This is of particular interest to me because I tried to fight for a lot of these things when I was in municipal government, but there are a lot of barriers. You mentioned three things in particular that the federal government could do or should do to help. In listening to all three of those, I saw that you still need the provincial and municipal governments, even if, as you proposed, there are federal aspects in the use of social housing. Unless you build only social housing in that area, or if you build only social housing on those lands, that actually goes against a lot of provincial and municipal ideas. One that I hold personally is that you don't build social housing in one area; the community needs to be fully integrated.

The second issue is that you have the municipal and the provincial governments, and if you allocate certain land or certain units to be affordable, how do you ensure.... First of all, our definitions of affordable are very different. I know that in Ontario from the municipal side our definition of “affordable” is way off kilter. Also, then, what do you do if you actually have an affordable unit?

Let's say the federal government makes some recommendations, you have an affordable unit, and that person sells. That's now on the open market. How do you not lose those affordable units? What regulation or legislation would you like to see? Even though the federal government can impose on other tiers of government in terms of housing, they must necessarily deal with this. How would we work with other levels to ensure that it trickles all the way down and we keep those affordable units?

● (1835)

Mr. Jeff Morrison: Thank you.

Before I answer, I want to say, on behalf of CHRA, that our hearts and prayers go out to the victims of the Quebec situation yesterday.

You raised a number of excellent points, and we would agree with what you've said. One of the things we were very heartened to see, with respect to the national housing strategy that Monsieur Duclos is currently leading, is the very strong engagement he has had with provincial, territorial, and municipal governments.

I was fortunate a week and a half ago to present before the big city mayors' caucus, right after the Prime Minister. The mayors have made investment in and policy regarding affordable housing a top priority. Their commitment to the Prime Minister was to work very closely to align federal policy with municipal policy, and we know that provincial governments have said the same.

In terms of what federal levers are present, I did mention the three. Those were three out of 24 recommendations that we had provided in keeping with the scope of this particular study today. We wanted to keep the focus on social housing serving as a sort of platform or springboard for folks who want to move into the ownership space.

What we currently have is essentially operating agreements that mandate providers to maintain a certain number of units at what we call RGI, within an RGI framework—a rent-geared-to-income framework. With respect to the new policy framework that the national housing strategy will build upon, we want to make sure that the maintenance of existing units is protected, using whichever mechanisms are introduced and ideally, of course, to see that market grow, because as we all know, especially with regard to the Toronto area, wait-lists for social housing have grown significantly.

So, yes, there needs to be a maintenance and protection of what we have, and we need to grow what we have, using various.... I think the mayors have said they want to work with the federal government to do just that.

Ms. Jennifer O'Connell: Following up on that, one of the ideas suggested, which could be somewhat of a finance directive for current and existing social housing providers, is to ensure that the stock is maintained if not grown. There are regulations in terms of how much can be borrowed against the asset, because it's a public entity. There is public ownership of the units. If they could borrow against that asset even to a 20% hold or whatnot, they could actually do a lot without direct cash from, let's say, the federal, provincial, or municipal government. Also maybe some of the restrictions around the existing assets in these communities could be loosened.

Do you have a position on that? That's an idea that was presented, and I'm looking for further insight.

Mr. Jeff Morrison: We agree with two of the ideas you just mentioned. We've talked directly with CMHC about the fact that within the operating agreement framework in some cases there are very extreme restrictions on innovative delivery of service and on transformation of operating agreement models. We've asked that a number of those restrictions be removed so that providers can experiment, can innovate, can shift RGI focus, ensuring that the same number of units remain RGI.

We've also recommended, as a second point, that alternative financing mechanisms be put in place as part of the overall strategy. Although the strategy has not been announced, of course, we understand that setting up essentially a housing bank, a housing financing authority—call it what you will—with a dedicated program to provide that kind of lending capital to providers is being given serious consideration.

● (1840)

Ms. Jennifer O'Connell: I asked this question in the earlier round and I'll open it up to anyone.

You talked a lot about the targeting. It's all relative, right? As I said before, if there's indebtedness, no matter what region you live in, if your debt is risky compared to your income, that indebtedness factor, that test, is going to be relative across the board versus if you start implementing it from one region to the next. In the case of Toronto, in the GTA, we tend to feel that if there are any changes in Vancouver, then the reaction pops up in Toronto, instead of there being a standard stress test of indebtedness. Is that not the type of target we should be moving towards? It seems more realistic to do something like that.

Mr. Stuart Levings: Yes, we agree with the concept of a stress test. To that end, it would be a national stress test because indebtedness is indebtedness. However, we feel that the current stress test is too severe. The impact of it is quite devastating. The level of stress could be refined and then it would be a very sensible thing to have, but not just for the insurance space, which is the first-time buyer. It makes sense for the entire mortgage industry because that would really help to cool some of the overheatedness in some of the markets that we're talking about.

The Chair: Thank you.

Just while you're on that point, in your submission you did mention “modify the stress test to better reflect future rate expectations”. What would be the components of that modified stress test, if I could put it that way? Can you break that down? What do you really mean?

Mr. Stuart Levings: Certainly. What we're saying is that, if you think about the Bank of Canada's neutral rate currently set at 3%, we recognize that mortgage rates are going to rise above the current level, but if we were to implement something around the level of 100 basis points stress test from current contract rates, which are in the 2.5% to 2.75% range, you're looking at a stress test of 3.5% to 3.75%, which would be reasonable in our view. As the rates go up, so to with the stress test. That would be a far better approach on a national basis to dealing with protecting consumers from rising rates in the future.

The Chair: Okay. Thank you.

Mr. Albas.

Mr. Dan Albas: While I totally understand what you're saying, at the same time, when you apply something as generic as an interest rate and say, “Okay, as this goes up, we're going to stress it on every level”.... What if someone changes their employment? What if someone gets a promotion? We don't account for those kinds of things that allow for that. What if someone lowers their debt or, for example, they pay off their car? This is the challenge.

I can understand why policy-makers...it can happen. I do appreciate there being some common sense in saying perhaps a less severe one would be appropriate because based on the norms we probably wouldn't see that.

We talked about the harm this has obviously done to many consumers, particularly young families who are trying to get into the market. Life is getting much more difficult because that goal of home ownership has been pushed away. We've also talked about the economic consequences where we see less economic activity. The government continues to tap down demand rather than supply.

I talked a little earlier about the new eligibility requirements. I noticed the Credit Union Association particularly has said:

> New eligibility requirements have reduced the pool of mortgages eligible for insurance. This hits the mortgage funding side because these insured mortgages can be securitized. This is a concern for credit unions that have been involved in securitizing mortgages to help fund growth....

I'm worried about the competitiveness of the market. Credit unions are not like regular banks where they can issue more shares or issue bonds, etc., to be able to capitalize these investments. Also, we've heard from monoline lenders as well, that they may end up consolidating.

With this policy may we see some lack of competitiveness, which may end up causing prices to be raised for consumers? I'll start with the Credit Union Association, and we'll just work it out. I would love some comment on that.

● (1845)

Mr. Robert Martin: As we said, it certainly surprised the market. It surprised us. To the extent that the system is involved in securitization, yes, it puts us on a back foot.

We have probably about north of 40 issuers in the country. We have about 283 credit unions overall. It's predominantly some of the big ones that have had to deal with this, that are involved. On the one side you have a bunch of restrictions on what you can portfolio insure now. When you portfolio insure, that's what you do when you go in to securitize. That's reduced the ability to release the availability of mortgages that could be put through that pipe.

But also, you just reduced the whole pool of higher-ratio mortgages that could be securitizing. Institutions are competing for those high-ratio mortgages because they know they can securitize them. It's perverse in a way because you're getting competition for the higher-ratio mortgages going on, when more conventional mortgages that are now outside that pool might be higher quality in real life.

I'll just leave it at that.

Mr. Dan Albas: This can cause damage to the competitiveness, because, again, credit unions and other lenders may not be able to capitalize and be able to play in that pool. Is that correct?

Mr. Robert Martin: Right. As co-operative institutions we basically take deposits, fund off deposits, and loan off deposits and retained earnings. The mortgage securitization process was another conduit to fund a small bit of what we're doing, but it still was an important conduit.

Banks have other ways of issuing paper, as you said, but also they have the covered bond tool that the government has come up with. Currently we don't have the aggregate volumes to use that tool right now, so yes, it's hit us on the funding side as well as on the actual market side.

Mr. Dan Albas: What does that mean for consumers? What if someone comes to you and says they want to get a mortgage? Do you have to turn them away?

Mr. Robert Martin: I will say that in some markets it will be harder for us to compete. It means they probably will be dealing with the banks more.

Mr. Dan Albas: Mr. Chair, if you remember back a few months ago, we had the credit unions in here talking about the cost of new regulations that would come into effect this July 1. I did speak with a very small credit union in one of my areas. They said that right now, between FINTRAC and some of the other requirements federally, they're spending about $100,000 a year just to do the paperwork that is associated with the federal government.

We're seeing a lot of touchpoints on groups like credit unions and whatnot. I'm quite worried when I read, going back to Dominion Lending Centres, that they feel that further consolidation and lack of choice for consumers will be a result. Again, I have nothing against banks being able...but they just have different tools at their disposal and that makes me concerned about this policy.

Does anyone have anything else to say on that particular area?

Mr. Stuart Levings: I would just add, to the point that risk sharing is being considered or studied, that this would further exasperate that situation, because you'd have even more risk sharing put onto the small lenders, which would raise costs for consumers and/or reduce choice, a big concern of ours.

Mr. Alex Ciappara: As I mentioned in my remarks, we have 59 banks as members. It's very diverse, from larger institutions to some smaller institutions. For the larger institutions, NHA MBS is a securitized vehicle. It's been getting a little bit more difficult over the last few years to use that model. The larger banks are less reliant on that model. Our smaller institutions, which are probably more reliant on the NHA MBS model, would need a pool of mortgages to securitize.

So some of our smaller institutions will have been hurt as well from these recent changes.

● (1850)

The Chair: Mr. Martin, go ahead.

Mr. Robert Martin: I just have one more thing to follow up on in terms of risk sharing. With the risk-sharing model, credit unions or small lenders will become a counterparty to the insurers. Given that we are basically local, concentrated in particular markets, my guess is that they'll start tying premiums to what they consider to be their counterparty risk in those regions, which will have to be passed on through higher rates to our members in, say, rural or remote Canada.

The Chair: Mr. Albas, you're two minutes over. We'll come back to you if we get a chance.

Mr. Sorbara.

Mr. Francesco Sorbara: Thank you, Mr. Chair.

Welcome, everyone.

I'll start off with Mr. Morrison. I'm happy to report that in my riding of Vaughan—Woodbridge, which is within York region, we are actually getting an affordable housing project. There are two or three happening in York region, one of them in my riding, for 162 units. The scary thing, though, is that the wait time for affordable housing in York region is seven years for seniors and 12 years for families. Rest assured that our government is working hard to develop an affordable housing strategy with the provinces and with the municipalities, led by Minister Duclos.

I'll leave it at that, because I have a few other comments to make.

Mr. Hogue, you're an RBC economist. In December, just before Christmastime, you were on TV. You commented on the lack of the supply of housing in the GTA and how that was impacting prices. In 30 seconds, please, with regard to the price increases we're seeing, what portion is due to the lack of the supply of housing? I believe it's at historical lows for detached, and for condos it isn't that robust either.

Mr. Robert Hogue: It's hard to know exactly the percentage. As the previous panel mentioned, there were so many factors playing a role in it. Certainly on the single detached home side, the fact that now there are about half as many being built as about 10 years ago in the GTA certainly is a constraint on the supply side.

Mr. Francesco Sorbara: Thank you.

With regard to the credit unions, I grew up in northern British Columbia with Northern Savings Credit Union, a very local credit institution. We had the big banks there as well, which I later worked at for a number of years, and they were big participants in our local community organization.

I've heard a number of comments on the changes that were made in October and also a number of comments on risk sharing. I think risk-sharing credit unions, because they tend to operate in small rural towns, less-served areas versus urban areas, could have an impact potentially on rates for those customers in those areas, because in areas of Canada where economic growth maybe isn't as robust as, say, Toronto, you'll no longer have that cross-subsidization. You could have the impact on a first-time homebuyer in northern Manitoba and other areas—say, northern Ontario or Quebec—paying 30 or 40 or 50 basis points more than in other areas.

But there's one area that I think we also need to touch on, and this is my question for you. When a mortgage is in arrears, there's a large incentive for the insurers to work with the banks to keep the homeowner in the house. With risk sharing, I believe those dynamics change.

I'll go over to the credit union. I want you to comment on the competitive landscape and what you'd like to see going forward.

Mr. Robert Martin: There are a number of things in there. I just wanted to comment on the risk sharing.

I think one thing you're going to find is that the risk-based pricing that institutions will pursue will become much more finely granulated. As you said, we may be in Cape Breton where the market is more liquid, and places like Gimli, Manitoba, or wherever, and people like Genworth and CMHC will be looking at us and saying, “Well, you have some housing market risk there because it's a liquid market and there might be a downturn in the economy. We're going to have to boost the premiums that you're paying, and we're going to actually force higher costs on you in those regions.”

Whereas a larger national bank might be able to spread some of those risks across because they can move their book of business or change up their portfolio. We don't really have that option. Because we're owned by our members, it's not as if we're going to shut down and move to another part of the country or start going outside our province necessarily. I think that's going to be a big issue for us.

Did you have anything you wanted to add to that?

● (1855)

Mr. Christopher White: Given your experience growing up in northern British Columbia, I think you also would appreciate that a credit union really represents the community. I think any credit union that I've been exposed to does everything it can to try, when someone's going through financial difficulties, to make sure they can stay in their house. Certainly, with the work of the banks and Genworth and others, it's the same idea. You don't want to displace somebody from their home.

In terms of the competitiveness, it's clear that the changes in October...and from our earlier testimony, 15 policy shifts since 2006 for very small credit unions is very substantive. It's clearly had an impact. You've seen the consolidation within the markets.

Mr. Francesco Sorbara: I prefaced my comments by saying that we need a stable housing market. We need the quality of indebtedness that consumers are taking on to be good quality, but we also need to understand that our underwriting standards within the marketplace are pretty darn good. The credit scores of a high-ratio mortgage are very constant. The arrears speak for themselves. I know we can't be backward-looking all the time; we need to look forward.

For Genworth, you already pay a 10% deductible. Is that correct? Can you explain that for us, please?

Mr. Stuart Levings: That is correct. There is a form of risk sharing already with the private sector in the sense that while we are government-guaranteed, in the event that we are insolvent in a tail event, the lender will face a 10% haircut in terms of what the Government of Canada will pay on a claim. There is, by de facto, a 10% risk-sharing arrangement with the private sector. That's something that lenders will bring up from time to time as a counterparty concern. In fact, it's a form of driving behaviour in terms of how they operate with us.

Mr. Alex Ciappara: Because of that 90% guarantee and 10% excess risk, banks have to set aside additional capital to protect against that tail risk. Banks do set aside capital in that instance.

Mr. Francesco Sorbara: To the comments about the CMB program, the NHA program, and the covered bond program, they are vehicles in the Canadian market that are very well functioning and they provide a lot of liquidity. Investors pick up those bonds. The covered bond program, issued both in the U.S. and here in Canada, is up to 4% of bank assets, I believe. There are some very fantastic funding vehicles out there that provide liquidity for Canadians to access to get funding to get mortgages.

Is there any anecdotal data that you can provide about the changes that were put in place from October to now? I think maybe this applies to Genworth the most, but this is to the three of you, if you wish to comment.

Mr. Stuart Levings: The most obvious change is the reduction in the size of the first-time homebuyers participation rate in the market, which, as we said earlier, could be as much as a third. After considering borrowing behaviour in terms of buying a cheaper home or further out, it might be 15% to 25%. That has yet to be seen, and that's my point. We need to wait and see what that will be, but there are other changes, too, and they are some of the related changes to the low-ratio portfolio rules that were alluded to in terms of eliminating refinance, which certainly does impact a number of our customers more than others and does create some disruption to the competitive nature of the market, impacting both consumer choice and cost.

The Chair: Go ahead, Mr. Martin.

Mr. Robert Martin: High-ratio volumes, we estimate, would be down near about 35% from the last changes. Of course we're not into the spring-time house buying yet, so it's hard to measure, but these are our estimates. That varies across the country: high of course in the Lower Mainland and in Toronto, and in Alberta between about 13% to 46%, depending on the credit union decline in volumes.

Low-ratio transactional insurance, which is used in a lot of rural areas, is down about 50%. Of course there might be some workarounds, but we're pushing those down. Also we estimate some big declines in portfolio insurance because of refinance rules and all of that, even up to 70% at some credit unions. It's just the volume is gone. It's been very big and it's a challenge for our system.

● (1900)

The Chair: Anybody else?

Mr. Hogue.

Mr. Robert Hogue: Just in terms of total home resale activity, we've seen a little bit of a slowdown since the fall, but it's still very early on for passing judgment on the effect of those changes.

The Chair: We'll turn to Mr. McColeman and then Mr. Whalen after that.

Mr. Phil McColeman: Thank you, Chair.

Mr. Morrison, I want to talk a bit about the provision of social housing. Can you just give us a quick profile of who the members of your association are?

Mr. Jeff Morrison: Our members are quite varied. We include social housing providers across the country, municipalities, all 13 provincial and territorial housing departments, non-profit associations, and interested individuals.

Mr. Phil McColeman: I had a recent meeting with the Federation of Canadian Municipalities and they were advocating, and trying to see if we would advocate for them, that of the $21-billion social infrastructure fund that was set up by this government in the 2016 budget, they would like to receive $12 billion of it for social housing. If they were to succeed in getting $12 billion, what would they do with the money? Would they build units, projects, and own them? Or would they do projects like you were talking about in your introductory remarks that could lead to the owners eventually owning the unit, like the Habitat for Humanity model? You mentioned a couple of other innovative models that I would like to learn about.

What type of housing do municipalities build?

Mr. Jeff Morrison: In terms of the FCM request, their precise recommendations are a bit different from ours, but I think overall we both support the notion of increasing supply. Whether that would be owned and operated by the municipality through a municipal housing authority such as, for example, Toronto Community Housing, or whether that would essentially be a non-profit provider operating and owning those units, I think there's openness to both.

What we do agree upon, though, is that, of that $12 billion that they've asked for and as part of the social infrastructure fund that Minister Morneau announced, I believe in the fall, was that concept of an infrastructure bank whereby providers.... By the way, we think that there's some concern with a bank concept for housing. That's why we've argued for a more distinct, specific housing financing authority. That would be essentially a model that could provide low-cost loans to providers, regardless of whether they're municipally owned or on the non-profit side, that would provide essentially ongoing capital for those supply needs.

Mr. Phil McColeman: Do you represent any private providers of social housing?

Mr. Jeff Morrison: We represent a very small number. In terms of social housing, the private sector is relatively small. There may be a small handful, but for the most part it's the non-profit.

Mr. Phil McColeman: Okay. There are other organizations that represent co-operatives in housing across this country. How many other associations are there?

Mr. Jeff Morrison: It depends on how you define the space. There is an organization, as you suggest, for co-ops. There is, of course, FCM. There is an organization representing the homelessness sector specifically, but within the social housing space, we are essentially the organization.

Mr. Phil McColeman: Okay.

I have had examples through the years, from being in the industry and leading the industry at one time from a volunteer point of view, that typically the price per door of a social housing project generally runs 30% to 50% more than that of a private provider. Is that accurate?

Mr. Jeff Morrison: As has been pointed out several times by many speakers, the marketplace is different and costs are different depending on the system. I think overall social housing costs are in line with those in the private market, with the exception that, of course, the purpose of social housing is to provide rent-geared-to-income units, to provide subsidized units at below-market rates for vulnerable households.

Mr. Phil McColeman: No one's going to argue with that. I'm saying that when private provision could provide it for, let's say, $80 a square foot per door and social housing is anywhere from $120 to $150 a door.... This is the kind of analysis I've seen in different markets on different occasions. When the government's paying, it costs more. I think that's the general thinking in the industry.

This was actually recognized in Great Britain, and Great Britain reflected on what would be the best way for the people who need social housing to make sure they have access to the product they need, just as we're doing through, let's say, a $12-billion investment by municipalities. They decided that it's better to give the money to the tenant, to the owner, the potential owner and tenant, and let them seek out in the market the housing. What are your views on that?

● (1905)

Mr. Jeff Morrison: As you probably know, part of the discussions regarding the national housing strategy has to do with the concept of an affordable housing benefit, which I think gets at the concept you're raising. We have some concerns with the concept. First of all, there is definitely the potential for inflationary pressures, especially in the rental sector. If landlords know that people are essentially getting this personal benefit, there is that potential for increasing rents.

We're concerned with the accountability surrounding the potential concept. How would government ensure that the individual in fact used that portable benefit for the purpose for which it was intended? Frankly, the administrative concern is just how exactly a federal individual portable benefit would work. One of the benefits we've talked about in terms of providing such a portable benefit, but tying it to the unit, is that many of those concerns are allayed. The administrative function is already in place. There's a guarantee in terms of the accountability for what it will be used for, and, really, given the nature of the agreements with the federal government, inflationary pressures can be essentially maintained or contained.

Mr. Phil McColeman: I think I have just a little time left.

Would you agree that home ownership means everything to a person? If they can get into a home and own a home, that just does so much for them as a person in terms of their life, their self-esteem, all of those things. Habitat for Humanity does that. I would like you to share your insights with the government on how you get a model of social housing that does that. I've never seen anything like when the keys are handed over to someone in a Habitat for Humanity home.

Mr. Jeff Morrison: I don't think there would be any question by anyone in this room that having a roof over one's head is a precondition for just about everything else that you want out of life, whether it's health, education, family or so forth. I don't think there would be any disagreement there.

The reality for many Canadians, though, is that the path to home ownership is not as clear cut or as available as it is for others. When we talk about housing policy, we really need to be thinking from the holistic perspective that, yes, there is the private market but for those Canadians for whom that path is not there, we need to look at the tools and the supports needed. Then, yes, eventually, I think we could agree that having one's own home would be a desired aspect, but can we put in place the policies to provide that bridge to allow people to traverse that path?

The Chair: Thank you.

Mr. Whalen.

Mr. Nick Whalen: Thank you very much, Mr. Chair, and thank you all for coming.

I would like to step back for a second and perhaps challenge some of the axioms that underlie what we're looking at here.

First, I would like to challenge whether or not home ownership is the be-all and end-all. As we heard earlier today, Canada has the highest home ownership rate in the developed world, and I'm wondering whether or not we have a lack of rental units for families outside the social housing space. If someone wanted to rent in that space for a family, could they even find something appropriate in the markets we're talking about, outside of the social housing space?

I'm not sure if anyone has looked at that on the panel, or whether or not we have a lack of affordable rental family homes or affordable homes of a particular quality and style that first-time buyers, or more importantly, second-time buyers are looking at.

Mr. Robert Hogue: Again, it depends on where. In terms of rental stock, there is a lot more in Montreal or Quebec City than in Vancouver, where it is very scarce. There's a whole spectrum of different circumstances, as much on the rental side as on the ownership side.

Mr. Nick Whalen: Mr. Morrison.

Mr. Jeff Morrison: It's interesting. In November 2016, I believe, CMHC released their rental market report, which revealed that the supply of rental housing has actually been quite robust, and that rental rates themselves have somewhat stabilized. Again, it is absolutely correct that this differs region by region, but at a macro-national level, in fact, the rental supply has been fairly good.

To your point about whether home ownership is sort of the be-all and end-all, in Germany, I believe the rental rates are at approximately 50%- to 60%, and home ownership is not the be-all and end-all. I think it makes the point—and this is why I try to choose my words very carefully—that at the end of the day, it's the roof over one's head that most Canadians find most attractive or prioritize. It's not necessarily the case that ownership has to be the final solution. For many of our tenants in the social space, it's simply not something they can realize.

● (1910)

Mr. Nick Whalen: Availability is important.

Mr. Levings, did you have a comment?

Mr. Stuart Levings: Yes. I would just say that from our perspective, condo construction has really served the needs of the rental market because there haven't been any purpose-built rentals for many years. The vast number of condos that get constructed in both Toronto and Vancouver, while they caused some concern at one point, have been absorbed by investors for renters, and this has provided the rental accommodation.

On the point of home ownership, what I would say is this. We firmly believe that home ownership is truly the cornerstone of the well-being of a family. When we speak to our consumers, our first-time buyers or immigrants, having that ownership is a very important step. It's the ability to build equity through the forced savings of a mortgage payment that also protects you from rental rate increases. When you own a home, you're not subject to potential rate increases of exorbitant amounts.

Mr. Nick Whalen: I want to move on to my next question. Sorry, Mr. Martin.

The other axiom I wanted to challenge is whether or not the debt-to-income ratio that people talk about as causing great concern is the thing that we should really be worried about. In terms of that number within the different segments of the market, is it really a concern for first-time home owners or two-income families with kids, or are we focusing on the wrong thing when we're talking about debt-to-income ratio?

Again, Mr. Ciappara, I know you have thoughts on this one.

Mr. Alex Ciappara: I would say that the debt-to-income ratio is just one ratio amongst many that are available to analyze the housing market. For instance, you have the debt-to-income ratio, the “net-worth to income” ratio, and also the debt-to-asset ratio, which looks not just at the income of an individual but also at the asset side. While debt-to-income ratios are quite high, the assets that are backing up the debts, which are largely used to purchase assets like homes, are also increasing in value. The net worth of Canadians is actually quite high.

The other thing to note is that debt servicing ratios have actually been coming down as a result of lower interest rates. My point in all this is just that you can't glom onto just one ratio. You have to look at the whole series of ratios.

Mr. Nick Whalen: Mr. Levings, do you have something to add?

Mr. Stuart Levings: I wanted to absolutely agree with that point that Alex made that debt ratios are only one measure. When we underwrite a borrower we always look at the full spectrum: the credit profile, the income stability and sustainability, the level of income from one or two borrowers, and of course, the asset that it's backing as well.

Mr. Nick Whalen: You said earlier that the lending risk really isn't on the first-time homeowner. Where is the debt risk in the Canadian market right now, in your opinion?

Mr. Stuart Levings: We have a view that a true stack risk would obviously be someone with the smallest down payment. In addition, it would include low credit scores, very high debt ratios, and also buying with a single income in the sense that they are the most vulnerable to be at risk in their employment. We certainly know that in our own portfolio, today to afford a home, we see a dominance of double-income families. Two-thirds of our borrowers present with two incomes. That's pretty much almost the only way you can buy in many parts of the country.

The Chair: Before I turn to you, Guy, in December this committee tabled a report in advance of the 2017 budget, looking at what ways we can enhance economic growth.

From your perspective, with regard to the measures that were implemented in terms of the crisis of inflationary prices in housing in Vancouver and Toronto, does that dampen the possibility for economic growth? If it does, what would you suggest be done to neutralize that impact? Also, how would you ensure stability in the financial markets?

Does anybody have any thoughts?

Mr. Hogue.

● (1915)

Mr. Robert Hogue: In previous panels you heard some estimates of the economic impact, on the part of the Bank of Canada, of the recent measures in terms of one-third of 1% over a number of years. At the margin these might lead to some reduced rate of growth in the country. That being said, these are very difficult. As they pointed out, we have very few historical precedents or any kind of tool to assess the economic impact of those measures. As they pointed out, there is quite a bit of uncertainty with respect to the economic impact at the end of the day.

The Chair: I think if there was one thing we certainly learned when we had the regional development agencies as witnesses in our previous study, it's that this is a country of economic regions. As a number of witnesses have mentioned today, this is also a country of entirely different housing markets when you're looking at Vancouver, Toronto, remote areas, Prince Edward Island, you name it. One-policy-fits-all can create certain complications in certain areas, especially in rural areas.

Does anyone else have something to add to the previous question I raised?

Okay, with that, we'll turn to Mr. Caron.

[*Translation*]

Mr. Guy Caron: Thank you very much.

I want to go back to where I was at the last round. We were talking about the reliability and quality of the data. Someone mentioned that more data had been made available by CMHC, which is understandable.

However, since Genworth Canada is a private entity, I guess you don't make your data accessible to the same extent. I think I asked Mr. Morrison this question because he had talked about it, but I would like to know whether that mandate should be given to Statistics Canada.

Somewhat like the Labour Force Survey, which covers the labour market, a division or study could be created for the real estate market.

Do you think other entities would be better suited to do it?

Mr. Jeff Morrison: I'm sorry, but I will answer in English.

[*English*]

I think the challenge with a federal government department playing this enhanced role is that it may not have the mechanisms to bring together the wide array of stakeholders that would be necessary and beneficial in that kind of forum. If you were, for example, to have a StatsCan-run body, that may not allow for the active participation of the provinces, of municipalities, of territories, or of the other research hubs and organizations that currently exist.

In addition, I think one of the things that we hope to see out of the national housing strategy is that, as a means of measuring the impact that the strategy has, the federal, provincial, territorial, and possibly municipal governments will establish a series of indicators and measures. This way, we will know year over year whether the goals and objectives of the strategy are actually being met. To do that, there would need to be some form of an intergovernmental component to that research body. Whether a federal stand-alone department or organization, such as StatsCan for example, could do that is questionable.

Again, we've looked at some different models, both international and even domestic, that could serve that purpose.

[*Translation*]

Mr. Guy Caron: Does everyone share Mr. Morrison's opinion?

Mr. Robert Hogue: I think Statistics Canada would be in a position to play that role. It is beyond the federal level, but Statistics Canada is able to interact with various levels of government in other areas. Since this body has the expertise needed, it is mainly a question of will.

Mr. Guy Caron: Okay.

What do you think, Mr. Ciappara?

[*English*]

Mr. Alex Ciappara: As a federally regulated financial institution, we provide a tremendous amount of data already to the Bank of Canada and OSFI. It's not necessarily public, although some of it is. The federal authorities do have a pretty good lens as to what's going on in the federally regulated financial institutions.

We're also working with CMHC with respect to helping them to fill some data gaps. They have issued some publications. They've published their securitized book as well as a mortgage insurance business supplement. I think the stakes have been moved a little bit more over the last year or so in terms of addressing data gaps. I suspect there will be still more to come.

● (1920)

[*Translation*]

Mr. Guy Caron: Thank you very much.

What's your opinion on this, Mr. Martin?

[*English*]

Mr. Robert Martin: I just wanted to comment, as Alex has mentioned, that CMHC is going in the right direction right now. They're providing more data publicly, and they're engaging with more stakeholders. We're being pulled into a lot of the discussions and we're grateful for that. It would be unfortunate if somehow that got waylaid because there was a shift in where it was going to reside in government. I think I'd prefer it to remain where it is.

[*Translation*]

Mr. Guy Caron: Mr. Morrison, in your presentation, you mentioned that we would do well to find inspiration in the best international practices. Having said that, most of the commentators agree that we have one of the best systems in the world. The previous panel of witnesses felt the same.

What best practices could we adopt to improve the best system in the world?

[*English*]

Mr. Jeff Morrison: It's an interesting question. One of the models I talked about in my opening remarks was a model of social housing that incorporates financial literacy programs. The provider actually provides an upfront grant that is matched by the tenants as part of this one particular program. That fund is put in escrow and then the tenant is able to use that fund for whatever they would like, including a down payment.

That's actually an American model, called Compass, out of Boston. We don't have a comparable, similar model in Canada. We hope that we will. Again, we want to see greater innovation, greater transformation, and greater creativity within the social housing space in this country. Because social housing is by its nature a different model from the private sector, because it is also heavily reliant on supports—social housing is more than a roof over your head, it is also a provision of social, health, legal, and financial supports—and because there are different ways to carve that pie, we think there is great value in learning from what our international counterparts are doing and bringing best practices to Canada. As part of a research hub, that international component is absolutely crucial.

The Chair: Is that it, Guy?

[*Translation*]

Mr. Guy Caron: Yes, that will be all.

[*English*]

The Chair: Do you have more questions?

Dan, you can have a couple of last questions and then we're going to wrap it up. Go ahead.

Mr. Dan Albas: Thank you, Mr. Chair.

Many of you I am sure were here for the previous panel. One of the observations from the Office of the Superintendent of Financial Institutions was that when it came to pricing risk, that was a non-regulatory call. That's the choice of every institution, whether it be a bank or credit union or mortgage lender, etc., to make. From my listening-in to everyone's testimony, that may be true, but I don't think that any of us here would believe that there wouldn't be a risk premium included because of the new regime.

Am I correct? I see some heads nodding but that won't be in the testimony.

Mr. Levings, please, and then we'll just work our way down.

The Chair: It has to show on the record, guys.

Mr. Stuart Levings: We're not a lender obviously; we're the mortgage insurer. Our premiums are driven by the losses we would expect and the capital we have to hold. From my perspective, I would say that we have observed pricing changes in the industry related specifically to some of the changes, in particular, on the refinance side. Rates have gone up because funding is now harder to get and, therefore, there is a higher cost, and that is being passed on to the consumer. That's an observation.

Mr. Robert Martin: Yes, and that's precisely our experience. That's what we're seeing in the market.

● (1925)

Mr. Alex Ciappara: Similarly, we've seen some lenders increase rates for a particular set of mortgages, say, mortgages with longer than 25-year amortizations. We have seen some lenders do that as well.

Mr. Dan Albas: Okay, I think we all would agree government should create a market that private enterprise can then work within. But in this case, by changing the rules of the game, so to speak, that does change behaviours, including costs that ultimately are borne by the consumers or through competition, as we were saying earlier, or consolidation by certain parts of the lending industry or through credit unions.

The other brief question I was going to ask, Mr. Chair—

The Chair: We'll just let Mr. Whalen in and come back to you.

Mr. Whalen.

Mr. Nick Whalen: Thanks, Mr. Chair.

We've talked a lot about demand-side regulation and demand-side forcing in the market in order to reduce risk. What about supply side? Are there things that the federal government can consider on the supply side to increase supply to help bring down prices? Are there things that the federal government used to do, or could be doing now to allow the supply in the market to grow to help depress prices, or is that a zero sum game?

Mr. Stuart Levings: I would say that is an absolute driver of the problem and it's a very complicated one because supply is often caught up in local government or local municipal issues and availability of land, availability of developers. It's a very complicated issue but one that should not be ignored. That goes back to one of our recommendations, which is to collaborate with local governments and municipalities to study all these areas, because there are potentially ideas that could come there that would help supply.

Mr. Alex Ciappara: I would also add that I think there's an acknowledgement by the federal government with respect to the fact that they don't have all the levers when it comes to addressing the supply side. With regard to supply-side issues, back in June 2016, there was a federal-provincial-municipal working group on housing that acknowledged the fact that housing prices are driven by a variety of factors, both on the supply and demand side, and that the federal government has just a certain amount of levers and there needs to be increased coordination amongst the three levels of government.

The Chair: Mr. Morrison.

Mr. Jeff Morrison: Just very quickly, in our world, supply is the key priority, and a number of the recommendations that we've submitted regarding the national housing strategy including the notion of the creation of a dedicated housing financing authority are meant to address exactly that.

The Chair: Mr. Albas, you have the last question.

Mr. Dan Albas: I do appreciate that because I want to touch on the social housing side.

I'll give you a good example. On Vancouver Island, the health authority contracted with a private contractor who ended up building to spec at a very good rate an apartment building specifically for people with disabilities. The challenge was, when this gentleman went to Canadian Mortgage and Housing Corporation, he was told that he would not receive the same lowered insurance rate for the mortgage that, if the health authority had constructed the apartment block, they would have received. When asked about the policy, basically there is no law that says they can't.

As my colleague here, Phil McColeman, said earlier about the savings that could be used if you leveraged the private sector's expertise and efficiency in such a way that the public sphere could help the people who need it the most, we could build more housing and we would have less risk overall. I really would hope that, when you're talking to the minister, or if any of the minister's staff is listening, that you would take that kind of feedback into consideration.

The Chair: Mr. Morrison, we'll have a quick answer.

Mr. Jeff Morrison: Very quickly, to be clear, we are not discounting the private sector. There are some really innovative PPPs happening.

We spent the day with the head of the Edmonton housing authority the other day, where private sector partners are lining up around the corner wanting to partner with that housing authority. It's not off the table, but certainly the provision of housing from a public standpoint needs to ensure that rents are maintained at that subsidized level.

The Chair: Okay, we are at the adjournment hour.

Mr. Macdonell, I don't think you had the chance to say anything. Do you want to say anything to wrap up so you will be on the record?

● (1930)

Mr. Winsor Macdonell (Second Vice-President and General Counsel, Genworth Canada): No, thank you very much. My colleague Stuart Levings has said enough.

The Chair: I don't know if that's good, Stuart.

Anyway, I thank all the witnesses for coming.

This meeting is adjourned.

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