

February 16, 2010

The Honorable James M. Flaherty  
Minister of Finance  
Department of Finance Canada  
140 O'Connor Street  
Ottawa, ON K1A 0G5

Dear Minister Flaherty,

RE: Discussions regarding raising minimum down payment requirements for homebuyers

Given your initial interview with CTV and rumors currently swirling around Ottawa regarding potentially raising the down payment requirements for homebuyers and the resulting discussion this idea has brought about in real estate circles, among economists and in the media, we are writing to urge you to reconsider such potential measures.

We understand the government of Canada is concerned about the possible destructive impacts of a hot housing market. These concerns are not without some justification. However, as REALTORS<sup>®</sup> working on the front lines of this business, we believe raising the down payment requirements for homebuyers could not only have a disastrous effect on those Canadians looking to buy their first home, but also on the health of the entire housing market.

We are not economists. We are not claiming to be. However, given that we operate a real estate business in which first time homebuyers make up a significant percentage of our clientele, our very survival as a business depends on our sharp understanding of the needs of first time homebuyers, as well as their overall contribution to a healthy and prosperous Canadian housing market.

To use a crude analogy, if the housing market were a pyramid, first time homebuyers would make up the foundation on which the entire market is based. Placing unreasonable barriers to entry on those who would otherwise help to provide the market with a solid base will cause a destructive chain reaction that will reverberate throughout a significant portion of the entire economy. To illustrate this point, if first time homebuyers are prevented from entering the market, demand for starter homes will plummet. Current owners of starter homes looking to sell their houses in order to accommodate a growing family will certainly experience greater challenges in finding buyers for their current homes. As such, they may not be able to buy those homes for their growing families, as they have significantly less buyers to sell their current ones to. In this way, the entire housing market will suffer; first time homebuyers will merely be the first to feel the effects.

From our own experience with our clients, we know how difficult it is for them to raise enough money for their down payments, as they are often saving while also paying rent to reside in their current dwellings. We warn that any increase in minimum down payment requirements would bar

more than just a few potential buyers from entering the market. As such, we worry that the government is underestimating just how destructive any increases in minimum down payment requirements could be for first time homebuyers and by extension, the entire housing market. Furthermore, creating unnecessary barriers to entry for first time homebuyers would naturally affect any business dependent on a healthy housing market. Not only would our business feel the effects, but contractors we work with, from renovators to builders to painters would take a hit, as would home staging companies and retailers that sell goods required to sustain a home. These include durable goods like furniture and appliances.

We believe it is also worth mentioning, that measures to raise minimum down payments could have large destructive effects while failing to provide an economic upside.

We would like to emphasize that there is still a great deal of diverging opinion among economists as to whether we need to fear a potential housing bubble at all, let alone whether raising minimum down payment requirements would help avoid one. In an interview with *The Globe and Mail*, Benjamin Tal with CIBC World Markets expressed his worry that such measures could result in the government overshooting its goal. Tal communicated his belief that housing prices will moderate as new housing starts help to increase the supply of homes, thus stabilizing the market. New Canada Mortgage and Housing Corporation figures on housing starts seem to support Tal's argument, given that the country saw 174,500 new housing starts in December (seasonally adjusted annual rate), beating analyst expectations, and 186,300 units in January. On the heels of the December data, Canadian Real Estate Association chief economist Gregory Klump told the Canadian Press he believes such fresh infusions of supply will stabilize the market, particularly in the latter half of 2010 and that the current surging market represents a natural part of the real estate cycle, not a housing bubble. On the same day, Bank of Canada official David Wolf, delivering an address on behalf of deputy governor Timothy Lane, warned that talk of a potential housing bubble is premature.

Given our frontline industry experience, coupled with what Canadian economists are telling us, we believe that any potential decision to raise minimum down payments would be, at best, a perverse 'solution' to a temporary concern. As such, we strongly advise against adopting such measures. We welcome any further discussion on this matter from you, as well as from the general Canadian public as we strongly believe there are other options open to the Government.

Sincerely,



Elke Babiuk & Michelle Larcher  
REALTORS®, Maxwell Realty, Maxwell Canyon Creek  
Members, Calgary Real Estate Board, Alberta Real Estate Association  
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