



Canadian
Federation
of Apartment
Associations

Fédération
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News Release

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CFAA welcomes the Government's moves on mortgage rules

The Canadian Federation of Apartment Associations (CFAA) welcomes the federal Government's announcement of more prudent mortgage lending rules.

The new measures include:

- Requiring all borrowers meet the standards for a five-year fixed-rate mortgage even if they choose a mortgage with a lower interest rate and shorter term; and
- Lowering the maximum Canadians can withdraw when refinancing mortgages from 95% of the value of their home to 90%.

CFAA has been calling for reforms to mortgage lending practices for homeowners for several years, well before the US sub-prime crisis began.

The Finance Minister also requires a minimum 20% down payment to qualify for CMHC insurance for non-owner-occupied properties purchased as an investment. Almost all landlords of purpose-built rental property put more than 20% down now.

The new rules will ensure the soundness of mortgage backed securities. They will also help avoid the devastating personal financial setbacks that can occur when low-income people overextend themselves in order to buy a house.

CFAA urges the Government to look to reform the policies which unduly incentivize homeownership, which often hurts low-income families.

CFAA advocates the adoption of policy measures:

- to promote housing quality and affordability for those whose income, wealth or lifestyle make homeownership unwise or unavailable to them
- to implement an improved tax situation for rental housing to provide benefits to renters analogous to those received by homeowners, so that public policy exerts a more neutral impact on the choice of tenure decision; and
- to phase-out of programs that subsidize low-income homeownership, which are reminiscent of the disastrous Assisted Homeownership Program (AHOP).

For more information, contact John Dickie, CFAA President at 613-235-0101

The Canadian Federation of Apartment Associations represents the owners and managers of close to one million residential rental suites in Canada, through 17 associations across Canada. CFAA is the sole national organization representing the interests of Canada's \$40 billion private rental housing industry, which provides homes for almost seven million Canadians.



Backgrounder - Policies that favour home ownership

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Those policies and programs include the following:

- tax-free status for capital gains on principal residences
- lower property tax rates applied to owner occupied homes in many cities
- rebates on land transfer tax for first time buyers
- the imputed income from living in an owned dwelling is not considered in determining the eligibility and level of payments under the Guaranteed Income Supplement (GIS) program
- tax-free treatment of the imputed income from living in an owned dwelling.

By contrast, since the 1970s the tax treatment of rental housing has become steadily worse.

Homebuyers should be made aware of the disadvantages of home ownership:

- Any gains made through house price appreciation may be offset by the cost of buying and selling.
- The possible benefit due to house price appreciation is uncertain and highly variable. In many years and many markets, house prices fall. This is particularly devastating to those with low equity, or the need to sell.
- For owners paying a high percentage of their income in mortgage payments, even a modest increase in interest rates can be devastating.
- Unexpected or unplanned major repairs.

Numerous American commentators have recently expressed the view that American housing policy has gone too far in promoting home ownership for all households. In *The Crisis in America's Housing: Confronting Myths and Promoting a Balanced Housing Policy*, the National Low Income Housing Coalition says:

Veteran housing counsellors said that providing low-income homeownership was a very time- and money-intensive endeavour that required significant subsidies to help a small number of families. Homeownership cannot replace successful rental assistance programs such as housing vouchers [i.e. housing allowances], and many low-income families are being hurt by the pressure and rhetoric to become homeowners.

In *Rethinking Rental Housing: Expanding the Ability of Rental Housing to Serve as a Pathway to Economic and Social Opportunity*, William Apgar of the Joint Center for Housing Studies of Harvard University, and former Secretary of Housing and Urban Development, writes:

There are downsides to excessive focus on promoting homeownership. Owning a home may prove unhelpful or even financially disastrous. Many low-wealth and low-income families ... hope that homeownership in and of itself will help them achieve a better life.

In fact, lower-income homeowners may become trapped in declining neighbourhoods with little access to employment, good quality schools or social services and equally limited potential for price appreciation. In these situations, all too often the dream of homeownership becomes the nightmare of a financially devastating foreclosure.