Toronto Regional
Real Estate Board

Professionals connecting people,
property and communities.

November 30, 2023

Peter Routledge
Office of the Superintendent of Financial Institutions
255 Albert Street, 12th Floor
Ottawa, Ontario K1A 0H2

Dear Superintendent Routledge:

On behalf of the Toronto Regional Real Estate Board (TRREB), we were pleased to see Canada's Deputy Prime Minister and Minister of Finance, Chrystia Freeland, announce the Government of Canada's Fall Economic Statement commitment to not require insured mortgage holders to requalify under the insured minimum qualifying rate when switching lenders at mortgage renewal. We believe this is a sensible and prudent policy change that will bring desperately needed relief to homeowners who are struggling to make ends meet. As mortgage carrying costs grow in the present high-interest environment, homeowners are facing difficult challenges every day. That is why we are calling on the Office of the Superintendent of Financial Institutions (OSFI) to apply the same approach to uninsured mortgages.

A recent market update by RBC Capital Markets warned that roughly 60% of outstanding mortgages at Canada's major banks will be due and up for renewal within the next three years (between 2024 and 2026). As recently as 2021, five-year fixed rate uninsured mortgages were widely available in the 2.20% range. Today, the major banks are posting 5-year fixed rates ranging from approximately 6.49% to 7.09%. To put this in perspective, on a 25-year amortization, a borrower with a $500k mortgage at 2.20% would have had a monthly payment of approximately $2,168. If that borrower had to renew at 7.09%, the new monthly mortgage payment would be $3,563 – an increase of $16,740 per year. That's $83,700 over five years which is in the range of what it presently costs to send a student to university for four years.

As at November 22, 2023, RateSpy.com, a commonly used site that allows brokers to track contract rates being offered by lenders, shows 5-year fixed-rate mortgages ranging from 5.35% to 7.04% among the fifty most competitive lenders, with the lowest offering from the big banks (BMO) at 6.24%. Putting this in perspective, the above-described borrower would pay $3,206 per month at 5.35%, $3,295 at 6.24%, or $3,547 at 7.04%. Using the best rate available, the borrower with a $500k mortgage could be forced to pay an extra $4,092 per year, or $20,460 over a five-year term. At a time of a national affordability crisis, that's a significant amount of money for any household to lose out on.

The present policy of applying the stress test on a switch of lenders creates an incentive for a distressed borrower to pick a riskier mortgage product. Rather than locking into a five-year fixed rate with a less expensive lender, a borrower could be forced to take a shorter amortization. In some cases, they could be persuaded to choose a variable rate mortgage, be it with their incumbent lender or possibly with a different lender if they can qualify for some products but not others. In the worst cases, borrowers could be forced to either liquidate their home or attempt to refinance their mortgage by extending out their amortization to make the payments lower and more affordable. This reality runs contrary to the more logical objective of making it easier for

borrowers to select mortgage products that offer more stability to both the lender and the borrower.

Allowing borrowers to switch lenders, regardless of their circumstances, drives up the competition, and ultimately, benefits the borrowers. It allows them the opportunity to better their financial situations by empowering them to shop for the best possible rates and pick products that offer them stability. Exempting borrowers from the stress test at renewal would allow them to make decisions that are better for their households.

Further, exempting borrowers from the stress test at a lender switch does not prevent a new lender from doing their due diligence on an application. The lender can still verify the identity of the borrower and the borrower's income. They can still check the borrower's credit. Title searches can still be done. A lender can also order an appraisal of the home to verify the value of the collateral. Lenders must also hold the appropriate amount of capital for each loan. Lenders have the tools and processes in place to do due diligence in underwriting loans when borrowers switch, and they have the resources and tools necessary to monitor and manage the overall risk of their portfolios.

The Government of Canada has already moved to protect the interests of insured borrowers, signalling that it has full confidence that the move will not put financial institutions at risk. It is time for OSFI to extend the same offering to uninsured borrowers who desperately need relief.

Sincerely,

Paul Baron
President
Toronto Regional Real Estate Board

John DiMichele
Chief Executive Officer
Toronto Regional Real Estate Board