

# CMHC defends automated home price evaluation system

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Canada Mortgage and Housing Corporation defended its methodology of evaluating properties on Thursday, after a newspaper report questioned whether the practice has led to artificially inflated home prices.

"CMHC looks at the specific characteristics of the property in question," the federal agency said in a statement Thursday.

The CMHC, which is tasked with overseeing Canada's housing market, said it uses different sources of information to assess the value of a specific property.



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"This includes the physical characteristics of the property, the municipal property tax assessment, historical and current sales activity, and prior sales activity of the property being assessed, when available" it said.

"CMHC has the most comprehensive database in Canada, including property information on approximately eight million properties."

On Thursday, the Globe and Mail newspaper published a report which quoted unnamed mortgage industry insiders warning regulators about the CMHC's methodology for calculating how much a home is worth — and consequently how much debt someone wishing to buy it should be offered.

At issue is a system known as Emili. Described by the CMHC as "a groundbreaking on-line mortgage loan insurance [decision-making] system," Emili is essentially a database of properties that uses different factors as way of determining what a house is worth.

## Automated appraisal process

Founded in 1996, the agency lauds Emili on its website as a boon for the industry because it reduces turnaround times on decisions "from days to seconds" and offers lower costs per transaction.

Those are the types of calculations that might historically have been done by in-person property appraisers.

But as the value of CMHC's loans in force has crept higher over the last two decades, some say the agency now relies less and less on human analysis and more on Emili's algorithms.

"This automated approval system has significant shortcomings," the paper quotes one unnamed industry professional as saying.

According to the report, the system can allow for a property being overvalued at the mortgage level simply because it meets certain qualifications.

Someone wanting to buy a \$400,000 property might be approved because other units in the same postal code, with similar square footage, went for that much.

But the property in question might not actually be worth that on the open market. So perhaps the borrower shouldn't be approved to borrow that much to buy it.

In its statement released Thursday afternoon, CMHC said it "does not use property value averages, but uses the specific characteristics of the property being assessed."

"The database and models are continually updated and independently reviewed by a third party. This system is one tool used by CMHC underwriters located across the country to assess the homebuyer's application for mortgage loan insurance."

## System has supporters

Others are less cynical about the system. Toronto mortgage broker Marcus Tzaferis says by and large, the system is a good one for consumers and the industry alike.

"It's based on a bunch of different data points," he said. "It's pretty thorough [and] most of the time it works."

He says the system isn't perfect, and notes that strange results can occasionally be had. He notes the hypothetical example of two condos being sold with similar square footage, in the same building, but one with no kitchen. The Emili system would likely value them the same, which it shouldn't, Tzaferis said.

"It's impossible to weed out problems," he said, "but Emili's a lot more sophisticated than it used to be." He notes that lenders often pay CMHC for access to Emili as an extra safeguard to crosscheck even on deals that the agency isn't insuring.