

FSRA's Proposed Mortgage Product Suitability Assessment Guidance

Proactively supporting consumers in a more challenging mortgage environment

FSRA

Financial Services Regulatory
Authority of Ontario

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Ontario

Agenda

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Land Acknowledgement

We acknowledge the land we are on is the traditional territory of many nations including the Mississaugas of the Credit, the Anishnabeg (ah-nish-naw-bek), the Chippewa, the Haudenosaunee (hoodt-en-oh-show-nee) and the Wendat peoples and is now home to many diverse First Nations, Inuit and Métis peoples.

We acknowledge that Toronto is covered by Treaty 13 with the Mississaugas of the Credit and the Williams Treaties signed with multiple Mississaugas and Chippewa bands.



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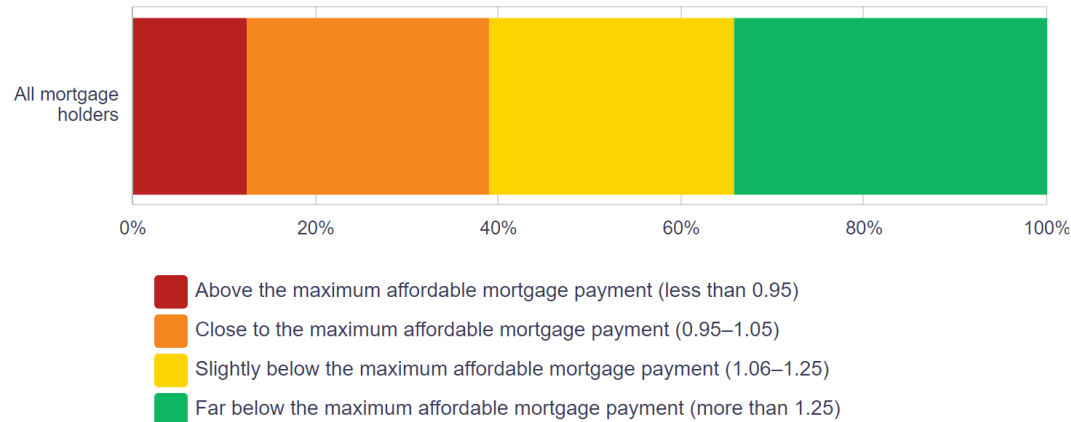


Current market conditions are challenging for consumers



Chart 5: Many homeowners' mortgage payments are close to or beyond the maximum they can afford

How much is your regular mortgage payment? Based on your current financial situation, what is the maximum regular mortgage payment you feel you can afford?



Consumers are now faced with:

- *Reduced mortgage affordability*
- *Higher interest rates*
- *Housing market volatility*

Buying and staying in one's home is becoming more challenging for average Ontarians



PERSONAL FINANCE

As mortgage rates hit 8%, home 'affordability is incredibly difficult,' economist says

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Why is FSRA releasing mortgage product suitability guidance?



Vision

Financial safety, fairness and choice for Ontarians

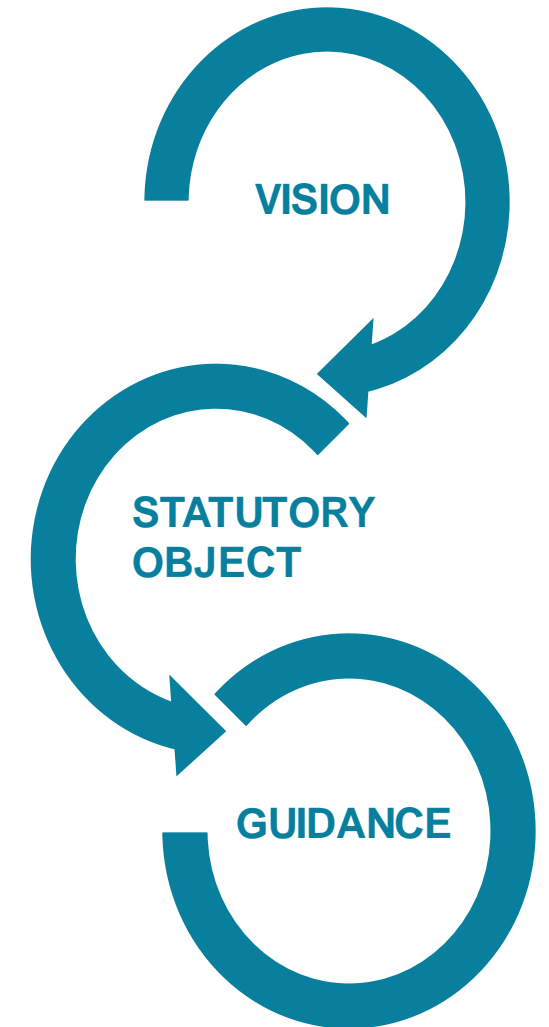


**FSRA promotes high standards of business conduct;
and protects the rights and interests of consumers**



**Protecting consumers by enhancing the requirement
for mortgage products to be suitable**

**Supporting consumers as they seek financing for
their home (or mortgage investments)**



What is the key outcome FSRA wants to achieve through this Guidance?



Purchasing a home is often the single largest financial commitment individuals and families can make. **Consumers rely on a mortgage professional to help them finance or re-finance their home.** It is critical that they get a financial product that best meets their needs.

The primary outcome that brokerages, brokers and agents should achieve regarding mortgage product suitability is that ***consumers and investors are provided mortgage product recommendations that are suitable based on the specific needs of the clients.***

Further, clients should fully understand the risks and features of their mortgage and licensees should be able to ***demonstrate how the mortgage product was deemed suitable for the client.***

What steps assist in achieving suitable product recommendations?

1. Know your client
2. Know your product
3. Assess options and make suitable recommendations
4. Clearly communicate and explain rationale of the recommended option
5. Ensure adequate oversight and accountability
6. Document suitability assessment and oversight



What remains status quo and what is being enhanced by this Guidance?

STATUS QUO:

- **The requirement to assess product suitability and ensure suitability of recommendations is not new** - it has been in place since the MBLAA first came into force in 2008.

ENHANCEMENTS:

- **Agents and brokers must maintain appropriate and complete documentation** of their suitability assessments, not simply to demonstrate compliance to FSRA but also **to assist clients in understanding the rationale for the product recommendation.** This helps avoid misunderstandings after the fact.
- **Brokerages must also maintain documentation of its supervision of its brokers'/agents' suitability assessments**
- This guidance provides tips and tools to help brokers and agents to understand **what may be appropriate to assess for various consumers and various products, and how these determinations should be documented.**



Why do private mortgages require additional due diligence?

Sub-prime and private mortgage products will generally require a more detailed assessment, documentation, and rationale to understand why the product was recommended.



Mortgages from less experienced individual private lenders pose the highest risk of potential consumer harm



Private mortgages can contain unusual features, penalties, and risks that most consumers don't expect or understand

Questions licensees need to be able to answer and document for private mortgage transactions:

1. Is it clear that the borrower(s) would **not** have qualified for a lower cost option (e.g., from a lender with lower rates and/or fees)?
2. Is the mortgage **affordable** and **sustainable** for the borrower for the term of the mortgage?
3. Has the broker/agent discussed **a realistic exit strategy** with the borrower and the risks involved in not executing that strategy?

How can I share my views?

If you are a **mortgage broker, agent, mortgage lender, or consumer**, FSRA wants to hear your views on this Guidance

The comment period is open until **February 28, 2024**

Comments may be submitted via FSRA's website where the **guidance is posted**



Questions?