April 13, 2023

Peter Routledge, Superintendent
Office of the Superintendent of Financial Institutions (OSFI)
255 Albert Street 12th Floor
Ottawa, Ontario K1A 0H2
Sent via email: B-20@osfi-bsif.gc.ca

Dear Superintendent Routledge:

Re: Public consultation on guideline B-20: Residential Mortgage Underwriting

Thank you for your service to Canadians and for considering these comments on behalf of our organization, its members, and the thousands of Canadians who are their valued clients.

The Canadian Mortgage Brokers Association (CMBA) is an inter-jurisdictional umbrella association consisting of provincial mortgage broker associations in Canada. Our mandate is to enhance the mortgage brokering industry by promoting education and professional development among our members. We aim to provide a platform for members to grow and improve their skills, and become leaders in their field. The association also serves as an advocate at the provincial and national levels for its members by giving them a voice in matters that affect the industry and profession. By doing so, the association is dedicated to advancing the industry and improving the lives and careers of its members and their clients.

CMBA members and the wider community were heartened by OSFI's recent Strategic Plan, particularly in relation to the "Strategic Stakeholder and Partner Engagement". OSFI's determination to engage with "a more diverse set of stakeholders, partners and the public," and to, "expand our stakeholder monitoring and leverage tools and processes to better integrate views from external stakeholders, which will allow us to be more aware of the stakeholder environment in which we operate." Both are exceptionally important improvements welcomed by CMBA and, we believe, most Canadians.

OSFI's mandate[1] specifies particular entities it "acts to protect", namely, "[FRFI] depositors, policyholders, financial institution creditors and pension plan beneficiaries." For wider audiences, we note that OSFI is not in the business of protecting Canadians as a whole. We do, however, believe there is a need and path for OSFI to consider how focusing solely on those named groups can negatively impact a wider group of Canadians. On behalf of fellow CMBA members, I extend our earnest and sincere offer of assistance in such an effort. Our members are, for all intents and purposes, front-line workers when it comes to the financial health of existing and aspiring Canadian homeowners.

[1] https://www.osfi-bsif.gc.ca/Eng/osfi-bsif/Pages/mnd.aspx

It is a privilege to represent our members as president and chair of both CMBA National and CMBA Ontario. We appreciate working with regulators and governments to ensure strong consumer protections through continuing improvement of the mortgage brokering sector. We also pride ourselves in helping creditworthy Canadians improve their economic livelihoods through homeownership, helping to curtail growing wealth inequality across Canada.

I am also honoured to be on the Financial Services Regulatory Authority of Ontario (FSRA) Technical Advisory Committee for Mortgage Brokering through 2026. This committee advises FSRA on enhancing policy and supervisory approaches, and shares the regulator's desire to "support consumer protection, drive innovation and increase regulatory efficiency." More broadly, FSRA and fellow provincial regulators represented on the Mortgage Broker Regulators' Council of Canada (MBRCC) are exceptional public servants who have a tough task balancing the need for evolving and improved consumer protections with democratically insisted-upon red tape reduction. CMBA values and appreciates these public servants and their efforts.

The more technical questions you seek answers to are already being ably addressed by several of our valued FRFI partners, and others not overseen by OSFI. CMBA would like to address the consultation's Question 4, specifically:

> Considering each of the proposals in this paper collectively:
>
> - What are your views on their potential joint impact, or interconnectedness?
> - Are there alternative options that OSFI should consider that would better achieve its policy objective?

To the extent that B-20 is designed to create a bright-line threshold for lending or creditworthiness, it is not a "guideline", which definitially cannot really be expected to have a strict binary "lend/don't lend" outcome. It should have fuzziness at its borders, and we want to help you understand the people and situations at those borders. We hope that this will lead to the development of equitable, prudent, and realistic elasticity at the borders, with economically and socially desirable outcomes throughout the mortgage and housing markets

Our team solicited the opinions of CMBA members and other senior members of the mortgage brokering community regarding your consultation. We discussed the intent of your proposals and your questions. The most frequent comment by members was this:

"Why now?"

CMBA believes that socioeconomic events and data since the beginning of this consultation period in January 2023 have *already* allowed for much of your stated policy objective to be met without the need for further alteration of the guideline. Indeed, we are pleased the Bank of Canada held its Policy Rate in both March and April. A **"do no further harm"** holding pattern is in place. We believe OSFI should adopt the same approach as it pertains to B-20.

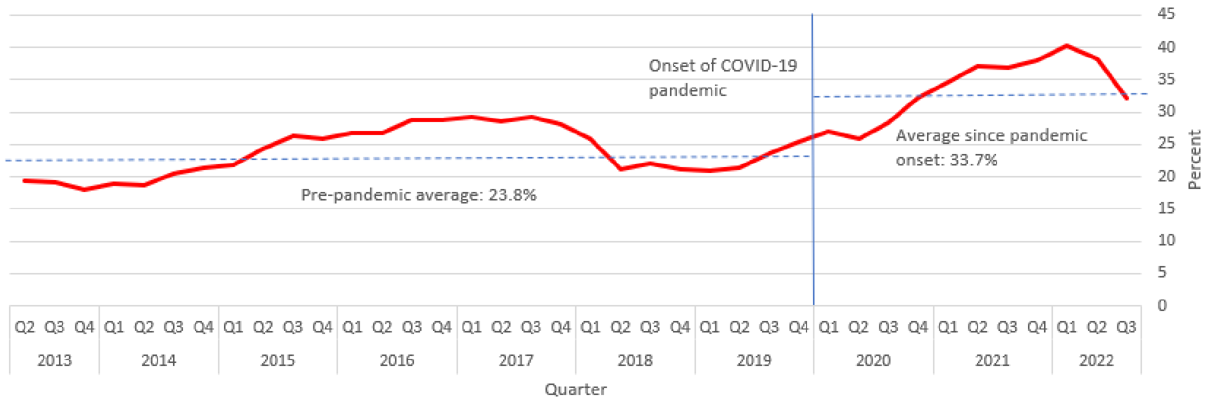
We also are confident that the enhancing of credit quality in residential mortgage assets will continue through existing policies. OSFI states that "the principles-based regulatory approach of B-20 places the onus on FRFIs to appropriately assess and manage their risks," and all evidence points to FRFIs having appropriately assessed and managed the risks. Canada is proving resilient relative to other countries adhering to Basel III[2].

As most federal policy is data dependent, we note that **data stales more quickly than ever**. Last month, the world learned that a multi-billion dollar run on a bank can now take *seconds* instead of days; this reflects a new world in need of new paradigms. Relying on near term data to set long term policy seems, to most outside observers, to be archaic and flawed.

We are concerned that **the justification for this consultation and proposed alterations to B-20 seem predicated on an event now in the rear view mirror**, namely COVID-19. OSFI's chosen charts, figures, and their descriptions in the consultation paper support this view. "*Why now*?" is a valid concern. Your initial consultation began four months ago. The charts you prominently placed within the consultation paper seem to convey an outdated message, especially in light of more recent and potentially more relevant data from the "late/ post-pandemic" period.

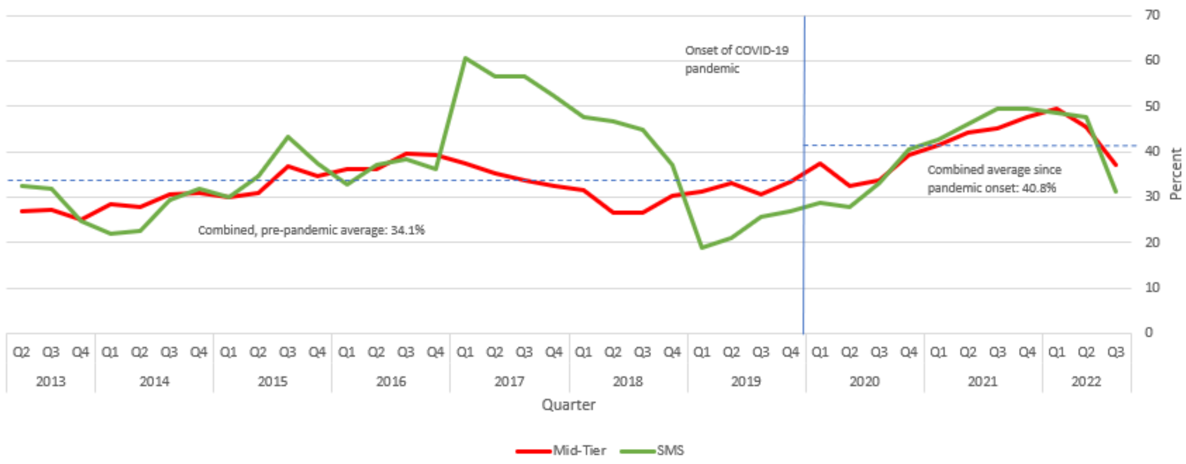
The two metrics you prominently cite are "*Share of high loan-to-income (>4.5x) originations, industry-wide (volume)*", and, "*Share of high loan-to-income (>4.5x) originations, Mid-Tier and Small and Medium-sized (SMS) Institutions (volume)*." These outdated charts ended two quarters ago, yet still clearly show this is a short-term trend. The trends suggest that updated data would be highly relevant to the analysis.

Chart 1 - Share of high loan-to-income (>4.5x) originations, industry-wide (volume)



2 https://www.bis.org/bcbs/basel3.htm

Chart 2 - Share of high loan-to-income (>4.5x) originations, Mid-Tier and Small and Medium-sized (SMS) Institutions (volume)[3]



These charts focus on "pre-pandemic average" and "average since pandemic onset". We trust OSFI is not using COVID-19 as an excuse for new policy changes, because **the pandemic emergency is over.** (This week, U.S. President Joseph Biden signed into law *H.J.Res. 7*, "which terminates the national emergency related to the COVID-19 pandemic.") **OSFI's cited "near-term" threat is passed.**

From March 2022 to March 2023, a mere 12 month period, the Bank of Canada Policy Rate was increased by 450 basis points. This 1,700% hike will be noted by economists and other historians for decades to come.

It is also worth noting that 2023 will most likely be the first year in modern Canadian history in which money supply (M1) will be *negative* year-over-year. **This engineered contraction and recession has already forced lenders across the economic spectrum to tighten everything**, as the BoC has hoped. As the BoC has noted since this consultation began, "*demand for mortgages has fallen, and housing activity has weakened sharply from unsustainably high levels*."

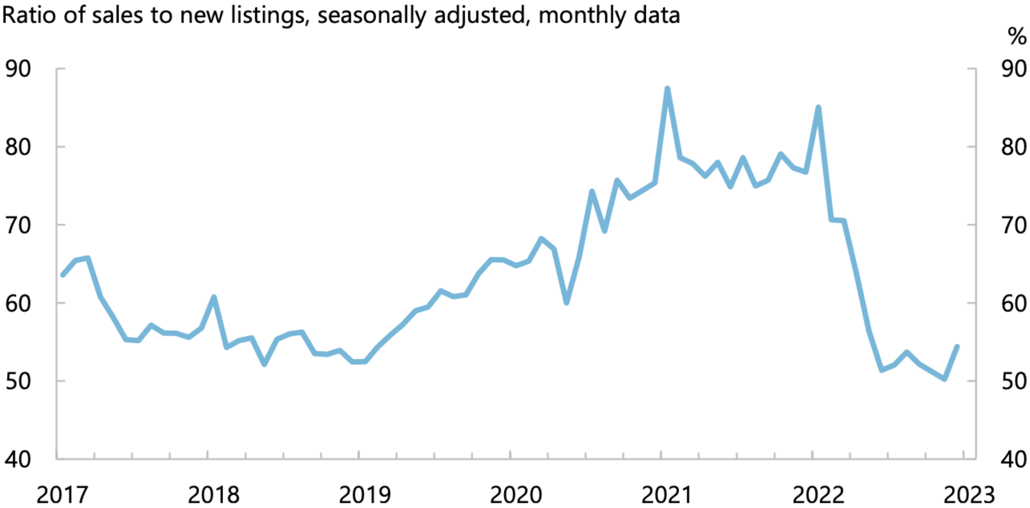
[3] https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/b20-cd.aspx

Demand for mortgages has fallen, and housing activity has weakened sharply from unsustainably high levels (**Chart 2**).

From: Remarks by Tiff Macklem
Governor of the Bank of Canada
CFA Québec February 7, 2023

Chart 2: **Housing activity has weakened**

Ratio of sales to new listings, seasonally adjusted, monthly data



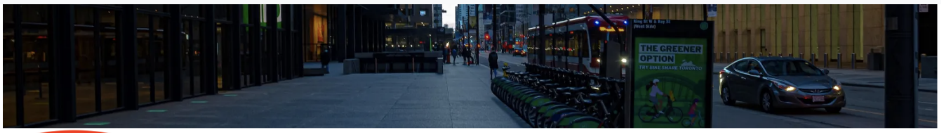
Source: Canadian Real Estate Association

Last observation: December 2022

https://www.bankofcanada.ca/wp-content/uploads/2023/02/remarks-2023-02-07.pdf#chart2

The "near-term issues" OSFI cites as a reason for this consultation were already known in late 2020. The Bank of Canada, for over two years, said that Canadian mortgage quality was deteriorating. The Bank circulated data and narrative widely almost two years ago, in mid-2021[4], and earlier:

BETTER DWELLING



APRIL 1, 2021

Canada's banking regulator is seeing a spike in highly indebted mortgage borrowers. The **Office of the Superintendent of Financial Institutions** (OSFI) observed renewed growth in the exposure of mortgages to "over-leveraged" households in Q4 2020. Low interest rates are fueling rapid growth in borrowing — for both quantity and size. The share of mortgages going to over-leveraged borrowers blew past the pre-B-20 highs. It now sits at the highest share of originations on record.

https://betterdwelling.com/canadian-mortgage-approvals-for-over-leveraged-borrowers-soars-to-a-record-high/

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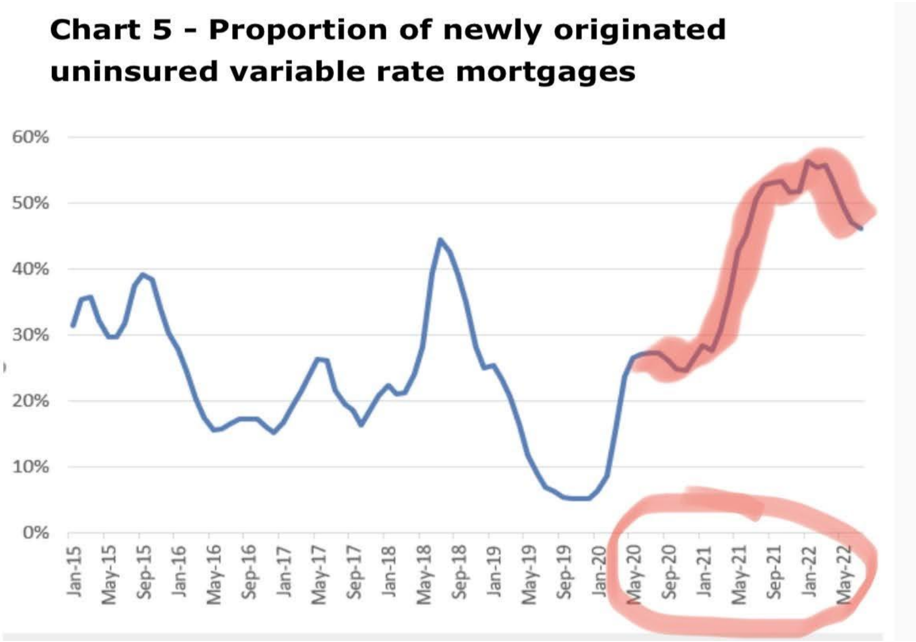
[4] https://betterdwelling.com/canadian-mortgage-quality-has-deteriorated-bank-of-canada/

In 2021, CMBA expressed concerns that the growing gap between MQRs for fixed and variable mortgages would lead to a spike in variable mortgage originations. This situation compelled people to go variable. We feel obliged to note that policy discussions within our mortgage brokering community and with public officials continue to include comments on the damage this MQR divergence caused clients. Experts also still ask why OSFI didn't act on this in 2021 or in early 2022.

We note this “Chart 5” OSFI shares on its current “Residential Mortgage Underwriting Practices and Procedures Guideline (B-20)” webpage:



OSFI chart entitled, “Proportion of newly originated uninsured variable rate mortgages”
https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/b20-nfo.aspx

That highlighted spike in 2021 has now led to considerable financial stresses on tens of thousands of Canadians who faced that historic 50-week, 450 basis point jump in the BoC Policy Rate. It is why most CMBA member business is now focused on helping affected homeowners move from variable to fixed mortgage products. That said, we also know that an updated version of that chart would show an ongoing drop in variable rate mortgage originations, further proving that **“near term issues” *are* truly settling**.

The operations and challenges of small and medium banks (SMBs) across North America have also changed since 2021, with greater scrutiny on and within them since the latest OSFI B-20 residential mortgage underwriting regulation consultation began in January. The collapse of Silicon Valley Bank (SVB) in the United States in March 2023 and the aforementioned bank run highlight the increasing importance of SMBs to Canadians; it has also highlighted the changes to their businesses:

- the cost of capital has increased
- deposits have dropped, the major source of SMB funding
- loan demand is falling
- lending standards are naturally already tightening

Should OSFI further tighten B-20 mortgage lending guidelines, we know that smaller banks and private lenders will be asked by borrowers and the system as a whole to do even more. FRFIs under your purview have already reduced lending. Further tightening of B-20 can potentially be very harmful and distressing to the overall Canadian economy.

SMBs and private lenders are becoming lifeboat captains, helping otherwise creditworthy borrowers compelled to turn to them because federal policies made it necessary. Again, these entities are not specifically OSFI's mandated priority, but they have been materially affected by OSFI policies. Policies which affect institutions and large groups are necessarily designed to have broad effect; they are not designed with an eye to the granular level of impact upon individuals. If a small number of creditworthy individuals are adversely affected by a given policy, simple compassion makes it clear that there should be some mechanism for exempting them from it; and the impact on the regulated industry would be infinitesimal. **If larger numbers of people are affected - particularly if they disproportionately represent identifiable groups within our society - it becomes a matter of ensuring that the policy allows for exemptions to protect against the unacceptable marginalization of creditworthy individuals.** As the federal government has insisted, the marginalizing of any group of Canadians is unacceptable. The strong efforts towards greater equity, diversity and inclusion in recent years is a reflection of this amelioration of values. We note that OSFI has made stronger DEI a priority for the organization, which also leads us to helping ensure OSFI and the wider public understands who any proposed B-20 policy shifts can most adversely affect.

Since the introduction of Guideline B-20, **mortgage brokering has become more essential than ever to Canadians**, and we are proud to help existing and aspiring homeowners achieve the Canadian Dream. Homeownership remains a path to greater wealth equality. Of course, we remain frustrated that our **housing supply is perpetually deficient**, and how this lack of supply coupled with record-breaking immigration will impact Canada going forward. Our upcoming advocacy will definitely focus on housing supply and other related issues, but the focus here is on B-20. **The social impact of B-20 - the mortgage stress test - and other policies emanating from Ottawa is real, and growing.** This is a situation under your purview, and exists regardless of the end result of this consultation.

It is an understood fact that both OSFI's mandate and the policy objective of this consultation conflicts with the goals and hopes of many typical Canadians which CMBA members represent. Again, our offer to help you and other policymakers better understand the situation stands. We sincerely hope to provide you and your team with better "real time" information about Main Streets across Canada, relevant information beyond the macroeconomic data strongly relied upon by policymakers.

One final comment: In OSFI's Annual Risk Outlook – Fiscal Year 2022-23, it is noted that OSFI "will continue to assess whether mortgage underwriting standards are well-adapted and sufficient."[5] We know that **mortgage underwriting standards can be greatly enhanced with the help of the Canada Revenue Agency.** CMBA has been asking for several years for its members and lenders to have access to "Line 15000" income verification since it was Line 150. We ask for OSFI's support, along with the already expressed support of CMHC, in insisting that CRA allows for access to Line 15000 income verification as soon as possible. **CRA income verification is key to reducing mortgage fraud and enhancing mortgage underwriting standards, and it will also assist in anti-money laundering efforts.**

Circling back to the first paragraph of this letter, we highlight your Strategic Plan's "Strategic Stakeholder and Partner Engagement"[6], and your desire to "maximize our influence and contribute to public policy matters in a value-added way by taking a strategic approach with partners, stakeholders and the public." Adding OSFI's voice to our campaign for CRA income verification to reduce mortgage fraud and ameliorate AML efforts would be of enormous benefit to our members, and to all Canadians.

CMBA welcomes the opportunity to continue the dialogue with OSFI on any of the aforementioned issues as we continue to work for the best interest of existing and aspiring homeowners. On behalf of CMBA members across Canada and the many thousands of Canadians we represent, thank you very much for your time and consideration.

Sincerely,

Sadiq Boodoo

Sadiq Boodoo, B.B.A.

President & Chair, Canadian Mortgage Brokers Association - National
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[5] https://www.osfi-bsif.gc.ca/Documents/WET5/ARO/eng/2022/aro.html#housing-risk
[6] https://www.osfi-bsif.gc.ca/Documents/WET5/SP/eng/2022/index.html#strategic