



May 6, 2021

Office of the Superintendent of Financial Institutions of Canada
Email: B.20@osfi-bsif.gc.ca

Re: Sound Collateral Management and Minimum Qualifying Rate for Uninsured Mortgages Consultation

To Whom It May Concern:

On behalf of the Appraisal Institute of Canada (AIC) and more than 5,400 valuation professionals, we are pleased to have the opportunity to make a submission in the context of the Office of the Superintendent of Financial Institutions' consultation on a proposed new benchmark rate for qualifying uninsured mortgages.

The AIC is the premier real property valuation association in Canada. Founded in 1938, AIC is a self-regulating professional organization that grants the distinguished Accredited Appraiser Canadian Institute (AACI) and Canadian Residential Appraiser (CRA) designations to individuals across Canada and around the world. Our members adhere to nationally and internationally recognized standards – the Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP) – and are respected worldwide for the rigorous designation program and ongoing professional development requirements.

AIC has a long history of providing unbiased, independent opinions of property value. AIC's members annually conduct more than one million third-party appraisals with an overall value of over \$1.4 trillion. In 2019, this represented approximately \$595 billion in residential property and \$875 billion of non-residential property, including commercial, industrial, and agricultural real estate. Furthermore, we have many members who provide in-house expertise to private and public sector organizations including governments, corporations, and mortgage insurers.

We are 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 a decision. We believe our unbiased opinions of value based on strong valuation fundamentals help to support a sustainable and healthy marketplace that enables all Canadians to prosper.



We want to begin by expressing our support to OSFI for reiterating the importance of sound collateral management in mortgage underwriting by stating the following in the consultation letter: “Given the current risk environment, OSFI will be looking for heightened vigilance from FRFI lenders in applying the principles of Guideline B-20 related to collateral management, income verification and debt servicing, combined Mortgage-HELOC loan plans and risk governance.” We could not agree more given current market uncertainty, volatility, and activity.

We have been advocating that sound mortgage underwriting is a two-pronged approach that needs to assess a borrower’s ability to repay the loan and the verification of the collateral being used to secure the loan. This rings true in “normal” times but more so during the current pandemic. Specific to the verification of the collateral being used to secure the loan, we are encouraged to see that OSFI is reinforcing the need for proper collateral management by emphasizing the following:

Collateral Management

The COVID-19 pandemic has limited the ability of FRFI lenders to verify the accuracy and stability of property valuations. FRFI lenders should undertake comprehensive and prudent approaches to collateral valuations for higher-risk transactions. Under Guideline B-20, higher-risk transactions include loans with a relatively high LTV ratio and loans in markets that have experienced rapid property price increases.

Appraisers play a crucial role in providing unbiased, independent valuations to help stabilize the market and we are encouraged to see that OSFI recognizes that. We believe these statements from OSFI are well timed given some approaches certain FRFIs have taken lately that in our view are not prudent in such an overheated market. We have, in our estimation, seen potential over-reliance on alternative valuation methods in the last few months to address issues of turnaround time and cost. We believe that this approach creates additional risk to the housing market. Excessive use of alternative models such as an Automated Valuation Model to obtain instant mortgage approvals contribute to overheated markets without proper due diligence on the underlying collateral. This is especially concerning in times of economic uncertainty such as during the COVID-19 pandemic.

Strong valuation fundamentals helped Canada’s economy remain strong during the 2008-2009 global financial crisis. Members of the AIC helped to maintain those fundamentals by contributing their real estate expertise and knowledge to the lending industry and providing sound valuation advice to clients and key stakeholders. Knowing and understanding the value of the collateral is as important as ever, especially in high loan-to-value scenarios, as we continue to navigate through the COVID-19 public health crisis and job uncertainty (influencing a borrower’s ability to repay) continues.



As it relates to the proposal to establish a fixed floor rather than relying on the current benchmark rate for uninsured mortgages, we believe that there are three factors that OSFI should take into consideration before proceeding:

- 1) Protecting consumers from over Indebtedness.** As OSFI has stated, while Canadians have gained significant savings throughout the pandemic, high levels of household indebtedness remain. A minimum qualifying rate serves as a buffer for a range of possible adverse scenarios, which is certainly a prudent approach. However, OSFI's decision to modify the minimum qualifying rate for uninsured mortgages should consider what – if any - impact it will have on reducing indebtedness. Will imposing this new qualifying rate have any significant impact if Canadians can obtain a loan in an alternative lending market at a higher interest rate, thus arguably increasing indebtedness?
- 2) A minimum qualifying rate that reflects market conditions.** Having noted the above factor, it is important to ensure that a minimum qualifying rate reflects market conditions and what is being offered to Canadians. It needs to be anchored in reality and within a certain margin of what could reasonably occur in the market (adversely).
- 3) Continue to protect the real estate market and the lending system from undue risk.** As we have heard from OSFI in the past, one of its main objectives is to ensure the soundness and solvency of FRFIs. A modification to the minimum qualifying rate for uninsured mortgages should continue to keep that in mind – especially given the current economic conditions. One of the fundamental lessons learned from the 2008-09 financial crisis is that the stability of the economy is substantially predicated on the health of its residential mortgage-lending system. An essential contributor to that health is an effective and efficient regulatory regime applied to the mortgage market. Canada's regulations are among the best in the world, have served its citizens well, and have most certainly helped to prevent disruptions to the financial system. As OSFI has continued to build on a sound regulatory framework, we would not want to see a drastic departure from that approach.

We thank you for the opportunity to provide our feedback, and we would be happy to answer any questions you may have.

Yours truly,

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Chief Executive Officer
Appraisal Institute of Canada