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Chair

The Honourable Wayne Easter

Standing Committee on Finance

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● (1535)

[*English*]

The Chair (Hon. Wayne Easter (Malpeque, Lib.)): Can we come to order? The bells are ringing. We should be able to get the presentations in before we go to vote, and then we'll come back and have questions.

I know you asked to deal with one issue first.

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

Obviously we're very happy to hear that there's been such interest in this topic. It is important for us as parliamentarians to deliberate on some of the policies of the government, so if we are going to be adding...how much time, Mr. Chair?

The Chair: Two.

Mr. Dan Albas: Two meetings?

The Chair: One meeting.

Mr. Dan Albas: Is it one meeting of four hours?

The Chair: We were thinking three.

Mr. Dan Albas: Okay. Would that cover it? I talked to my colleagues today and we also figured that due to many of the concerns that were raised and the fact that so many of the officials from different government agencies weren't able to speak from a holistic sense on the importance of the issues, perhaps we might want to have the Minister of Finance and his officials come in so that they can answer many of the questions that many parliamentarians—I think from many of the parties—have about the mortgage changes. I think this would probably clarify things in the minds of Canadians quite a lot.

The Chair: That's your suggestion at the moment.

Mr. Dan Albas: It was your suggestion, so I'm suggesting along with you that if we do that—

The Chair: It was not my suggestion.

Mr. Dan Albas: You suggested it the other day. If we have another meeting, could we add the Minister of Finance to it? I think it would be helpful.

The Chair: I think the only way we could deal with that is if there was a motion to that effect. If you want to give us notice of that motion, we can deal with it.

Mr. Dan Albas: Are we talking about the business of adding to it? Wouldn't that be part of that?

The Chair: Yes.

Mr. Dan Albas: Okay, so I don't need a motion.

The Chair: It would require an extra meeting. We have the three hours, which are witnessed up.

Mr. Dan Albas: Okay.

The Chair: If you want to propose notice of a motion to have an additional meeting—

Mr. Dan Albas: Would I need notice of motion, Mr. Chair, since we're already talking about the subject?

The Chair: It's the same study.

Mr. Dan Albas: I don't think I would need it. Great.

I make the motion that we invite the Minister of Finance to bring along his officials to discuss many of the housing issues, particularly the mortgage policies and perhaps some of the other policies that he's concurrently consulting on.

The Chair: Okay, the motion is before you. It's up for discussion.

Are there any thoughts?

Mr. Nicholas Hamblin (President, Atlantic Chapter, Canadian Mortgage Brokers Association): I certainly don't see any harm in having the minister present.

The Chair: We'll call on the witnesses later. This is internal to the committee at this moment. It is a public meeting and that's fine.

Mr. Albas, you have the right to put the motion.

Mr. Sorbara.

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

Thank you to my colleague on the other side.

When we've heard from CMHC and OSFI and the Department of Finance, we've heard from the participants in the market who would know what is going on within the housing market. Having the minister here is just not necessary. He's been here a few times and he's been very thoughtful with his time with us.

But having CMHC, which oversees the insured portion of the housing market, has been more than sufficient.

The Chair: Is there any further discussion?

Mr. Liepert.

Mr. Ron Liepert (Calgary Signal Hill, CPC): I respect the members of the government trying to protect their minister, but with all due respect, we had no answer by the officials the first day as to how this policy was developed. We then had a series of witnesses who said there was no consultation. I think it is incumbent, if we're going to do a comprehensive review of this decision, on the minister.... If it doesn't work for the minister, we will have to accept that, but for the government members to refuse to agree to invite the minister, I think, is appalling.

I would suggest that our colleagues on this committee agree that the minister be invited. Hopefully he can make it. Surely his officials could make it. I think it is important to get a better sense of how this policy was developed, because that obviously was not answered by the first panel of witnesses. At the same time, Mr. Chair, I think if we're inviting witnesses, I do believe we agreed the other day that the CEO of Canada Mortgage and Housing Corporation should be invited back. Unfortunately he couldn't make it the first day, and we understand that.

I really believe that it's important to invite the minister and let him make that decision, not his colleagues who sit on this committee.

The Chair: Just on that point, we have invited the CEO for Canada Mortgage and Housing Corporation. He is unavailable on the day we're holding the meeting, which is the eighth.

We'll go to one more comment from this side, and then we'll go to the question.

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

Nobody is refusing to invite the minister. In fact I'm quite happy to support the invitation from this committee. However, let's just clarify a few things. There was no suggestion that nobody was consulted. In fact there was testimony that consultations were done. We also heard about the proposed risks to the system and the reaction to that. It is always in the government's best interest to respond and to react to market conditions.

I look forward to supporting this motion and hearing from the minister and officials on just how this policy came to be and how this will help Canadians.

The Chair: We'll call the question.

(Motion agreed to)

The Chair: We will extend an invitation to the minister.

Turning to the witnesses, we are here to—

Mr. Ron Liepert: Excuse me, Mr. Chair, could I make another point?

Just as a matter of moving forward, the parliamentary secretary is not a voting member of this committee.

The Chair: Yes. Sorry. It wasn't counted, Mr. Liepert.

Mr. Dan Albas: Just briefly, Mr. Chair, perhaps you can clarify this. You said that we're going to have another meeting, and I think that's great. You also said that a lot of people would like to come. Now we're actually reinviting the current president of the Canada Mortgage and Housing Corporation and the minister.

To me, three hours to hear from both of those and from some of the other people may not be fair to the witnesses. You may want to consider extending that meeting, or perhaps, because we want to be flexible for the minister and the president, we can add another day.

The Chair: I would be awfully surprised if the minister were able to come on that short a notice, but we'll extend the invitation and see what we can do. If we have to set up another meeting to have the minister, we may have to do that.

● (1540)

Mr. Dan Albas: That would be reasonable.

The Chair: Turning now to our study of the Canadian real estate market and home ownership, I thank the presenters for coming forward. We will be under a bit of a timeline. We may not hear from all of you before we go to vote but we will be back.

We'll start with the Canadian Mortgage Brokers Association. Mr. Soni is the national president.

Go ahead.

Mr. Ajay Soni (President, National, Canadian Mortgage Brokers Association): Thank you, Mr. Chair, and thank you to the committee for inviting the Canadian Mortgage Brokers Association to speak about the current situation in the housing and mortgage finance industry in Canada.

As mortgage brokers, our members are uniquely positioned to offer insight into the industry. Our footprint in Canada as mortgage brokers is very extensive. As an example, mortgage brokers fund over $70 billion a year in mortgages. That's the level of activity.

It's all types of mortgages including residential mortgages, commercial mortgages, development and construction mortgages, refinancing, debt consolidation, apartment buildings, and rental properties. It's very extensive. In fact, over 55% of first-time homebuyers use a mortgage broker. Imagine a mortgage industry without mortgage brokers.

We also distribute funds for alternative sources of financing, such as mortgage investment corporations and private mortgages.

We have a level of knowledge we're very happy to share. We understand the unique challenges Canadians face when it comes to home ownership. Our members live and breathe these challenges with these homeowners and potential homeowners, and this happens throughout the country.

We like to say that mortgage brokers are at the tip of the spear when it comes to home ownership because we make the dream of home ownership a reality for many people. When it comes to the issue of home ownership cost, that tip of the spear is the culmination of many costs that result in an end price for a home.

There are many factors that determine pricing, and many people seem to be alarmed at what is perceived as the high cost of home ownership, which also goes into the high cost of rent, because somebody has to own those properties. Ultimately these costs have to be paid, and that's why we are at the tip.

For most Canadians this is paid for by taking out a mortgage. It's that simple. As costs increase, your mortgage amount will increase as well.

As I have said, many observers and Canadians are alarmed at the high costs they face, or perceived high mortgage amount that's required to own a home. It's very important that we understand those costs, and we've submitted a letter to the committee. There are many factors to those costs.

We know that there is always the land cost, but when you look at development, there are changes in the building code every year. This increases costs. We don't build the same type of home we built 20, 30, or 40 years ago. We're always building a better product. That costs money. That may result in a higher mortgage amount for somebody.

Municipal fees are also a factor. As mortgage brokers, we are involved in development financing. We see lots of different costs in different municipalities. These costs are development cost charges, school fees, land acquisition fees, and land dedication fees. All of this actually adds to cost.

Municipal by-laws also add to cost. There's a requirement, as I said, for land dedication.

We're looking for livable community concepts. Urban planning professionals build better communities. These all cost money, and they culminate in the end price of homes for Canadians.

There's also a slow and frustrating development process that our developer clients see. They have to pay for that. Holding property costs money. They take out mortgages. Their interest costs accumulate, and they have to pass that on to the end purchaser.

We understand how these costs are manifested, and we are at the end, financing Canadians.

What we like to say is that there are also finance costs involved. We've seen recent changes to CMHC's insurance premiums. In our letter, we've actually submitted some examples, and we can refer to that in the question period, but in some cases now, the insurance premium is as much as the down payment that a homeowner is asked to put down.

Five per cent is the minimum down payment required. As an example, on a $500,000 purchase, $25,000 is the down payment. In an extreme case, you would pay about $22,000 in insurance costs. That's a very onerous cost at the end of the line.

● (1545)

The Canadian Mortgage Brokers Association would like to offer our consultation services and let you know that we are experts. Before changes are made to mortgage policy, we'd love to be consulted and provide the insight that we as professionals would love to impart to you.

Thank you.

The Chair: Thank you very much, Mr. Soni and Mr. Hamblin, and thank you, Ms. McKenney, for coming.

From the Association des professionnels de la construction et de l'habitation du Québec, we have Monsieur Vincent and Monsieur Lambert.

[*Translation*]

Mr. François Vincent (Policy Director, Association des professionnels de la construction et de l'habitation du Québec): Hello and thank you very much.

My name is François Vincent and I am the policy director of the Association des professionnels de la construction et de l'habitation du Québec. With me is Georges Lambert, our senior economist.

Founded in 1961, the APCHQ now represents 17,000 small and medium-sized businesses in the construction and residential renovation sectors in Quebec. Appearing before the Standing Committee on Finance today allows me to present their views. Thank you very much for this opportunity.

The APCHQ maintains that we must focus on the real estate market and access to ownership.

I invite my colleague to give you an overview of the situation, which is explained in detail in our brief.

Mr. Georges Lambert (Senior Economist, Association des professionnels de la construction et de l'habitation du Québec): The housing sector, which includes new construction, residential renovation, repairs, and maintenance, is an important sector. In 2015, the economic value of this sector in Canada was over $133 billion, or close to 7% of the GDP. In Quebec, its value was $26 billion, or close to 8% of its GDP.

Our sector creates many good jobs. In 2013, for example, renovation and new construction helped create more than 172,000 full-time jobs in Quebec.

The federal government also benefits in terms of tax revenues. A $270,000 house sold in Quebec, for example, yields $16,300 in tax and incidental revenues, from construction to the time of sale. A $35,000 renovation contract yields close to $2,900 in tax revenues for the federal government.

As to the real estate market, despite relative market stability in the past few years, new construction has dropped off.

In Quebec, there were close to 39,000 housing starts in 2016, a 2.7% increase over 2015. In the past four years in Quebec, housing starts have levelled off at about 38,000.

While these numbers are positive, over a longer period, housing starts have decreased by 33% since the peak in 2004. Total housing starts have fallen off from close to 58,500 in 2004 to close to 39,000 in 2016. Roughly 1,800 fewer homes are built in Quebec every year. This slowdown can in large part be attributed to a drop in the number of households in Quebec. There are other factors, however, which we will discuss.

The thing that must be understood and that we wish to emphasize here are the benefits associated with becoming a home owner and acquiring one's own home. Home ownership is a way for households to build personal wealth. Home owners have higher net worth than renters. Moreover, once home owners retire, they enjoy benefits representing between 10% and 15% of their income.

Quebec has a lower rate of home ownership, however. Home ownership is at 61% of households in the province, as compared to 69% for Canada as a whole.

The question we are asking today is how can we help families become home owners? We must reduce the main barrier to making a down payment, which is an obstacle for seven out of 10 young people, according to a survey we conducted.

This survey also showed that it takes young people about eight years to save enough for a down payment on their first home. A few years ago, the Government of Canada decided to protect the financial market, taxpayers, and households by tightening mortgage insurance rules. As you know, nine restrictions on lenders and mortgage insurers have been announced since 2008 in order to tighten access to mortgage insurance.

The most recent measure, announced on October 3, 2016, will have major repercussions on the real estate market in Quebec. Access will be more difficult for 74,000 households, the number of housing starts could drop by close to 6,900 in 2017, and home resales could fall by 7%.

These decisions have had a significant impact in Quebec, which is already lagging in home ownership.

I will now give the floor to my colleague, François Vincent.

● (1550)

Mr. François Vincent: We would now like to draw your attention to the four recommendations we make in our brief. These four recommendations could help the government achieve its objectives of preserving the integrity of the financial market, protecting households from excessive debt, and containing the overheating of the real estate market, while also providing the missing piece that would enable people to purchase their first home.

We hope the committee will formally recommend them and that government MPs will present them convincingly to the Minister of Finance in view of the upcoming budget.

First, we suggest that an intergenerational home buyer's plan be created to allow parents to draw on their RRSPs so they can help their child with a down payment on their first home. This withdrawal would be repaid according to the applicable conditions of the home buyer's plan.

There are many parents who would like to help their child make a down payment on a home, but they do not necessarily have tens of thousands of dollars in their chequing accounts. By drawing on their RRSP, they could help their child purchase a home.

Moreover, these additional funds could decrease the amount borrowed and reduce the lender's risk. There would be a lot more down payments of 20% of the property's value, meaning that the borrower would not need mortgage insurance.

Such a measure, which would not cost the Government of Canada anything, would mean that the regional real estate markets that are not in the overheated areas of Vancouver and Toronto would not suffer from the recent tightening of mortgage rules, thereby preventing the very alarming figures cited by my colleague Mr. Lambert from becoming a reality.

Secondly, we would like to recommend ...

[*English*]

The Chair: Mr. Vincent, could you just name your three other points without the explanations?

In about a minute and a half we're going to have to leave to vote, and we have the brief.

Mr. François Vincent: I will.

[*Translation*]

Secondly, in order to facilitate down payments, we recommend that a measure be created to help first-time buyers make a down payment.

Third, we recommend increasing the GST rebate on new homes for first-time buyers.

Fourth, we recommend increasing the tax credit for first-time buyers.

We will be pleased to answer your questions and provide further details on all these excellent recommendations.

Thank you.

[*English*]

The Chair: Thank you very much.

I also thank you as well, as I know you, and I believe one other group, had to reduce your original briefs to meet our word count criteria. We thank you for that.

We will suspend, and we'll hear from the other two witnesses as soon as we reconvene after the votes.

● (1550)

——————————— (Pause) ———————————

● (1620)

The Chair: We'll reconvene now.

I will just explain to members where things are at. There will be another vote at 5:45. We will tighten up the questions to the current witnesses and try to finish at 5:30. That will give people time to grab a bit of a snack here, go to vote, and come back and start with the second series of witnesses. That's how we will do it.

We will now turn to Mr. Lloyd from DLC Canadian Mortgage Experts.

Mr. Michael Lloyd (Mortgage Expert, Team Lead, DLC Canadian Mortgage Experts): Thank you, Mr. Chairman and committee.

Thank you, fellow witnesses.

I've been a practising mortgage broker since 1999 in the Vancouver area. I have a lending background going back to 1988. Our company serves both B.C. and Alberta. We have 130 mortgage brokers on our team, and we did 3,800 mortgages last year for a total of $1.36 billion.

Of the changes enacted on October 3 by the Minister of Finance, the one that impacted Canadians the most severely was bringing consistency to mortgage insurance rules by standardizing eligibility criteria for high- and low-ratio insured mortgages, including a mortgage rate stress test.

Page 36 of the Liberal Party of Canada's platform piece states, “Government should base its policies on facts, not make up facts to suit a preferred policy. Common sense, good policy, and evidence about what works should guide the decisions that government makes.”

The government did nothing to find out from those within the industry the long-term effects of these changes. By making the changes, they've impacted a large number of Canadians, not just first-time buyers but those already in their homes. By rushing these changes through without researching their impact, they've damaged the competitive nature of the industry and skewed it in favour of one group over others. This will result in more expensive lending for all Canadians.

As an example of this, the X family who live in North Vancouver have a mortgage for $250,000 that is now coming up for renewal. Since their home is now assessed at over one million dollars, they are now considered uninsurable and must pay a higher rate on any mortgage term.

Another example is that of Mr. A, who is separated from his wife and has been working out a separation agreement since last spring. He had planned to buy her out of the matrimonial home in the Kootenays but no longer qualifies, and now the home must be sold.

We, of course, have had a number of first-time buyers who have tried to save the down payment needed to enter the market and buy their first home. Many of those reduced their expectations of buying a house and are instead focused on townhouses and condos. With payments forced to be made for over 25 years, their buying power has been further diminished.

Our housing industry in Canada is sound. We survived the meltdown of 2007. We have had a positive impact on the economy. CMHC is a money-maker for the government and is safer than ever. These changes were not needed and will only cause harm to the majority of Canadians.

I recommend the following changes be made to the criteria for insured and non-insured mortgages: allow 30-year amortizations, stop attempting to restrict investment in rental properties, and remove the limit on insurable mortgage size, which is currently one million dollars.

I welcome your questions. Thank you.

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

We will now turn to Mr. Taylor from Mortgage Professionals Canada.

● (1625)

Mr. Paul Taylor (President and Chief Executive Officer, Mortgage Professionals Canada): Thank you very much, Mr. Chair, and thank you for the opportunity to present to the committee today.

My name is Paul Taylor. I'm president and CEO of Mortgage Professionals Canada, Canada's mortgage industry association representing 11,500 individuals and over 1,000 companies. We include mortgage brokers, mortgage lenders, mortgage insurers, and service industry providers.

The mortgage broker channel we represent originates 33% of all mortgages in Canada and over 50% of mortgages for first-time homebuyers, which equates to approximately 80 billion dollars' worth of economic activity annually. Canadians are also increasingly choosing mortgage brokers to obtain a mortgage. Our most recent data shows that, year over year, mortgage brokers have been used 9.6% more this year than last.

Not all the traditional bank products are available through the mortgage broker channel, which is an important distinction to make. The recent changes are having a cumulative negative impact on the mortgage marketplace and ultimately on the Canadian consumer. In light of this, we're asking for some slight amendments to portfolio insurance, which I will get to shortly.

As the committee is probably very well aware, as of November 30, all mortgages submitted for inclusion in portfolio insurance are now subjected to the same stress test as high-ratio insured mortgages and many important categories have also been made ineligible. These changes disproportionately impact non-traditional bank lenders who rely on the portfolio insurance mechanism for liquidity and ease of access to capital.

As an example of the impact of these changes, Genworth Canada estimates that if submitted today approximately one-third of their total volume of mortgage insurance written in October 2016 would no longer be eligible.

Banks can take loans onto their balance sheets. Smaller lenders do not have the same capital volumes to effectively compete. As a result, all ineligible portfolio insurance mortgage products now have to be financed by the smaller lenders through other private capital mechanisms, which makes their products more costly for consumers and therefore uncompetitive.

From a policy perspective, if the intent of the stress test is to protect highly leveraged buyers from themselves, then all consumers should be subject to the stress test to ensure a fair marketplace. OSFI could achieve this by amending the required underwriting guidelines.

Also setting the stress test at the Bank of Canada's current five-year rate serves to imply that the government's intention was to favour the big banks over smaller lenders. This rate is set by the mode of the big five banks' posted rates, which in effect allows the banks to control the rate that creates their competitive advantage.

An important contextual note is that while many of the non-traditional bank lenders do not fall within OSFI's regulatory purview, it would be incorrect to suggest they are not regulated. Each province has its own regulations related to mortgage lending and non-traditional bank lenders statistically originate mortgage loans with equivalent or slightly better default rates than the banks. For Canadian mortgage consumers, non-traditional bank lenders play an invaluable and necessary role in a competitive marketplace.

There are some significant negative impacts on price of these changes. As of January 1, the average cost for a conventional mortgage fund has increased by 25 basis points; in real dollars, that's about $2,300 over the five-year term. To the full amortization period of the mortgage, it's about $10,400.

In addition to these additional costs, mortgage insurers are increasing their insurance premiums on non-conventional mortgages for the third time in three years. This is due to OSFI's newly released capital adequacy guidelines and the premiums in some loan-to-value categories are jumping by more than a full percentage point of the value of the mortgage. These, of course, will be costs passed on to the ultimate consumer.

The stress test also creates a reduction in the purchasing power for many Canadians, which some of the other panellists have discussed. We have some regional issues as well that were created by them. Many will be first-time buyers.

Our chief economist, Will Dunning, tells us the stress test will mean homebuyers will have their calculated total debt service ratios increased by 5 to 7.5 percentage points, which is going to have a material impact on their purchasing power without really changing any of their specific details. The spin-off impacts of a reduction in purchasing power for the middle class could have the unintended consequence of creating the scenario that these policies aim to prevent, which is a national debt crisis caused by a significant economic decline.

The new capital requirements from OSFI also require insurers to look at two new characteristics of a loan to determine how much capital they need to hold on hand to portfolio insure it: credit scoring and geography.

● (1630)

We're concerned that these changes create regional price and access disparities that will disproportionately impact middle-class Canadians in areas deemed high risk. The proposal to introduce risk sharing into the market would also cause major price and access disparities. While Canada has enjoyed historically low default rates, somewhere below one-third of 1%—I think it was 0.28% on Monday—data has always demonstrated that job losses are the number one trigger for mortgage defaults.

Under a risk-sharing structure, as regional economies suffer downturns, local mortgage costs are going to increase proportionately. We would suggest that this is the exact opposite of the result the government would like to see, as opposed to the social mechanism that CMHC and the securitization program is intended to create.

In conclusion, the announced changes negatively affect the mortgage broker channel as a whole, and Canadian consumers have been more and more inclined to use the services of a broker to provide choice, advocacy, and support, and to assist in the technical requirements of mortgage qualification. Placing competitive disadvantages then on the non-traditional bank lenders will adversely affect this segment of the Canadian mortgage marketplace, which consumers clearly are voting for with their purchasing habits.

We have five recommendations that we would like the committee to consider to help mitigate the effects of these changes.

First, suspend all regulatory measures not yet implemented.

Second, adjust the November 30 change to allow for refinanced mortgages to be included again in portfolio insurance. If an 80% loan-to-value ratio is unacceptable, please consider reducing the threshold to 75% rather than removing the eligibility of these products entirely.

Third, the government should reconsider the increased capital reserve requirements implemented in January for insured mortgages.

Fourth, we recommend that a review be conducted into the long-term impact of regional-based pricing on the Canadian economy as a whole, and the potential additional harmful effects on already strained regional economies.

Finally, please uncouple the stress-test rate from the big five banks' posted rates. Use an independent mechanism to determine the rate and require its use to qualify all mortgages, not just those insured.

Thank you very much, indeed.

The Chair: Thank you very much, Mr. Taylor, and thank you to all of the witnesses. We will go to questions. I think we'll have ample time to get pretty well everyone in.

Is there a motion to come forward here?

Mr. Francesco Sorbara: Yes.

Chair, I move that Jennifer O'Connell replace Steven MacKinnon as a member of the Subcommittee on Agenda and Procedure of the finance committee.

The Chair: Okay, it has been so moved.

As everyone knows, Mr. MacKinnon became a parliamentary secretary and vacated his post here as a result. The motion is that Jennifer O'Connell replace Steven MacKinnon.

(Motion agreed to)

The Chair: Turning to the first round of questions, Mr. Sorbara, you have seven minutes.

Mr. Francesco Sorbara: Thank you, Chair.

Welcome, everyone. You'll have to excuse the delay because of the vote. It seems to happen here once we start session, but thank you for your safe travels here.

I've been spending quite a bit of time reading all the material related to the housing market in Canada. It's a daily topic for my constituents. We get emails on.... The latest email I received was from an individual who wanted to buy a house in Waterloo for his daughter. The listed price of the house was $379,000, and it went for $500,000.

Closer to home, when I see houses selling in our subdivision for $1.4 million or $1.5 million, I kind of scratch my head when those houses were originally listed in 2007 for about $480,000. There is something going on, whether it's the supply or demand side that we need to look at.

When I look at all the changes that have taken place within the Canadian housing market, the price increases, the flow of the demographic slide, the flow of immigrants, newcomers, and Canadian citizens moving to the GTA, for example, the area that I reside in, there are a lot of natural outcomes. One of the outcomes has been a very large increase in indebtedness of individuals. It behooves any government, including my colleagues on the other side when they were in power, to make sure that changes are made to ensure the system does not go off-kilter, that we do not experience something akin to what happened in the United States.

In Canada, we have a very unique system where the government backstops a large portion of the market, i.e. the high-ratio portion or what's called less than 20% down payment. Going through all the changes that have been made, some of them are quite prudent. There's a structure in place in the housing market on mortgage generation, which were changes that were made, and I would argue that a lot of the changes are actually quite prudent and that we also have to incorporate regional differences.

My question is coming from the Bank of Canada's FSR report in December. Looking at the increase of indebtedness levels, I can turn to page 5 of the report. It says, “The proportion of borrowers with high mortgage debt is increasing in many cities”.

Looking at the trends, isn't it prudent for any government, when CMHC is effectively backstopped by the taxpayers of Canada, to implement measures designed to improve the quality of indebtedness for borrowers going forward?

I'll put that out there because I think it is prudent for any government, be it on the Liberal side or in the past on the Conservative side. Would you take 30 seconds each to answer that, please?

● (1635)

Mr. Nicholas Hamblin: I'd like to start with that.

I keep hearing about this income-to-debt ratio. For me, that is a red herring.

There are two types of debt in this country. There's good debt and there's bad debt. First off, who knows how that ratio is calculated? I was in a meeting with the CMHC general manager for Atlantic Canada last week. I asked her that question. Frankly, she could not answer it. Her economist took a stab at it. We're still not sure in Atlantic Canada how that ratio is come to.

It's important to recognize there are two types of debt, good debt and bad debt. A housing payment is a good debt as it is a debt for an asset that not only appreciates in value but as you pay down that debt, it creates equity that is tangible. It provides shelter, and it builds net worth when there is a principal or balance reduction.

There are multiple factors considered when granting mortgage financing. Debt ratio, income, assets, income to assets, debt to assets, credit repayment history, credit utilization, income stability, income source, down payment, location, property type, and other qualifying criteria, i.e. the 3% rule on revolving credit. That is a good debt. It goes through a number of checks and balances to ensure that it is property administered and that it is on an asset that appreciates.

Mr. Francesco Sorbara: Thank you. Can we move onto the next folks because I'd like to hear each perspective.

Mr. Nicholas Hamblin: Well, you asked a question about the debt, and I would like to answer it.

Respectfully, there's bad debt. I want to get on to this. This is an important fact that you guys are missing.

Mr. Francesco Sorbara: If we could move on to Mr. Lambert and Mr. Vincent, please.

Mr. François Vincent: Sure. It is good for a government to protect citizens on indebtedness, but from our point of view, the decision that the government made was not the best one to help them have the best asset they can have, to buy a home.

You talk about houses in your place that are sold for $1.4 million, but we don't see that often in Trois-Rivières, in Saguenay, in Laval. Even in Montreal, if you go to Westmount or Outremont, it's a market where some houses are in that price range, but for a normal house sold in Quebec—and I think my colleague has the amount—it's really far from $1.4 million.

I think government could act to help citizens with the debt problem, but not with a policy that cuts the possibility for 74,000 households to buy their first home.

● (1640)

Mr. Francesco Sorbara: Mr. Vincent, *excusez-moi*, I want to add something.

I do respect the regional differences in the housing market. I'm very well aware of that, and I do agree you don't want to treat a problem with a sledgehammer when you need a—

Mr. François Vincent: I did not say that you—

Mr. Francesco Sorbara: No, but I wanted to add that comment.

The Chair: Can we get each of the witnesses on the record on this question, because your time is up.

We'll have Mr. Lloyd, and then Mr. Taylor.

Mr. Michael Lloyd: Thank you.

Of course, indebtedness is important and we have to review what it is, but a big makeup of that ratio is not mortgage debt. It's credit card debt and car loans, and those are areas that we're probably not going to get into here.

Right now, the requirements for our clients to get approved are strict. We have to go through them and we have to verify a lot of things. Car loans aren't the same and credit cards aren't the same, and unfortunately that's where most Canadians are running into trouble.

To me, there is good debt and bad debt. Buying a home is something that even if it doesn't go up, you're slowly going to pay down the debt. The likelihood of it going down in value is slim, whereas those other things aren't adding any assets to their bottom line.

The Chair: Mr. Taylor.

Mr. Paul Taylor: I would echo almost all of that sentiment.

I think we heard from CMHC on Monday that of the 165% debt-to-income ratio, 73% of that was actually mortgage debt. The rest of it must be change, and that is tied to not great assets.

If that's the case, mortgage debt is almost a forced savings plan for a good number of Canadians. Therefore, making it more difficult for folks to start to build an asset base by virtue of their first-time purchase is detrimental to the whole Canadian economy.

The other thing I would very quickly address, if I can, because you made mention that the Canadian backstop on the mortgage should be an insurance program, is that our financial system is probably the best regulated in the world. We have oversight of the lenders and we have oversight of the insurers who are insuring those lenders. Bankruptcies need to occur long before the Canadian taxpayer is really exposed to any liability there.

I think those are very far entailed issues for us to consider.

The Chair: Thank you all.

I'll turn to Mr. Liepert.

Mr. Ron Liepert: Thank you all for being here.

I'm going to make a couple of comments and then ask everyone, because there are four witnesses, to make a general response.

I come from Calgary. As you are well aware, the economy in Alberta has not been good for the last couple of years now and is probably getting worse. In speaking with a home builder quite recently, all through the downturn in oil prices, they were still building and selling homes. He said as a result of the move last fall, the new home construction in Calgary has effectively dried up. I would like you to comment on that.

Secondly, I would like you to expand a bit on the one-size-fits-all approach. Again, you mentioned Quebec. I'm from Alberta. It seems as though Canadians across the country are being penalized because of two hot markets, one in Vancouver and one in Toronto. I would like you to comment on that.

The third thing is that we had a group of witnesses here the other day. To an individual, they swore on a bible that they had not had any contact with federal officials asking for advice on what the right approach is. I would like you to comment on whether that is applicable to each one of you.

I'll leave all of those with you.

The Chair: Mr. Taylor will go first.

Mr. Paul Taylor: Mortgage Professionals Canada was not consulted prior to any of these specific changes being introduced.

Regarding the question of regionality and housing starts having stalled in Calgary, I am hearing very similar reports from the lenders within our community of the number of applications for new mortgages this January versus last January seeing startling drop-offs. First-time homebuyers are very specifically penalized by these changes. By virtue of there being a real lack of new entrants onto that property ladder, there is less need for new homes to be constructed, and certainly you're going to see those effects first in the regions that are currently economically challenged.

The Chair: Mr. Lloyd, go ahead.

Mr. Michael Lloyd: I'll echo this. Nobody I know was asked anything about these changes.

As for the regional differences, it's huge. We're trying to solve this Vancouver-Toronto situation with these changes, and it's not effective. In fact, it's not even effective in Vancouver and Toronto. You're bludgeoning everyone and it's not fixing a thing. That's the problem I have with this. I know CMHC's policy has always been to be national, to never have a regional policy, but I think those days should change too. I think we should have more localization for helping different situations, because we all have different situations we're living in.

● (1645)

Mr. Georges Lambert: Likewise, to echo the comments of our two colleagues here, we were not consulted, although we did raise these issues in early November with the staff at the Minister of Finance's office.

I'll pick up very specifically on your point about the effect there. In Quebec, 40% of the buyers of either existing or new houses are first-time homebuyers. The issue here is.... Yes, it has an impact on housing starts, but it also has an impact on the resale market and the home improvement market. It's all a chain, because those existing buyers willing to sell their house to move into a condo or a retirement home have a house for sale, to be purchased by either another experienced homeowner or a new homeowner. It's a chain, and all the parts are linked together. It has an impact on all the dimensions.

One of the perverse effects of this new policy is that those who are on the brink of buying a house, with just enough down payment saved, are not qualified anymore. They're going to delay purchasing that house. They're going to purchase a cheaper house or locate somewhere else. They're going to call their aunt, dad, or uncle to raise more money, or they're going to remain a tenant, keep that money, and now with that $10,000, $15,000, or $20,000 they have saved, they're going to buy a truck, a boat, or something and get some of what was called earlier a “bad debt”.

You end up in a situation where people will knock at the bank's door not to borrow for a mortgage but to get some lending for more consumption—a trip to the south or a cruise, or whatever. It's consumption-related indebtedness, which is not backed by an asset that appreciates and that you pay down, like a house. That's the perverse effect, to pick up on what Mr. Sorbara was raising earlier.

The Chair: Mr. Soni, go ahead.

Mr. Ajay Soni: As far as the Canadian Mortgage Brokers Association is concerned, we were not consulted on any changes. As I mentioned in my preamble, we'd like to be consulted.

As far as regional policy goes.... I'm going to date myself a bit here. I started as a mortgage broker in 1988 and there was actually a bisected policy. In those days, there was a $125,000 rule and a $175,000 rule. If you were in an outlying area, it actually was the opposite effect. You could put a minimum down payment to a maximum of $125,000, and in a larger city centre you could go up to $175,000. It has worked in the past.

When some of these changes came about, our association sent a letter to the Minister of Finance's office with some recommendations. It's in our submission. One of the basic ideas there was, how much is enough? How much is a lot of debt? We always talk about “a lot of debt”. We've recommended that maybe we should look at a number so that below, say, $500,000, we could actually qualify mortgages on a discounted rate, because now you have to go to the benchmark rate.

It has affected regions. We are taking issues that are maybe of concern in our primary centres like Toronto and Vancouver and putting these policies across the country. It's not really that fair. This idea of regional policies can work and has worked in the past.

The Chair: Thank you.

We're now turning to Mr. Caron.

[*Translation*]

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

I would like to thank the witnesses.

At the last meeting, in response to a question similar to the one Mr. Liepert just asked, I asked the witnesses if they had been consulted as a rule before the federal government made the changes to the mortgage rules. There have been ten or so changes since 2006. Have you been consulted as a rule or not?

Mr. Taylor, you may answer briefly.

[*English*]

Mr. Paul Taylor: My tenure with the association is just about 12 months but I know my predecessor was talked to regarding the increase in the down payment change from $500,000 to $1 million and the incremental increase, if you will, as that's tiered. So sometimes, yes.

Mr. Michael Lloyd: I wasn't, personally, but I believe that MPC, our previous group, and CAAMP were consulted.

[*Translation*]

Mr. Guy Caron: Thank you.

Mr. Georges Lambert: For our part, we are not systematically consulted.

Mr. Guy Caron: But are you consulted sometimes?

Mr. Georges Lambert: No.

Mr. Guy Caron: What about you?

[*English*]

Ms. Kim McKenney (Secretary and Board Member, Ontario Chapter, Canadian Mortgage Brokers Association): No. CMBA has never been consulted.

● (1650)

[*Translation*]

Mr. Guy Caron: A few of you are consulted from time to time, but you are not consulted systematically. From what I understand, you may be consulted sometimes, but there is no specific rule.

I will turn now to the APCHQ representatives.

I am sympathetic to your recommendations, especially regarding the use of RRSPs and a home buyer's plan. I have a concern in this regard and I would like you to respond because it is important. It is an interesting idea and it warrants consideration, as long as we can eliminate the weaknesses I see in it.

Have you estimated what such a measure would cost the government?

Mr. Georges Lambert: From a mechanical point of view and at first glance, there is no cost to the government, since the tax deduction applies when the money is saved and deposited into an RRSP. Withdrawing an amount from an RRSP and using it for a home buyer's plan would not cost the government anything. On the contrary, there would be a cost to the taxpayer if the money were not repaid on time according to the repayment schedule.

We are proposing that children be given access to funds that are already available, that their parents have saved in an RRSP, for which the parents have already received tax deductions, and that the children repay the money to their parents' RRSP in accordance with the applicable standards of the home buyer's plan.

Mr. Guy Caron: I understand what you are saying. That is all in theory. In practice, that kind of transfer between spouses already exists. A person can contribute funds to their spouse's RRSP.

It has been pointed out to me that, for two people living in their first home, this measure is used to enable the spouse of the person who owns the home to purchase their first home. In the wealthiest homes, so to speak, a spouse gives money to the other spouse to purchase a first home. This is done for speculative purposes and, on a regular basis, that money is not repaid.

In that case, it is ultimately a tax loophole and it opens the door for each child from the same household to do the same thing.

Were you aware of this technique or loophole?

Mr. Georges Lambert: Not specifically. I can, however, make two comments based on my limited knowledge of tax matters.

First, contributions that are not repaid as they should be over 15 years, a period that begins two years after the funds are withdrawn, are added to the person's income, and that amount is taxable.

Secondly, the tax rules on capital gains exemptions have been tightened up recently. It is also very clear that taxpayers will have to declare property sales in their tax returns. This is something new. The capital gains exemption rules for assets other than a principal residence apply and are already in force.

As to a person who owns a principal residence and another residence that is deemed a secondary residence, the current rules already limit possible gains, and the government can tax that person under the current rules.

There are of course always financial arrangements. There are tax specialists and professionals who can be very creative in order to achieve certain things, while fully complying with the spirit of the law. Our suggestion, however, is intended to help children access funds that their parents have already accumulated, but that are not available in a chequing account.

Mr. François Vincent: I would like to add something. Regardless of the program or government measure that we are looking at, I am sure we will find exceptions or that people will find ways of misusing it.

Our public policies must not be developed based on possible exceptions, but rather by considering who would benefit the most from the measure. In this case, it would be young people who do not have the necessary down payment to buy a home, which is seven out of ten young people.

Mr. Guy Caron: Okay, but there are measures that might cost the government something, such as a more generous GST rebate or making the federal tax credit for a home purchase refundable as opposed to non-refundable.

Mr. Georges Lambert: Yes, of course, but there is a stimulative effect as well as tax benefits for the government when a home is purchased, whether it is a new build or a resale home. There are economic benefits for the government.

Mr. François Vincent: The government is now spending money to stimulate the economy. This could perhaps be a way of using those investments while also encouraging home ownership.

● (1655)

Mr. Guy Caron: Thank you.

I have one last question which is rather general so I would like quick answers if possible.

Mr. Albas and most of the MPs here, I believe, agree that there is not just one housing market in Canada, but many markets. I am referring to the various overheated markets. It seems the government's approach to addressing those markets has been to address all the markets at the same time, with everyone suffering the consequences.

We know that banks and by extension mortgages are under federal jurisdiction. Aside from the tax measures such as those proposed here, which could be applied province by province, how in your opinion can the provinces address their overheated markets locally? If the federal government has done all it can do, how can the provinces now step in, given that the measures are federal on the whole?

[*English*]

Mr. Paul Taylor: Any incentives at all that could assist with adding supply to the markets where we are seeing values appreciating would be incredibly beneficial for everybody. I think that almost all of the pricing pressure in the Toronto and Vancouver areas is very specifically a supply-side issue.

To be fair, the government, since 2009, has implemented a good number of changes to tighten mortgage rules. I would actually argue that many of them were very prudent at the time. I think we have arrived at the point, though, where we're addressing the entire problem with demand-side solutions when supply is what really needs to be addressed. We're creating real problems for first-time homebuyers and making home ownership in Canada elitist. We really need to address the supply side.

Mr. Michael Lloyd: I agree. The biggest issue is the supply of homes for people to move into. We can keep hurting first-time buyers, but that's not going to stop this supply situation.

[*Translation*]

Mr. Georges Lambert: There are of course specific, localized problems which are largely a function of demand. For our part, though, given the current situation and the reality in Quebec, our best suggestion for resolving the situation is to help buyers amass a larger down payment. As a result, they would not need an insured loan later on. At the same time, it would reduce the risk to the mortgage lender and reduce the monthly payments once the home is purchased.

[*English*]

Mr. Ajay Soni: We talk about supply, and that's important, but it appears that we do have a little bit of an issue at the municipal level of government. They control the land development. They have the by-laws in place. They have the planning departments. It is very onerous, as I have heard in my discussions with a lot of different people across the country, to get a development project started.

I'm from Vancouver. In the Lower Mainland you can see up to a seven-year delay from the time you identify a piece of land that you may want to develop to when it actually comes to market. For that seven-year period of time, developers have to carry the property. There are a lot of costs. There are soft costs. There are fronting development cost charges. This is a lot of money that has to be paid for up front. Their interest costs accrue, and then, in the end, as I mentioned earlier, it's the home purchaser who actually pays for this.

Streamline that level of government, maybe through incentives, some capital expenditures to get water treatment facilities or land dedication in place. These actually delay land development projects.

On the development side, there are costs involved in acquiring land. We do those mortgages as well, as mortgage brokers for these developers. Those costs accrue. That may be one way of improving the supply side. You have to make it easier. It's very difficult.

The Vice-Chair (Mr. Ron Liepert): Thank you.

Mr. Grewal.

Mr. Raj Grewal (Brampton East, Lib.): Thank you, Mr. Chair, and thank you to the witnesses for coming.

There are a lot of theories on what's going on in the Canadian housing market. I just had a few data-related questions, and I'm hoping you guys can answer them.

Can any of you tell me how many homes are purchased with less than a 20% down payment?

Mr. Ajay Soni: I don't have those numbers handy. I think it could be looked up. As brokers, we see a lot of first-time buyers, and there's no doubt there is an inordinate number of people who are making the minimum down payment.

Mr. Raj Grewal: The rationale for the question is this. The new stress test will obviously impact people buying a home with less than 20% down, and then you guys are advocating that it's going to impact your business. But you should—

Mr. Nicholas Hamblin: No, sorry, we're less concerned about our business than we are about the Canadian consumer and the housing market itself.

● (1700)

Mr. Raj Grewal: Either way, even if we're concerned about that, I think in terms of the basics we would need to know how many Canadians are purchasing homes. You guys are in the mortgage business, so I feel like this is one of the numbers you should know right off the top of your heads, *x* per cent of Canadians are buying homes with less than 20% down.

Ms. Kim McKenney: We did a sweep of our homebuyers from last year. I don't know how many put less than 20% down, but close to 20% of them would not have qualified for their mortgage this year who did qualify last year. For one of our agents who does a lot of military relocation, close to 15% of her relocating members would not have qualified for a mortgage for their forced relocation, given today's economy.

Mr. Raj Grewal: After the rules were implemented, have you guys seen a decrease in the number of people applying for a mortgage, year over year?

Mr. Nicholas Hamblin: Not applying but certainly qualifying. If I could go back to your first question, most first-time homebuyers, at least in Atlantic Canada or in my neck of the woods, which is Halifax, are coming in with 5%. The problem is that it's a ripple-up effect. If that first-time homebuyer can't qualify with 5% down, whose home are they buying, who may have a 20%-plus...?

If the person has 20%-plus in equity on their current residence and is selling it to that first-time homebuyer, how do they then sell that house and move on if we don't have a first-time homebuyer qualifying at 5% without a stress test? The stress test eliminates that first-time homebuyer in a lot of cases.

Mr. Paul Taylor: Could I comment very briefly?

Mr. Raj Grewal: Yes, go ahead, Paul.

Mr. Paul Taylor: To answer about the data, the Canadian Real Estate Association will have tracked all the homes that changed hands this year. If you were to cross-reference that against the records of insurance through CMHC and some of the private insurers, you should be able to figure out pretty quickly how many of those purchases were made with less than 20% down.

Mr. Raj Grewal: Yes. I was just curious to see if you guys knew it right off the top of your head.

Mr. Ajay Soni: Just so you know, in our industry we're not able to collate all that data. It funnels through to the insurers, and that's where that data is held. We're just not going to be privy to that.

Mr. Raj Grewal: But you guys are also part of the industry, right?

Mr. Ajay Soni: We're part of the industry, but we have to access the data.

Mr. Raj Grewal: How are you guys compensating the individual mortgage representative? If I'm a mobile mortgage specialist in the city of Brampton, let's say, in my neck of the woods, what's the compensation model based on that?

Mr. Nicholas Hamblin: The first thing I want to point out is the huge difference between a mortgage broker and a mobile mortgage specialist.

Mr. Raj Grewal: I know the difference, but my question—

Mr. Nicholas Hamblin: Respectfully, sir, you should ask about the mortgage broker because a mortgage specialist is different.

Mr. Raj Grewal: With all due respect, sir, you didn't even bother listening to my question. My question was this: how do you guys compensate mobile mortgage specialists, people whose business is to get clients who purchase homes and get their mortgages approved?

Mr. Nicholas Hamblin: We don't compensate mortgage mobile specialists because we are not them and we don't utilize them. We are mortgage brokers. There is a difference, sir. You need to understand that.

Mr. Raj Grewal: Okay, thank you, Mr. Hamblin.

Mr. Paul Taylor: Sir, can I...?

Mr. Raj Grewal: Yes, go ahead.

Mr. Paul Taylor: I think there's a necessary distinction between an individual who's an employee of a financial institution, who recruits for one lender, versus a broker who's independent, who's a commission-based agent, and who would represent multiple lenders for the origination of a loan.

Mr. Raj Grewal: The theory behind the question is this...yes, go ahead.

Mr. Georges Lambert: To answer your question about the percentage or proportion of those purchasers who use a down payment of 20% or less, we ran a survey about a year ago for all the Quebec market. We have an estimate of something like 68% of all purchases would be with 20% of a down payment or less. That does not necessarily amount to the use of mortgage insurance, but we're talking about those who answered the survey question, “How much of a down payment did you make?”

Mr. Raj Grewal: Thank you so much, Georges.

My question would be this. That's the key percentage who bought homes with a less than 20% down payment. They were subject to a stress test before our rules were implemented. Is that correct?

Mr. Georges Lambert: Those statistics, to be more precise, relate to the past five-year period, so I cannot speak to which rules were in effect at what time. You're right; the stress test and other rules were put in, but one of the most popular terms for a mortgage—and our colleagues here will correct me—is the five-year fixed term. Two-thirds of borrowers use a five-year fixed mortgage, so that's the novelty here related to the announcement last October.

● (1705)

Mr. Paul Taylor: In fact, there's a very key distinction between the current and the previous. The stress test only applied to people who were getting less than a five-year term. Because the logic was that on a five-year fixed mortgage, you have five years to accrue equity before you're actually exposed to the current interest rate again. In today's interest rate environment, even with 5% down, you're almost at 20% by the end of that first five-year term. The new changes, though, require everybody to suffer that stress test as a qualification mechanism.

Mr. Ajay Soni: We should define that stress test. The stress test for mortgages has always been there. That's the underwriting qualification criteria. It was maybe enhanced, but on this idea that it's something new, it's not new. We've always had criteria for qualification. It was just maybe a little more difficult or stringent. These checks and balances have been in place for quite some time.

The Vice-Chair (Mr. Ron Liepert): Raj, do you have one quick wrap-up question?

Mr. Raj Grewal: Yes. What we heard from testimony is that the government is overreaching, that we're over-regulating, and that the impact is going to slow down the housing market, and it's going to have a negative impact on first-time buyers. Is there any actual research or are you all of the opinion that it's too early to tell?

Mr. Paul Taylor: It is not too early to tell. Our association has a very large number of mortgage lenders and insurers, actually, as part of our constituents. They will tell us specifically that they have seen reductions in the number of applications for loans they have funded and the number of insurance applications that they have provided cover for. There are some panellists actually arriving at the next session who will probably have much more personal data to be able share with you on these questions.

Mr. Michael Lloyd: Our numbers are down in the last two months. We've lost probably 30%.

Mr. Raj Grewal: Thirty per cent?

Mr. Michael Lloyd: Yes.

Mr. Georges Lambert: Following the 2012 announcement to shorten the amortization period from 30 to 25 years, there was a 21% housing start reduction in Quebec, an 8% decrease in resale. The impact of that shortening had the result of pricing out 39,000 households in Quebec. They were not necessarily looking to buy, but had they wanted to buy, they could not buy a house at an average price then, given the change in the income requirement to purchase at an average price rate.

The Vice-Chair (Mr. Ron Liepert): Has everyone answered your last question?

Okay, quickly.

Mr. Ajay Soni: You were saying, is the market slowing down? Yes, it's going to slow down but it's going to also.... It's a bit early to say, but it's going to slow down obviously for the first-time buyers, the people who are on the fringes. But there is one compounding effect that we may see coming forward.

A first-time homebuyer, what were they before? They were most likely a renter. We have a limited rental pool in many centres. Now the problem is that if you keep people in the rental pool and you can't get people to qualify as first-time buyers, you're going to have another stress test, in a sense, or a difficulty for people who want to rent. Those rents could possibly go up. Therefore, the overall cost is not just to the home purchaser but to the actual person who is looking to rent. In Vancouver the vacancy rate is very low. If we don't remove people from the rental pool and make them first-time buyers, then we have an issue of housing again on the rental side.

The Vice-Chair (Mr. Ron Liepert): Okay, I'm going to stop you there, sir.

We'll go to Mr. Deltell.

Mr. Gérard Deltell (Louis-Saint-Laurent, CPC): Thank you, Chair.

Lady and gentlemen, we welcome you to the House of Commons. We are very pleased to see you all.

But I can't say that I'm very proud of what we heard a few minutes ago. It's totally unacceptable and unbelievable that this government took such an important decision without consulting any one of you, and you're not the first. We have heard some other witnesses before who said exactly the same thing. This is totally unacceptable, but at least, thanks to this committee, you can express yourself now.

[*Translation*]

My question is of course for Mr. Lambert and Mr. Vincent.

Welcome and thank you very much for being here today.

You made some points that truly surprised me. You said you are expecting real estate sales to drop by 7% and that 40% of your clients are first-time buyers. That places a great deal of pressure on the government as regards the policy it abruptly announced. I say “abruptly” since there was no prior consultation.

On the other hand, though, you did offer some potential solutions.

You spoke for instance of an intergenerational RRSP that would allow parents to help their children. At the risk of dating myself, I am very proud to have two children in their twenties who are starting out in life; using my RRSP as leverage, I am able to help them with their first purchase. Your idea of an intergenerational RRSP is very promising.

You also talked about helping first-time buyers by increasing their GST rebate and offering tax credits.

I have another question. I have to leave for another appointment shortly and will give the floor to my friend Mr. Albas. Please do not take my departure personally.

I would like you to explain your four proposals in greater detail. You had the time to explain the intergenerational RRSP, but have you costed out the three other measures? What is your estimate of the cost of the assistance that could be provided to first-time buyers if we follow through on your recommendations?

● (1710)

Mr. Georges Lambert: There are three other possibilities. Basically, the GST can already be refunded in the case of new housing. That refund is connected to the price of the home, the value of which may reach $350,000 before taxes.

That refund was introduced when the GST was brought in, in order to neutralize the effect of that tax on home purchases—that is always a large purchase—and to facilitate access to some degree. The price criteria are the same. Our proposal is to make that refund more generous for first-time buyers.

In Quebec, where new homes are concerned, the number of housing starts was approximately 38,000. Of that number, 40% were purchased by first-time buyers. That represents about $15,000. That amount could be increased by a few thousand dollars, but this still has to be quantified. We have not presented the details nor the possible impacts, because we want to give the government, that is to say the Department of Finance and its public servants, all possible leeway to determine the parameters.

Our objective is to see a more generous incentive to facilitate the downpayment at purchase. So that is what we have to say about the GST refund.

Mr. François Vincent: As for the tax credit, it's quite simple: the maximum amount is $750. The purchase of a home, however, involves many other costs that all crop up at the same time. We felt that the federal government could help to improve the situation at that point by increasing the tax credit. We suggest that it could go to $3,000, $4,000 or $5,000. This would really help people in situations where they need help the most.

Mr. Georges Lambert: A program to assist with downpayments is the second recommendation in our brief. This could be an amount corresponding to that which has already been saved for a downpayment. For instance, if people have already saved $10,000, $12,000 or $15,000, the government could lend that amount, that is to say offer to match the savings for the downpayment, and the couple or household receiving that assistance would have approximately seven years to reimburse the loan. This would represent a relatively minimal cost for the government. We provided examples of parameters but we have not quantified the overall cost because when new measures are brought in, the households and purchasers become interested and behaviours change. This may also encourage people to buy. At that point, you have to take people's reactions into account and it is very imprudent to try to quantify what the cost of those measures may be.

Mr. François Vincent: I would add that certain governments have put in place similar downpayment-related measures. The Government of British Columbia has just announced that it will be offering assistance for downpayments on the purchase of a first home, up to $37,000, or 5% of the value of a home costing less than $750,000. Locally, the City of Montreal will finance up to 5% of a condo purchase, which is less than the amount granted by the SHDM. The buyer reimburses the loan when the mortgage is refinanced or when the house is sold. The City of Quebec has put in place a similar program. This may represent a cost for the government but in the end, it is reimbursed. In the long run, this proposal may well be appropriate.

[*English*]

The Vice-Chair (Mr. Ron Liepert): Thank you.

I'm going to move to Mr. Fergus, but I want to say that in about two minutes the bells are going to start. I'll have to interject and get unanimous consent to continue on.

You have five minutes, sir.

Mr. Greg Fergus (Hull—Aylmer, Lib.): Thank you, Mr. Liepert.

Thank you all for coming. I'm glad that you've had an opportunity to present not just a snapshot of what's happening but the full story.

Just considering the last question, I did appreciate that you had an opportunity to respond to Monsieur Caron's very good question about whether or not this was traditional in terms of the level of consultation of your specific companies by the government.

Mr. Taylor, I'm interested whether you could describe to me—because I'm new to the finance committee—a bit of a profile in terms of the customers who come through your membership stores. I'm trying to figure out whether they carry more or less leverage than more traditional means. Do they have more of a...? You know, can you use a loan-to-income metric, or a debt-ratio metric?

Can you give me a bit of a description, a profile, of your average customer—not your best, not your worst?

● (1715)

Mr. Paul Taylor: Thank you very much for the question.

This may take a moment, so I apologize if I get long-winded.

We're an association of mortgage lenders, mortgage insurers, and mortgage brokers. The lenders within our community actually include TD and Scotiabank. We also have First National, Street Capital, MERIX Financial, and a whole raft of others. All that to say, we have some very large balance sheet lenders as part of our association, and we have some much smaller lenders that you would call more traditional mortgage finance companies.

The mortgage finance companies are much more reliant upon the insurance mechanisms currently available in the marketplace for capital adequacy and liquidity. The larger lenders have more access to their own balance sheet, so they can hold the loans themselves.

Is that adequate? Would you like additional—?

The Vice-Chair (Mr. Ron Liepert): If I could just interject for a moment, I need unanimous consent to continue since the bells are going.

Do I have unanimous consent?

An hon. member: Yes.

The Chair: Thank you. Carry on.

Mr. Greg Fergus: I think Mr. Taylor responded to the question.

If I could—

Mr. Nicholas Hamblin: As a mortgage broker, we see—

Mr. Greg Fergus: I was about to ask Mr. Soni if he wouldn't mind giving me a sense of his clientele on that front.

Mr. Soni, please.

Mr. Ajay Soni: Similar question...?

Mr. Greg Fergus: Similar question.

Mr. Ajay Soni: Our average type of client is the average Canadian. We see a full spectrum of mortgage applicants. We see the first-time buyer, which is a large portion of a mortgage broker's business. We also see the full spectrum, to the point where we're doing development projects in the multi-millions—$30 million, $40 million, $50 million. We provide debt consolidations. We provide construction financing for small builders, average builders. The profile is the profile of a mortgage borrower. We see them all. We see individuals with high net worth as well.

Mr. Greg Fergus: Compared to the bank, if I could just characterize it that way, would your clientele be more leveraged than the average banker's client?

Mr. Ajay Soni: It's hard to say.

I wouldn't say that they're more leveraged. Based on our value proposition as mortgage brokers, there are certainly going to be some individuals who could be placed into the higher category of risk area, where we're using alternative sources of financing, but we have a lot of clients. As Paul has said, a lot of our lenders are balance sheet lenders. A lot of our large monoline lenders, like First National or MCAP, are looking for the quality borrower.

Nobody faces as strong, in a sense, a stress test on the underwriting guidelines as a mortgage broker. Our files are scrutinized, they're audited, and they're good-quality Canadian borrowers.

Mr. Greg Fergus: If I could understand this—and again help me out here—if your profile is the same as the major banks in terms of whether or not your clients are financially stretched, then why is there such a difference in approach from the testimony we heard on Monday in terms of the effect that these changes could have on the system?

Mr. Taylor.

Mr. Paul Taylor: I think I can get to the root of this.

There are some lenders who will specifically focus on or target borrowers that have less appealing credit histories. They might work in a marketplace where they will offer a higher standard mortgage interest rate because the risk of default for those clients is different. They are also generally privately funded, though, so that is a separate category of lender, if you will, within our membership.

There's not an awful lot of difference most of the time between the large balance sheet lenders' desired clientele and some of the smaller...I'll call them “residential specialist lenders” within our association.

Each of the large and the small will use the securitization program to a degree. Each of them occasionally will be finding additional sources of capital, whether it's their own balance sheet or through other mechanisms within the marketplace. The big difference between the two and what will cause a reduction in competition in the marketplace is that, because the smaller lenders are relying more upon the securitization mechanism, once that's removed or there's significant reduction of the risks that are eligible for that, the origination of mortgages for those folks is almost impossible without having to find alternate sources of capital, which are more expensive.

Very simply here, when you bundle mortgages into an investment mechanism that's a bond, if it's insured, then the risk for you in the market is quite small. If it's uninsured, the investors require a higher risk premium and, of course, the mortgage holder is ultimately paying for that with the interest rate that they're charged.

● (1720)

The Vice-Chair (Mr. Ron Liepert): Okay, I have to stop you there, sir.

We'll take two more sets of questions of about five minutes each. We have Mr. Albas and Ms. O'Connell, and then we'll conclude.

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

Thank you again to all of our witnesses here today.

I'm becoming very concerned because obviously GDP isn't where we'd like it, and we have seen a lot of the forecasts downsize in many different respects. Thirteen percent of GDP in Canada is related to housing, so I think it's important for Canadians to know that when the government adopts a new policy or is looking to adopt a new policy as well, it could have severe limitations or implications for them. For example, from the previous October announcement and the implementation of the policy, things have been taken away. Options have been limited to Canadians.

Let's start with amortization. Some might ask, “Shouldn't amortizations be at a maximum of 25 years?” Mr. Lloyd, you work in Vancouver and the metro Vancouver region, what do you have to say on 25-year amortizations and 30-year amortizations?

Mr. Michael Lloyd: It sounds like a good idea, but the longer amortizations allow people to get into a home, keep that payment lower when they first move in, and then as they move along, they can increase their payments and pay it off faster. Just because it's a 30-year amortization doesn't mean it takes 30 years to pay that mortgage off. As soon as a client adjusts to biweekly accelerated, it knocks almost four years off of that right away.

It's a simple mechanism. It allows somebody to get into that house faster. To take away that mechanism doesn't make sense because it allows somebody to do that in a very simple way, and in the long run, it doesn't hurt anybody. They end up paying it off faster. Like I said, the majority of my clients never take that long to pay it off, and we encourage them to look for ways to pay extra payments on the mortgage and get it paid down sooner.

Mr. Dan Albas: For a lot of young people, the 30-year mortgage was a good option but that's just not there anymore.

Mr. Michael Lloyd: It's gone.

Mr. Dan Albas: As well, we're living longer, so obviously people are also choosing in some cases to work longer. They have a longer lifespan cycle to be able to pay for these kinds of things, so to me it would seem strange that we would be eliminating that and forcing some people to use up rental stock, which eventually raises prices in that area because supply isn't any better for rentals than it is for new construction.

Now you also mentioned a gentlemen in the Kootenays who had divorced. We're also seeing that divorces are higher, and another thing that's been taken away is the ability to refinance. These changes impacted Canadians' ability to refinance their homes.

Mr. Michael Lloyd: Canadians work hard to pay that mortgage down and to build up that equity, and because of these changes, the vast majority of our lenders now can't do that because they are doing what we talked about with bulk insuring and selling off their books. They're not allowed to insure or refinance, so the client can't do anything except maybe go to a big bank that is going to probably charge them a higher rate because it's going to be a smaller and smaller group of people who can do that for them.

It doesn't make any sense to me. A lot of the times refinancing is what we use to invest back into the economy, build businesses, do good things, and buy rental properties.

Mr. Dan Albas: That's a very good point because what a lot of people will do is build up that equity in their home then take it out at some point, which now they may be denied, to either put it into starting a business or enhancing their business, or perhaps creating new rental properties so that they can have that extra money coming in. What happens if someone, today, wants to buy a rental property to use as another way to bring income to their family?

● (1725)

Mr. Michael Lloyd: They have to have 20% down and they have to go through a bank to get it.

Mr. Dan Albas: Okay. What was that, previous to this policy's being implemented?

Mr. Michael Lloyd: Previous to that policy we had access to all the non-bank lenders that had various policies.

Mr. Dan Albas: Okay, so this is hurting the economy. It's hurting consumers, because I hear from them in my riding. Particularly when I talk to people in Vancouver, it's crazy. It's making it harder for people to get good rental housing. Obviously, the competitiveness... and Mr. Taylor's really touched upon this as well. I'm concerned that because not only will it put many of the monoline lenders at risk—and by the way, that means less competitiveness—but what will it mean for the market, for Canadians in 10 years?

We've heard from other people, credit unions, who say that they have to add a risk premium to things and they can't do it because they are not allowed to retain earnings. To me, that whole end of the market will shrink. Where will we be in 10 years as far as competitiveness and prices are concerned?

Mr. Michael Lloyd: I can tell you that I started in 1994 as a loans officer at a credit union. The most we could discount a five-year rate was 0.25%, and that was for our absolute best client. Since brokers in the monoline industry have come along we've grown that. Now a normal discount is 2% off of a five-year rate. It could easily go back the other way when it's back to just the big banks.

The Vice-Chair (Mr. Ron Liepert): Sorry, Dan, your five minutes are up.

Jennifer, and then we'll conclude.

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

Thank you all for coming.

I heard the conversation around good debt and bad debt, and I get it. However, isn't there the factor, whether you have an individual who perhaps has a mortgage that is a little more than they can afford if interest rates go up or a person who has a boat and a mortgage and can't pay both, that ultimately, if you can't afford your debt, whether it's good or bad, you stop paying for it and that, therefore, causes problems within the economy? This notion that if you have good debt, that's all fine, and if you can't afford it, well, it's still considered good debt, versus someone who can't afford their boat payment....

My colleague just said that this hurts the economy. I'm wondering, what would hurt the economy and the housing market more? Would it be telling individuals that if interest rates were to go up, they could only afford this type of mortgage, or allowing them to have whatever mortgage they prefer without stress-testing it to the realities of the economy and the situation right now, and having homes and mortgages being defaulted? That is the option. You tell someone, “You can afford a little less”, or they bite off more than they can chew, and in economic situations mortgages default. How was that experience for the U.S. on people's biggest investment in their homes?

When defaults happened on mortgages, so did value, so all that equity that was discussed was no longer there. Wouldn't that hurt the housing market dramatically if we didn't prepare and protect for risks like that?

Mr. Ajay Soni: I'll take a crack at that.

On this idea of good debt and bad debt, when we lend somebody a mortgage, at that time they follow the stress test. In other words, they qualify. There's always going to be an element of individuals—and it's a small element—who will take their mortgage and everything's good, and maybe they'll buy a boat after. That's after we've actually qualified them. That's going to be a small element.

Your worry is that people take on too much debt. Well, let's look at the great success stories of all Canadians who have bought their first homes. Think of your parents. Think of your grandparents. I haven't heard one easy story about the first home a person has bought. Sometimes they may feel a bit stressed, but are we to say that average Canadians are irresponsible with debt? I don't think they are.

I've been a mortgage broker since 1988, and I've seen nothing but success stories. Have we had some market slowdowns in that period? Yes, we have. The vast majority of people continue to do what they have to do to make their mortgage payments. Say, 25 years ago, when they were 25 years old, it was tough. Today they've paid off that home and they've been able to use that to fund their children's education—

● (1730)

Ms. Jennifer O'Connell: Sorry, I have limited time so I'm going to interject, but I'm glad you brought that up because if I compare myself to my parents, my parents had double-digit interest rates. That comparison is exactly why we're doing this, to protect for changes in interest rates.

I want to move on quickly because I have very limited time, but you spoke about municipal fees. This is my wheelhouse. I was a municipal councillor for nearly 10 years and the suggestion to make development easier is exactly opposite to the argument you make in terms of regional differences. In my home province of Ontario, the province determines a lot of the supply in the area, and municipalities must comply with that first. If for the supply issues the federal government took a broad approach to that, you would have very different impacts across this country. It's the exact argument you are speaking against in the sense of regional differences.

Wouldn't it be better to ensure that debt is debt and that if people are at high risk, then we ensure that there is protection in the market for when interest rates change?

The Vice-Chair (Mr. Ron Liepert): I'm going to have to interject. I know a couple of hands are up, so if you can answer Ms. O'Connell's question in about 20 or 30 seconds, there may be time for a couple of answers, and then we have to conclude.

Mr. Paul Taylor: The first point I'd like to make is that these changes are a little overreaching in how conservative they are in the amount of capital that needs to be reserved to ensure that the financial system doesn't fall apart, as you have alluded to. Our arrears rates for mortgages are currently 0.28%. As we heard on Monday, they peaked in Canada at 0.65%, which is by no means anything close to what happened in the U.S.

Very simplistically, interest rates dictate the stringency of the credit underwriting used to issue the product. A credit card issued at 20 points can be issued with almost no underwriting. There's an expectation of default. That's what the market risk premium on that is for. A 2.5% interest rate for a mortgage at the volumes that are being issued...believe me, the underwriting standards in Canada before those loans are issued are second to none in the world.

The Vice-Chair (Mr. Ron Liepert): All right, we have to stop it there. I'm sorry but we have to go to a vote.

For those presenters who are here to present at 5:30, unfortunately we have two votes in the House at 5:45. We cannot reconvene until closer to 6 p.m., so I apologize for that. We will reconvene as soon as the votes are concluded, probably around six o'clock.

For the presenters here at the table, thank you very much. We'll see you all back after the votes.

● (1730)

(Pause)

● (1810)

The Vice-Chair (Mr. Ron Liepert): We'll resume with our witnesses.

Obviously, our apologies for delaying you. However, we didn't have much choice. We had to be in the House for two votes.

In light of that, and because our scheduled time is 7:30 for adjournment and we have four different presenters, I believe, I would ask each one of you to try to be as concise as you can. Then I would ask all of the committee members to be as concise as you can in your questioning, so we can get the most answers in and try to keep it on track.

We have First National Financial, Mr. Smith.

Please go ahead.

[*Translation*]

Mr. Stephen Smith (Chairman and Chief Executive Officer, First National Financial): Thank you, Mr. Chair.

Thank you for having invited me to testify before the committee this afternoon.

I was born and raised in Ottawa, where my father worked as a public servant. It is always a pleasure to come back here.

[*English*]

First National is a prime mortgage lender that underwrites about $23 billion a year of residential and commercial mortgage loans. In addition to being Canada's largest non-bank mortgage lender, with 950 employees across the country, we are also publicly owned and traded on the Toronto Stock Exchange.

We use mortgage brokers to distribute our products, and CMHC securitization programs to raise the capital to fund these mortgages. We have employed leading-edge technology, together with competitive interest rates and a high level of service, to achieve our goals. We do not compete on credit quality. In fact, our credit quality meets or exceeds any lending institution in Canada. We estimate that we have provided about one million Canadians with the financing to enable them to achieve their dream of home ownership.

One of the cornerstones of our business model has been our relationship with the Canada Mortgage and Housing Corporation. CMHC was founded in 1945 to provide funds for housing for soldiers returning from the war. In 1954, CMHC introduced mortgage default insurance, in an effort to provide liquidity to Canadians for home ownership. In addition to CMHC, there are two private sector competitors to CMHC who now serve almost 50% of this market.

In 1987, CMHC introduced NHA MBS, National Housing Act mortgage-backed securities, and then in 2001, the CMB, the Canada mortgage bond program. These securitization programs have allowed pension funds, mutual funds, and other non deposit-taking institutions, both domestic and international, to provide mortgage funding to Canadian homeowners.

Prior to 1987, it was only the large deposit-taking institutions that could raise the large amounts of capital that was necessary to fund the mortgage market. The consumers' choice was quite restricted. The outcome has been to create a bigger playing field in Canada to give Canadians more choices in mortgage financing and to ensure robust competition among lenders to provide lower interest rates. CMHC has been an immense boon to Canadians seeking home ownership through its mortgage insurance and securitization programs.

The Minister of Finance has worked in tandem with CMHC to control and protect the Canadian housing market. Since 2008, pursuant to the credit crisis, the minister has introduced a number of changes to moderate consumer debt through mortgage lending. We have supported these changes.

In October 2016, the minister announced more changes that affect the mortgage industry. These changes included increasing the qualifying rate for five-year mortgages from the mortgage contract rate to the Bank of Canada rate. This change effectively reduces the amount of mortgage that a borrower seeking a five-year mortgage or longer-term mortgage can borrow. The rationale is to ensure that the borrower has the financial resources in the event of rising interest rates at renewal, and at the same time to temper some of the demand in the overheated markets.

While we are supportive of this change, it must be noted that this change only affects insured mortgages, which are less than 30% of the overall market. The remaining 70% of the market, which is uninsured, is not affected. As the average insured mortgage in Canada is $300,000, and mortgages in excess of $1 million cannot be insured, this change will reduce the affordability of housing for first-time homebuyers in the softer markets in the country—the Prairies, Quebec, and Atlantic Canada—and will have a minimal effect on the overheated markets in Vancouver and Toronto.

The most significant and structurally negative change announced in October was the elimination of the availability of mortgage insurance for borrowers who wish to refinance their mortgages. Canadians have always used the equity in their homes to borrow money efficiently, to fund home renovations, children's education, and other financial needs. The new rules significantly restrict the options that these borrowers have and put the clock back 30 years to 1987, when the only choice for these borrowers was to use the large domestic financial institutions. We view this as a retrogressive step, contrary to the broad public policy goal of promoting competitiveness and certainly contrary to CMHC's mandate of helping to house Canadians.

● (1815)

Subsequently, OSFI introduced changes to the capital requirements for mortgage insurers. These changes, effective January 1 of this year, require mortgage insurers to hold substantially more capital, and that's in the area of two to three times more, for a conventional mortgage relative to the capital required to be held by a large, domestic financial institution for exactly the same mortgage.

These changes, by essentially pricing out of the market those lenders who use mortgage insurance and securitization to fund their mortgages, will have the same negative effect on Canadian homeowners, as just discussed.

In summary, we would request that the minister and the superintendent reconsider their decisions to make mortgage refinances ineligible for mortgage insurance and to make no further changes to the rules governing the housing sector until the most recent changes have been absorbed by the marketplace and are fully understood.

I'd be delighted to take your questions.

The Vice-Chair (Mr. Ron Liepert): Thank you, sir.

We'll move on to Canada Guaranty Mortgage Insurance Company and Mr. Charles.

● (1820)

Mr. Andrew Charles (President and Chief Executive Officer, Canada Guaranty Mortgage Insurance Company): Thank you very much.

Good afternoon to the committee members.

My name is Andy Charles. I'm the president and CEO of Canada Guaranty Mortgage Insurance Company. By way of introduction, we are Canada's only 100% Canadian-owned private mortgage default insurer, and since 2010 we have helped over 250,000 Canadians enter their homes. Our company insures Canadians, primarily first-time homebuyers, who place less than 20% down payment on their house purchase.

We take the view that Canada's housing finance system has served our country well, particularly when contrasted to other jurisdictions. Canada has avoided some of the pitfalls other countries have experienced. In part, this is due to conservative underwriting practices in the mortgage industry, strong regulatory oversight, and the avoidance of tax incentives that discourage the reduction of a borrower's mortgage debt. I believe the rest of the world looks at Canada's mortgage insurance structure as a key factor in our overall housing finance stability.

Since 2008, Canada Guaranty has supported the various government interventions that moderated the housing market as being both prudent and well considered. While these interventions have primarily targeted first-time homebuyers, they have served to strengthen Canada's housing market. However, we do believe the impact of the most recent changes, in combination with a new regulatory capital framework, are potentially detrimental to the housing market.

I would like to take a moment to describe today's typical first-time homebuyer for the committee. The average first-time homebuyer ranges in age from 25 to 40, has average household incomes of $80,000 to $100,000. The first-time homebuyer segment now represents just 30% of annual new mortgage volumes as compared to 40% in 2010. They have an average mortgage size of $300,000 and an average credit score of 753. This is a score that demonstrates a very high level of credit worthiness.

In addition, the insured marketplace has a maximum $1 million house purchase limit, a ceiling that generally precludes the first-time homebuyer from participating in the GTA or GVA markets. The headlines one reads about elevated housing market activity in Toronto or Vancouver is not and has not been driven by the first-time homebuyer.

I would like to share more specific observations regarding the recent regulatory changes and our perspective for the future.

The concept of a uniform, homogenous national housing market does not exist in Canada. Accordingly, national policy levers can be problematic when the issues are regional or even city-specific. While Vancouver and Toronto have experienced significant property value increases, Calgary, Edmonton, Montreal, and other markets most certainly have not. This requires local or regional solutions to be considered. Recent housing policy decisions taken by the B.C. government are evidence of a regional solution to a regional issue.

While it is important to reflect on the cumulative impact of regulatory changes over the years on the first-time homebuyer's ability to enter the housing market, we believe the policy changes announced in October 2016 to be the most significant intervention to date. Specifically, the elimination of low-ratio refinance eligibility will reduce choice for borrowers by impacting the competitiveness of Canada's monoline lenders. More borrowers may seek mortgage funding from private lenders representing a higher cost option and with limited regulatory transparency.

The combined implication of the Department of Finance changes of October 2016, followed in short order with the introduction of a new regulatory capital regime, will materially change the housing market dynamics in our view. Before further regulatory initiatives are considered, we need to pause to understand the longer-term impacts.

Recognizing the potential cumulative impact of these changes, we encourage the government to consider the following recommendations.

At this point in time do not proceed with a risk-sharing model. Study the results of the most recent changes before considering any more.

We now anticipate the first-time homebuyer segment share of new originations will drop to just 20% of the marketplace. I would take the view that insured first-time homebuyers are the most regulated segment in today's housing market. They are not the problem, and we take the view that any further targeting of this segment is counterproductive.

● (1825)

Lastly, Canada has indicated plans to welcome 300,000 immigrants to Canada next year, a policy decision that we welcome. The majority of these immigrants will reside in our major markets. We will need to house these new Canadians, and we encourage all levels of government to coordinate their actions to ensure that the necessary housing stock exists to accommodate them.

Thank you for your time.

The Vice-Chair (Mr. Ron Liepert): Thank you.

We'll move to the Canadian Home Builders' Association.

Mr. Finnigan, go ahead.

Mr. Bob Finnigan (President, Canadian Home Builders' Association): Thank you.

I am the president of the national association and a builder developer from Toronto. I am joined by Jason Burggraaf from our association's staff here in Ottawa.

Thank you to the committee for undertaking this study.

Simply put, housing matters. It matters to the economy. It matters to our huge industry of small businesses, which supports over a million workers. It matters to Canadians, who recognize home ownership as the cornerstone of attaining the middle class, and it matters that all Canadians have the security of a decent roof over their heads.

We know that there are ways to address stability concerns without causing damage to our industry or the economy. We are concerned that measures to cool markets can easily precipitate economic decline, triggering the very conditions they were intended to safeguard against.

We are also concerned that these measures move CMHC away from its purpose under the National Housing Act—to ensure equal access to mortgage markets for all Canadians.

If such measures lock out otherwise qualified homebuyers, they can cause a downward spiral in local economies. We need to be careful, because residential construction has been a major source of stability for Canada's economy in recent years. Today, residential construction supports over a million jobs, pays $58 billion in wages, and generates over $128 billion in economic activity, including over $41 billion in government revenue.

Home building and renovation are a vital part of every community, large and small, across this country, so effective housing policy is key to supporting Canadians, businesses, and communities in achieving inclusive economic growth. If we are going to support the middle class and those aspiring to join it, we need to ensure that first-time homebuyers and new Canadians have a fair chance to attain the cornerstone of the middle class, and that's home ownership. What's more, the current situation, if not curbed, will lead to a wider and wider gap between those who already have equity stakes and those who do not.

We are facing the potential of the home ownership situation creating social inequity within communities, among regions, and between rural and urban centres. To effectively address the housing challenges, we need to understand what's driving the markets. Why are so many Canadians now having a harder time becoming homeowners?

Housing affordability is determined by three factors: income, mortgage rules, and house prices.

In terms of income, we note that millennials were hardest hit by the economic downturn and the ensuing jobless recovery. Their income growth has been muted, yet house prices have escalated dramatically. We need to spur economic activity and income growth in all sectors so that young people can prosper.

At the same time, to guard against financial system instability, mortgage rules have been tightening, making it much harder to finance a house. While many of these measures have been intended to cool markets like Toronto and Vancouver, their application has been national, and that impacts markets, like Atlantic Canada, that were already in a bad state.

Our recommendation on mortgage rules at this time is simply this: do no more. Please stop for now. There have been many recent changes, the full effects of which have yet to play out, and it is critical to let these impacts become fully evident before any other actions are taken. There are also mortgage-related tools at the government's disposal that can be better utilized, without increasing market instability or leveraging. Increasing the limits to the first-time homebuyers' plan and allowing intergenerational RRSP transfers within the plan could facilitate increased down payments and decrease homeowner debt.

Perhaps the most interesting options are shared-appreciation mortgages, which should be more aptly named “shared equity down payment plans”. These tools, which have been successfully piloted for low-income families in some Canadian cities, should be considered for helping first-time homebuyers get into entry-level housing across the country.

The final factor thwarting affordability is, of course, house prices. Mortgage rules that limit access may reduce the buying power of homebuyers. What is needed are actions to reduce the upward pressure of house prices so that more first-time buyers can qualify. To address this, we need to understand what is driving those prices up. We have what we call “new fundamentals”. At the top of that list is the lack of supply of family-oriented housing.

Simply put, municipal and provincial zoning and regulatory restrictions in our major urban centres have dramatically reduced the amount of service land available. In the GTA, over the last decade, the number of newly built single detached homes available for purchase has fallen dramatically. GTA price trends reflect this disconnect between what the home-buying public wants and what is available.

With high levels of immigration and a significant increase in the birth rate over the last decade, our largest cities have a serious shortage of family-oriented housing. CHBA estimates that, at the current development rates, Canada will be short over 300,000 such homes in the next decade. Governments at all three levels need to work together to address this problem. So long as demand is outstripping supply, our more successful economic centres will continue to see price pressure and falling affordability, and this is the simple law of supply and demand.

● (1830)

These are issues that need to be addressed in the national housing strategy. From what we heard reported from CMHC, the current focus is almost exclusively on social housing. While social housing is very important, it's only part of the story. The final national housing strategy needs to address market-rate housing where 94% of us live. If we don't fix affordability, we have no chance of meeting the social housing challenge.

We are at a crossroads where home ownership is concerned, and affordability is at the crux of it. But there's a lot we can do to address this challenge. We look forward to working with the government to make it happen for the benefit of all Canadians. We have submitted a more detailed report that I hope you get to have a look at.

We're here for questions. Thank you.

The Vice-Chair (Mr. Ron Liepert): Thank you, sir.

The final presenters are the Nova Scotia Home Builders' Association, and Sherry Donovan is the chief executive officer. Sherry, all three of those presenters were exactly five minutes and 30 seconds, so—

Ms. Sherry Donovan (Chief Executive Officer, Nova Scotia Home Builders' Association): All right, I'm on it.

Tamara Barker Watson will be sharing my time, so we'll be diligent on that.

Good evening, Mr. Chair and committee members. My name is Sherry Donovan and with me this evening is Tamara Barker Watson. She's president of the Nova Scotia Home Builders' Association, and also the owner of a 20-year, new-home construction company in Halifax.

Thank you for the invitation to appear.

The issue today is of great importance for us in the Atlantic provinces, which is where we'll concentrate most of our presentation this evening. We'll be talking about the impact the new mortgage rules stress test is having on the eastern Canadian economy, how it affects home ownership for young people, and the impact it will also have on seniors.

We also feel that having one set of rules for the entire country is not the best solution when it relates to housing. We understand that this is about mitigating risk on a large scale across the country. However, what has been achieved is that through this mitigation of risk, there has been cause for great concern about the stress test and the impact these changes will have on the regional residential construction industries that are in decline in the Atlantic provinces. We are still in deep recovery mode from the weak economy, and this is being done at a time when we just cannot afford to have it happen. These new mortgage rules are exacerbating the problem by hurting the entire economy.

For example, from an economic standpoint, in Halifax we went from over 1,000 new single detached housing starts in 2009 to as few as only 400 last year, and according to CMHC, these starts in Nova Scotia continue to remain below the 10-year trend of 900 units. Further to these declining numbers in Halifax, the same situation can be felt all across Atlantic Canada. When you couple it with the new mortgage rules, this is significant.

One testimonial I feel is important to share is from a mortgage lender in Newfoundland. Only a week after the federal announcement, they shared that they would see an even further decline. They estimate that 25% to 30% of the clients they had in the past few months would not have qualified under the new guidelines. As well, one Newfoundland builder also went from 50 home sales on average between a typical October to December season, to zero this past October to December after the new rules came into effect. This is huge.

This is not a positive outcome for Atlantic Canada or the entire country. What seems to be a barrier is the same rules from coast to coast. We are aware that indebtedness of Canadians is a serious issue, but the unintended consequences that have spun out as a result of the new rules have created winners and losers. Atlantic Canada is coming out on the losing end of this equation. This is one of the key reasons we feel that regional rules would be a better solution for Canadians.

Let's look at two specific groups in the home ownership equation: seniors and first-time homebuyers. The new mortgage rules prevent many young people from beginning asset accumulation as many are unable to qualify for a mortgage under the new rules. In addition to the first-time homebuyers being at risk, the unintended consequence is that it will also have an impact on the seniors' market. With a reduced number of buyers seeking to purchase homes, seniors will be less able to access equity in their homes, and it will create disruption in their retirement or downsizing plans. This is a concern for us where the demographic of seniors is higher in Atlantic Canada than in any other area in Canada.

Tamara.

Ms. Tamara Barker Watson (President, Nova Scotia Home Builders' Association): If we can focus our concern on first-time homebuyers, what seems to be missed is the benefit of building equity in a low interest rate environment. When interest rates are at their lowest, the biggest proportion of your monthly debt service goes towards the principal amount of that mortgage. The consequences of these new rules is restricting home ownership growth in Atlantic Canada and also ensuring that when people do buy in the future they are paying much higher interest rates.

As a builder and a real estate agent in Nova Scotia, the impact it's had on my business is huge. The Friday before the new home mortgage rules were introduced, I met with a young couple who were going to put an offer in on one of my new energy-efficient homes in Bedford. They were excited about buying their first home. However, when we met on Monday they no longer qualified. The result was that they chose to sign up and rent for another year, and they bought a new car instead. They are not even sure that under the new rules they will be able to make home ownership a reality in the next several years.

This not only impacted the young couple but also my business. The loss of revenue from sales impacts how we move forward as a company in the future. If this trend continues, we will continue to lay off employees and can no longer afford our subs. This is not good for an already slow economy. If you are going to put more restrictions on young people taking on debt from buying a home, why not restrict them from buying a depreciating asset like a car and create a forced savings plan for them so they will actually be able to save money for their new home?

I also want to draw attention to a statement we made in *The Globe and Mail* in regard to this issue. If first-time homebuyers default on their ability to pay their mortgage “at the same rate as the general public—which is less than 1 per cent—then the government has decided that protecting young people from themselves is more important than giving the remaining 99 per cent”, which represents the largest percentage of household asset wealth in this country, a chance at home ownership. This will limit “access to new home ownership and the benefits that come with it”.

We appreciate the opportunity to be here today, and we advise you to take action on our recommendation for regional housing rules. We have lost so many builders and potential homebuyers in the past few months in Atlantic Canada that it's staggering.

Thank you.

● (1835)

The Vice-Chair (Mr. Ron Liepert): Thank you all.

We will start with questions. The first group will have seven minutes each.

We're going to start with Mr. Sarai.

Mr. Randeep Sarai (Surrey Centre, Lib.): Thank you, Mr. Chair.

Thank you to the guests.

I'm from Surrey, British Columbia. My riding is heavily dependent on the construction sector. Real estate is hot in British Columbia, as we all know, so this is a very important and dear subject to me.

My question is to Mr. Charles first. Of the CMHC-backed mortgages or insured mortgages, what is the percentage of first-time homeowners and what is the percentage of repeat homeowners, people who are buying their second or third home but still have to get it insured?

Mr. Andrew Charles: Thank you very much for the question. Virtually 90% of our business is the first-time homebuyer. We define that first-time homebuyer as someone who doesn't put a 20% down payment. That is the first-time homebuyer we provide insurance to. They may move on, they may sell their property, and they may not require mortgage default insurance in the event that they move up and are able to put the 20% down payment, but I would characterize our consumer profile as very much that first-time homebuyer.

They may stay with us. They may stay on that property. Our coverage is for the life of the loan, but if they were to move on to a different property that doesn't require mortgage default insurance, they would no longer have a need for it.

The majority of our business, sir, is very much the first-time homebuyer market.

Mr. Randeep Sarai: Unfortunately, the way you characterize the definition of "first-time buyer" is not the definition that most of us would use. A first-time buyer is a person who is buying their actual first home.

I'm trying to get a number and I haven't been successful, even from other places. Out of the CMHC or secured mortgages, what is the actual percentage of people who are buying their first home. It would be similar to those who would get a rebate and those who would be eligible. They haven't owned a home in the last five years, and they're not buying their second home.

Mr. Andrew Charles: I can't give you a precise number. I take the view that as it relates to the insured industry—and I only can talk for Canada Guaranty—the overwhelming majority of purchasers we're providing insurance for would be first-time homebuyers.

Mr. Randeep Sarai: Mr. Finnigan, I believe you said that the average mortgage debt level of a first-time homebuyer is approximately $300,000, and the average credit score is 753.

Was that you?

● (1840)

Mr. Bob Finnigan: No, that wasn't me.

Mr. Randeep Sarai: Oh, it was Mr. Charles.

Mr. Charles, you had stated that the average debt level of a first-time homebuyer was $300,000, which is similar to what I had heard, which was $265,000, but $300,000 is very close. They have high average scores.

Are you concerned about the overall debt load of a young couple combined with their credit card debt and other debts?

Mr. Andrew Charles: It certainly is a fact that we consider the overall debt-to-income ratio. It is a metric. It is a consideration.

However, when I mention the average credit score being 753, if you look at that in the context of where that was five years ago or seven years ago—so if you go back to 2008 and 2009—that average credit score was closer to 700. We've seen over the intervening period of time a significant strengthening in the quality of that first-time homebuyer.

That's what I'd want to communicate to you.

Mr. Randeep Sarai: Thank you.

What is the average monthly payment by somebody who, say, has a $300,000 mortgage? Off the top of your head, would you be able to say?

Mr. Andrew Charles: At today's current rate, if they're putting 5% down, off the top of my head, sir, it's probably in the $2,000 range.

Mr. Randeep Sarai: If that person were renting, would you say that's consistent for the equivalent property or would that be a higher amount or a lower amount?

Mr. Andrew Charles: A comparison between the cost to rent and the cost of paying the mortgage really depends on the location. As I think about that, $2,000 may be on the high side if it's a $300,000 mortgage at the current rates.

Mr. Randeep Sarai: Do you think the new mortgage rules are beneficial? I know you had some criticism of them.

Mr. Andrew Charles: I take the view, and Canada Guaranty takes the view, that the successive measures the government has taken over the years have been a net positive. We support the concept of a stress test. We think that's appropriate. We think that's prudent. We could debate the aspect of how many basis points above today's mortgage rates would be appropriate, whether it's the current 200 points or 100 points, but I think that's a different type of debate.

We take the view that the stress test is prudent. We would remind the committee, though, that the stress test is being applied only to the insured marketplace as opposed to the entire marketplace, so that level of prudence is being applied to about 30% of the marketplace.

Mr. Randeep Sarai: How long do you think you should monitor the new policies?

I'll give you an example. British Columbia implemented a 15% foreign buyer tax around six months ago, and already they're amending it to allow people with work permits to be exempt from that 15% foreign tax.

I'm just wondering. They seem to be very knee-jerk in reacting and then very quickly falling back, or is it a test of how the economy is going? What are the tests or metrics we should use to monitor the current mortgage rules, particularly stress tests?

Mr. Andrew Charles: These changes are certainly not immaterial. In fact, they're quite significant. From a timing point of view, we'd like to see the rest of 2017 play out.

I think you need to look at a number of different metrics: the number of transactions, the impact on the rate of home ownership, the impact on house prices. You heard from some of my colleagues on the panel that there are distinct regional considerations. The fact that this is a national policy lever can be very problematic when you look at the different marketplaces. There's Toronto, Vancouver—and Vancouver is starting to show some softening—and then there's the rest of the country, and the rest of the country is behaving in a much different way from those major urban centres.

I would like to see at least a year.

The Vice-Chair (Mr. Ron Liepert): Thank you.

We'll move on to Mr. McColeman.

Mr. Phil McColeman (Brantford—Brant, CPC): Thank you, Chair.

Thank you, witnesses, for being here.

The first question is for each one of the organizations. Prior to the October changes that the Minister of Finance announced, were you consulted?

Nova Scotia Home Builders'...?

A voice: No.

Mr. Phil McColeman: Were you consulted, Canadian Home Builders'...?

Mr. Bob Finnigan: No.

Mr. Phil McColeman: Your firm, sir?

Mr. Andrew Charles: No.

Mr. Phil McColeman: Your firm?

A voice: No.

Mr. Phil McColeman: Okay, so if you had been consulted, you might have been able to advise about the unintended consequences, or the consequences you've explained as witnesses here tonight. I see a shaking of heads that maybe you would have introduced some of those things as possibilities. Thank you.

Let's move on to the affordability issue. Every time costs are added to a house, there's a price bump to the consumer. How many people—first-time homebuyers—are taken out of the marketplace?

Does the Canadian Home Builders' Association have any statistics on that? Mr. Finnigan or Mr. Burggraaf?

● (1845)

Mr. Jason Burggraaf (Government Relations and Policy Advisor, Canadian Home Builders' Association): Our data is a few years old. We're in the process of updating it right now, but per $1,000, it was about 6,000.

Mr. Phil McColeman: Is that 6,000 people per $1,000 increase in the price of a house?

Mr. Jason Burggraaf: Yes.

Mr. Phil McColeman: Mr. Finnigan, you said you were a builder and a developer. Over the course of your business in the GTA, what has been the largest increase over the years you've been in business to add to the price of a house?

Mr. Bob Finnigan: The biggest cost increase has been land.

Mr. Phil McColeman: Land. Okay. Is that because of the lack of availability of land?

Mr. Bob Finnigan: Yes.

Mr. Phil McColeman: What is that due to, sir?

Mr. Bob Finnigan: The GTA is the recipient of a lot of immigrants. A lot of people are competing for the same piece of land, so the price has gone up exponentially in the last—

Mr. Phil McColeman: Why isn't there more land?

Mr. Bob Finnigan: There isn't more land, in our case, because of provincial and local policy on land supply.

Mr. Phil McColeman: Land supply for building on has decreased.

Mr. Bob Finnigan: It has dramatically decreased.

Mr. Phil McColeman: What is the reason?

Mr. Bob Finnigan: The reason is that the provincial government decided to jump into the land planning process in a much bigger way, and by doing so basically stopped the normal series of events for about a decade.

Mr. Phil McColeman: Government regulation, fees from the time you have a raw piece of land to the time the key is handed to the owner, the house is finished, and they're moving in....

Mr. Bob Finnigan: Yes.

Mr. Phil McColeman: Government fees, regulations, taxation, regulatory schemes, etc., what percentage of the price of the house, on average.... I've heard some different averages. We've had different groups come in front of this committee, and other committees over the years, and tell us it's a different amount.

Could you give me a sense of what an average might be?

Mr. Bob Finnigan: Maybe I can look at it a different way. Five years ago, for a product I'm delivering today, the land and the fees and everything else would have probably been $300,000 less than what I'm delivering today. If it was an $800,000 house, I could have delivered that house for $500,000 five years ago.

Mr. Phil McColeman: You're talking about a $300,000 increase in government-imposed regulation, taxation, and fees in the course of five years in the Toronto market.

Mr. Bob Finnigan: Yes.

Mr. Phil McColeman: This is astounding to me, because all three levels of government, including this level, don't seem to understand. They see you as a rich builder, rich developer, making all kinds of money because you're selling houses. I've been there. I've been at council meetings. I've seen it. I've seen it at the provincial level and I've seen it federally as well. They think that housing, new homes especially, can be a cash cow because it's hidden. Nobody out there, other than the home builders in each community, is speaking up about it.

I would suggest to you one of the affordability problems we have in this country—and I want to know whether you agree with me or not—is the fact that there are more and more government-imposed costs and across-the-board fees, regulation, taxation, etc., especially development charges. I heard of one development charge, tell me if this is correct—I believe it's Markham or one of the GTA communities—that's $56,000 per unit.

Mr. Bob Finnigan: That's not the highest one.

Mr. Phil McColeman: Which is the highest?

Mr. Bob Finnigan: In the Brampton and the Caledon area now, we're looking at $85,000 to $90,000.

Mr. Phil McColeman: That's $85,000 to $90,000 a door. That's just development charges.

Mr. Bob Finnigan: That's just development charges.

Mr. Phil McColeman: That just gets your shovel into the ground.

Mr. Bob Finnigan: That's correct.

Mr. Phil McColeman: Okay. You know where I'm going here, because I'm getting quite excited. If we want to address the affordability problem, let's address what's causing the huge increase in housing costs, which in large part is government-imposed at three different levels, and this is one of the levels we're dealing with here today.

We're probably, as the federal level, the smallest slice of that piece of the pie. But the reality is that every time you add $1,000 to the price of a house, 6,000 more Canadians can't buy. We wonder why we have a housing problem in this country, why we have people lined up for social housing who can't afford their first house.

Now in your business in the Maritimes, it's interesting.... Thank you for coming, by the way.

● (1850)

Ms. Sherry Donovan: Thank you very much.

Mr. Phil McColeman: It's nice to meet you.

You were describing a situation where you've had to lay people off as a result of your business not having these things, because of some of these changes and other changes. What is the single most important thing, in your mind, in terms of affordability?

Ms. Tamara Barker Watson: Even in little old Halifax about 27% of our home prices are taxes, development charges, levies, and water and sewer fees, so we're on the low end compared with Toronto, but we still have quite a bit of fees and taxes.

I would say right now we don't have any buyers entering the market. As a real estate agent, I sell to first-time homebuyers, but as a builder, I can't necessarily build anything that could accommodate a first-time homebuyer price-wise because of the cost of land and things like that.

We have nobody entering the market buying Bob and Mary's bungalow so Bob and Mary can move into their dream home that Tamara built them. We have nobody entering, so the choo-choo train chugs along, and then we sell Bob and Mary a new home, and then the people who were in this home move out and buy a condo, and retire happily in a condo. We have nobody going into the market.

The Vice-Chair (Mr. Ron Liepert): Thank you to both of you.

I know every member can ask questions for a fair amount of time, but we have to stick to the rules.

Mr. Caron.

Mr. Guy Caron: Thank you very much.

The first question is a follow-up to what Mr. McColeman asked. Are you usually consulted on changes to the mortgage regulations? There have been quite a few in the last 10 years. Are you or your organization, of course, consulted usually beforehand?

Mr. Jason Burggraaf: Yes, for the majority I would say so to a certain degree, if not the specifics, at least an idea of where they wanted to go and what our feelings were on it.

I will say immediately after the October changes came out there were some issues, especially with people who had contracts and how that would transfer over. The department then worked with us and reissued some of the rules to fix those deficiencies.

Mr. Guy Caron: Is that the case for the other organizations?

Mr. Stephen Smith: We were not specifically consulted on the changes in October. I would say, though, we have excellent dialogue with the Minister of the Department of Finance and we talk to him on a regular basis.

Mr. Guy Caron: Just to be clear, I'm not asking if there is lobbying or discussions, but specifically it's when a government considers moving towards a change in mortgage regulations, lately with more constraints. There have been changes in the last 10 years —in 2008, 2010, 2011, twice in 2012, and more recently in 2016.

I just want to know the modus operandi of the department. Are you consulted before the announcement of those changes?

Mr. Andrew Charles: I would characterize it as follows. There is no formal consultation period, i.e., there's no published document that welcomes input into it. I think we make it incumbent upon ourselves to make sure we're in front of the Department of Finance officials to try to gain insight into their most recent thinking, but to my experience—I've been in the role now since 2006—I don't have a strong recollection of any formal documentation requesting input.

I do think it's incumbent upon the industry to maintain a dialogue with the finance department, but no, sir, there has been no formal communication.

Mr. Guy Caron: Okay.

Then most of you, as most of the other groups we had in previous panels, seem to be opposed to the last round of changes. Fair enough.

As I said, there have been quite a few changes in the past, like the reduction in length of the amortization rate, gradually, from 40 years to 25 years, or the decrease of the level of refinancing that's possible, from 95% to about 80%. Were you opposed to these changes? Why are you so opposed to the last changes compared, for example, with those previous changes that took place?

● (1855)

Mr. Andrew Charles: As I indicated in my opening comments, we were supportive of the fairly extensive changes that you referenced from 2008 onwards as strengthening the housing market. In fact, I think they have created a lot of positive dividends for the housing market.

As it relates to these most recent changes, it's the level of impact. These particular changes are impacting the competitive structure of the housing market, and when I say that, I mean the mortgage lending market.

When I first started in my role, the first-time homebuyer was at least in the 40% of new mortgages, with some lenders as high as 50%. I think we would take the view that it has had the cumulative impact of reducing the first-time homebuyer, and this most recent change may have been a bridge too far.

Mr. Guy Caron: Yes, go ahead.

Mr. Stephen Smith: I find these changes came without any consultation, and they're eliminating the ability of the insurance for mortgage refinances. That's a big part of the business, so it structurally changes the lending industry from a model where Canadians have choice, to where they are further concentrating the lending business back to the D-SIBs, which is a significant change, a big structural change.

Mr. Guy Caron: Obviously we know the situation in some local markets, especially Vancouver, Toronto, and Regina as well. What could the federal government have done differently? What should have been the federal government's prescription to prevent or to reduce the overheating in those markets, while not affecting the other markets and having those adverse consequences you're talking about?

Mr. Stephen Smith: Here are a couple of options. If they're concerned about too much liquidity in the marketplace, how about increasing the qualifying rate and the 70% of the market that is conventional mortgages below 80%. If you want to reduce liquidity in the marketplace, what about increasing the down payment that people have to have on conventional mortgages? Certainly that was the case prior to 2007 in the last amendments in the Bank Act. That would be one option.

Certainly taking away the ability of Canadians to have other options is very anti-competitive and doesn't help Canadians achieve their dreams of home ownership.

Those are a couple of options.

Mr. Andrew Charles: I would echo that and I would add for precision that when we talk about the qualifying rate, we're talking about the stress test and the application of the stress test not just on the insured marketplace, which as I said is reducing. The government could have considered or contemplated the stress test overall being uniformly applied to all mortgages.

As I said, I think we've been very supportive of the concept of a stress test and the reduction in amortizations. The way I would try to frame this for the committee's benefit and the committee's reference point is that these changes are disproportionately impacting the first-time homebuyer who's not creating any froth, any challenges in the marketplace.

Mr. Stephen Smith: The $300,000 average insured loan is not the loan in greater Vancouver or Toronto. It's the loan in Calgary, in Rimouski, in rural Ontario, in Ottawa-Gatineau. Those are not the places to put the stress test. The stress test should be put on big homes and the big amounts in the big urban areas.

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

Ms. O'Connell.

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

Thank you for coming.

I'm going to start my questions by following up with Mr. Smith and Mr. Charles on the points you were just making on competitive structure. I find this interesting and it's something we haven't talked about yet: the government. Essentially what makes it different for your organization versus, say, the banks is the government support of public mortgage insurance.

If we're at about 58% compared to 14% in the United States, 0.4% in the United Kingdom, if we were to change that model and not insure and back those mortgages, could your business model function without this high level of government support that's already provided to your industry?

● (1900)

Mr. Andrew Charles: Is that a question for my benefit?

Ms. Jennifer O'Connell: I think you said, you supported previous regulations but your biggest concern is about the competitive structure and that choice. However, in substantial amounts compared to other countries, the government supports your industry through backing the insurance of these mortgages. If we didn't do that as a government, as I said, at 58% compared with 14% in the United States, could your business model structure even exist and function if we didn't heavily support your industry already?

Mr. Andrew Charles: Yes. I take the view that the government's participation in the housing market has been a net positive for Canadians. By virtue of owning 100% of CMHC, it is a public organization. It's an organization that, as people have indicated in some of the testimony I hear, has been very positive for the industry, and I believe that. But by virtue of owning 100% of CMHC—I'm going back now probably 15 to 20 years, if not longer—the government at the time wanted to encourage some competition to provide Canadians with choice.

Ms. Jennifer O'Connell: I'm sorry, but I have only limited time. I'm not trying to cut you off in terms of hearing what you have to say, but here's what my question was in regard to. If the government did not support this through the backing of this insurance, could your model function without the government's substantial support?

Mr. Andrew Charles: It would be significantly challenged if the government continued to own 100% of CMHC. If the government wished to exit the mortgage default insurance and withdraw that government sponsorship, we could compete quite effectively on an apples-to-apples basis.

Ms. Jennifer O'Connell: Thank you.

Because I don't have much time, I want to move quickly to the conversation that was had with my colleague Mr. McColeman in terms of land availability supply.

Being from the GTA, I understand your point, Mr. Finnigan. I'm going to make a quick statement and then get to my question. In terms of development charges being high in these areas, I guess my rhetorical question—and perhaps Mr. McColeman can think about this—is that, and I'm just curious because development charges go to the municipalities that support new homes, what should municipalities no longer supply to bring that cost down? Should we no longer build fire stations? Should we no longer build police stations? Should we no longer plow snow? Should we no longer collect garbage? Those are exactly the things we use that are supported by those development charges.

To get to my question to you, Mr. Finnigan, I'm just curious. You talked about land supply. I know the GTA well, so I want to ask this question. Without those government regulations and the control... because it's not saying that you can't build anymore. It's saying that you need to build higher density and you need to have better land use planning. What happens when the day comes that you've paved over every piece of farmland, every valley, creek, and stream, and eventually the land runs out? I'll tell you: the land runs out and then you get into water.

If you're going to build communities on water, Mr. McColeman, that's a different conversation.

Is the suggestion just to forget that regulation so that future generations are built out and there really is no more housing for anybody? Or is the government regulation really to have better land use and better building and design to also bring in a better efficiency of services?

Mr. Bob Finnigan: In terms of land use and planning, there is absolutely no argument from the building industry as to the direction we're taking on land use planning, which is much smaller homes, much better use of the land, more sustainable products being built, and things of that nature.

Our problem is that the land is not available to build on. The designated lands that have been earmarked for development in the GTA by the provincial government are not physically available to the industry in a timely manner. It's not a matter of our taking any more land or using it any more efficiently. It's just not available. The pipes aren't there. The roads aren't there. The approvals aren't there. The land's sitting there, ready to go and approved, and with densities that we all agree on with the province, but it's just a matter of access. The 10 years it took to get that program in place put a huge dent in the supply for that long. You can't make it up by continuing to have a program that moves at 30% speed when it should be moving at 80% or 90% speed.

Again, we're not using any more land and we're not.... It's already been designated. We just can't get to it in time.

● (1905)

Ms. Jennifer O'Connell: Thank you.

Is that really an issue of government regulation or of a market controlled by a few really large developers? There are going to be 70,000 new homes in my community, but guess what? They're being built by a handful of developers. Is it really government regulation in terms of availability of land or is it market access through some companies that choose to pay a higher price because they just want to build?

I would think that's a very conservative mentality and free market in terms of the access. In terms of where the land is available and ready to go, I think the issue is that perhaps smaller developers are not getting access because there are very large development companies that are buying it up before it opens up to the larger market.

Mr. Bob Finnigan: That process of landholding amongst very few large developers is something that's been going on for 50 years in the GTA. On the land availability and the rate at which it is actually being brought to market, if there are any cases at all, there would be very few. For every developer I know, including me, the only way we can proceed to our next development is to proceed with the development we currently have, and we can't get to them.

In my example, I bought a piece of land in 2003. It was supposed to be developed in 2006, 2007, and 2008. For growth plan 2006, I was delayed till May of 2016. I'm not going to deliver the final house in that development till 2020. Do I want to wait that long? Absolutely not. It impedes my business, my ability to buy future sites, and everything else. It's 100% as a result of the government policy that was put in place in 2006.

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

We'll move to Mr. Albas for five minutes.

Mr. Dan Albas: You know, I find it hugely ironic, Mr. Chair, that we have someone who is saying that big players shouldn't be able to dominate, but that's exactly what this policy is doing. It actually is making the market less competitive.

If we had a completely free market in your area, you wouldn't have a situation...because you'd have small firms. There would be lots of competition, but because of the ongoing taxes and regulation, only the big players can play. That's what I'm afraid is happening in this case. We're actually going to be weeding out large amounts of.... Maybe they're considered non-traditional, but they have supported a lot of Canadians to get into their homes. Remember, 69% of Canadians enjoy that right. We've heard that the rest, maybe for the 6% that are waiting for social housing, want to join in. They want to have the benefits of that home ownership.

It's interesting to see that they want the benefits of competition but they don't see that this policy right now is reducing it.

I'll get right into it and ask this of the gentleman from First National. On my point of competitiveness, what do these new federal measures do to groups like First National, again, for non-bank mortgage lenders?

Mr. Stephen Smith: I would say there were two changes. I think the biggest change wasn't particularly in the October regulations but in the changes announced by the Superintendent of Financial Institutions in mid-November increasing the mortgage insurance premiums on loan-to-values below 80%. We compete directly with the schedule I banks, and we've competed on interest rates. The first change the minister made was that we can no longer provide refinancing on.... When a borrower comes to us and it's a refinance loan, we can no longer purchase mortgage insurance.

The double whammy—it almost makes the first one irrelevant—is that the superintendent increased the capital that mortgage insurers have to hold to two to three times a similar amount of capital that a bank has to hold. The mortgage insurers just increased all their insurance premiums, and they've increased to a point where we can no longer afford to pay those premiums. As a result, we're not competitive with the schedule I banks any longer. It has probably eliminated our ability to deliver a competitive mortgage product in the conventional space.

● (1910)

Mr. Dan Albas: The credit unions said something very similar.

Mr. Stephen Smith: Theirs would be a very similar message. This morning I reviewed their testimony from Monday night, and I think it's a similar message.

Mr. Dan Albas: Okay.

Now, there seems to be a lot of consternation around the stress test, not the idea of it, but.... To me, the fact is that somebody either qualifies as a low risk or they don't. That's something your industry has done quite well. In fact, we've heard testimony saying that traditional lending and non-traditional both have very similar rates for defaults, which to me says that everyone is doing their homework to make sure no one gets loans who cannot afford to pay them.

That being said, do you have anything specific you'd like to mention in regard to those changes or any future changes?

Mr. Stephen Smith: I'm not nearly as fussed about the stress test as maybe some of the people who have appeared. I think there's a lot to be said, in that if you're taking a mortgage out at 2.69%, you should be able to handle an increase in interest rates, maybe not 200 basis points but maybe 100 basis points, or some increase.

I think it's appropriate. What I can't understand is why you're applying it mainly to first-time homebuyers. If we're concerned about people having stress, why are we only doing it in 30% of the market that's insured? Why aren't we doing it for the entire market? Why isn't OSFI bringing those rules in for people who are borrowing $1 million or $1.2 million? They're going to have the same type of stress in five years, yet that doesn't apply to those people. You still have 70% of all mortgages now that are qualifying at the contract rate, and the first-time homebuyers are now being contracted at the Bank of Canada rate. It seems inconsistent to me.

Mr. Dan Albas: Okay.

When it comes to talking about putting more of the risk onto the private sector vis-à-vis what Ms. O'Connell was mentioning, that's a policy choice. In Canada we've always taken the policy route that we want to make cost as efficient as possible so that as many people as possible can own a home. That's part of the Canadian dream, so to speak. Again, 69% of people have very successfully done that and built up a lot of equity.

In regard to that and any future changes, that to me would say that if we're going to bring it to the private sector, the private sector will say, okay, if there's added risk to it, then we're going to price that in. Will that make the market ultimately more expensive and not just less competitive, as we've heard?

This is open to everyone.

Mr. Stephen Smith: I would like to comment on the issue. I think there's this view that somehow the government is backing all the mortgage insurance, and I'll speak for the mortgage insurers. The two private mortgage insurers have capital to support their obligations to a double A level. This is comparable to the capital level of the Royal Bank of Canada. It's a very strong type of covenant. The shareholders who put the money in and collect the premiums actuarially determine premiums that can handle those liabilities. In fact, OSFI has increased the capital that mortgage insurers have to have in their businesses by 40% to 50% in the last five years.

These are very well-capitalized businesses. This government backstop guarantee steps in only when these double A institutions have gone bankrupt. It's very comparable to CDIC insurance.

The Vice-Chair (Mr. Ron Liepert): Dan, I have to stop you there. You're way over.

Mr. Fergus.

Mr. Greg Fergus: Thank you very much, Mr. Chair.

Thank you all for coming today. I'm glad that you've been able to be here.

If I had more time I'd be able to ask questions of all of you but I'm going to try to focus in a bit on some things. To help me understand where we're at, Mr. Charles, and also Mr. Smith, you both indicated that it is inequitable that the stress test would apply only to insured mortgages.

If I can just take two steps back here, is it a good thing for people to put down, to have conventional mortgages? What is the benefit of having conventional mortgages in your opinion?

Mr. Andrew Charles: The immediate benefit for conventional borrowers in Canada is that there's no insurance premium they have to pay. I think that would be an immediate benefit. I think what we're trying to suggest is that if the stress test is an effective tool for first-time homebuyers, and the first-time homebuyers now represent somewhere between 30%, potentially 20%, of the marketplace, are the government regulations more effectively applied from the point of view of moderating the housing market if that same stress test is applied on the conventional business?

● (1915)

Mr. Greg Fergus: Let me look at this from another perspective. Sorry, Mr. Smith.

Are the folks who are able to put down a larger down payment on their home a more secure client? Are they more resilient to any what they call exogenous economic events?

Mr. Andrew Charles: They certainly have more equity in their homes. I wouldn't necessarily say that the strength of the borrower is fundamentally different between a conventional mortgagor and a high-ratio mortgagor. Certainly, in the event of default, they have more equity in the house.

Mr. Greg Fergus: Can you walk me through the concern that you may have over applying that stress test to those who are not first-time homebuyers?

Mr. Andrew Charles: I would only take the view that, at a macro level, the first-time homebuyer segment has continued to be diminished and represents a smaller component of the overall housing market. It strikes me that if it's prudent for one part of the housing market that's not necessarily creating any of the challenges in today's housing market, those being the elevated pricing in Toronto or Vancouver, which are largely not first-time homebuyer markets, then it strikes me as at least a prudent consideration to contemplate having a stress test on all mortgages in Canada.

Mr. Greg Fergus: Your business model is that you want the least, the smallest default rate possible, of course.

Mr. Andrew Charles: Yes, 100%. That's right.

Mr. Greg Fergus: Again, if you have a client who is seeking an insured mortgage and has a higher debt-to-income ratio, aren't you concerned that if something were to happen—the markets change, interest rates go up—that this puts your business at risk with a higher potential for default?

Mr. Andrew Charles: On the first-time homebuyer market, the insured segment, I want to talk a bit about the due diligence that is undertaken. It's essentially a dual underwriting that happens in Canada, with the lenders underwriting the first-time homebuyer, and then secondly, the mortgage default insurer doing a review and re-underwriting the file.

I referenced earlier an average credit score of 753. Contrast that to seven or eight years ago when the equivalent score was about 700. It's a tightly regulated marketplace and it's a tightly underwritten marketplace. Frankly, it has performed quite well over the last 10 to 20 years. I'm entirely motivated to have zero default and economically motivated to have zero default. I think it's a particular segment that has performed well. What would cause that to be different would be unemployment.

Mr. Greg Fergus: Just in terms, sorry—

Mr. Andrew Charles: What would cause that to be different would be unemployment.

Mr. Greg Fergus: Sorry, Mr. Charles, I certainly don't want to cut you off. It's just that I know the chair is not going to let me go on much longer.

Has the method to assess credit scores changed over the last seven to 10 years?

Mr. Andrew Charles: There are two providers for credit scores in Canada. Both have made significant changes in their credit scoring capability, their algorithms, over the past few years.

Mr. Greg Fergus: Has it changed in a way that we're now comparing apples to apples when we're taking a look at credit scores today, as opposed to credit scores 10 years ago or when I got into the market in 1995?

Mr. Andrew Charles: I would say for the purposes of comparison that it still is apples to apples.

There have been nuances, changes. There may not have been the same degree of payment history for your cell phones 15 years ago that has now been incorporated into the scoring model. The level of sophistication continues to improve. However, I would be remiss if I didn't remind the committee that as a result of the various interventions and overall industry tightening, the quality of that first-time homebuyer has never been stronger.

The Vice-Chair (Mr. Ron Liepert): Thank you.

Mr. Kelly.

Mr. Pat Kelly (Calgary Rocky Ridge, CPC): Thank you.

I think we've heard testimony from all of our witnesses today, and certainly from other witnesses and other concerned people, that there really isn't any such thing as a national housing market, or that a national housing market is a collection of local markets with local factors and local challenges. The consternation and hand-wringing around housing seems to revolve around two markets in Canada. However, the most recent changes to mortgage qualification have been across the board. As was already asked by my colleague and established here to have been done, it would appear that was without any consultation to the largest non-bank lender in Canada, and one of only three providers of mortgage insurance.

I'd like each of you to quickly comment, and I would like you to be quick because I have a follow-up question. Are there not ways that for local concerns over local markets a different approach could have taken by the department?

● (1920)

Mr. Stephen Smith: That's a tough question to give a quick answer to.

I suppose you could have a bifurcated market with various top-up and loan amounts that would be insured, as was the case 20 years ago.

Mr. Andrew Charles: I think it's very challenging, from a national perspective, to have a national policy. I would certainly much prefer to see regional solutions.

Mr. Jason Burggraaf: The application of rules for houses that are over $500,000 would help the regional diversification, as well as first-time buyers who are typically below that level.

Ms. Tamara Barker Watson: I would have to agree with Jason.

There are 34 prominent markets in Canada, and this rule was done to cool down two. The other 32 markets are suffering.

Ms. Sherry Donovan: It's like taking a sledgehammer to crack a nut; we're applying it to everyone.

I find it really difficult too. Without the regional differences, we suffer, and not just in Atlantic Canada but all the other markets outside of the two areas.

Mr. Pat Kelly: Indeed.

Go ahead, Mr. Finnigan.

Mr. Bob Finnigan: No, I'm fine. Jason has answered.

Mr. Pat Kelly: With regard to the stress test, for which we've had mixed reaction, and some are perhaps more concerned about the result of it than others, there was a time—and I was in the mortgage industry for over 20 years—where the debt service ratio requirement was different for the first-time homebuyer. For many years, CMHC had a higher threshold, in recognition that a first-time buyer was likely at a stage of life where they're probably willing to struggle to get that initial toehold in real estate and are able to grow into that, and are likely to have increased incomes.

Would perhaps either a debt service ratio that could be adjusted for first-time homebuyers, to protect that group, or to look at regional issues and perhaps have regional qualifications to deal with the regional concerns that Canadians have...?

Mr. Andrew Charles: I take the view that when you think about debt servicing ratios the stress test serves the same purpose. It's a bit six of one and half a dozen of another. Whether you pick the stress testing or you work on debt servicing ratios, it achieves the same output. I think the challenge when you think of some of the solutions that are national in scope is that it just doesn't work for half of the country, if not more than half, and it's very challenging.

Mr. Stephen Smith: If you're looking at debt stress, I think I'd have trouble saying that if you're putting the debt stress in, if you think that's the appropriate thing to do, segmenting out part of the country is not appropriate. Getting back to that previous answer, I think that maybe you should have different loan limits for different parts of the country, reflecting the fact that the average house price in certain areas is different.

Mr. Pat Kelly: That is another thing that has existed. We've had that historically, as CMHC used to have different ceilings for different markets, and we've gone away from that in trying to make things universal.

Am I out of time, Chair?

The Vice-Chair (Mr. Ron Liepert): You have one minute.

Mr. Pat Kelly: Then I'd like to get back to the issue of competition and quickly ask Mr. Smith this question.

As the largest non-bank lender, you've mentioned a concern about your ability to compete with the chartered banks. If you can't compete with the chartered banks under these rules, how would one of your competitors in the non-bank so-called monoline lending space be able to compete, even with you or with the banks?

Mr. Stephen Smith: I think it's going to be very tough. We have other independent sources of funding that are not available to our smaller competitors. I think it's going to be very tough. Certainly—

Mr. Pat Kelly: Reducing choice...?

Mr. Stephen Smith: Yes, it's reducing choice. Certainly, the recent mortgage insurance changes are a revolutionary change in the Canadian mortgage landscape. It's something we haven't seen in 30 years.

● (1925)

Mr. Pat Kelly: Will there be higher interest rates, then, for borrowers?

Mr. Stephen Smith: Absolutely.

The Vice-Chair (Mr. Ron Liepert): Thank you.

The final set of questions is from Mr. Sorbara.

Mr. Francesco Sorbara: Thank you, Chair.

Welcome, everyone. Thank you for travelling from Toronto and Halifax, if I'm not mistaken, and possibly Ottawa.

After the first eight hours of the housing study, I think a couple of common themes have emerged. I would say, first of all, that the Canadian housing market is based on a series of regional markets and there is no uniform market across the country; that a number of participants would like a pause in the measures, on any incremental new measures; and that risk sharing is of grave concern to some participants. I'm not saying that I agree or disagree. I'm just saying that these are the themes I've seen.

Also, CMHC, proceeding with an original mandate to where it is now, looking at the 69% home ownership rate in Canada—I think it's in the high sixties—has largely been successful, especially for encouraging home ownership in Canada and allowing new entrants to enter the home market. Finally, Canadians are great customers, i. e., we're great credit. We work hard. We save. We want to save for our kids and for the future of this country. We want to invest, pay off our mortgage, take a vacation when we can, and have faith that the stewards of the economy and our regulatory organizations are doing a good job, which in large part I think they are.

I do agree with Mr. Charles and Mr. Smith that a lot of the changes that have been enacted.... You can quibble about the stress test being 50 basis points or 100 basis points higher than it should be, but that's not really the issue. The issue is ensuring that Canadians have access to the home ownership market to buy a house.

My one question is with regard to the pause. Specifically, Mr. Smith and Mr. Charles, both of you gentlemen have been in the housing market for a very long time. I'm not trying to date you. I'm just saying that I know you're very well respected within the industry.

How long do you think before we'll have data that we can see on a qualitative basis to determine what exactly is going on?

Mr. Andrew Charles: As I may have mentioned earlier, I think we want to see at least a full year going through the cycle to truly understand the impact. I have early data, but that's really just two months' worth. That is a relatively modest sample size in terms of the impact. I would encourage members of the committee and the government to take seriously that pause, as you position it, to reflect. Again, it's the cumulative impact of the changes, not necessarily one specific aspect.

Mr. Stephen Smith: I think it will take at least a year or a year to 18 months. We have data from January already. I think you can get seasonal effects going on. Markets may be slowing down in any event. I think you want to have at least a full year, if not longer, to try to get a sense of what's happening in the marketplace before you do anything else.

Mr. Francesco Sorbara: Of course.

Mr. Finnigan of the Canadian Home Builders' Association, my riding is within the city of Vaughan. We have a number of large entrepreneurs in that riding, in both manufacturing and home building. I've spoken to a number of them who are in home building, and they generally say they're not worried about the greenbelt and the places to grow. It's more the time to get the product on the market that worries them. The developmental charges relating to sewer and water infrastructure are needed, and those charges go into the fund, and the debts are paid off after a number of years.

I do want to ask, though, about something that causes a little bit of a twinge, and that is the labour supply issue. What are you hearing from your partners and members within the GTA in terms of labour supply? I'm hearing that it is actually a constraint.

Mr. Bob Finnigan: It is a bit of a constraint to construction. It's slowing things down a little bit, but our concern in the longer term is that it's going to get worse with the shift from low-rise to high-rise housing. A lot of the trades have left the low-rise business. For certain trades—most recently carpenters, bricklayers, and things of that nature—definitely it's causing some pressure on pricing, but nowhere near what some of the other pressures are.

● (1930)

Mr. Francesco Sorbara: I have a follow-up a question—

The Vice-Chair (Mr. Ron Liepert): Be very quick.

Mr. Francesco Sorbara: —to Ms. Donovan and Ms. Barker Watson.

What do you expect for housing starts this year in Nova Scotia? Do you see any sort of stabilization? I was very disappointed to hear that there have been layoffs within that industry in Nova Scotia. Do you have any commentary or any green shoots?

Ms. Tamara Barker Watson: We're definitely going to be down compared to last year. The last two years were probably the worst two years on record, and we're going to be down from those this year.

Ms. Sherry Donovan: That's not just in Nova Scotia, but we're talking—

Ms. Tamara Barker Watson: We're talking about Atlantic.

Ms. Sherry Donovan: —about Atlantic Canada as well. From the regional perspective, with the halts, pretty much, in Newfoundland and New Brunswick, starts are down, and in Nova Scotia, starts are down. I think overall it's not looking like a blue sky in any way.

Mr. Francesco Sorbara: Thank you, Chair.

The Vice-Chair (Mr. Ron Liepert): That concludes our questions from our members, but, Tamara and Sherry, you travelled a long way. Is there anything you heard tonight from other witnesses that you might want to take a minute to just expand upon before we adjourn?

Ms. Sherry Donovan: I would reiterate that the blanket national policy just doesn't work. I think it's really important to consider, when making decisions, what the unintended consequences are and who they impact. It might seem like only a few jobs, but when I look at my builders, I've had seven major companies go out of business this year. One builder had 60 years in a family business. As far as the impact that had on the community goes, we're talking at least 50 to 60 people out of work in one very small community in Nova Scotia. When you look at all of these impacts and how they will flow downhill, I think it's really important to consider not just the bigger markets but also the little markets and how they add up to a larger number overall.

Thank you for the chance to speak.

Ms. Tamara Barker Watson: It's not just the builder. I need electricians. I need plumbers. I need drywallers. I need shinglers. If I go out of business.... Most builders are leaving them holding the bag. The suppliers are usually protected by lines of credit or personal guarantees. The banks are all 100% guaranteed. They'll own my house. They'll own my cottage. They'll own the boat. But I think it really can't be one rule for all of Canada. We are so different down home.

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

Thank you to all the witnesses.

Committee, we're done. We'll see you all next Monday and talk taxes.

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