



Appraisal Institute of Canada
Ontario

Written Submission

for the

**Financial Services Regulatory Authority of
Ontario (FSRA) on proposed Mortgage Product
Suitability Assessment Guidance**

by the

**Appraisal Institute of Canada-Ontario
(AIC-ON)**

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BY EMAIL: contactcentre@fsrao.ca

FSRA
25 Sheppard Avenue West, Suite 100
Toronto, ON
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Re: Consultation 2023-017 - Mortgage Product Suitability Assessment Guidance

The Appraisal Institute of Canada-Ontario is pleased to respond to FSRA's consultation on Mortgage Product Suitability Assessments.

The Appraisal Institute of Canada – Ontario or AIC-ON is the member association of appraisal professionals in Ontario holding the distinguished Professional Appraiser (P.App.) trademark accompanied by either the Accredited Appraiser Canadian Institute (AACI) or Canadian Residential Appraiser (CRA) designation.

Throughout the home buying, family planning efforts, and more, appraisers play a critical role in ensuring fair pricing and consumer protection for Ontarians. In 2022, approximately \$754 billion worth of property was appraised by our members, with 57 percent being residential property. To enhance Ontario's real estate sector and ensure equitable property transactions, we commend FSRA for its efforts to strengthen the mortgage broker industry in Ontario. AIC Ontario strongly recommends that FSRA ensure that the mortgage broker industry is aware of the critical role of appraisers in the homebuying/investing process.

Appraisers, integral to the decision-making processes of buyers, property owners, lenders, and investors, play a pivotal role in real property valuations and transactions. Their expertise is especially crucial in maintaining fairness during property price determinations, with AIC-designated appraisers contributing significantly by prioritizing independent, and unbiased opinions on real estate values that support a sustainable and healthy marketplace for all Ontarians.

We note that in your 28-page consultation document, the word "appraiser" is mentioned only once, almost as an afterthought. This is a critical oversight with respect to the importance that designated Professional Appraisers play in ensuring that the price of the home or investment that is being purchased is reasonable within the context of the current market. It is important that mortgage brokers have made

their clients aware of the results from an appraisal that has been conducted on their behalf before a discussion about mortgage products occurs.

We recommend that the FSRA Proposed Guidance be amended to ensure the following:

- a) Brokerages need to ensure that an independent third-party appraisal has been conducted by a professional that holds an Accredited Appraiser Canadian Institute (AACI) or a Canadian Residential Appraiser (CRA) designation. The designations are already required in various federal, provincial, and municipal legislation and regulations across the country, and specified as a necessary requirement by industry institutions and professionals.
- b) Brokerages should not rely on appraisals using alternative valuation methods such as Automated Valuation Models (AVMs). AVMs use mathematical or statistical modeling combined with databases of existing properties and transactions to calculate values on a property. Some lenders have started to take shortcuts to provide certain mortgage loans and bypass proper due diligence in the terms of verifying the collateral being used to secure the loan. This can create significant risks in a volatile market, and we caution against the over-reliance on these methods.

While there may be instances when using an AVM can be appropriate, using technology such as AVMs often does not provide real time, detailed insight into a housing market, nor does it necessarily include current information on an individual property's condition (good or bad). Professionally prepared full appraisal reports rely on analysis of real-time, current data – what is happening in the market right now and on the experienced eye of an appraiser physically visiting a property.

Given the current inflationary period and overall rising cost of living, relying on AVMs can result in inaccurate value estimates which result in higher consumer indebtedness. An appraisal report prepared by a Professional Appraiser remains the premier risk management tool.

We also feel that the role of the appraiser needs to be outlined in the FSRA Form 1, Investor/Lender Disclosure. Under “Recommended Steps you should take about your Mortgage Investment”, step #10 should use stronger language. Rather than say “You should ensure”, the wording should say “You are strongly advised to have sufficient documentation to support the property valuation...” and that the valuation “must be provided by a Professional Appraiser designated by the Appraisal Institute of Canada”. The same comment can be made about Part C, “Important Facts to know before you agree to invest”.

The Appraisal Institute of Canada – Ontario recommends that FSRA amend the Proposed Guidance as noted above and ensure that the most crucial piece of a mortgage deal, the price, be understood and communicated by the broker (agent) to the client/investor by relying on a property valuation conducted by an independent, third-party Professional Appraiser.

Thank you for providing consumer protection to Ontarians and ensuring that mortgage broker clients receive the best information possible for their mortgage choices.



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About AIC-ON

The Appraisal Institute Canada - Ontario (AIC-ON) is the leading voice for the appraisal industry in the province. Our association represents over 2,600 professional appraisers in Ontario who provide an essential service for the financial and housing sector. AIC is a self-regulating professional organization that grants distinguished designations. Our members adhere to the nationally and internationally recognized Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP) and are respected worldwide for meeting the rigorous AIC designation program and its ongoing professional development requirements.

Our members are a core component of the real estate industry, connecting with brokers, real estate agents, businesses, and homeowners every single day across the province. In 2022 alone, AIC-ON members appraised approximately \$754 billion worth of property, with 57 percent being residential property.

Appraisers are working with Ontarians to take the guesswork out of residential, commercial, and industrial real estate transactions.