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New Report Examines Impacts of Mortgage Stress Tests on Canadian Economy and Housing Market

TORONTO (May 29, 2019) A new report authored by Mortgage Professionals Canada (MPC) Chief Economist Will Dunning conducts a deep dive on the impacts of the recent introduction of a stress test on both insured and uninsured mortgages in Canada. The report, entitled *The False Binary*, notes that commentary from government officials is often about whether there should be stress testing at all. In fact, there are no serious voices calling for the elimination of the stress tests, and there are many voices saying that there is a need for adjustments to the policies. This report is a plea to the federal government to engage in discussion about the defects within the policies and to consider changes that will limit the worst consequences.

The report outlines how the current stress tests have contributed to a sharp decline in housing activity in Canada. Impacts within resale markets have gotten considerable attention. But, even more importantly, construction of new homes and home renovations are now in the process of turning sharply downwards.

“Each housing start that is lost has an economic impact that is 10 times greater than for each lost resale transaction”, explained Mr. Dunning. “The adjustments for new construction occur quite gradually. The economic impacts have barely begun, will develop slowly, and won’t be fully experienced until the second half of 2021.”

The current stress tests are blunt instruments that are causing undue pressure to several regional economies across Canada, and as a result the economy as a whole. They are also directly impacting the prospects for first time home buyers and others looking to enter the housing market and build equity**. Left unchecked, the current framework could contribute significantly to the development of recessions in some economic regions.**

“For some time, our association and others have emphasized that the major defect within the stress tests is that they fail to consider the income growth that will be experienced by the mortgage borrowers,” said Paul Taylor, President and CEO of Mortgage Professionals Canada. “At 2 percentage points above the actual contracted rates, the stress tests on insured and uninsured mortgages are causing serious and undue negative impacts to the Canadian economy and to the housing market. We advocate for prudent amendments to the current framework. This includes a stress test of 0.75 percentage points to account for higher income and reduced mortgage principal.”

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Mortgage Professionals Canada is the national mortgage industry association representing 11,500 individuals and 1,000 companies, including mortgage brokerages, lenders, insurers and industry service providers. Its members make up the largest and most respected network of mortgage professionals in the country whose interests are represented to government, regulators, media and consumers. Together with its members, the association is dedicated to maintaining a high standard of industry ethics, consumer protection and best practices.

The mortgage broker channel originates over 35% of all mortgages in Canada and 55% of mortgages for first-time homebuyers, representing approximately $80 billion dollars in annual economic activity. With this diverse and strong membership, Mortgage Professionals Canada is uniquely positioned to speak to issues impacting all aspects of the mortgage origination process.

A copy of the report can be found HERE.

For more information, please contact:

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