

Tarion Annual Public Meeting April 21, 2011

The third Tarion Annual Public Meeting took place on Thursday, April 21, 2011 at the North York Novotel Hotel.

The meeting commenced at 6:00 p.m. with Howard Bogach introducing the Chair of the Board of Directors, Harry Herskowitz.

Opening Remarks – Chair of the Board

Mr. Herskowitz welcomed attendees and provided an overview of his background.

He then introduced the Tarion Board of Directors and gave a brief overview of the Board's composition, explaining there are 15 board members and 2 associate members. Members include individuals with a range of backgrounds and expertise from the building and finance industries, as well as individuals with a consumer protection background. The company's main stakeholders are new home buyers, new home builders, the provincial government and employees. All of these groups are represented on Tarion's board which governs through seven standing committees, working with Senior Management on strategic and business planning and risk management and ensuring the integrity of financial and non-financial reporting and internal controls.

Mr. Herskowitz pointed out that in 2010, Tarion completed its first year of public consultation on proposed regulatory changes. This initiative was recommended by the company's Regulatory Affairs Committee as a way of making policy development more collaborative and transparent. Public consultation was undertaken on three policies that have since been implemented:

- 1) A change was made to the liability cap for larger condominium projects;
- 2) A customer service standard for common element warranty complaints was introduced;
and
- 3) A policy prohibiting builders from passing on closing adjustments that were not actually paid by the builder was put in place (not a common practice but, one that had occurred in at least one instance).

Feedback on the above policies was sought from relevant stakeholder groups and from the public. Comments were summarized, considered and incorporated and the final policies were then approved by the Regulatory Affairs Committee and Board of Directors. Two additional policies were consulted on in 2010—the framework for major structural defect warranty complaints and proposed amendments to Tarion's Construction Performance Guidelines.

Mr. Herskowitz formally recognized the members of Tarion's Corporate Leadership Team in attendance. He then reviewed the evening's agenda, the Rules of Order and provided an

overview of Tarion's background and mandate which can be found in Tarion's [Annual Report](#) and on tarion.com.

2010 Operational Overview

Tarion President and CEO, Howard Bogach, presented an overview of key operational information for 2010. New home enrolments were 52,531 for the year, exceeding budget projections and increasing 10 per cent over the previous year. This growth was driven by strength in the condominium market, which experienced a 36 per cent increase in enrolments. Freehold home enrolments were down 10 per cent after starting out the year ahead of 2009 levels.

Mr. Bogach went on to explain that the impact of a potentially weak economy had created some concern that builders may find themselves unable or unwilling to meet their warranty obligations. As a result, homeowner claims involving Tarion could increase significantly. However, this issue did not occur and claims remained at manageable levels throughout the year. One impact of the cooling economy was a reduction in builder registrations which declined for the second year in a row, falling from 5,517 to 5,391.

Part of Tarion's mandate is to investigate and help prosecute illegal builders. Illegal building involves the construction of a new home without a license or the sale of a newly built home that has not been enrolled with Tarion. Unlicensed builders typically do not provide purchasers with warranty coverage or inform them of their warranty rights. In addition, their homes often do not meet Ontario Building Code standards.

Illegal building tends to increase when the economy weakens as some individuals seek to avoid paying the required licensing or new home enrolment fees. Tarion employs a team of enforcement officers who work with municipal officials to find illegal builders across the Province. Last year their efforts led to 184 convictions and collection by the provincial government of over \$345,000 in fines. In addition, 40 builders were denied a license or had their license revoked.

Mr. Bogach highlighted a new strategy for managing illegal building that was introduced in 2010. It is focused on finding and stopping repeat offenders; builders who have been refused their licence; those who had licence expired or been revoked and those who illegally have been constructing multiple units. This has led to better results among more flagrant offenders.

An overview of the warranty claim process followed. In 2010 Tarion paid approximately 1,304 claims totaling \$17.6 million. Although this is a decrease of 10% over claims paid in 2009 it is still a higher than average dollar amount due two factors: a number of large payments made on behalf of builders who were unwilling or unable to resolve issues with homeowners directly; and continuation of a long term, high cost repair project involving a subdivision with faulty soils which began in 2009.

It was pointed out that claims paid relates only to situations where Tarion had to step in and settle with a homeowner because their builder was not able to resolve matters. In the vast majority of situations builders are able to resolve homeowner issues without involvement from Tarion.

Mr. Bogach highlighted a recommendation by Tarion's New Home Buyer Ombudsperson that was implemented in 2010. To provide more information to support claim settlement efforts, the Warranty Service group began a review of the language used in homeowner correspondence regarding claims decisions, with a view to making it easier to understand.

Another initiative that was launched in 2010 is The Tarion Way. This is a service excellence program based on five principles that bring a common approach to customer service. The principles were developed in collaboration with employees who also served as facilitators during the program's rollout. The five principles are: teamwork; logical; listening; fairness; and caring. By the end of the year every employee had participated in a full-day session that introduced these principles. In 2011 the Tarion Way will be integrated into the company's reward , recognition and coaching programs to ensure that it remains fundamental to how we deliver service.

Changes were also made to the condominium warranty to expedite the resolution of common element issues, and to streamline the design and field review process. Prior to July 1, 2011 there was no explicit process or timeframe for managing construction details and issues that occur in common element areas (e.g., hallways, parking areas). As a result, claims could take five years or longer to resolve. Customer service standards for freehold homes had been successfully introduced in 2003 so it made sense to create similar standards for condominiums. We also made improvements to the design change and field review processes. All of these policy changes were subject to our public consultation process.

In addition, we improved our homeowner education efforts by expanding the use of a Welcome Package that had been piloted in 2009. It is mailed to all homeowners in the first 30 days after they move into their new home. It includes a personalized letter, highlights the benefits of signing up for our Homeowner Portal, and provides a 10-minute warranty guide DVD which is also available on tarion.com. Seminars are also available online to take some of the stress out of buying a new home and to help home buyers better understand Tarion. We also launched a new online advertising campaign through sites such as newinhomes.com and casa guru as well as Google, Yahoo and other search engines.

2011 Homeowner Satisfaction Survey

Mr. Bogach introduced Tarion Vice President, Corporate Affairs, Janice Mandel who gave an overview of the company's latest homeowner satisfaction survey which was conducted between October and December 2010. Over 57,000 purchasers who took possession of a new home between October 1, 2003 and September 30, 2010 were invited to participate. In total, 9,575 homeowners responded.

To help Tarion understand how it is doing in the eyes of its customers, regular surveys are completed with homeowners and builders. A homeowner survey is conducted every year as the results are also used to determine winners of the annual Tarion Awards of Excellence. A builder survey is conducted every second year with the next one scheduled for Fall 2011.

Key results are highlighted below and a complete report is available [here](#).

- Results from homeowners in their first year of warranty coverage generally mirror those from a similar survey conducted in 2009.
 - 85 per cent of homeowners said they have a favourable impression of Tarion.
- The majority believe Tarion is:
 - Accessible (89%)
 - Able to listen to their needs and concerns (83%)
 - Easy to do business with (82%)
 - Able to help them understand their warranty rights and responsibilities; (84%)
 - Able to make sure builders fulfill their warranty obligations (78%)
- 58 per cent of homeowners said they were extremely or very satisfied with their Tarion interaction overall.
 - Those who bought from a large or medium sized builder were most satisfied (61% extremely/very satisfied) along with those registered for MyHome (68% extremely/very satisfied)
 - The more contact people had with Tarion, the more favourable their impression.
- Satisfaction levels decline marginally in years two through five, and more steeply in years six and seven of warranty coverage. When looking at this, it is important to understand that only 12-15% of homeowners reported having any contact with Tarion after their third year of possession.
- We will be looking more closely at these results to understand how we can improve them going forward.

Ms. Mandel went on to acknowledge the 2011 Tarion Awards of Excellence winners. These awards recognize builders for their after-sales service as determined by their own customers. More information about the awards and this year's winners is available [here](#).

Financial Overview

Vice President and CFO Edmond Lee summarized the company's financial results for 2010. There were three themes:

- Equity and markets continued to do very well.
- Claims experiences were very positive
- There was good cost containment year over year by Tarion.

A complete overview is available in the [Financial Statements section of the 2010 Tarion Annual Report](#).

New Home Buyer Ombudsperson Office Overview

Tarion Ombudsperson, Ian Darling, gave a brief overview of the role and mandate of the New Home Buyer Ombudsperson Office, explaining that it was established in 2008 and its purpose is to promote fairness within Tarion. The Ombudsperson's office receives, investigates, and resolves complaints. It reports through the Consumer Committee to the Board of Directors.

Mr. Darling provided some highlights from the 2010 Annual Report of the Ombudsperson Office, and identified its priorities for 2011. He outlined the breakdown of activities of the Office, the number and types of complaints received throughout the year and how the Office determines which cases fall under its jurisdiction. He also stressed the independence of his Office and the fact that its work is based on the principles of fairness and impartiality.

Mr. Darling thanked Tarion staff and management for their cooperation.

Closing Remarks

In closing, Mr. Bogach explained that although Tarion expected another challenging year in 2010, the economy fared far better than anticipated and new home enrolments increased by 10% overall. Despite the economic improvement, Tarion remained focused on keeping its costs down, developing a learning culture and improving the way it serves customers. He expressed pride at how much the company had changed, the way it handles difficulties, and the fact that it has become more efficient, flexible and communicative.

A question and answer period followed.

Question and Answer Period

Mr. Bogach opened the floor to questions from the audience.

Q: *The Condo Act favours builders over purchasers...what is Tarion doing about that?*

A. There are complexities in the Condo Act that could be made easier for people. Tarion has some input into potential changes the provincial government may chose to make to its policies, but our influence is actually quite limited. Recognizing the GTA is growing vertically, Tarion has created a Condominium Task Force to understand and deal with the complexities of living in a condominium—some of which can actually be compared with a small city in terms of their size. The more we're there to help people deal with those issues, the better. There is a lot of work to be done with condominiums and we have a role to play, but it will be a limited one. However, there are Ministry staff here today who will be able to take your question back for consideration.

Q. How will municipal levies be handled by Tarion if they were charged to the homeowner prior to July 1, 2011 and not subsequently paid to the municipality by the builder?

A. Our new policy affects levies charged after July 1, 2011, however we want to know about any issues involving questionable honesty or integrity on the part of the builder and we will act where we feel there has been a breach. An exception to that would be a situation where there is outstanding litigation between homeowners and their builder—in those cases we can't intercede.

Q. How much is the conciliation cost to the homeowner?

A. The cost is \$250 which is payable in advance of the inspection and refunded to the homeowner if anything is found to be warrantable during the inspection.

Q. What is Tarion doing to enforce the 120 day customer service standard timeline and ensure the builders are not delaying repairs or forcing homeowners to cancel inspections?

A. We are now getting involved in and monitoring the claims process earlier to ensure repairs are being made in a timely fashion. We also keep records of the number of conciliation inspections every builder has and use this information in assessing a builder when their license comes up for renewal. If they are not living up to their customer service obligations, we may impose conditions on their registration.

Q. Are the reductions in Tarion's expenses leading to reductions in service levels?

A. No, we focused on non-claims related expenses, so we did things like reduce advertising and cut back on employee events like the Christmas party. We also conduct regular customer satisfaction research through our Homeowner, Builder and Employee surveys so we can assess how well we are meeting stakeholder expectations. In all cases we are still meeting or exceeding targets that were set.

There is one area where our staff are feeling stretched, and that is in our enforcement department which is tasked with investigating illegal building throughout the province. To address this we are working on new strategies which will be implemented in 2011.

Q. Does Tarion react to health and issues faster than other types of issues?

A. Warranty issues that are within the control of the builder and represent an imminent and substantial health and safety risk are considered an emergency under the Tarion rules. As *The Homeowner Information Package* describes, there is a process whereby they are dealt with faster than normal issues submitted on the 30-Day and Year-End Forms.

Q. Do a builder's results on the Tarion Homeowner Satisfaction Survey have any impact on the length of time that Tarion holds security for that builder?

A. No. We do look at other metrics, but results of the Homeowner Satisfaction survey are not a consideration.

Q. What is Tarion doing about delayed closings/occupancies?

A. We introduced new policies in 2008 to help reduce the frequency of delayed closing/occupancies. They are helping, but some new issues have been identified, so we will be reviewing the mandatory addendum to the purchase agreement that was introduced at that time to identify where further improvements can be made.

Q. What is Tarion's position on as built drawings?

A. As of July 1, 2010, as built drawings must be included in the Final Report provided to the owner-elected condominium board of directors at the turnover meeting. Although the report may be deferred to a later date if warranty problems arise, copies of all available documents (i.e., as built drawings) must be provided at the turnover meeting.