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Canadian
Home Builders'
Association



Association canadienne
des constructeurs
d'habitations

To: CHBA Members

From: Gary Friend, CHBA President

Date: February 16, 2010

Re: **New Requirements for Government-backed Mortgage Insurance**

Since the beginning of December, the CHBA has been making continuous representations to the federal government about the state of the housing industry in Canada.

As you are aware, some commentators have argued that Canada risks the sort of “housing bubble” experienced in the U.S., now that markets and prices are recovering. This has led to calls for additional restrictions on mortgage lending including higher down payment requirements, and shorter amortization periods.

The CHBA has opposed such measures. We do not believe they are justified or needed. We have also made it clear to the federal government that unwarranted restrictions on mortgage insurance terms could both damage our industry, and imperil Canada’s economic recovery.

Housing markets in Canada remain healthy and stable, and housing demand is supported by economic fundamentals and a growing population. While historically low interest rates have certainly helped to motivate many Canadians to buy a new home, there is little evidence that this is leading to excessive risk-taking by borrowers.

We are not alone in this view. The Bank of Canada, the Department of Finance and Canada Mortgage and Housing Corporation have all stated that there is no evidence of a “housing bubble” in Canada. Other respected authorities, including Genworth Financial Canada and Altus Group Economic Consulting, have reached the same conclusion.

Consequently, the CHBA has very mixed reactions to today’s announcement by the Minister of Finance on rules to be applied to government-back insured mortgages, effective April 19th.

On a positive note, we were pleased that the 5% downpayment requirement and 35 year amortization option remain in place for new home buyers. This is certainly the right outcome. Requiring new home buyers to meet the lending standards for the five-year fixed-rate mortgage, even if they chose a shorter term at a lower interest rate, is also prudent.

However, the CHBA was surprised and alarmed that the Minister announced new provisions requiring a 20% downpayment for government-backed mortgage insurance on non-owner-occupied properties. This restriction will impact condominium developers in communities across Canada. There had been no prior consultation with our industry on this matter, nor is there evidence that condo “speculation” constitutes a problem requiring such downpayment restrictions.

The CHBA is commissioning research to assess the likely impact of the 20% downpayment requirement, including rental supply, and will inform the federal government concerning how its new rules will affect housing markets, and consumers, across Canada. We will keep you informed as our work proceeds.