



MEMBER REQUEST FOR DECISION SPRING 2019 MUNICIPAL LEADERS' CAUCUS

DATE:

2019 February 07

TOPIC:

Regional-Based Mortgage Financing Stress Tests

RECOMMENDATION:

The Council from The City of Calgary requests that the AUMA Board advocate:

- 1) To the Government of Canada and all other Political Parties that are represented in Parliament to
 - a) Urgently review the effects of the *B20 – Residential Mortgage Underwriting Practices and Procedures* stress test on regional markets; and
 - b) Urgently eliminate or tailor regional-based policies, including but not limited to, stress tests that reflect the needs of local economic and market conditions.
- 2) To the Government of Alberta and all other Political Parties that are represented in Legislature to
 - a) Urgently consider the adoption of Alberta-based mortgage approval requirements for Alberta Credit Unions and make any necessary changes (policy or otherwise) to implement this request.

BACKGROUND:

The Office of the Superintendent of Financial Institutions (OSFI) is an independent federal government agency that regulates and supervises more than 400 federally regulated financial institutions, including all banks in Canada, and reports directly to Parliament through the Minister of Finance. OSFI's *B20 - Residential Mortgage Underwriting Practices and Procedures* (B20) came into effect on January 1, 2018, in a one-size fits all policy that applies to all federally regulated institutions across the country.

The main objectives of B20 were to:

- 1) Create a minimum qualifying rate or a "stress test" for mortgages;
- 2) Require lenders to enhance their loan-to-value (LTV) measurement and limits so they will be dynamic and responsive to risk, and
- 3) Place restrictions on certain lending arrangements that are designed to circumvent LTV limits.

B20 was created to deal with the unstable real estate markets in Vancouver and Toronto where red flags emerged in recent years because of the combination of unsustainable price appreciation and high-debt ratios. Municipal and provincial governments in British Columbia and Ontario



implemented region-specific strategies to increase housing affordability in the Vancouver and Toronto markets such as the foreign buyers' tax, empty house tax, and restrictions on short-term rentals which started to cool these markets down before the implementation of B2o.

While credit unions and ATB Financial do not fall under the OSFI mandate, they have chosen to follow B2o to-date.

ANALYSIS:

Albertans have been hit hard financially in recent years due to many factors including volatile oil prices, a lack of market access for our oil and gas sectors, high unemployment rates and subpar job growth, high downtown office vacancy in particular in Calgary, and increased taxes including the carbon tax. The unintended consequences of B2o have compounded these effects, negatively affecting jobs, economic activity, and the ability for first-time homebuyers to enter the market.

A robust housing market provides significant social, and economic benefits to Alberta's communities and neighbourhoods and needs a system that facilitates the borrowing and lending of capital and is responsive to variations in the local and regional contexts. Canada Mortgage and Housing Corporation (CMHC) identifies numerous regional real estate markets across the country that have unique market characteristics. However, B2o does not recognize this variation to allow tailored solutions that reflect the needs of local economic and market conditions.

Potential first-time homebuyers that have lower incomes, such as the customer demographic for organizations like Attainable Homes, have been adversely affected by B2o. The new policy increases Gross Debt Service Ratio (GDSR) and Total Debt Service Ratio (TDSR) by 5% and 8% respectively, reducing the number of new home buyers substantially. B2o has caused many borrowers to seek capital in the private markets where interest rates and terms are heavily in favour of the lender.

B2o has impacted the real estate and construction sectors. In Canada in 2015, housing construction, renovation, repairs, and maintenance activities contributed \$133 billion to the economy (7% of GDP), and the real estate, rental, and leasing industry contributed \$278 billion to the economy (14% of GDP).

B2o has had many unintended consequences in markets outside of Vancouver and Toronto such as:

- 1) Exacerbating the slowdown in otherwise stable and buoyant real estate markets in cities such as Calgary where annual growth in real estate price from 2014-2017 was around 0%;
- 2) A reduction in construction creating fewer jobs in this and related industries;
- 3) An overall net decrease in Calgary homeowners' property valuations; and
- 4) A reduction in economic activity (GDP).

The Calgary Real Estate Board (CREB) recently released a report with alarming statistics for the Calgary real estate market showing residential sales shrunk by 15% in 2018 relative to 2017 and were



down 20% compared to the ten-year average. Benchmark prices were also down by several percentage points during the same period. Some economists have suggested the main reason for these declines has been B20.

Resale activity in the Alberta real estate market started showing signs of improvement in 2016-2017, but B20 has contributed to further setbacks with the sales-to-new-listings ratio (SNLR) remaining far below the balanced market threshold. New home construction is following a trend that is similar to the resale market, with recent data suggesting continued weakness in activity.

All municipalities in Alberta are affected by the new B20 rules and their unintended negative impacts on jobs, economic activity, and the ability for first-time homebuyers to enter the market. This resolution calls on the federal and provincial governments to mitigate these unintended consequences by reviewing the current impacts of B20 and considering policy changes to allow regional-based mortgage financing stress tests.