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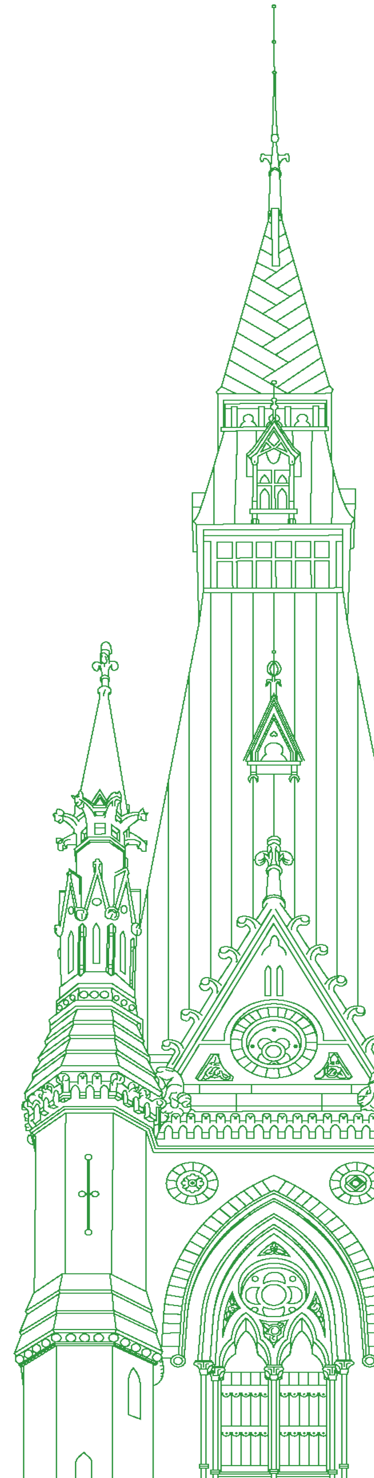

Chair: Mr. Peter Fonseca

Standing Committee on Finance

Monday, April 4, 2022

● (1105)

[*English*]

The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)): I call this meeting to order.

Welcome to meeting number 36 of the House of Commons Standing Committee on Finance. Pursuant to Standing Order 108(2) and the motion adopted at committee on January 12, 2022, the committee is meeting on inflation in the current Canadian economy.

Today's meeting is taking place in a hybrid format, pursuant to the House order of November 25, 2021. Members are attending in person in the room and remotely using the Zoom application. Per the directive of the Board of Internal Economy on March 10, 2022, all those attending the meeting in person must wear a mask, except for members who are at their place during proceedings.

I would like to make a few comments for the benefit of the witnesses and members. Please wait until I recognize you by name before speaking. For those participating by video conference, click on the microphone icon to activate your mike. Please mute yourself when you are not speaking. With regard to interpretation, for those on Zoom, you have the choice at the bottom of your screen of either the floor, English or French. For those in the room, you can use the earpiece and select the desired channel.

All comments should be addressed through the chair. For members in the room, if you wish to speak, please raise your hand. For members on Zoom, please use the “raise hand” function. The clerk and I will manage the speaking order as best we can. We appreciate your patience and understanding in this regard.

With regard to a speaking list, the committee clerk and I will do the best we can to maintain this consolidated order of speaking for all members, whether they're participating virtually or in person. The committee agreed that during these hearings, the chair will enforce the rule that a response by witness to a question will take no longer than the time taken to ask the question. That being said, I request that members and witnesses treat each other with mutual respect and decorum. If you think the witness has gone beyond the time, it is the member's prerogative to interrupt or ask the next question. Please be mindful of others' time allocations during the meeting.

I also request that members not go much over their allotted question time. Though we will not interrupt during a member's allotted time, I'd like to keep you informed that our clerk has two clocks to time our members and witnesses.

To members and witnesses, this portion of the meeting will conclude at 12:30, at which time we will move into our in camera portion of the meeting for committee business.

At this time, I'd like to welcome today's witnesses.

With us today, from Canada Guaranty Mortgage Insurance Company, are Andrew Charles, president and chief executive officer, and Curtis Gergley, chief risk officer. From Sagen Mortgage Insurance Company Canada, we have Stuart Levings, president and chief executive officer, and Craig Sweeney, senior vice-president and chief risk officer.

Welcome.

We will begin with Canada Guaranty Mortgage Insurance Company. They will have five minutes for their opening remarks.

The floor is yours.

Mr. Andrew Charles (President and Chief Executive Officer, Canada Guaranty Mortgage Insurance Company): Good morning and thank you very much for the introduction, sir.

I'd like to thank the finance committee for the opportunity to participate at today's hearing.

Canada Guaranty is a 100% Canadian-owned private mortgage default insurer competing against the government-owned CMHC and Sagen in the private sector, which is here today. Our core business is to provide mortgage insurance for Canadians who purchase a home with less than a 20% down payment; these are primarily first-time homebuyers.

Our business, the mortgage insurance business, is extremely procyclical, and while we're currently at a point in the economic cycle that features improving unemployment rates, rising house prices and relatively low interest rates, I would point out that mortgage insurers are still seeing borrowers default from mortgages that were originated during the global financial crisis in 2007 to 2009, which reflects the long-tail nature of our business. The key tenet of our business is to ensure that we're there to provide stability to the financial sector when the economic cycle turns and the situation would be the opposite of what it is today, where we'd see elevated unemployment rates, high defaults and weakened house prices.

Our business is closely regulated by OSFI, which requires all mortgage insurers to hold appropriate capital levels to be able to withstand a significant and prolonged increase in mortgage defaults during a variety of stressed economic scenarios. Our industry's product offerings are also limited to a defined sandbox as determined by the Department of Finance.

These two key guardrails serve to strengthen and stabilize the Canadian mortgage insurance framework. Since the global financial crisis, there have been no less than 10 demand-side regulatory interventions that have reduced demand for mortgages. These include reducing amortization periods from 40 years to 25 years, eliminating high ratio rental mortgages, and eliminating mortgage refinances from the insured marketplace. As well, since 2017, all insured mortgages have had to qualify at a stress tested interest rate that is several points higher than the contract rate. This has served to create an important stability buffer to protect borrowers' ability to retain their payment ability when interest rates rise. At Canada Guaranty, we have supported all of these interventions as being prudent and necessary to support a sustainable and responsible home ownership market.

During the recent federal election, a variety of housing-related proposals were put forward by all parties. One platform related to arbitrarily reducing mortgage insurance premiums. I would point out to the committee that mortgage insurance premiums are derived from an actuarial analysis based on capital levels insurers are required to hold to retain claims payment capability during a variety of stress scenarios and economic downturns. Minimum capital levels are set by Canada’s federal regulator, OSFI, and are a key part of Canada’s financial stability. Arbitrarily reducing premiums without the appropriate actuarial analysis would be a concerning precedent and would weaken Canada’s housing finance system.

For the benefit of the committee, I'd like to take a moment to describe Canada’s typical first-time homebuyer. The average high ratio first-time homebuyer ranges in age from 25 to 40, has average household income in the $80,000 to $120,000 range and an average mortgage size of $390,000 with a very strong credit score of north of 750, which demonstrates a very high level of creditworthiness.

Insured mortgages overall represent a relatively small component of Canada's mortgage originations; we estimate that the insured segment represents less than 20% of the overall mortgage market. In addition, the insured market has a maximum $1-million purchase price cap, which was implemented in 2012 and has not been adjusted. This maximum cap of $1 million for a home purchase price is now a key factor in reduced accessibility for prospective first-time homebuyers in the greater Toronto area and greater Vancouver area, two key markets where over 50% of home purchases are over the $1-million cap.

I'd like to turn my comments to what I think is the core aspect of this committee, and that is the house price inflation. In recent years, house price inflation has made affordability increasingly difficult for many first-time homebuyers. Canadian house prices are up 15% over the past year and have increased by 26% over the last 24 months according to Teranet. Let me describe what we consider to be the most significant factors causing house price inflation in Canada, and we believe there are both supply and demand-side contributions.

● (1110)

The most important issue is the lack of timely housing supply. Many municipalities have seemingly constrained development and have been unable to create urban housing supply for prospective new home owners. Land use and zoning bylaws in many of Canada's key cities appear to be out of sync with Canada's immigration policy and growth aspiration. Canada has the strongest population growth of any G7 nation and our housing supply in many of our key cities has not been able to keep pace.

Housing supply has also been constrained by lack of homes for sale during a changing housing market dynamic, with buyer preferences triggered by the pandemic. Canadians are staying in their homes longer and are hesitant to move into assisted living centres. The pandemic has also significantly altered and slowed the pattern of international people movement, with Canadians seemingly more hesitant to pursue international employment opportunities.

On the demand side, over the last 18 to 24 months, we have observed three notable changes to domestic demand.

The Chair: You'll just have to start wrapping it up, please. We're well over time.

Mr. Andrew Charles: Low interest rates have resulted in homebuyers having a much stronger personal balance sheet, and from the pandemic itself with the change to hybrid work from home.

If I could provide any perspective to your consultations, my last two comments are to avoid arbitrarily decreasing mortgage insurance premium rates, and to increase and index the current $1-million purchase price cap on insured mortgages to reflect the substantial increase since 2012.

That concludes my comments. I apologize for going over time.

The Chair: No problem. Thank you, Mr. Charles. You'll have a lot of opportunity in the question and answer time to add more to your opening remarks.

Now we'll hear from Sagen mortgage insurance company for up to five minutes, please.

Mr. Stuart Levings (President and Chief Executive Officer, Sagen Mortgage Insurance Company Canada): Thank you very much.

Good morning to you all.

You will necessarily hear some repetition here, as our businesses are, of course, very similar.

Let me begin with a bit of background on us and the subject of mortgage insurance. Sagen is the country's largest private mortgage insurer. Canada Guaranty, as you know, is the other notable private sector player. We both compete with CMHC. In 2021 Sagen was Canada's largest insurer of high-ratio mortgages with about 40% of the market share.

The insurance we provide reimburses lenders for the losses they incur when homebuyers default on their mortgage. Mortgage insurance is mandatory for homebuyers with a down payment of less than 20%. Thus, we primarily serve first-time homebuyers.

Mortgage insurance is an unqualified public policy and commercial success. It has helped many first-time homebuyers responsibly access affordable mortgages while also protecting our housing and financial sectors from downside risk. We are very well capitalized, tightly regulated and deeply experienced to properly manage mortgage-related risks.

There are a couple of important things to keep in mind when thinking about mortgage insurance.

First, mortgage insurance premiums are paid in full by the lender at the time that the mortgage is originated. The lender is then reimbursed for the premium by the borrower by adding the premium amount to the mortgage, which is then paid off on the same amortization schedule as the rest of the mortgage.

Second, mortgage insurance coverage lasts for the entire amortization period of the mortgage. As the premium is paid in full at the time a mortgage is originated, mortgage insurance cannot charge additional premium when economic downturns occur. Consequently, we price our product based on a full business cycle, as we must rely on our capital and unearned premiums to pay for future claims.

Our insured first-time buyers are the most tightly regulated, rigorously underwritten borrowers in the market today. The stress test has only served to fortify that rigour. Mortgage insurers act as a second set of eyes on every high-ratio loan application, ensuring that only borrowers who can afford their mortgages are approved.

Our insured buyers reside in all regions across Canada with a majority ranging in age from 25 to 45 with stable jobs and an average household income of $100,000 to $120,000. The credit scores are strong, averaging above 750,and they typically purchase homes priced below market averages. This is especially true for borrowers in Vancouver and Toronto.

Before turning to your questions, I want to say that we agree that the rising cost of homes is a challenge for homebuyers, especially first-time homebuyers. Housing demand is driven predominantly by the need for a place to live, and our population growth has been strong. A lack of appropriate supply to meet this demand is the fundamental problem that afflicts Canada's housing sector and drives up prices.

In support of the committee's work, we would make three observations.

First, the federal government should do everything it can to boost the supply of housing that is affordable—not just affordable housing. That means playing a coordinating and supportive role with provinces, municipalities and the private sector. It means taking direct action creating incentives to boost supply.

Second, we believe that it would be imprudent to alter the mortgage insurance pricing structure when things remain so volatile. The risk of unintended consequences is too great. For example, if prices are lowered arbitrarily, mortgage insurers will be forced to reassess risk, and there's a real possibility that it will lead to tighter underwriting with the effect of making homebuyers who would have qualified for a mortgage today unable to do so in the future.

Finally, boost the accessibility of homes for new buyers. One specific move would be an increase in the cap on insured mortgages that was established in 2012 to something greater than its current $1 million. This is particularly important in markets such as Vancouver and the greater Toronto area.

Thank you for your time.

We look forward to your questions.

● (1115)

The Chair: Thank you, Mr. Levings.

You will be getting many questions from our members.

We're starting with our first round, which allows each party to have up to six minutes of question time.

The Conservative are up first with MP Albas for six minutes.

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

I'd like to thank both Mr. Charles and Mr. Levings for coming and lending their expertise to the committee's attention today.

I'm going to start with some general questions about why the mortgage space is as it is, and perhaps some possibilities for some innovation.

The previous governor of the Bank of Canada, Stephen Poloz, has lamented a few different times in a few different formats the lack of innovation in your space.

One of the proposals that I've seen is to have a longer than five-year term. Five years seem to be the default for most of the market, although some Canadian financial institutions are doing seven and ten years. I would like to hear from your perspective why the seven-year to ten-year mortgage is not utilized that heavily in Canada versus the United States, where it's purchased every day by homeowners.

Perhaps we'll start with Mr. Charles and then we'll go to Mr. Levings.

Mr. Andrew Charles: That's a very thoughtful question because the seven-year and the ten-year mortgages have existed in Canada for a fairly significant period of time. In my background and experience, we have only seen modest uptake of that seven and ten year historically. It's largely in eastern Canada and more rural markets of the country, perhaps. I think it's an absolutely fair question.

Perhaps some of it is just consumer behaviour and consumer comfort that the five-year fixed-term product historically, as it relates to first-time homebuyers, sir, has always represented somewhere in that 70% to 80% range. In fact, 85% of our portfolio is in the five-year term.

I think there should be more emphasis placed on how we can expand beyond the five years to give that longer certainty of payments for borrowers. By and large, that's going to have to be a lender-driven initiative as opposed to a mortgage default insurer initiative.

● (1120)

Mr. Dan Albas: Mr. Levings, do you have any comment?

Mr. Stuart Levings: I think another mindset of consumers, particularly first-time homebuyers, is that they are aware there's a penalty if they break their mortgage term.

Most first-time buyers view their first home as a starter home with the intention of probably moving up at some point as they expand their families, etc. They are likely to want to err on the shorter side of a term versus the longer term that might appeal to someone who's more in their forever home and has a view that they can manage through a seven-year cycle.

Mr. Dan Albas: On the case for looking at longer-term mortgages, in a C.D. Howe article, Michael Feldman talks about addressing the mismatch between term and amortization. He argues that there are some legislative barriers. Potentially, taxpayers' exposure to the housing market could be reduced if a market were to develop for residential mortgage-backed securities, or RMBS.

What kind of place would such a market have for your companies? Would you see that as another alternative where you could sell your products?

Mr. Stuart Levings: Is there any preference in who starts?

Mr. Dan Albas: Why don't we start with you, sir.

You have the floor.

Mr. Stuart Levings: I think the issue with that seven-year term and the residential mortgage-backed security market is just the predominance today of the five-year funding structure for lenders and the issuance of five-year commercial bond paper.

I do think that if they were to see merit and acceptance of a longer-term securitization vehicle, it would promote higher usage or higher offering of that term and perhaps at more appealing rates.

For our business, the longer the borrowers are locked in on a rate, the better. It does add more financial stability and more protection from rising interest rates. We know from experience that first-time buyers in particular have a higher risk profile in the first three to five years. Generally speaking, that's when they are establishing themselves in their careers and figuring out the cost of managing a home. Once they get past five years, the risk of default goes down tremendously.

If you can extend more seven-year type paper to borrowers, we think that would be very constructive for our industry. It comes down to again the funding structure that's currently available, the RMBS market, the securitization market and, finally, consumer behaviour on whether there would be penalty if the have to break their mortgage.

Mr. Dan Albas: Fair enough.

Mr. Charles, did you want to jump in?

Mr. Andrew Charles: Yes, I would agree with the essence of what Mr. Levings has indicated.

I would point out, sir, that the RMBS market is still in its relative infancy. We have seen a variety of RMBS issuances. We think that's going to continue to grow and develop, albeit not perhaps at the pace the industry would want to see it develop at.

The other comment I would make around five-year terms for first-time homebuyers is that there's a general a belief that if you're working you're going to get promoted once or twice in the next five years and there will to be certain lifestyle implications for you. You may inherit money or whatever the case may be. At the end of five years, economically, the borrowers are going to be further advantaged as it relates to transferring or renewing their mortgage versus being locked in for that seven- to ten-year period.

The longer the term, the better it is for the mortgage insurance from a default point of view.

The Chair: Thank you, and thank you, MP Albas.

We're moving to the Liberals, with MP MacDonald for six minutes.

Mr. Heath MacDonald (Malpeque, Lib.): Thank you, Chair, and thank you to the witnesses for being here today.

I want to go back to you, Mr. Charles. In your opening remarks you talked a little bit about actuarial analysis. I was wondering if you could expand on that for the cost approval and benefit approach. How do you analyze that?

● (1125)

Mr. Andrew Charles: Each year as an OSFI-regulated mortgage insurer we need to calculate the amount of potential claims that exist, or potential mortgage defaults that exist, within our portfolio—both what's in our existing portfolio, and also, sir, the new flow of volumes coming in. Each year we do an actuarial analysis to ensure that we have more than sufficient reserves to pay potential claims in a variety of economically stressed environment. That is the analysis that all three mortgage default insurers do on an annual basis. It's very much a science-driven exercise versus there being any degree of art form per se.

Mr. Heath MacDonald: It doesn't really have anything to do with interest rates or anything like that, but is based solely on investment, on the other side of your ledger type of thing? Or how does that work?

Mr. Andrew Charles: It's based on a variety of economic scenarios. The number one reason for a mortgage default in Canada is unemployment rates. That's the number one consideration and factor, and our actuarial analysis incorporates a number of base scenarios and stress scenarios, as I said, to ensure we have sufficient reserves to pay for ultimate claims.

Mr. Heath MacDonald: Thank you.

Both of your companies talked about the $1-million cap that's presently in place. I'm just wondering what number are you looking at, and how did you come up with that number? Are there any statistics that you can show us on what the number is you're seeking?

Mr. Andrew Charles: With regard to the number that we're seeking, we're generally comfortable with the platform that was expressed, I believe, by the government, which moved from $1 million to $1.2 million. Our sensitivity, sir, is that the $1-million purchase price maximum was put in place in 2012 when home prices were fundamentally lower than what they are today. What we'd want to see is a movement from the $1 million to at least the $1.2 million to allow Vancouver and Toronto first-time homebuyers to really enter that marketplace.

As I indicated in my opening comments, over 50% of house purchases in those two markets are in excess of $1 million. To answer your question, we'd like to see the $1 million rise to $1.2 million, but more important, sir, is the implementation of an annual house price index, or an inflationary index, to be applied to whatever that new base level is.

Mr. Heath MacDonald: We talked about the $1-million cap, and thank you for that. Just on the amortization period, lending authorities are asking to have that increased to 30 years on the amortization side. I'm wondering what both of your opinions are on increasing the amortization to 30 years.

Mr. Andrew Charles: Mr. Levings, do you want to go first?

Mr. Stuart Levings: Thank you.

The basic principle here is that the first-time buyer currently competes in the housing market against seasoned buyers, move-up buyers, and investors who often have more down payment availability because they are selling a home themselves that has a lot of equity built up in it. In addition, they have access to a 30-year amortization. Arguably they have more buying power and our view is that the insured buyer should be allowed to compete at least on an even playing field in that regard, which would mean a 30-year amortization be extended to them.

I think there is obviously merit in the fact that a 30-year amortization is somewhat inflationary in that it extends more buying power. But when you think about some of the comments we've made already to this committee on how big a role the first-time homebuyer plays, which we estimate is somewhere in the range of 15% to 20% of all mortgages, they're not really the inflationary force in the market. They're also buying homes that are on average a lot cheaper than the market averages.

Just to level the playing field, we've often thought that a 30-year amortization max would be appropriate in the insured buyer space. Currently it's limited to 25 years.

Mr. Heath MacDonald: How much time do I have, Chair?

The Chair: MP MacDonald, you have a minute and a half.

Mr. Heath MacDonald: Touching on that, you also mentioned buyers who were using the market for financial investments. Can you give me a little insight and your opinion on the impact of increasing financialization in the Canadian market and how that's affecting first homebuyers?

Mr. Stuart Levings: Certainly. I'll continue.

We have seen an uptick overall in the financialization aspect really represented through investors. This is data that we see externally, given that we are not able to insure investor property purchases. So we rely on external data. However, it is evident that speculation has increased, as it always does during times of very strong housing markets. We think there's an element of speculation by investors that is healthy because, in some cases, they do provide rental accommodation opportunities. In many other cases, it's more about making money out of the housing market and turning houses over, which is unhealthy in our view.

It's not something we can do anything about with first-time buyers or in the insurance space, given that we don't play in that space, but we definitely think that some of the measures we've seen already coming from various levels of government aimed at dampening down some of this speculation are good moves and should continue to get attention.

● (1130)

Mr. Heath MacDonald: Thank you.

The Chair: Thank you, MP MacDonald. That's the time.

We are moving to the Bloc and MP Ste-Marie for six minutes, please.

[*Translation*]

Mr. Gabriel Ste-Marie (Joliette, BQ): Thank you, Mr. Chair.

Good morning, gentlemen. Thank you for your attendance and for your presentations, which were very interesting.

My first question is for both Mr. Charles and Mr. Levings.

Owing to increasing prices, it appears that first-time homebuyers have less access to residential property. In light of that trend, would you say that your activity sector's role is decreasing or increasing? How does this impact your business?

Mr. Charles, you can answer the question first, if that's okay with you.

[*English*]

Mr. Andrew Charles: Thank you very much.

I would say that the larger issue for us, as house prices increase—and they've increased significantly—is the $1-million purchase price maximum, which restricts the mortgage default insurance from supporting first-time homebuyers' access in Canada's larger urban markets, where there's been a strong level of appreciation.

If I were to go back a decade ago, the percentage of insured volumes in Canada, as a proxy for first-time homebuyers, was closer to 40%. You see today that our role is really becoming much more narrow to about 15% to 20% at the high end, but likely closer to 15%. Our overall role, if you will, is starting to become more moderate because of that $1-million purchase-price maximum, sir.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you.

Do you want to add anything, Mr. Levings?

[*English*]

Mr. Stuart Levings: Yes, certainly. I would add that what we witnessed over the last few years, and I'm sure it's the same for our competitors, is that the footprint where you see insured mortgages is moving further and further out of the major urban centres. While that's obviously where first-time homebuyers are going to buy, it's a negative for our industry and I think overall because you are seeing a move out of the more economically diverse centres where you want to be as mortgage insurers, because you need economic diversity, you need that strength for periods of downturns in the economy. If we end up being too concentrated outside of these major urban centres, you are going to see more volatility when tail risk occurs.

Back to the comments on the $1-million cap, which is the obvious headwind or ceiling that we're bumping up against and is preventing us from having more distribution or representation around the greater centres, that is something we think should be addressed to help prevent that.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you both for your answers.

Do you have statistics for all mortgage financing for home purchases involving variable rates and fixed rates for one or two years?

We obviously have concerns about the market's stability. The key policy rate is expected to increase. We are already seeing that increase and should continue to see increases over the next few months or years. We are trying to assess the danger that increase could mean in terms of payment defaults.

To your knowledge, what are the statistics on five–year variable rates and on fixed rates for one or two years? How would you characterize the systemic risk in that respect?

Once again, you can answer the question first, Mr. Charles, if that's okay with you.

[*English*]

Mr. Andrew Charles: Within Canada Guaranty, approximately 80% of our existing risk in force is borrowers who are on a five-year fixed term, and I am going to assume that's equivalent or similar to our competitors

I would say, sir, that the one-year to two-year fixed term is a very modest percentage of the total book, both from a portfolio point of view and from the point of view of new flow coming in.

What we have witnessed over the past year is a fairly significant interest rate differential between variable rate mortgages and five-year rate mortgages, where variable rates have become very attractive to borrowers, both in the insurance space and I assume also in the uninsured space. We have seen a significant uptake in the variable rate insurers.

If I could provide some comfort, while there has been a significant uptick—and I believe it's in the 30% to 35% range, though I can confirm that for the committee—the borrower profile of a first-time homebuyer who chooses the variable rate tends to be a little bit more sophisticated and perhaps in a more financially secure situation than the first-time homebuyer who chooses the five-year fixed term.

We've seen a difference in credit scores as well. The variable rate borrower has a higher credit score than the first-time homebuyer who chooses the five-year fixed rate.

We haven't seen any delta or differential in our background in terms of default performance between a variable rate borrower and a fixed term borrower. In fact, our view, based on historical analysis, is that variable rate mortgages perform very well.

● (1135)

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you.

I see that my time is nearly up.

Mr. Levings, do you want to add anything to Mr. Charles' very good answer?

[*English*]

Mr. Stuart Levings: I would add just one point. In our portfolio we've done some analysis showing that about 95% of the borrowers who are coming up to renewing their mortgage over the next three years are actually going to be renewing at rates equal to or lower than their current rate, and that's because so many have taken these five-year fixed term mortgages. It actually does alleviate some of the pressure on our portfolio and borrowers through the rising rate environment.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you very much.

[*English*]

The Chair: Thank you, MP Ste-Marie.

We will now move to the NDP.

MP Blaikie, you have six minutes, please.

Mr. Daniel Blaikie (Elmwood—Transcona, NDP): Thank you very much, Mr. Chair.

With the indulgence of our witnesses I'm just going to take a quick moment for some committee business and give notice of the following motion:

> That the committee undertake a study pursuant to Standing Order 108(2) of the current state of fiscal federalism in Canada, including but not limited to fiscal equalization payments, the Canada health transfer, the Canada social transfer and the possibility of a new federal transfer to equalize the disproportionate costs of climate mitigation and adaptation across Canada's provinces and territories; that the committee endeavour to hear from the government of each province and territory as a part of its study; that the committee hold at least two meetings for this study prior to Friday, June 17, 2022; and that the committee table a report to the House on this matter no later than February 3, 2023.

That's just the notice of motion, Mr. Chair. I am not moving it.

The Chair: Thank you, MP blaikie.

I just have a quick question. Have you provided that to the clerk, and has it been distributed?

Mr. Daniel Blaikie: I have, indeed.

It hasn't been distributed yet—

The Chair: No, it hasn't.

Mr. Daniel Blaikie: —but I expect it will be translated and then distributed in relatively short order. I just want to offer that up for the committee sooner rather than later.

To our witnesses, maybe I'll just start by saying that I think I'm like a lot of Canadians in that I don't have an intimate knowledge of the mortgage insurance industry.

I heard a couple of comments earlier that I just want to ensure I understood properly. I thought I heard you say that your companies don't insure first-time homebuyers. I'm not sure if I heard that properly or not, so I would welcome your feedback on that.

The second thing I heard was in respect to investment properties, that you don't insure in the investment space.

Before proceeding with any further questions, I just want to make sure that I didn't misunderstand either of those two comments and that we're on the same page.

Mr. Andrew Charles: To answer your first point, our business and that of a mortgage default insurer is primarily focused on the first-time homebuyer. Seventy-five percent of our business is that first-time homebuyer, so that's absolutely our focus.

To your second question, I referenced in my opening comments that the Department of Finance has a sandbox where they determine, along with OSFI, what products can be insurable. Investor properties are not eligible from a mortgage default insurance perspective, so they remain at a conventional....

Mr. Daniel Blaikie: How is investor property defined then? Is that anything beyond the first property that you own?

I know there are different investment categories. There are large institutional investors, but then there are also Canadians who own their first home and decide they're going to buy a second one and rent it out. Some folks have got to the point where they own 10 or 15 or more houses along those lines. As they acquire additional single family homes, are those considered investment purchases or are those insurable, either under your business or under CMHC?

● (1140)

Mr. Andrew Charles: They would not be deemed to be insurable, sir.

We look at the Bank of Canada's report on the percentage of the marketplace that's occupied by investors, and I don't have the Bank of Canada's precise definition in front of me, sir, but I would think that if I own one house, buy another house and rent out that secondary house, I would be deemed to be an investor.

Mr. Daniel Blaikie: Okay. Thank you very much for that.

As I say, it's not a space I know very well. I think I'm not alone in that, for folks listening across the country. I just wanted to make sure that I had understood your comments properly.

I think Mr. Levings was just speaking a little bit about five-year terms and the effect of people who locked-in five years ago now looking at renewing around rates that are, for the moment, comparable. I am curious to know if you can speak a little bit to the effect of rising interest rates. At what point do you think a higher interest rate would begin to show serious effects, either within your own business or more generally within the Canadian economy, for folks struggling to be able to make their payments and maintain their mortgage?

Mr. Stuart Levings: Yes, let me address that.

Rising rates have never traditionally been very highly correlated with defaults or delinquencies, simply because generally in a rising rate environment the economy is doing quite well.

Second, there are a lot of options that borrowers have when they renew. Therefore, even if they were in a five-year term and they're now renewing and the new five-year rate is too much and they think they would be under pressure, sometimes lenders can offer a three-year or even a shorter term, which temporarily gives borrowers some reprieve. It's a lower rate generally, and perhaps they're just going through some disruption in their employment, and that gets them through.

In addition to that, as mortgage default insurers, we do offer and have a lot of what we call “loss mitigation programs”, which allow us to intervene in a situation where a borrower is impacted perhaps by a higher rate that would otherwise cause them to go delinquent. We're able to buy them some time or look at measures to adjust their loan, together with the lender, to allow them to continue on.

Those measures can sometimes be renewing an extension on their amortization, which essentially brings down the interest rate, perhaps even allowing them to capitalize on any arrears that they are in to allow them to continue on.

In a nutshell, there are tools available that really do mitigate the impact of a higher rate on a renewal. We see it as basically unnecessary to cause a default just become someone's interest rate is going to be a little higher.

The impact on our businesses is relatively muted. The impact, more broadly speaking of course is going to be seen more at the origination side, people who are looking to buy a home who now have reduced buying power in an environment where what's available to them is just so limited because they can't reach the new required price level to get into the housing market. They're looking at a very limited stock of perhaps condos, semi-detacheds or townhouses, and that's the current situation. Most of the first time buyers we see, if they're looking to buy anything under $700,000, the supply, particularly in the greater Toronto area, greater Vancouver area, is extremely limited of what you can get for that kind of money.

The Chair: Thank you, and thank you, MP Blaikie. That's the time.

Members, we're moving to our second round of questions, starting off with MP Chambers from the Conservatives for five minutes.

Mr. Adam Chambers (Simcoe North, CPC): Thank you very much, Mr. Chair, and thank you to our witnesses for coming today.

My NDP colleague, Mr. Blaikie, actually asked what were a number of my questions, so we'll have some additional ones here that I hope we can benefit from.

I have a question about how the mortgage market operates. When CMHC changes a premium rate, are you obligated through regulation or otherwise to also change your premium rate, or do market forces require you to change your rates in the same fashion?

Mr. Andrew Charles: We're not required by regulatory driver to match either up or down. That said, CMHC has historically been the price leader or price maker in a relatively modest-sized oligopoly. The majority of our lenders operate on a system-driven toggle, where they send *x* number of deals to CMHC and allocate *x* number of deals to Canada Guaranty and Sagen. If there were a pricing differential—let's say CMHC were to reduce premiums—you would see a fairly significant flow volume being diverted from the private sector and going to CMHC. The change in the market would be would be relatively instantaneous.

● (1145)

Mr. Adam Chambers: Thank you.

Thanks for the clarification on the investor class. Are non-resident foreign purchasers insurable through mortgage insurance as well, or is it the same as investors?

Mr. Stuart Levings: We are able to insure foreign buyers, not if they're buying as an investment. If, however, they're here and new to Canada and are buying to occupy, we are able to insure them.

Mr. Adam Chambers: Thank you.

Have you been asked by StatsCan or the Department of Finance to provide information on foreign purchasers? We've spent the last number of years having a really difficult time determining what kind of activity that makes up in the market.

Mr. Stuart Levings: We do provide a fair bit of data to both the Department of Finance and OSFI, including the level of what we would call ”new to Canada purchasers”. I would indicate that it's an incredibly low number of those who are coming in as buyers in the insured space, given that these are people who, generally speaking, if they're foreign buyers for investment purposes, we can't service. We see single-digit levels of those new to Canada in our portfolios.

Mr. Adam Chambers: Thank you. That's very helpful. It's just a smaller portion of non-resident purchasers, so it wouldn't capture all of it.

Mr. Andrew Charles: As an additional point of clarification on that, we also see slow single digit...but the majority of new people coming to Canada first get permanent residence, and then enter the housing market—not that many of them actually come into the housing market on day one, once they've immigrated to Canada.

Mr. Adam Chambers: Thank you.

We had CMHC testify at this committee, and it was suggested that CMHC is trying to grow its market share from somewhere in the 30th percentile to somewhere between 40% and 50%.

I look for a comment from both witnesses on this. Is there part of the market that CMHC serves that you don't serve and that makes sense? How does it work competing against a government-funded agency that all of a sudden has decided to change its strategy yet again and grow its market share when it was actually trying to reduce its size over time?

Mr. Stuart Levings: We compete with CMHC, as we would with any other competitor. There is really no area of the country or product type that they offer that we don't as the private sector offer too.

Our view is that the nature of the industry is such that we think that probably around a third of the market would be an appropriate level for them. Currently they are coming back from an extremely low level, having pulled out of a segment of the market during the pandemic, whereas we, and our other private sector competitor here, Canada Guaranty, continue to support the market.

In all truth, we compete as if they were another private sector player. There really are no other differences, other than the level of service we provide to our customers.

Mr. Adam Chambers: I'll ask perhaps just one quick yes-or-no question to the both of you.

Do you think that in this current market environment, now is the time for additional demand-side proposals from the government to give first-time buyers additional money or to make it easier to bid on houses? Is now the time for that?

Mr. Andrew Charles: It's a very difficult question because I'm very sensitive to piling on stimulus in a marketplace that is particularly heated. However, I would say that in that first-time homebuyer segment, sir, which represents less than 20% of the market, I believe there is room, particularly to adjust the 2012 insured purchase price maximum.

Mr. Stuart Levings: I would agree, and I would add the 30-year amortization as perhaps the one other measure I would consider appropriate, but nothing beyond that.

Mr. Adam Chambers: Thank you very much.

The Chair: Thank you, and thank you, MP Chambers.

Moving to the Liberals, we have MP Dzerowicz for five minutes.

● (1150)

Ms. Julie Dzerowicz (Davenport, Lib.): Thank you, Mr. Chair.

I'm actually going to move a motion. I move:

> That, given the increasingly unpredictable global economic outlook, exacerbated by the current geopolitical crisis in Europe and the resulting instability, it is vitally important the committee undertake a study focused on strengthening our internal economy by harmonizing regulations among the provinces and territories and eliminating barriers to the free movement of people, goods, and services and that:
>
> a. The study consists of at least five meetings, with each meeting lasting no less than two hours;
>
> b. Witnesses, including Stephen Poloz, Special Advisor at Osler, Hoskin & Harcourt LLP, Goldy Hyder, Chief Executive Officer of the Business Council of Canada, Professor Trevor Tombe, Statistics Canada, and other key relevant federal, provincial, and territorial leaders be invited to give testimony;
>
> c. The Chair be empowered to set timelines for witness recommendations from committee members; and to schedule witness appearances.
>
> d. The committee present a report on this study with its recommendations to the House as soon as possible.

After that, Mr. Chair, I'm going to adjourn the debate. I don't expect us to have a big discussion on that today because we have some outstanding witnesses today whom I'd like to pose some questions to.

The Chair: Thank you, MP Dzerowicz.

Ms. Julie Dzerowicz: Thank you.

First, I want to say a huge thanks to both of our witnesses for their excellent testimony.

I think that both of you have talked about how there is a great need to boost the supply of housing that is affordable, not just “affordable housing”.

We've been told that all three levels of government have a role in ensuring this. Would you have a specific recommendation about what areas all governments could collaborate on to address the housing affordability issue?

Mr. Charles, maybe I'll start with you.

Mr. Andrew Charles: I think that increasing the housing supply was mentioned as our number one requirement here in Canada. It will require, in our view, all three levels of support.

I have maybe two quick observations. Whenever perhaps the federal government or the provincial government is launching new mass transit or supporting new mass transit initiatives, there could be an assigned density requirement along any new mass transit route to increase the density around those infrastructure spends, perhaps tying the capital to that.

Second—and I think this is a tougher hill to climb—there is a degree of Nimbyism in Canada. I should use a far more elegant word than that, but that is the word I would use. I say so because it can be tough at the municipal level. We would support all three levels of government working their way through this exercise.

Ms. Julie Dzerowicz: Do you have anything to add, Mr. Levings?

Mr. Stuart Levings: I would add that the heart of the matter here in our view is the type of supply that is being focused on. I think the density issue is clearly a good solution to that, meaning that we need more dense-type housing in urban areas, that is, more townhouses and semi-detacheds that can be built in existing areas that are closer to the major urban areas. The sprawl we've seen over the last number of years has reached the point, notwithstanding people working more work from home, of becoming uncommutable for people who work in a city but would have to live so far away.

Ms. Julie Dzerowicz: Thank you.

One of the recommendations you're both making is that we should allow mortgages to be amortized over 30 years. I want to hear whether you're talking about first-time buyers who should be able to amortize their mortgages over 30 years, or do you mean anyone? That's my first question.

I think that we put in a series of measures a few years ago to try not only to stabilize the marketplace, but, I think, also to protect it from defaults if interest rates went too high. That's when we actually reduced it from 30 years down to 25, if I recall correctly.

I want to hear a little bit more about your 30-year recommendation and whether it's just for first-time homebuyers or for all, and why you think that would be a prudent measure at this point.

Mr. Stuart Levings: The 30-year amortization is currently available to any buyer who is not insured. Whether you're a first-time buyer or not, if you're insured, the current rules dictate that the maximum amortization is 25 years.

What we're advocating for is that the insured buyer also be allowed access to the 30-year, recognizing that it is a slight stimulant on the demand side, but in our view, it is simply long overdue that this final levelling of the playing field should occur. They are already, in every other aspect, on a level playing field as far as the mortgage rate stress test, the underwriting criteria, etc., are concerned, and I think this would be a final step to at least give those first-time homebuyers the same opportunity that uninsured buyers are currently able to access.

● (1155)

The Chair: Thank you, MP Dzerowicz. That's the time.

We're moving to the Bloc and MP Sainte-Marie for two and a half minutes, please.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Once again, my question is for Mr. Charles and Mr. Levings. However, as I have only two and a half minutes this time, it will be more difficult to get an answer from both.

In the current situation, most households will expose themselves to more risk to purchase a home. As the prices are very high, they will purchase a home at a price that is higher than what would be desirable for maintaining a comfortable level of risk. So there is greater risk exposure, in my opinion.

At the same time, as the real estate market is bullish—in other words, the prices seem to be increasing steadily—banks and financial institutions may have an interest in taking more risks. They may be willing to provide a loan to a household even if the risk of payment defaults is higher, as they will be able to resell the residential property at a higher price and thereby recover the costs anyway. So we would return to a scenario akin to the one that led to the crisis of 2007, 2008 and 2009, especially in the United States.

I don't mean to refer to your specific field of activity, but, given your knowledge of the entire mortgage market, do you think the mortgage market is currently facing more risks? Is that a concern for you?

[*English*]

Mr. Andrew Charles: I think whenever you see an elevated price appreciation like we've seen in the Canadian market, all our risk sensitivities are naturally increased.

I'd say two things about this. One, please keep in mind that to pass the stress test, a borrower today is essentially required to qualify at a rate very close to six per cent, which in itself contains some buffer, so I would take some degree of comfort from that.

In my experience, and in my assessment of Canada's lending institutions—the majority of whom are also OSFI-regulated, much like the three mortgage default insurers—they seldom would look at someone looking to flip. I think the primary motivation of banks, lending institutions and insurers is to look at the housing market as for shelter.

That's not always the case, but it's primarily for shelter, and I think they take a very responsible credit-adjudication process.

Mr. Stuart Levings: I would just add that in our regular discussions with lenders, the dialogue often centres around what other precautions we are taking in our business, given that we do take the low-down-payment mortgages, and what measures we are taking on how we value properties.

There is a lot of back and forth, and I would argue that lenders are thoughtful about the environment and how best to mitigate that risk.

The Chair: Thank you, and thank you, MP Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you.

[*English*]

The Chair: We're moving to MP Blaikie for two and a half minutes.

Mr. Daniel Blaikie: Thank you very much.

Understanding that investors don't have insured mortgages, I am nevertheless curious about the following. We've heard around this table of investors maybe buying an initial property and then using the rapid increase in the value of their assets to leverage another purchase and so on, and given the stark rises in asset value year over year for the last number of years, that has allowed people to acquire a number of properties if they're in the business of doing that.

I'm just wondering if you have any comments or have done any thinking about what risk their exposure presents to the market in a context of rising interest rates, and particularly not being insured, either to your business specifically or.... Do you have any thoughts on what, from a public interest point of view, we ought to be concerned about in the nature of that activity and the lack of insured mortgages in that space?

● (1200)

Mr. Stuart Levings: Maybe I'll start with that one. The way we think about it is that a lot of investor activity tends to focus on condominiums and, as a result, we, and I would argue our lenders, think about the condominium type of property as a very different animal. When you have situations like that, where a particular investor owns a number of units and something goes wrong—either rates are rising and they can't service the debt anymore or there's an exodus of renters and there are vacancies—we tend to see more of a bulk selling, which does put downward pressure on prices.

As a result, when we think about a condominium, we do look at the investor content within a building and what level of risk that represents, recognizing that, unlike single detached-type properties, you might have more of a group or bulk selling exercise that occurs at one point, driven by investors. To our mind, it's a different type of underwrite, and I think our lenders look at it the same way to try and mitigate some of that risk.

Mr. Daniel Blaikie: Would it be fair to say, for your typical Canadian listening in who is wondering what all of this means for them, that if rising interest rates lead to serious distress for investors who are overexposed, the biggest risk for Canadians who own their own family dwelling would be maybe not being able to move? If they have a really big mortgage and the value of their home ends up being less than their mortgage, the biggest risk for them is that they would have less mobility, but it's not necessarily a financial crisis for their individual household.

Does that ring true? What do you think are some of the other takeaways that a member of the Canadian public who is listening today should take from this?

Mr. Andrew Charles: The point that you're referencing, sir, relates to negative equity, where there's a Canadian in their home and their mortgage exceeds the market value. Today I would say that there is very little negative equity, if any, in the Canadian marketplace, just by virtue of where prices have gone over the past two years.

If I could go back to your comment on investors, to perhaps take a more nuanced view, I don't think investors who are flipping houses within 12 months are necessarily positive for the Canadian mortgage and housing finance framework. We would take the view that if the investors were to be curtailed due to high interest rates or other mitigating factors, you'd see a much stronger inventory come on to the marketplace, and that would largely be in downtown urban cores. You'd probably see a more nuanced, segmented approach, where condos may suffer some price devaluation, depending on how many investors would exit. I would say that would hit that particular market segment much more than the single family, owner-occupied person who is in it for shelter.

Mr. Daniel Blaikie: Thank you very much for that.

The Chair: Thank you, MP Blaikie.

We will now move to MP Fast, for the Conservatives, for five minutes.

Hon. Ed Fast (Abbotsford, CPC): Thank you to our two witnesses. Your testimony has been very helpful as we study inflation in Canada.

I would like to go back to Mr. Charles—and Mr. Levings, feel free to jump in as well—to your comment about interest rates.

You mentioned that the number one factor you take into account as you assess credit worthiness and other risk factors is employment status. Did I hear you correctly?

Mr. Andrew Charles: What I would say, sir, is that elevated unemployment rates drive mortgage defaults more than anything else.

Hon. Ed Fast: Okay. I'd really like to go back to interest rates. Surely, rising interest rates would concern you.

You said that there was a significant uptick in variable rate mortgages. To be clear, you do insure variable rate mortgages. Is that correct?

Mr. Andrew Charles: Correct.

Hon. Ed Fast: You're both in the business of assessing and managing risk, so you've obviously done some analysis on the impact that rising interest rates would have on the portfolio of mortgages that each of your companies carries.

Could you comment on what that analysis might have shown and what rates of interest would start to create problems for the folks you insure?

Mr. Andrew Charles: What I would say, sir, just as a feature of the variable rate mortgages—and then we can come back to any analytical work—is that if you are a variable-rate borrower, whom we do insure, you have that ability to convert to a fixed-term product at any time in your tenure as a variable-rate borrower. If you're a borrower who is in a variable rate mortgage and you see a rising interest rate environment, we'll see a lot of conversions, and lenders will see a lot of conversations, from variable rate to fixed term. I believe that is a free option that exists for borrowers.

● (1205)

Hon. Ed Fast: To my exact question, at what point in time do rising interest rates start to represent a very significant risk to your portfolio of mortgages?

Mr. Andrew Charles: I will pass that off to my chief risk officer, who may have more precise analytical support for that.

Mr. Curtis Gergley (Chief Risk Officer, Canada Guaranty Mortgage Insurance Company): Thanks, Andy.

To Andy's point, I would say that everyone does qualify at the qualifying rate, which is 5.25%. Even people in variable rates today, in which you can get a 1.5% variable rate, are actually qualifying at a 5.25% rate.

I would think we wouldn't start to have any difficulties until you get into maybe a 4% or 5% increase in interest rates, and when you look at forecasts, no one is forecasting at the moment that much of an increase. If it goes up 2%, I don't think we'll see a big default problem.

Hon. Ed Fast: Thank you.

Has either one of you done a comparison between housing affordability in the United States and in Canada? If so, what are the differences, if any, and what are driving those differences?

Mr. Stuart Levings: We certainly do look there from time to time, and it varies, of course, by region.

There's this notion that there's a Canadian housing market when in reality there is no Canadian national housing market. Each region is very unique and specific.

In the major centres, Toronto and Vancouver, they compare very similarly to the major centres in the U.S. for the same reasons. Interest rates are where they are, but house prices are very high in all of these major cities, whether New York, San Francisco or otherwise. Once you get outside of those, I think there is definitely a general acceptance that affordability is still a little bit better in the U.S. given that they have a lot more supply. They have a lot more availability of housing stock, whereas with Canadians we tend to be more concentrated around the major centres and therefore we do suffer from this systemic undersupply issue.

Hon. Ed Fast: Is either one of you familiar with the shared equity program the government announced three years ago?

Mr. Stuart Levings: Yes.

Hon. Ed Fast: The take-up has been underwhelming.

I'd like to know whether there's a greater role the private sector could play in delivering this program more effectively and perhaps in a more timely manner.

Mr. Andrew Charles: As it relates to shared equity, there has been very modest uptake on a flow basis that represents 2%, 3% or maybe 4% of our total flow, something in the low single digits.

I believe Canadians have a general reluctance to share any upside in their homes with the government. A variety of private shared equity programs have emerged on the marketplace. I believe the underlying premise that Canadians want to share in any upside is unproven at this point.

The Chair: Thank you.

That's your time.

Thank you, MP Fast.

We're moving to the Liberals with MP Chatel for five minutes.

Go ahead, please.

[*Translation*]

Mrs. Sophie Chatel (Pontiac, Lib.): Thank you, Mr. Chair.

Before I start putting my questions to the excellent witnesses we are hearing from today, since financial markets and the financial sector will play an extremely important role in the transition to a green economy, I would like to move the following motion:

> That the committee undertake a study on the current state of play on (a) “green finance”, (b) “green investment”, (c) “transition finance”; and (d) transparency, standards and taxonomy.
>
> That this study consist of:
>
> (a) At least 5 meetings, with each meeting lasting no less than 2 hours
>
> (b) Witnesses, including:
>
> Representatives from the OECD Centre on Green Finance and Investment, the United Nations Environment Programme (UNEP), and other key relevant federal, provincial and territorial, international leaders be invited to give testimony;
>
> Peter Routledge, Superintendent, Office of the Superintendent of Financial Institutions;
>
> Kathy Bardswick, Sustainable Finance Action Council;
>
> Ms. Barbara Zann, Mr. Mark Carney and Mr. Dan Breznitz as individuals;
>
> International Sustainability Standards Board.
>
> That the committee present the report on this study with its recommendations to the House on June 17, 2022.
>
> That the Chair be empowered to set timelines for witness recommendations from committee members, and to schedule witness appearances.

I don't want the committee to debate this now. The debate could be held at a later date, as decided by the committee.

I will now put my questions to the witnesses.

● (1210)

[*English*]

I'll switch to English.

There were rising issues with home affordability in major cities before the COVID pandemic, but something that we saw during the pandemic was the overheating of secondary markets in smaller communities.

Starting with Mr. Charles, can you speak about what the impact of this has been on your clients and any other trend that you have noticed over the course of COVID?

Mr. Andrew Charles: We certainly saw, in the early days and throughout the pandemic, a significant amount of first-time homebuyers purchase property outside the downtown cores or outside the urban centres, right across Canada. To use Toronto as an example, there was a fairly significant movement out to what I'll call “secondary markets”, such as Kingston and Peterborough and that whole range, where people felt far more comfortable. There was an exodus from the city.

As the pandemic has evolved and as Canadians have become more vaccinated and health conscious, we have seen a return, if you will, to the downtown urban cores across the country, due to lifestyle, due to a heightened level of safety as they became vaccinated and due to the overall entertainment and vibrancy component that exists in Canada's urban centres.

In the early days, we saw a significant amount of evolution outside of Toronto, which put a lot of pressure on inventory, because if you have a significant number of purchasers going to a small marketplace, the supply isn't ready to accommodate that, so it resulted in increased prices in some of our secondary markets in Ontario and elsewhere.

Mrs. Sophie Chatel: Thank you.

Next is Mr. Levings, please.

Mr. Stuart Levings: Yes, I would concur with those comments.

The slogan we heard a lot of was that people would “drive till they qualify”, and that was really an indication of how, as you get farther and farther out of the major centres, the prices start to come down. Buyers were forced to move out along the major highways to find a community that they could afford to live in.

The work from home and the pandemic environment certainly further enabled that. We think that had a big role to play in the level of exodus, because, to your point, we already had affordability issues before the pandemic, but the whole shift in the work environment during the pandemic exacerbated that situation.

I think we are now seeing more of a return again, particularly back into condos. Whereas they had taken a real hit during the pandemic, people are now looking at them again as a viable form of accommodation, in particular if you are required to go back into the office for some number of days a week. That's important and good, because we want diversification back into the major urban areas. That's again another reason why we are also advocating for a lift in that maximum $1-million dollar cap.

The Chair: Thank you.

Thank you, MP Chatel. That is the time.

Members, we are moving into our final round. Seeing that we do not have enough time to do a full round, I'll allocate the time equally, as I usually do. We'll start with the Conservatives.

I have MP Stewart up for four minutes.

Mr. Jake Stewart (Miramichi—Grand Lake, CPC): Thank you. Can you hear me?

The Chair: We can hear you, yes. Please start your video, MP Stewart.

There you go. We want to see you.

That's an excellent background.

Mr. Jake Stewart: I'm sorry about that.

I'd like to thank our witnesses for taking the time to speak with the committee today. Having the two largest mortgage underwriters in Canada here is very valuable.

Before I ask my questions, I'd like to point out that both of our witnesses passed CMHC last year in market share for underwriting of mortgages, in part due to CMHC's mismanagement in making their rules even tougher for first-time homebuyers, a rule that CMHC later came to regret, as is easily proven by the fact that they reversed their decision.

My first question is for Mr. Levings.

How did you overtake CMHC as Canada's number one lender for mortgage insurance?

● (1215)

Mr. Stuart Levings: Thank you for the question.

I would say this. The obvious first catalyst was the point you made around the sudden pullback in what was available from CMHC.

We have had a very long run in the industry in Canada. We've been around for more than 25 years and have very strong relationships with all our lenders and have always aspired to provide excellent customer service.

Once the major player at the time had withdrawn a significant portion of the mortgage insurance available to their borrowers, lenders naturally turned to the private sector to ask if we were going to follow suit or if we would continue to support the industry and borrowers. We naturally assumed that lenders needed the support and that consumers needed the support to have ongoing access to mortgages during the pandemic, and we chose to stay the course. As a result of that and our underlying strong service, it was a fairly quick market share accretion that followed and that took us up to be the number one mortgage insurer in Canada.

Mr. Jake Stewart: Thank you for that. I appreciate the answer.

Do you feel, Mr. Levings, that Canadians trust you more than CMHC?

Mr. Stuart Levings: That's a very difficult question to answer.

I would say that we do believe that our customers have tremendous faith in us as a counterparty, given the level of capital we hold and the rigour and discipline with which we originate mortgages.

I would say that Canadians, in general, have come to understand a lot more about the mortgage finance market and the players therein just because of the absolute amount of focus that's been put on this industry over the last many years. As a result they understand and know the role that we, as mortgage insurers, play, and I think they do have faith in the private sector at this time.

Mr. Jake Stewart: Thank you for that.

Mr. Levings, I have a couple of questions here and I'll ask them both.

What role do you see CMHC playing in the future? Also, do you feel there is a need for them in the mortgage insurance space anymore? I'm just curious to hear your thoughts are on that.

Mr. Stuart Levings: Competition is important, and we value competition. We think it's good for consumers. It helps to keep us all on our toes. I would argue that we're all—at least the track record would suggest—responsible competitors, and I would suggest that there is a role for CMHC to play as one of those competitors.

I think the days of their being a significantly dominant player with a 50%-plus market share are likely over. I think the role they play today at the 30% to 35% market share level is good for our industry and, more importantly, good for the consumers who at the end of the day are the ones who are getting the homes.

Mr. Jake Stewart: Thank you, Mr. Levings. I appreciate your responses.

I'd like to extend the same question to Mr. Charles. What role do you see CMHC playing in the future, and do you feel there is a need for them in the mortgage insurance space anymore?

Mr. Andrew Charles: CMHC has played a very strong stabilizing role in Canada since the end of the Second World War. I would say that there is no need or requirement for CMHC to take on a predominant market share.

One of the interesting aspects of the pandemic is that Canada's housing finance system worked very well with the two private companies representing more than 70% of the mortgage insurance flow in Canada. I think to some extent that was a bit of an acid test, if you will, during the early days of the pandemic when economic uncertainty was a really key consideration.

As it relates to mortgage default insurance, CMHC, in our view, isn't required to play a much more significant role.

It's hard fought. Market share matters. I would say that risk management matters just as much as market share, if not more, and we always want to be very thoughtful about the risk we're taking on.

The Chair: Thank you, Mr. Charles.

Thank you, MP Stewart.

We're moving to the Liberals with MP Baker, for four minutes.

Go ahead, please.

Mr. Yvan Baker (Etobicoke Centre, Lib.): Thanks very much, Chair.

Thanks to all of our witnesses today. I found your testimony very insightful and I have learned a lot. Thank you.

First of all, I just want to circle back to you, Mr. Levings. I'll start with you as I believe it was you who was speaking about this earlier.

What I've heard from the two of you today is that the primary risk for defaults is driven by the unemployment rate. Is that correct?

● (1220)

Mr. Stuart Levings: That is correct, yes.

Mr. Yvan Baker: Thank you.

I know that Mr. Gergley was helping to respond to this question, and I just want to make sure I understand this part as well. I heard that the way mortgage loans are offered or “originated”, which I believe is the terminology, is such that when lenders make the loan or originate the loan, they price in a little bit of flexibility to ensure that there is tolerance, if you will, for interest rate scenarios that might change. In other words, they take into account the fact that interest rates may rise and what the impact of that would be on the payment that the mortgage holder has to pay. They price in a little bit of flexibility so that if interest rates go up, the borrower can afford to pay the mortgage.

Is that correct?

Mr. Stuart Levings: That is correct, yes. We are required to have a stress-test interest rate—which currently is at 5.25%.

Mr. Yvan Baker: Okay.

It sounds as though what I'm hearing is that the risk of significant default due to interest rate changes—the way your group has characterized it today—is very low.

Is the risk of that very low?

Mr. Stuart Levings: The risk of default is lower due to interest rates rising than due to unemployment rising, yes. I think the bigger issue to do with interest rates is the impact they have on the affordability side, meaning the buying power of buyers, particularly first-time homebuyers.

Mr. Yvan Baker: That's fair enough.

Mr. Andrew Charles: Mr. Baker, I would agree with that assessment. Borrowers don't default generally due to rising interest rates, although there's clearly a stress point. It really is unemployment that dictates and drives mortgage defaults.

Mr. Yvan Baker: Okay. I appreciate that.

You also explained earlier that there are tools that you have—and the lenders have—for individual borrowers, if they do run into trouble if interest rates rise. That's helpful.

I only have about a minute and a half left.

You asked for the raising of the $1-million cap on insured mortgages. Presumably that would open up access to homes for those who otherwise couldn't afford them, but at the same time, it would increase demand for that certain subset of homes over $1 million, which could have an impact on prices. In other words, it could drive them up.

Presumably that could price some folks out of that market. Is that correct?

As policy-makers who are concerned about ensuring that as many people as possible have access to the purchase of a home, which of those two effects are greater? In other words, if government were to do what you ask, would more people have access to a home or fewer people have access to a home?

Mr. Andrew Charles: We would take the view that more people would have access to a home, and I want to be clear on this, particularly in the larger markets in Canada: Vancouver, Hamilton, Toronto. We're not suggesting that this is a necessary metric or policy manoeuvre for Moncton or Fredericton. It really is for those housing markets where affordability is stretched. We view this as increasing accessibility.

It's quite possible today that those borrowers are going into the marketplace with a conventional mortgage with the assistance of the “bank of mom and dad”. It's difficult to get stats on that. However, I would strongly suggest that this is an accessibility play versus it being unduly stimulative in nature.

Mr. Stuart Levings: I would agree with that.

The Chair: Thank you, Mr. Charles and MP Baker. That is the time.

We are moving to the Bloc, and MP Ste-Marie, for four minutes, please.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

I have a question again for Mr. Charles and Mr. Levings. We could change the order and have Mr. Levings answer first.

My question is about climate change.

Owing to climate change, we are seeing more extreme weather events, such as floods and forest fires. I would like to know how you take climate change into account in your fields of activity. How concerned are you about that? Can you determine the cost related to it?

[*English*]

Mr. Stuart Levings: I would say that there is absolutely a focus on climate change in our business and our industry. The focus relates to what it means for housing, naturally, and what it means for house values, because that is a clear driver of our businesses overall.

The issue that comes up is on insurability of homes. When you think about the frequency of events that have occurred, the nature of events that have occurred, it's not clear that there will always be property and casualty insurance coverage for these events, in particular going forward. I think that has ramifications on whether or not lenders are willing to lend in certain parts of the country. That's something that I think we are certainly vocal on, and we are in collaboration with lenders and insurers to think about what the options are, all of the implications, on what climate change means to having property coverage in the future.

It also factors into our stress testing. In terms of our overall financial strength and the amount of capital we hold, we run scenarios that look at significant natural disasters in certain areas of the country and what that would mean, from a loss payment or claim payment point of view, and what that means for our capital adequacy.

● (1225)

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you.

Do you want to add anything, Mr. Charles?

[*English*]

Mr. Andrew Charles: I would concur with the statements made by Mr. Levings.

I would also note that due to climate change, we're seeing, as an example, more flood zones created in Canada where lenders won't lend. As a tactical example, maybe 20 years ago those flood zones did not exist, but they exist now; lenders won't lend anymore, and we won't insure as a result of the implications from climate change.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you.

I have no further questions, Mr. Chair.

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

We are now moving to our final questioner, who will be from the NDP.

MP Blaikie, you have four minutes.

Mr. Daniel Blaikie: Thank you very much.

We touched on this issue a bit earlier in response to one of Ms. Chatel's questions, but I wanted to talk a little more about demand realignment in the housing market over the last couple of years.

We've heard a lot about quantitative easing at this table and the role that it may have played in increasing housing prices, but we've also seen what people want in a home change considerably with remote work. We've seen people feel free to live in places that before weren't practical because of where they work. Remote work has made more places available to Canadians to live in while maintaining their current employment.

I wonder if either of you have some thoughts about how some of those factors and the realignment of demand, whether it's for a larger space, a yard or living out of town—whatever it is—have had an impact on housing prices in the last two years.

Mr. Stuart Levings: I'll take a crack at that.

I think the quick answer is that absolutely it's had an impact. That is what we saw in this moving out into these farther-flung suburbs. It was really to acquire more space, to acquire a single detached type of home where one could have somebody—perhaps even a couple—working from home, and maybe even children at home while their school was virtual.

In these regions, that has put a pressure on house prices that they hadn't seen before. We do think that some of that effect is waning now. As the pandemic winds down, hopefully, and as we see some return back to offices, that should reverse a bit of it. Obviously we're not expecting any kind of major pullback or correction in prices in these sorts of communities, but we do think that the upward pressure on prices there will ease naturally over the next little while.

It is something that goes back to one of our comments around supply and the type of supply that is needed: It's the right type of supply. We're not looking for more 300-square-foot condominiums to be built, because that does not serve the market. That might serve a very narrow, niche, investor-type demand, but really, we need homes that families can live in, and that means more two- and three-bedroom types of units, which likely means larger condos or more townhouses and semi-detacheds to be built.

Mr. Andrew Charles: Mr. Blaikie, just to add to that, I think the unknown at this point in time is the work from home and the hybrid model. Is it sustainable and what does the future workforce look like? That will have an impact on pricing in these secondary markets that we've referenced.

Mr. Daniel Blaikie: Do either of you have any insights into.... We know that we have a national housing strategy, such as it is, and that there are provinces that are making attempts to try to build more units to increase supply at various points on the housing spectrum.

Given that some of these factors relating to demand for certain types of housing have been very dynamic in the last couple of years, do you have any insights into how you try to incorporate that into the public policy work that's attempting to address the supply side of the equation?

● (1230)

Mr. Andrew Charles: I don't have specific insights other than an opinion. It's going to require a significant amount of heavy lifting amongst all three governments to be able to create more high-density housing in Canada's urban centres. We feel that's where the issue is. It's your large urban centres, sir.

Mr. Daniel Blaikie: Thank you very much.

Mr. Levings, do you have any final thoughts on this matter?

Mr. Stuart Levings: I would agree. It's really around zoning and allowing for that break away from that single-detached family zoning only. That's at the heart of the matter, and that's understandably a challenging one, but it's what needs to happen.

Mr. Daniel Blaikie: Thanks very much, both of you. It's much appreciated.

The Chair: Thank you, MP Blaikie.

I want to thank our witnesses for coming before our committee, and for your remarks, your testimony and your answers to the many questions. You are definitely experts in everything housing. It is a big national past-time here in Canada and will inform our inflation study that is before our committee.

Thank you again for coming before us and for providing us your time. That's on behalf of all the members of the committee, the clerk, the analysts, the interpreters and everyone here. Thank you very much. We want to wish you a great day, and we look forward to incorporating much of what you have said into our report.

Thank you.

Members, at this time we're going to proceed to committee business. For those who are attending virtually, as we're moving in camera you should have access to a new Zoom meeting link, and we'd ask that you go to that new link provided by the clerk and switch over. We'll wait until you come back.

Mr. Adam Chambers: Mr. Chair, as that's happening, could I have a quick point of clarification from the clerk or you if we have a question that we would like clarified by a previous witness? I'm thinking in the context of an answer that these witnesses gave today about not insuring investor mortgages. I wanted to clarify CMHC's role in that market.

Is that question best put through the clerk to CMHC or is it something that everyone has to agree on? Is it something that comes from the committee or is it something that I should be reaching out for on my own?

The Chair: It's a great question, MP Chambers.

It goes through the clerk, from what I'm understanding.

Mr. Adam Chambers: Okay. I'll put something together and get it to the clerk.

The Chair: Yes. That would be great for our committee.

Thank you. We'll suspend.

[*Proceedings continue in camera*]

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