



August 30, 2023

BY EMAIL ONLY

Office of the Superintendent of Financial Institutions
Consultations@osfi-bsif.gc.ca

To whom it may concern:

On behalf of the Appraisal Institute of Canada (AIC) and more than 5,600 valuation professionals, we are pleased to make this submission in the context of the public consultation on OSFI's proposed changes to the Capital Adequacy Requirements (CAR) Guideline and the Mortgage Insurer Capital Adequacy Test (MICAT) to address risks related to mortgages with growing balances.

As you may be aware, AIC is the premier real property valuation association in Canada with the mission to "advance the Canadian real property appraisal profession in the public interest through education, self-regulation and member support." Founded in 1938, AIC is a self-regulating professional organization that grants the distinguished Professional Appraiser (P.App.) trademark accompanied by either the Accredited Appraiser Canadian Institute (AACI) or Canadian Residential Appraiser (CRA) designations to individuals across Canada and around the world. Our members adhere to the nationally and internationally recognized Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP) and are respected worldwide for meeting the rigorous AIC designation program and its ongoing professional development requirements.

AIC is committed to working with governments and stakeholders within the real estate industry to ensure all parties involved in a real estate transaction are protected and well-informed when making lending, purchasing, sales, or investment decisions. We believe our Members play a vital role in every type of real estate transaction by providing an independent, third party value opinion. These opinions are based on strong valuation fundamentals that support a sustainable and healthy marketplace that protects and informs lenders, insurers, and all Canadians.

We want to begin by expressing our support to OSFI for their continued efforts to strengthen mortgage underwriting fundamentals. AIC has long supported the principle that sound mortgage underwriting is best addressed through a two-pronged approach that balances the assessment of a borrower's ability to repay the loan with the appropriate verification of the collateral being used to secure the loan. This applies not only in "normal" times but even more so during times of high interest rates and volatility, such as we are seeing now. It is important to continue to ensure financial institutions are well prepared to navigate various economic scenarios and that consumers, the financial system, and the broader economy are protected.

One aspect of the proposed changes to the CAR Guideline that caught our attention is OSFI's proposal to "explicitly reflect the increased risks associated with mortgages that are negatively amortizing. This would be achieved by invoking paragraph 96 of Chapter 4 such that mortgages with a loan-to-value ratio (LTV) above 65% and that are negatively amortizing, will be treated as



exposures that do not meet OSFI's expectations set out in Guideline B-20 on Residential Mortgage Underwriting Practices and Procedures."

As experts in the field whose work is required to comply with established and rigorous professional appraisal standards, AIC Professional Appraisers are able to provide the most accurate and real-time value of a property in order to determine appropriate LTV ratios for the purposes of the CAR Guideline. An appraisal carried out by a Professional Appraiser ensures the most reliable and precise opinion of value, as Professional Appraisers bring specialized expertise providing property values based on current market conditions, location, property condition as carried out by on-site inspections, and many other important factors.

As such, integrating professional appraisals into the determination of LTV ratios can significantly enhance the accuracy of risk assessments and contribute to a more robust risk management framework. Ensuring that appropriate independent, third party scrutiny is applied in highly volatile markets, such as the current case with high interest rates, will help regulators achieve the objective of ensuring market stability and sustainable levels of Canadian household indebtedness.

Furthermore, given that a property's condition can change (good or bad) rapidly regardless of whether there is volatility in the market or not, it is important to obtain a professional appraisal that includes an on-site inspection. This helps mitigate against and deters fraudulent practices in the real estate industry.

While some may look at Automated Valuation Models (AVMs) to determine the value for the purposes of the CAR Guidelines, we caution against that practice. AVMs often rely on recorded sales data and property condition, if at all, that may be years – or even decades – old. Professionally prepared appraisal reports rely on analysis of real-time, current data – what is happening in the market right now - and on the experienced eye of an appraiser walking through a property. As individual markets can shift very quickly; only a real-time evaluation can truly capture these fluctuations. Given the current inflationary period and overall rising cost of living, relying on AVMs can result in inaccurate value estimates which result in higher consumer indebtedness. An appraisal report prepared by a Professional Appraiser remains the premier risk management tool.

We thank you for considering our recommendations and we are available to answer any questions you may have.

Yours truly,

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