

Tarion Annual Public Meeting, April 19, 2012

The fourth Tarion Annual Public Meeting was held on Thursday, April 19th, 2012 at the North York Novotel Hotel. The meeting began at 6:00 p.m. with an introduction by Harry Herskowitz, the Chair of Tarion's Board of Directors.

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, mentioning that there are 15 board members and 2 associate members. Tarion's main stakeholders are new home buyers, new home builders, the provincial government and Tarion's employees. Mr. Herskowitz explained that all of these groups are represented on Tarion's Board. The Board 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 mentioned that in 2011 the Board formed the new Consumer Advisory Council, which reports to the Consumer Committee. This new council helps balance Tarion's perspective by providing a voice to the new home buyer on proposed policy changes.

Additionally, two new task forces were formed: the Builder Education Task Force and the Performance Based Pricing Task Force.

The Builder Education Task Force has created a framework for enhanced registration and renewal standards for builders, and the Performance Based Pricing Task Force is currently working on a rational pricing model for builders, which will be a focus of 2012.

Mr. Herskowitz mentioned that Tarion's public consultation process, which began in 2010, continues to be an important way to give stakeholders an opportunity to provide their opinions during the policy proposal process. In 2011, three policies were brought to public consultation. The first two included:

- 1. Changes to the Major Structural Defect Warranty – a project that began in 2010 and was continued through 2011.**
- 2. The Delayed Closing and Delayed Occupancy Addendum Review.**

Updates were also made to the Construction Performance Guidelines.

Mr. Herskowitz said that the public consultation process continues to improve policy decisions, and provides a greater perspective on proposed changes.

Mr. Herskowitz then formally recognized the members of Tarion's Corporate Leadership Team in attendance, and reviewed the evening's agenda. He also provided an overview of Tarion's mandate, which can be found in Tarion's [2011 Annual Report](#) and on www.tarion.com

2011 Operational Overview

Tarion President and CEO, Howard Bogach, followed Mr. Herskowitz and began by stating that 2011 marked Tarion's 35th anniversary, and that while much has changed during this time, Tarion's overall mandate has remained the same.

Mr. Bogach then played a video from Tarion's 2011 online Annual Report. In this video, Connie Vassallo, a Tarion employee for almost 35 years, looks back and answers questions about the company's evolution. She is currently a Director in the License and Underwriting Department, and her thoughts have been transcribed from the video, below:

Why was Tarion created in 1976? "The general feeling at the time was that the industry wanted the government to create a regulator, in particular for those builders who were giving the industry a bad name."

What was Tarion like 35 years ago? "The (Ontario New Home Warranties Plan) Act became mandatory on December 31st, 1976. At that time, we had to basically rubber stamp each builder application that came in, and we were very backlogged. In fact, in order for them to start construction, we had to issue a temporary license."

How is Tarion different today? "We no longer rubber stamp builder registrations; in fact, we conduct extensive risk assessment for every builder who wishes to build or sell homes. We conduct these assessments to make sure the builder is viable – in other words, to ensure the builder has the financial viability to build and sell homes and also the technical expertise."

How has Tarion's warranty coverage changed? "If you'd like to make a claim for the return of your deposit, in those days it used to be \$20,000, and now it has changed to \$40,000. The warranty at that time used to be one year, and then it was extended to two years. Warranty claims have increased from \$20,000 to \$300,000 today. We have also included coverage for substitution, incomplete work and delayed closing and even our major structural defect coverage has gone from five years to seven years today."

How do you think Tarion makes a difference? "I think we make a difference every time that we resolve an issue between a builder and a homeowner... I think we make a difference when a homeowner finds out that their builder has filed for bankruptcy and they can actually come to us and get a refund for their deposit. We truly believe that by helping out all of our stakeholders we make a difference to all of them, when things are resolved to everyone's satisfaction. My wish before I retire is to see our operating functions fully automated. We've definitely come a long way in 35 years. While other warranty programs in other provinces have failed, ours is still going strong and I truly believe that

is due to strong leadership, dedicated, hard-working employees, excellent teamwork and excellent customer service. Being here 35 years is something to be proud of.”

Mr. Bogach then provided an overview of home enrolment numbers for 2011, stating that while lower than the historical average, the 58,610 homes enrolled in 2011 were strong compared to the 52,531 homes enrolled in 2010.

He discussed the continuing rise of condominium enrolments, stating that Tarion reached 100,000 high-rise units under warranty in 2011. The shift towards more high-rise enrolments began in 2009 and is expected to continue to increase. That’s one reason why Tarion has been focusing on condominiums over the past few years.

This year, Tarion completed the Condominium Common Element Information Package, which will be used to educate newly formed condo boards about the common element warranty. Tarion is also currently working on the first edition of the Common Element Construction Performance Guidelines. Mr. Bogach explained that the steady rise in condominium enrolments was also the motivation behind the formation of the Condominium Task Force, a team that will assist in policy development for condominiums as they relate to Tarion’s mandate.

Builder licensing is another important part of Tarion’s mandate. Builder registrations were stable in 2012, finishing slightly higher than last year at 5,397. Part of the registration process involves builder orientation and testing, and in 2011, Tarion adjusted the builder testing to reflect the changes that were to take effect in the Ontario Building Code as of 2012. Tarion also has the power to deny an application for registration or renewal as well as to revoke a builder’s license. During the past year, 29 builders were denied a license or had their license revoked.

Tarion also investigates and helps prosecute builders who do not comply with the rules. Illegal building involves the construction of a new home without a license or the sale of a new home that has not been enrolled with Tarion. In 2011, Tarion made two significant advancements in the prevention and detection of illegal building. As of January 1, 2011, it became mandatory for municipalities to share building permit information with Tarion’s Enforcement Department. Now that all 246 of Ontario’s municipalities must submit building permits to Tarion at the onset of a project, it has become easier to identify illegal building activities. The second advancement in 2011 was the enhancement of new criminal intelligent analyst software, which increases the accuracy and speed of detecting illegal building activities that are currently underway. The software is scheduled for implementation in 2012.

Mr. Bogach then discussed the warranty claims process, explaining that the warranty for a new home begins on the date the purchaser takes possession. If issues arise, they are usually resolved between the homeowner and the builder. However, if a homeowner would like to make a formal warranty service request, they do so by using the statutory warranty forms. In 2011, Tarion paid approximately 581 claims totaling \$8.4 million dollars. Year-to-date 2011 claim payments were lower than 2010 primarily due to two factors:

1. In 2011, there were lower payouts on freehold warrant claims as compared to prior years
2. In 2010, claims paid included large payments made for unwilling/unable builders as well as a high cost repair project involving a subdivision which began in 2009.

It's important to note that in the vast majority of situations, builders were able to settle issues with the homeowner, and Tarion was not involved at all.

On the topic of community outreach, Mr. Bogach mentioned that home inspectors are an important audience for Tarion, as they have a notable influence on new home buyers. In 2011 Tarion worked with a leading home inspection organization, on behalf of the Ontario Association of Home Inspectors, to design the New Construction Inspection Training Program. The program educates home inspectors on the Pre-Delivery Inspection process for new homes and goes through the most common 30-day list items.

Tarion has also created a course for Ontario real estate agents that can be credited towards their ongoing professional development requirements. This course educates real estate agents on illegal building and the rights of new home buyers with respect to their new home warranty.

Over the years, Tarion has looked for opportunities to work with key government stakeholders who play a part in the building industry. For example, Tarion reached out to Municipal Officials in an effort to improve the claims experience for homeowners by identifying overlapping issues on files. Tarion also organizes town hall meetings to bring homeowners in contact with the expertise they require to solve a particular problem.

Within the corporation, Mr. Bogach mentioned that in 2011 Tarion continued to focus on service excellence through the Tarion Way. This initiative, launched in 2009, is designed to create a high standard of customer service throughout the organization, and Tarion will continue to build on this standard in coming years.

To comply with Ontario's *Accessibility for Ontarians with Disabilities Act*, Tarion updated its processes and physical environment in order to meet the needs of people with disabilities. New software was purchased with assistive devices such as a screen reader to expand the way Ontarians can access our services.

The use of MyHome, the online homeowner portal that Tarion launched in 2009, continues to increase. In 2011, approximately 26 per cent of new home possessions for the year registered with MyHome. Tarion will be focusing on improving this service and creating greater awareness about it over the next few years.

Mr. Bogach concluded his remarks by discussing the Tarion Awards of Excellence, an awards program that recognizes builders for their after-sales service performance. He congratulated the four 2012 Tarion Awards of Excellence recipients, which were: 1. The Daniels Corporation in the High Rise Category, 2. Fusion Homes in the Large Volume Category, 3. Wrighthaven Homes in the Medium

Volume Category (for the second year in a row) and 4. Cedarstone Homes Limited in the Small Volume Category.

2011 Homeowner Satisfaction Survey

Mr. Bogach introduced Andy Rodgers, Director, Marketing Communications, who gave an overview of Tarion's latest homeowner satisfaction survey, which was conducted between October and December of 2011. Surveys were mailed to almost 55,000 purchasers who took possession of a new home between October 1, 2004 and September 30, 2011. In total, 8,051 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 2013.

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

- Results from homeowners in their first year of warranty coverage are consistent with those from our surveys conducted in 2009 and 2010.
 - 85 per cent of homeowners said they have a favourable impression of Tarion

- The majority believe Tarion is:
 - Accessible
 - Able to listen to their needs and concerns
 - Easy to do business with
 - Able to help them understand their warranty rights and responsibilities
 - Able to make sure builders fulfill their warranty obligations

- 56 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 while satisfaction is lowest among high-rise builders
 - The more contact people had with Tarion, the more favourable the 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 11-18% of homeowners reported having any contact with us after their third year of possession.

2011 Builder Satisfaction Survey

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

- 275 randomly selected registered builders were interviewed in 2011 to gauge their impressions of Tarion
- Medium and large builders continue to have the most favourable impressions of Tarion
- Results on most key metrics improved since 2009
- 96% believe Tarion encourages builders to provide good customer service
- 87% believe Tarion works to reduce illegal building
- 84% believe Tarion educates builders on warranty and construction
- 83% believe Tarion is good at dealing with homeowner complaints and claims

Financial Overview

Vice President and CFO Edmond Lee provided an overview of the company's financial results for 2011. Mr. Lee mentioned that as of January 1, 2011, Tarion has adopted the International Financial Reporting Standards ("IFRS").

1. Investments have increased from \$339.5M last year to \$370.3M, an increase of \$30.8M
2. Warranty liabilities have increased by \$14.5M to \$165.1M
3. Total equity increased by \$9.8M

A complete overview is available in the Financial Statements section of the [2011 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. The office was established in 2009 and its purpose is to promote fairness at Tarion by receiving, investigating and resolving complaints. The office is independent of line management and reports through the Consumer Committee to the Board of Directors.

Mr. Darling said that 2012 marked the conclusion of three years of operation of the Ombudsperson office, noting that during this time, there has been an improvement in Tarion's responsiveness to complaints. Mr. Darling also discussed emerging issues and provided an overview of the recommendations his office has made – and Tarion's response to them – since the office's inception.

Mr. Darling thanked Tarion staff and management, saying that the office achieved its successes by working with all departments within Tarion. For more details, please view the [2011 Annual Report of the Ombudsperson Office](#).

Closing Remarks

In closing, Mr. Bogach said that for the last several years it has been Tarion's focus to improve transparency, effectiveness, flexibility and efficiency in the way we operate. Looking forward, Tarion will be concentrating on managing risk, enhancing financial performance and efficiency, and building trust and transparency. Mr. Bogach also said that Tarion is looking forward to continuously improving the way we deliver warranty services and builder regulation that is valued by present and future stakeholders.

Question and Answer Period:

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

Q. In terms of chargeable conciliations and claims, five of the builders that are on the board, Monarch, Mountainview, Tridel, Midhaven and Heron, over the last ten years, (they have) 38,000 possessions and zero conciliations and claims. My question is for one of the builders here, do you feel that's a fair reflection of your claims and chargeable conciliation record? Does it mean that you are significantly better builders than those who actually have a number of charges and far fewer possessions? As a follow up question, as a result of so few chargeable conciliations and claims, is that a reflection of why only 75 per cent of claims paid were recovered in 2010 and 60 per cent recovered in 2009? And why is that such a negative number? Could it be better if more of them were claimed back?

A. Let me start with the latter part of your question about the claims recovered. There are claims that are not recovered for a number of reasons. One of the major reasons is that our major structural defect claim ends at two years. So if something comes to Tarion after two years – and this is an old practice we are in the midst of correcting, so you're correct to focus on it – a claim that occurred after two years would not be reported as a claim, it would not be reported as chargeable, and it wouldn't be disclosed. We are correcting this issue, so moving forward you're going to see that coming through for possessions on an upcoming effective date. That's really the most important reason why many of those claims aren't recovered. Another reason is illegal building. For example, we're going after companies that are in receivership or bankruptcy. So, together, those are the main reasons why the claims recovered isn't higher.

To address the first part of your question, we are in the midst of launching a discussion paper on Performance Based Pricing, in which good builders would get a break on their fees and bad builders would pay substantially more. It would also provide clearer disclosure, both on chargeable conciliations and on claims paid, so that's something that is in the works. It would also include major structural defect issues. So if the builder doesn't fix or pay for it within the appropriate time, it will get reported and resolved. So these are the types of changes we're making in order to continue to get better.

Q. My question concerns Ontario Regulation 429/07 (Accessibility for Ontarians with Disabilities Act). I commend you for taking steps to make Tarion more accessible for people with disabilities, but I would also like you to consider recognizing builders who adapt their building designs to accommodate those with disabilities. Many builders do not want to make these changes, but my builder did and I feel that those builders who are prepared to make changes should be recognized with an award.

A. It's certainly worth taking under consideration. We have focussed our awards program strictly on the service aspect because that is within our control and measurement. The industry has moved forward in a number of ways. For example, the Ontario Home Builder Association recognizes the Green Builder of the Year, so they recognize people who have adopted important innovations. I think yours is a great suggestion and is certainly worthy of discussion. I'd also like to add that if there is an issue with accessibility that doesn't meet the building code, we do enforce that as part of our warranty.

Q. I have trouble distinguishing between the role of the developer and the role of the municipality, each seems to pass the buck if there is a problem. My second question is, are there any consumers on the board?

A. Five of our Board representatives are appointed by the Ministry of Consumer Affairs and we have two independent directors. So it's a mixture of builder representatives and non-builder representatives and does offer a really good perspective in terms of looking at the issues from both sides. In response to your first question, your real estate lawyer should be explaining the roles of entities such as the developer and the municipality. Additionally, you should be able to go to your builder and ask them for questions about things you don't understand. And if you're still not able to get an answer, we can help. But please remember that we are not experts in this field either.

Q. Regarding the Homeowner Information Package (HIP), is there any way that builders could be encouraged to provide it and specify the warranties a little more clearly? For example, the warranties on things such as the furnace and windows?

A. Builders are encouraged to do that during the Pre-Delivery Inspection (PDI). They are encouraged to make sure that they're not only giving you the information, but also walking you through and explaining all the systems within the home, so that you're prepared to deal with things such as the warranties on appliances. Tarion has also created a DVD that goes out to every new homeowner that provides information regarding these issues. If you feel you are being rushed through the PDI, simply ask the builder to come back when he/she has more time. You shouldn't be rushed, it's a very important process, and I'll speak to our people to see if we can do more. We also hold regular Builder Clinics and these are opportunities to stress the importance of these issues, which we will continue to do.

Mr. Bogach concluded the event by thanking all participants for attending.