

RECOMMENDATION: That the Federal Government Establish a National Roundtable and Finance Committee Study on the Mortgage Lending System.

The AIC requests that the federal government establish a **National Roundtable** and commission a comprehensive study by the **Standing Committee on Finance** to review Canada's mortgage lending system, ensuring that quality valuation fundamentals and prudent underwriting practices are maintained to safeguard the long-term stability of Canada's lending system. A national conversation is needed among the AIC, lenders, mortgage insurers, Appraisal Management Companies, realtors and brokers, and regulators and agencies to ensure the protection of what is the most significant investment for the majority of the people in this country.

RATIONALE:

COMPLEX LENDING ENVIRONMENT

The mortgage lending industry is complex, with highly competitive pressures and a wide range of organizations (small niche players and private lenders to large banks and insurance companies) competing for market share. This environment results in industry players seeking out cost savings and efficiencies at every stage of the mortgage lending process. These efficiencies increase the risk that the quality of the checks and balances inherent in our current system become vulnerable. The integrity of the lending system must not be compromised in the pursuit of efficiency.

RISKS FROM OUTSOURCING AND AUTOMATION

One key concern is the outsourcing of appraisal management to **Appraisal Management Companies (AMCs)**. AMCs compete to secure business from lending institutions through service level agreements that prioritize performance standards such as turnaround times, lower fees, and data extraction.

The increasing reliance on **Automated Valuation Models (AVMs)** further exacerbates these risks. While AVMs offer convenience, they fail to consider critical appraisal factors, such as property maintenance, current condition, and location-specific nuances to name a few. While this business model is not expected to change soon, there are significant concerns about the inherent risks of commoditizing the residential appraisal function.

PRUDENT UNDERWRITING IS ESSENTIAL

This is the cornerstone of a healthy and balanced real estate market. As of Q1, 2024, almost one-third of first-time homebuyers have Loan-to-Value (LTV) ratios higher than 80%¹. This reflects an increasing risk in the market, especially in the event of an economic downturn. With high interest rates and economic uncertainty, it is more important than ever to ensure that proper valuation criteria are in place. Professional Appraisers (P. App.) play a crucial role in providing independent, third-party opinions of value, helping to mitigate these risks by delivering accurate, real-time appraisals based on on-site inspections and thorough market analysis.



As we navigate challenging economic times, it is crucial that the federal government adopts policies that support homebuyers and homeowners while safeguarding the health of our financial system and real estate market. Implementing the AIC's recommendations will help mitigate market risks, enhance housing affordability for aspiring homeowners, and improve the public's understanding of the mortgage lending system.

ACTION NEEDED:

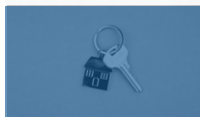
Given the current market challenges, it is imperative to conduct a national review of each step in the mortgage-lending process, with a particular focus on maintaining strong valuation fundamentals. This review should:



Include a **Standing Committee on Finance study** comprised of key stakeholders, including the AIC, lenders, mortgage insurers, realtors, brokers, Appraisal Management Companies (AMCs) and regulators to ensure that independent, third-party valuations continue to safeguard the mortgage lending process and the Canadian public.



Include a **National Roundtable as recommended by the "Shaping our Economic Future" Report of the Standing Committee on Finance²**, which states: "... a permanent round table involving industry, government and regulatory representatives [be] mandated to conduct semi-annual reviews of Canada's regulated mortgage ecosystem, particularly the impact of new regulations on lenders of all sizes, and to develop a framework to assess government proposals, ensuring that they address the unique needs of small and mid-size regulated financial institutions and avoid negative consequences."



Include the expansion of the Office of the Superintendent of Financial Institutions (OSFI) Guidelines B-20 and B-21 to apply to **all** financial institutions providing residential mortgage financing, **ensuring that proper due diligence**—such as on-site inspections and third-party appraisals—is conducted.



Include Professional Appraisers (P. App.) and others involved in the home-buying process in work intended to **improve the public's financial literacy** around mortgage lending to enhance consumer understanding of fees, risks, and roles of professionals involved in the home-buying process.

¹Indicators of Financial Vulnerabilities

²Shaping our Economic Future: Canadian Priorities (February 2024 / 44th Parliament, 1st Session)

