

WREB Presentation to National Task Force on Financial Services - April 8, 1998

Presenters: WREB President Rolf Hitzer and Commercial Division Chair Wes Schollenberg

Established in 1903, the Winnipeg Real Estate Board(WREB) is the longest running board in the country. It is a professional and industry association representing close to 1,500 real estate brokers, salespeople, appraisers and financial members active in the local real estate market. In 1997, there were over 10,000 Multiple Listing Service(MLS) sales totaling nearly \$880 million in dollar volume transacted through the Winnipeg Real Estate Board. Members, in particular, the Commercial Division, were involved in numerous exclusive listing sales and leases which would be in addition to the MLS sales.

The Winnipeg Real Estate Board and its members are members of the Canadian Real Estate Association(CREA) which represents 70,000 members in 115 local real estate boards, 10 provincial associations and one territorial association. CREA has provided many submissions to the federal government on behalf of its membership. For example, The Deficit Albatross in 1984 to Choices for a Country in Debt in 1994 both advocated measures similar to those which have been carried out by Finance Minister Paul Martin.

The first item the Board wishes to bring forward here is one our national association has been spearheading over the last four years. It speaks directly to the consumer's right to prepay a mortgage and a standardized penalty that's fair to both the lender and borrower. The Association has consulted widely with government and other stakeholders in efforts to strengthen disclosure of prepayment terms and conditions for mortgages of five years or less.

Canadian consumers have no right in law to prepay a mortgage of five years or less before maturity. When prepayment is possible it is at the lender's discretion and on the lender's terms. REALTORS have reported huge variations in the penalty charged to discharge mortgages of the same terms from one lender to another. The difference in the penalty represents in some cases thousands of dollars to the consumer.

Over the last four years REALTORS have advocated amendment to the Interest Act to strike a better balance between lender and consumer interests. When the government announced its financial sector reforms package in December, 1996, amendment of the Interest Act had been dropped. In March, 1997, in response to concerns expressed by CREA, Department of Finance officials confirmed that they planned to require lenders to disclose in plain language to consumers

whether a mortgage could be prepaid and the formula for doing so. This would be done through regulations contained in amendments to the Bank Act, the Trust Companies Act and the Insurance Act. The Chairman of the Finance Committee said the committee looked favourably on the proposal for improved disclosure.

We understand through CREA, draft regulations are expected to be circulated as soon as this month and up until June 1998. We look forward to seeing the draft regulations to ensure they require the lender to disclose clearly whether a mortgage is prepayable and the cost to the consumer of prepaying. This will be a major improvement over the present situation. REALTORS, like our members in Winnipeg, continue to believe that consumers should have the right to prepay a mortgage.

On a quite positive note, my experience at our broker office, which has over one hundred REALTORS, and from what I have gauged from members of other broker companies, is that the financial services sector in Winnipeg is servicing our residential market well. It is a competitive market with respect to mortgage rates and terms. Most REALTORS have established a good working relationship with financial service representatives and value each other's association. In terms of our own Board operations, our Winnipeg Real Estate News allows our financial service sector members to advertise their services. As well, we run a residential mortgage rates table every week in the newspaper to keep home buyers apprised of the current rates.

On a final point regarding residential real estate, the Board is pleased to hear confirmation of a permanent 5% down payment program that is open to all potential home buyers. CMHC is to be commended for their effort in this regard and the only question we have is the rationale for the increase in insurance premiums from 2.5% to 3.75%. Was a 50% increase required to sustain the 5% down payment program?

On the commercial side of our real estate ledger, I turn things over to Wes Schollenberg who chairs the Board's Commercial Division. As in residential real estate, I think to a large degree the individual you associate with and refer business to is similar in commercial real estate. An individual regardless of what financial institution they work for can make a real difference in ensuring a commercial transaction comes together from start to finish. My first point then is that there are definitely inconsistencies in financial services depending on who you deal with (i.e. . how predisposed are they to want to offer a small business loan?). Individual relationships become very important and while that is not in itself an earth shattering revelation there should be more institutional support for commercial real estate.

On that last point, a number of our commercial members have talked about the reluctance of banks in particular to enter into small business investment loans and if they do, they demand high equity positions (e.g. 35%) and short

amortization periods. Obviously, a concern our members have with any mergers (e.g. Royal Bank and Bank of Montreal) like the one presently under review is lack of responsiveness to local business finance requirements. Going global should not mean giving short shift to local market needs. Safeguards need to be put in place to ensure local markets such as Winnipeg are on a competitive footing with other markets in Canada and internationally.

Proposals such as the one CREA is recommending to the federal government on allowing the investment of RRSPs in small-scale commercial development is timely given the need for small investors in Winnipeg to come up with strong equity positions in order to obtain financing for their developments.