Confidence in the Canadian Mortgage Market

May 2012

Prepared for:

Canadian Association of
Accredited Mortgage Professionals

CAAMP
ACCHA

By:

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CAAMP Chief Economist

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1.0 Introduction and Summary

Housing markets are stable and healthy in most of Canada. In fact, housing has played a major role in the recovery from the recession of 2008/09: housing construction, resale market activity, and mortgage lending have contributed directly to job creation. Even more importantly, rising housing values have supported consumer confidence and consumer spending, and thereby led to job creation.

The health of the residential mortgage market depends on trends in the housing market, as well as the broader Canadian economy. The mortgage lending environment is also stable and healthy.

This report has been prepared for the Canadian Association of Accredited Mortgage Professionals ("CAAMP") by Will Dunning, Chief Economist of CAAMP. It provides an overview of the evolving state of the residential mortgage market in Canada. Major sections of this report are:

- Introduction and Summary
- Mortgage Choices
- Financial Parameters
- Impact of Rising Interest Rates
- Continued Supply of Mortgages is Essential
- Outlook for the Housing and Mortgage Markets

Data used in this report was obtained from various sources, including an online survey of 2,000 Canadians. Forty percent (800 Canadians) were homeowners with mortgages and the remainder were renters, homeowners without mortgages, or others who live with their families and are not responsible for mortgage payments or rents. The survey was conducted by Maritz Research Canada (a national public opinion and market research firm) for CAAMP, during April and May 2012.

Evolving Approaches

CAAMP has conducted semi-annual consumer surveys since the fall of 2005. The research has a core of data on the residential mortgage market.

But, the contents have evolved over time, as CAAMP has sought to contribute to a better understanding of the residential mortgage market. CAAMP has developed new data, to support better decision making by consumers, lenders and policymakers.

In this edition of the survey:

- An attempt has been made to dissect the flows (new mortgages as well as repayments) that contribute to growth of total mortgage indebtedness.
- Entirely new in this edition is a section that briefly explores the importance of high ratio mortgage financing.

Mortgage Choices

Mortgage Types and Amortization Periods

For homes that have been purchased recently (during 2011 to the present), fixed rate mortgages are most popular, with a 66% share of new mortgages. Variable and adjustable rate mortgages have a 28% share and 6% are combination mortgages.

During recent years, mortgages with longer mortgage amortization periods have become increasingly prevalent. For mortgages obtained during 2011 to the present, 60% of mortgages have amortization periods of 25 years or less and 40% have extended amortization periods.

Analysis in this edition of CAAMP's research contrasts borrowers' expectations about their repayment horizons with the original contracted horizons. In addition, for homeowners who have fully repaid their mortgages, actual amortization periods are contrasted with the original contracted periods. In both analyses, repayment horizons are being significantly accelerated:

- For mortgages that have been repaid during the past two decades, actual repayment periods have generally been only two-thirds of the contracted periods.
- For current mortgages, borrowers are making significant efforts to accelerate repayment, including voluntarily increasing their regular payments and making lump sum pre-payments. Most borrowers have regular payments higher than required, and roughly one-half of mortgage borrowers are paying $100 per month (or more) in excess of their required payments. For recent buyers, expected amortization horizons are about one-fifth shorter than the contracted lengths.

Flows in the Mortgage Market

Data from the survey has been combined to generate the following estimates of flows in the mortgage market during 2011.

Table 1-1
Estimates of Mortgage Market Dynamics During 2011

Activity	*$ Billions*
Mortgages for Purchases	$138
Discharges or Transfers for Homes Sold	-$32
Principal Increases for Equity Take-Out	$29
Principal Repayment via Regular Payments	-$55
Lump Sum Payments by Mortgage Holders	
- Mortgage Not Fully Repaid	-$14
- Fully Repaid	-$4
Total Increase in Mortgage Credit	$62
Source: Maritz survey for CAAMP, spring 2012; analysis by the author.	

Among borrowers who took out a new mortgage during 2011, 50% obtained the mortgage from a Canadian bank and 31% from a mortgage broker. Other categories accounted for 19% of new mortgages.

Financial Parameters

There are currently about 9.85 million homeowners in Canada, of whom about 5.85 million have mortgages. An estimated 3.75 million homeowners are mortgage-free, although they may have other forms of debt.

The average outstanding principal is $170,000. Home Equity Lines of Credit ("HELOCs") average $70,700 for homeowners who have a HELOC only and no mortgage; for those with both a mortgage and a HELOC, the average HELOC is $58,600. Based on the survey findings, it is estimated that outstanding mortgage principals ($994 billion) plus HELOCs on primary residences ($161 billion) total $1.15 trillion.

Interest Rates

Looking at interest rates, the CAAMP/Maritz data indicates that:

- The average mortgage interest rate for homeowners' mortgages is 3.64%, lower than the average of 4.04% found a year ago.
- For mortgages on homes purchased recently (during 2011 and 2012 to date), the average rate is 3.48%. For mortgages renewed recently, the average is 3.24%.
- Looking further, for borrowers who have recently renewed a mortgage, the average interest rate is now lower (by 0.56 percentage point) than the rates prior to renewal. Among borrowers who renewed, 74% (about 800,000) saw their interest rate fall, 27% (200,000) saw increases, and 8% (75,000) had no change. For borrowers who saw their interest rates increase at renewal, the increases were minor for most. It is estimated that about 75,000 of these borrowers had their rates increase by more than 1 percentage point. This amounts to less than 2% of the 5.85 million Canadian home-owners who have mortgages.
- Mortgage rate discounting remains widespread in Canada. During 2011 to the present, the average actual rate for 5-year (fixed rate mortgages) has been 1.77 percentage points lower than typical "posted" rates.

Home Equity

The CAAMP study asked questions that yielded estimates of homeowners' equity.

- Among homeowners who have mortgages (but not HELOCs), on average their home equity represents 49% of the value of their homes.
- For owners with both mortgages and HELOCs, the equity ratio is 41%.
- For owners without mortgages but with HELOCs, the equity share is 82%.
- For owners without mortgages or HELOCs, equity is (of course) 100%.
- The total value of owner-occupied housing in Canada is estimated at $3.48 trillion (up from the $3.17 trillion estimated a year ago). Mortgages and HELOCs on these homes total $1.15 trillion, leaving $2.32 trillion in homeowners' equity. This equity is equal to 67% of the total value of the housing.

Equity Take-Out

About 18% of mortgage borrowers took equity out of their home in the past year. The average amount is estimated at $43,500. These results imply that the total amount of equity take-out during the past year has been $46 billion.

The most common uses for the funds from equity take-out are renovation (estimated at $17.25 billion), followed by $10 billion for investments, $9.25 billion for debt consolidation and repayment, $7.5 billion for purchases (including education), and $2 billion for "other" purposes.

About $29 billion of the take-out occurred through mortgages, including new first mortgages ($3 billion), second mortgages ($8 billion) and increases to existing first mortgages ($18.5 billion). An estimated $16 billion was via HELOCs.

Impacts of Future Rises in Interest Rates

Low interest rates in Canada have strongly stimulated housing activity, and consequently resulted in rapid growth of mortgage indebtedness. It is very reasonable to ask – as many have – if consumers will be able to afford their mortgage payments when interest rates inevitably rise.

CAAMP has addressed this important question in several forums, including a special research report ("Revisiting the Mortgage Market – The Risk is Minimal") published in January 2011. That research concluded that Canadian mortgage borrowers and lenders have been prudent and there is very substantial room to absorb higher interest rates. Anyone with an interest in this topic should read that report, which is available at the CAAMP website, under Resources.

Continued Supply of Mortgages is Essential

Accumulating necessary down payments remains a considerable challenge to potential homebuyers in Canada. More than one-half of tenants point to lack of a down payment as a reason that they rent rather than own.

Data gathered in this study suggests that if the minimum down payment in Canada was 10% rather than the current 5%, during 2007 to the present, home purchases might have been 100,000 units per year less than they were. Implications of a reduced level of sales would include less job creation in construction and related industries, slower growth of house prices (in fact, prices might have fallen), reduced consumer confidence and therefore less "indirect" job creation, and tighter rental markets with more rapid rates of rent increase.

It is essential for the health of the housing market, and therefore for the broader Canadian economy, to maintain access to high ratio mortgage funding.

Outlook for the Housing and Mortgage Markets

The Canadian housing and mortgage markets experienced strong growth for most of the past decade, mainly due to rapid job creation. While the recession of 2008/09 and its aftermath has slowed housing activity, in historic terms, the housing and mortgage markets remain healthy.

Job creation is the key driver of housing demand. Based on recent trends and expectations for employment, housing activity (in the resale and new construction arenas) is likely to be similar to recent trends for some time. Forecasts shown in section 5 of this report (based on a survey of prominent Canadian forecasters) suggest that:

- The volume of resale activity will rise from 2011's $166 billion to $168 in 2012 and $168 billion in 2013.
- Housing starts might total 191,500 in 2012 and 183,000 in 2013. This would be lower than was seen prior to the recession, but it would represent healthy activity in line with population growth.

Based on expectations for housing activity:

- The volume of outstanding residential mortgage credit is forecast to continue growing, but at a slower rate than prior to the recession. For 2012, the growth rate is forecast at 8.5% ($95 billion), followed by 8.2% growth in 2013 (close to $100 billion). By contrast, over the past 10 years the average growth rate was 9.1%.
- The primary cause of mortgage growth is completions of new housing.
- At the end of 2012, the volume of outstanding residential mortgage credit in Canada would be about $1.2 trillion, and by the end of 2013 the total might be about $1.3 trillion.

About CAAMP

CAAMP is the national association representing Canada's mortgage industry. With 12,500 members, CAAMP represents the largest and most respected network of mortgage professionals in the country. CAAMP represents the interest of its members to government the media and consumers with the aim of enhancing professionalism in the industry.

In 2004, CAAMP established the Accredited Mortgage Professional ("AMP") designation to enhance educational and ethical standards for Canada's mortgage professionals.

CAAMP's other primary role is that of consumer advocate. On an ongoing basis CAAMP aims to educate and inform the public about the mortgage industry. Through its extensive membership database, CAAMP provides consumers with access to a cross-country network of the industry's most respected and ethical professionals.

About the Author

Will Dunning is an economist, and has specialized in the analysis and forecasting of housing markets since 1982. In addition to acting as the Chief Economist for CAAMP he operates an economic analysis consulting firm, Will Dunning Inc.

About Maritz

Maritz Research Canada is a wholly owned subsidiary of Maritz Inc., the largest performance improvement company in the world, headquartered in St. Louis, Missouri. For more than 20 years, Maritz Inc. has been the largest provider of customer satisfaction research in the United States and a major supplier of brand equity research. In Canada, Maritz has been developing marketing research solutions for Canadian clients under the brand Maritz-Thompson Lightstone since 1977, and has grown to become one of Canada's largest full-service marketing research consultancies.

Disclaimer

This report has been compiled using data and sources that are believed to be reliable. CAAMP, Maritz, Will Dunning, and Will Dunning Inc. accept no responsibility for any data or conclusions contained herein.

The opinions and conclusions in this report are those of the author and do not necessarily reflect those of CAAMP or Maritz.

2.0 Mortgage Choices

This section uses data from the consumer survey to highlight consumer choices in the mortgage market. As in prior issues, this section provides data on mortgage types and amortization periods.

For this edition of CAAMP's report, the survey and analysis have been expanded, to look at expectations about actual repayment horizons (in contrast with contracted amortization periods) and the efforts consumers are making to accelerate amortization.

Dimensions of the Mortgage Market

There are currently about 13.7 million households in Canada[1], including:

- 9.6 million homeowners, of which 5.85 million have mortgages and 3.75 million are mortgage-free.
- Among the 5.85 million owners who have mortgages, about 2.0 million also have Home Equity Lines of Credit (known as "HELOCs"). Among homeowners without mortgages, about 600,000 to 650,000 have HELOCs. This leaves about 3.1 million home owners who have neither mortgages nor HELOCs.
- There are about 4.1 million tenants.

Data from the CAAMP/Maritz survey indicates that the average mortgage amount is about $170,000. Home Equity Lines of Credit ("HELOCs") average $89,000 for home owners who have a HELOC only and no mortgage; for those with both a mortgage and a HELOC, the average HELOC is $52,500. The combined debts total about $1.15 trillion.

Mortgaging Activity During 2011

Combining various data from the consumer survey, it is estimated that during 2011:

- About 600,000 to 625,000 households bought homes and took on an associated mortgage (as a new mortgage, a transfer of a mortgage from a property that they owned, or by assuming an existing mortgage). The average mortgage amount was about $224,000, for a total mortgage principal of about $138 billion. (In addition, about 150,000 homes were purchased and did not require mortgages. In total, about 750,000 homes were purchased.)
- Among the 750,000 households who bought homes, about 275,000 to 300,000 sold an existing home. Of those, about 175,000 to 200,000 had existing mortgages, with an average principal at the time of about $175,000, and a combined total of $32 billion. Discharges or transfers of these mortgages would partially offset growth of mortgage credit.

[1] The estimates of households by tenure are based on data from the 2006 Census, updated by this author based on housing completions, changes in vacancies, and for under-coverage (the estimated share of the population that was not counted in the 2006 Census).

- The net growth in mortgages due to home purchases is the difference between the two figures estimated on the previous page or about $106 billion.
- In addition, there would have been some retirements of mortgage principals due to situations where homes were sold but the vendors did not buy another property. No estimate is available for this factor.
- About 200,000 Canadian homeowners fully repaid their mortgages during 2011.

About 575,000 to 600,000 home owners with mortgages renewed or refinanced their mortgages. The average principal was $139,000 for a combined total of $81 billion.

In a later section of this report, it is estimated that existing mortgage holders added $29 billion to the principals during the past year, through equity take-out.

Therefore, total additions to mortgage principals are estimated at about $135 billion.

Based on the various information provided by consumers, it is estimated that regular mortgage payments resulted in a $55 billion paydown of mortgage principal.

In addition, it is estimated later in this section that lump sum payments by current mortgage holders totaled $13.5 to $14 billion in the past year. Furthermore, among the 200,000 Canadians who fully repaid their mortgages during 2011, lump sum payments totaled about $4 billion.

Combining these estimates of additions and subtractions from the total pool of mortgage indebtedness, growth is estimated at $60 to $65 billion. This is lower than the estimate of growth published by the Bank of Canada ($77 billion for the year to December 2011). However, the Bank of Canada figures include investment properties, second properties, and vacant dwellings, whereas the CAAMP estimate is for owner-occupied principal residences only.

The calculations discussed above are summarized in Table 1-1, on page 4.

It appears that the CAAMP consumer survey has yielded a reasonably reliable portrayal of mortgage market dynamics. The reader is cautioned that the estimates are based on a sample survey and as such are subject to variation.

Fixed Rate Versus Variable Rate Mortgages

The CAAMP/Maritz study found that 65% of mortgage holders (3.8 million out of 5.85 million) have fixed rate mortgages, 29% (slightly less than 1.7 million) have variable and adjustable rate mortgages, and 7% (about 375,000) have “combination” mortgages, in which part of the payment is based on a fixed rate and part is based on a variable rate.

In this edition of the CAAMP/Maritz study (as was the case a year ago) variable rate mortgages are most popular with people in the 35 to 54 age bracket.

Table 2-1 ***Percentages of Mortgages by Type,*** ***By Age Group***				
Mortgage Type	*18-34*	*35-54*	*55 +*	*Total*
Fixed-rate	67%	63%	66%	65%
Variable or adjustable-rate	26%	31%	28%	29%
Combination	7%	6%	6%	7%
All Types	100%	100%	100%	100%
Source: Maritz survey for CAAMP, spring 2012; analysis by the author.				

As is shown in the first column of the next table, among mortgages for homes that were purchased or with mortgage renewals during 2011 to the present, the distribution is very similar to the overall shares. Fixed rate mortgages remain the majority choice.

Table 2-2 ***Percentages of Mortgages by Type,*** ***For New Purchase Mortgages and Recent Renewals***			
Mortgage Type	*Purchase During 2011/12*	*Renewal or Refinance During 2011/12*	*All Mortgages*
Fixed-rate	66%	64%	65%
Variable or Adjustable Rate	28%	28%	29%
Combination	6%	8%	7%
All Types	100%	100%	100%
Source: Maritz survey for CAAMP, spring 2012; analysis by the author.			

The CAAMP survey data also shows the interest rate types prior to the renewal. Table 2.3 below summarizes the data for mortgage holders who renewed during 2011 to the present. To illustrate how to read this table - looking along the first row of data:

- 51% of the mortgages that were renewed during the year had a fixed rate prior to the renewal and a fixed rate afterwards.
- 11% of the mortgages had a variable/adjustable rate prior to the renewal but switched to a fixed rate.
- On the other hand, looking at the second row of data, 12% of the mortgage had a fixed rate prior to the renewal but switched to a variable rate.

The majority of borrowers did not change their mortgage type – the three bolded results along the diagonal sum to 71%. For the remainder (a substantial minority of 29%) there was switching to and from each of the three types of mortgages. Overall, the shifting was roughly balanced, leaving the shares by type of mortgage essentially unchanged.

Table 2-3 ***Mortgages Renewed During 2011 to the Present*** ***Types of Mortgages Prior to and After Renewal***				
Current Type of Mortgage	*Prior Type of Mortgage*			
	Fixed Rate	*Variable or Adjustable Rate*	*Combination*	*All Types*
Fixed Rate	**51%**	11%	1%	63%
Variable or Adjustable Rate	12%	**16%**	1%	29%
Combination	4%	0%	**4%**	8%
All Types	68%	27%	5%	100%
Source: Maritz survey for CAAMP, spring 2012; analysis by the author.				

Locking In Mortgage Rates

The survey found that there has been a considerable amount of "locking-in" (converting from variable rate to fixed rate mortgages). Among the 3.8 million Canadian homeowners with fixed rate mortgages, 14% locked in during the past 12 months (slightly over 500,000) and 11% locked in more than a year ago (about 425,000).

Of those who have locked in during the past year, one-third (or about 175,000) had purchased their homes recently (during 2008 to 2010). This data supports comments by lenders that they have high numbers of new borrowers who start with variable rate mortgages but soon opt for the security of fixed rates.

Among those with variable rate mortgages, the vast majority (94%) are aware that they have the option to lock in: about 100,000 are unaware that they have the option. About 250,000 variable rate mortgage holders are considering converting to fixed rates. On the other hand, the majority (about 1.3 million out of 1.7 million) have either not given serious consideration to locking in, or have considered the option but decided not to.

Mortgage Amortization Periods

Mortgage holders were asked several questions related to mortgage amortization, firstly to profile their choices. But, more importantly, information has been obtained on the extent to which consumers have accelerated repayment of their mortgages.

- Mortgage holders were asked when they expect to have their mortgages repaid. This data is used to compare their current expectations to the original amortization periods.
- In addition, data was collected from homeowners who no longer have mortgages, to compare their actual amortization periods to the original contracted periods.
- In the next section (on payment increases and lump sum payments), information is obtained on actions taken by mortgage borrowers to shorten their amortization periods.

A minority of mortgage consumers (25%) have amortization periods of more than 25 years, as is shown in the first column of the next table. The share has increased during the past half decade due to the availability of longer term mortgages: the second column

of data shows the distribution for homes that were purchased during 2011 and to date in 2012. This data indicates that the majority of new mortgages (60%) have standard 25-year amortization periods, but that a substantial minority (40%) has extended amortization.

In the fall of 2008, the federal government ceased guaranteeing new mortgages with amortization periods greater than 35 years (explaining the lack of 40 year amortization periods for recent purchases). As of March 2011, federal guarantees have been withdrawn for amortization periods exceeding 30 years. There will undoubtedly be further evolution of the distribution due to these policy changes.

Table 2-4
Percentages of Mortgages by Length of Original Amortization Period

Amortization Period	*All Mortgages*	*Homes Purchased During 2011/12*
Up to 25 Years	75%	60%
More Than 25 Years	25%	40%
Including…		
26-30 years	15%	33%
31-35 years	7%	7%
36-40 years	3%	0%
Total	100%	100%
Average Amortization Period	23 years	23 years
Source: Maritz survey for CAAMP, spring 2012; analysis by the author.		

The mortgage borrowers were asked when they expect to have their mortgages paid off. This data was used to calculate what the actual amortization periods might be. The next table contrasts these estimates with the original amortization periods. Concentrating on buyers who purchased in year 2000 or later (and who still have mortgages) it shows:

- Average contracted mortgage amortization periods have lengthened (in the first column of data).
- But, the expected total amortization periods are essentially unchanged (second column).
- Therefore, the amount of “acceleration” (third column) has increased.

Table 2-5
Original and Expected Amortization Periods (Averages), by Year of Home Purchase

Year of Purchase	*Original Amortization Period*	*Current Expected Period*	*Change*
2000-2003	20.7	21.3	+0.7
2004-2007	23.1	19.3	-3.8
2008-2012	24.1	19.3	-4.8
Source: Maritz survey for CAAMP, spring 2012; analysis by the author.			

An even more focused analysis looks at a small subset: mortgages for homes purchased during 2008 to the present, with extended amortization periods. This data indicates that the average expected amortization period (22.8 years) is considerably shorter than the original (contracted) periods (31.9 years). The expected shortening (9.1 years) amounts to about 30% of the original contracted period.

Possible interpretations (which are intertwined) for these findings are:

- These borrowers do not intend to have their actual amortization periods extend for the full contracted periods.
- They are acting aggressively to repay their mortgages (data shown below – on payment increases and lump sum pre-payments – supports this interpretation).
- Borrowers are taking prudent advantage of current low interest rates – they are leaving themselves considerable amounts of budgetary room, which they can use to accelerate repayment and/or to accommodate future rises in interest rates. CAAMP's other research, including the January 2011 report "Revisiting the Mortgage Market – the Risk is Minimal", provides considerable support to this interpretation.
- Borrowers who choose extended amortization periods are often acting to give themselves flexibility to manage future uncertainties, rather than out of need. Again, CAAMP's prior research, especially the data on debt service ratios that is contained in the "Revisiting" report, supports this interpretation.
- Analysis (which is derived later during research into mortgage rates) of consumers' actual mortgage payments versus the amounts that might be required by their amortization schedules, suggests that these borrowers are paying substantially more than is required. Even for those who purchased in recent times, the "surplus" payments are estimated to average about $250 per month, or $3,000 per year.

This section ends with survey data on mortgages that have been repaid. It shows that for mortgages that were repaid during the 1990s and into the present, the actual periods were considerably shorter than the original contracted periods. The final column of data indicates that typically the actual amortization periods have been only about two-thirds of the contracted periods.

This data on outcomes for past generations of borrowers does not prove anything about what will be achieved by current borrowers, but

- For those of us who believe that Canadians have a culture of repaying debt promptly, the data in Tables 2-6 and 2-7 provides confirmation.
- It shows that it is highly possible to accelerate repayment of mortgages.
- In combination with the data shown above and in the next section, we should feel encouraged about prospects for current borrowers.

Table 2-6 ***Original and Actual Amortization Periods (Averages), For Paid-off Mortgages, by Year Paid Off***				
Year Mortgage Paid off	*Original Amortization Period*	*Actual Amortization Period*	*Change*	*Actual as % of Original*
1990s	18.5	12.1	-6.4	65%
2000-2003	18.2	12.6	-5.6	69%
2004-2007	16.8	11.6	-5.2	69%
2008-2012	18.4	11.3	-7.1	62%
Source: Maritz survey for CAAMP, spring 2012; analysis by the author.				

Payment Increases and Lump Sum Payments

The spring 2012 CAAMP/Maritz survey has found that mortgage holders – especially those who have purchased their homes recently – are making considerable efforts to accelerate repayment of their mortgages. The survey asked mortgage holders "have you increased the amount of your mortgage payments or made any lump sum contributions to your mortgage principal?" The survey responses indicate that significant minorities of mortgage borrowers have taken advantage of these options, which will shorten the repayment horizons for their mortgages:

- 23% of mortgage holders have increased their monthly payments during the past year, and a further 17% had increased their payments in prior years (but not in the past year). This leaves 60% who reported they had never increased their payments.
- 19% have made a lump sum contribution to their mortgage in the past year, and a further 14% did so in prior years (but not in the past year). This leaves 67% who reported that they had never made lump sum payments.
- Some borrowers (10%) made both forms of extra payments during the past year. On the other hand, 50% report that they have never done either.
- These payments are in addition to amortization that would occur via scheduled payments.
- Among those who have renewed their mortgages recently (during 2011 to the present), 30% have voluntarily increased their payment in the past year (higher than the 23% share for all mortgage holders). The share making lump sum payments (16%) is slightly lower than the overall average of 19%.
- Looking at the most recent buyers (who purchased during 2009 to the present) among those who have mortgages, 21% have increased their payments during the past year; 19% made lump sum payments.

The following two tables look at payment increases and lump sum payments from two perspectives: the first is based on length of time that has passed since the properties were purchased; the second is based on the original amortization periods of the mortgages.

The first table shows that those who purchased their properties most recently are about as likely to make these special efforts as are all homeowners with mortgages.

Table 2-7 ***Shares of Mortgage Holders Who Made Extra Payments During the Past 12 Months, By Year Property was Purchased***		
Period of Purchase	*Increased Amount of Payment*	*Made Lump Sum Payment*
Before 1990	19%	14%
1990-1999	20%	10%
2000-2003	23%	18%
2004-2008	25%	20%
2009-2012	21%	19%
Total	23%	19%
Source: Maritz survey for CAAMP, spring 2012; analysis by the author.		

The survey also collected data on the dollar amounts of these voluntary additional efforts, and various survey data can be combined to calculate total amounts.

- For those who voluntarily increased their regular payments during the past year, the average amount of increase was in the range of $400 to $450 per month. Out of about 5.85 million mortgage holders, about 1.35 million voluntarily increased their payments. This results in a combined amount of just under $600 million per month, or about $7 billion per year. This is the effect of increases that were made during the past year. In addition, voluntary increases that were made in prior years are contributing to accelerated repayment of mortgages.
- Lump sum repayment by mortgage holders averaged about $12,500. About 1.1 million made these payments, resulting in a combined repayment estimated at $13.75 billion.
- In addition, for the first time ever, the survey asked homeowners without mortgages when they had repaid the mortgage, and those with recent repayment dates were asked what amounts, if any, of lump sum payments had been made during the last year of the mortgage. The survey data indicates that about 5% of mortgage-free homeowners had repaid their mortgage during 2011 (about 200,000 out of 3.75 million mortgage-free homeowners). They made average lump sum payments of $21,000. Combining data, the total amount of this activity during 2011 was $4 billion.

For the analysis relative to amortization periods, since longer amortization is a newer option, the analysis focuses on a subset, for homes purchased in 2007 or later. This data indicates that homeowners with 25 year amortization periods are slightly more likely to increase their regular payments or make lump sum payments than are those with longer amortization. Even, so among those with longer amortization periods, the shares making these efforts – 20% increased payments and 18% made lump sum payments – are the similar to the broader population (the 23% and 19% rates shown in the table above).

Table 2-8 ***Shares of Mortgage Holders Who Made Extra Payments During the Past 12 Months, by Length of Original Amortization Period*** ***For Homes Purchased During 2007 or Later***		
Amortization Period	*Increased Amount of Payment*	*Made Lump Sum Payment*
Up to 25 Years	24%	21%
More Than 25 Years	20%	18%
Including…		
30 years	18%	14%
35 years	20%	26%
40 years	31%	19%
Total	22%	20%
Source: Maritz survey for CAAMP, spring 2012; analysis by the author. Note: Totals add to more than 100% as some consumers made both additional payments.		

This snapshot portrays activity during a short period of just 12 months. It seems very reasonable to assume that over longer periods similarly substantial percentages of mortgage borrowers will take these actions to shorten their repayment periods.

During the past few years there have been many expressions of concern about the use of extended amortization periods. The new data presented in this report hints strongly that over time, a large share of the borrowers will use increases in their incomes to expeditiously retire their mortgages. This should lessen concerns about the riskiness of extended amortizations.

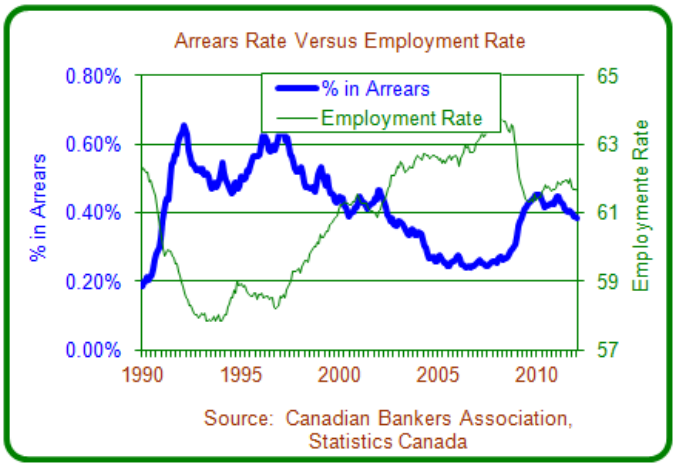
Missing Mortgage Payments

The spring 2012 survey asked homeowners if they have ever missed a mortgage payment. (This includes those with mortgages and those who have retired a mortgage – those who never had a mortgage were not asked these questions.) Since some lenders offer programs that allow for some missed payments, two options were surveyed. In either event, the vast majority of mortgage borrowers have never missed a payment: 10% have missed one or more payments that they were allowed to miss; 6% have missed one or more payments that they were not allowed to miss. Those who have purchased most recently are more likely to have missed payments than are earlier purchasers. (However, it is also likely that earlier purchasers have forgotten about missed payments and therefore the overall percentage, and percentages for earlier purchase periods, may be understated.)

Table 2-9 ***Percentages of Home Owners Who Have Ever Missed Mortgage Payments, By Year Property was Purchased, By Lender Program***		
Period of Purchase	*Missed Payment(s) That Were Allowed*	*Missed Payment(s) Not Allowed*
Before 1990	8%	1%
1990-1999	9%	2%
2000-2006	9%	4%
2007-2012	11%	8%
Total	10%	6%
Source: Maritz survey for CAAMP, spring 2012; analysis by the author.		

An alternative view uses data on mortgage arrears from the Canadian Bankers Association, which covers seven major banks (this shows mortgages that are three or more months in arrears). That data shows that there was a rise in mortgage arrears during the recession, although the rate of arrears did not increase as sharply as it did during the recession of the early-to-mid-1990s. During the past year the arrears rate has fallen. The most recent rate (about 0.38% as of January) is showing recovery, but it remains above the rate of about 0.25% seen prior to the recession. The current rate does not appear worrisome – the current arrears rate represents less than 1 in 250 borrowers.

In the Canadian context, most mortgage defaults are due to reduced ability to pay, especially due to job loss, but also income reductions due to reduced hours or reduced hourly pay rates. Marital breakdown is also a cause of financial difficulty (this might usually fit into the category of reduced ability to pay).



The chart to the right illustrates the importance of changes in the employment situation. It contrasts the arrears rates with the Canadian "employment rate" (not to be confused with the unemployment rate – this data shows the percentage of adults who are employed). The history of this data shows very clearly that changes – up or down – in the employment rate are followed several months later by changes in the arrears rate (in the opposite direction). The job losses that occurred during the recent recession can be considered the primary cause of the rise in mortgage arrears, as a sharp drop in the employment rate was followed several months later by a rise in the arrears rate. Similarly, the roughly flat employment rate since the end of the recession seems to explain why the arrears rate has fallen only slowly. The future path for arrears will be highly influenced by economic trends, and particularly by the rate of job creation.

Types of Mortgage Representatives Consulted

Mortgage holders were asked which types of mortgage representatives they consulted when obtaining their current mortgage and, secondly, through which type of mortgage representative they obtained their mortgage.

For all current mortgages (regardless of when they were obtained), 55% were obtained from a bank, 26% from a mortgage broker, 10% from a credit union, 5% from a life insurance or trust company, and 4% from an "other" source.

The table below focuses more narrowly on consumers who obtained their current mortgage during 2011 (either a new mortgage or a renewal of an existing mortgage).

The table shows shares for new mortgages separately from mortgages that have been renewed, renegotiated, or transferred. The second data column shows that for new mortgages, 50% were obtained from a bank, 31% from a mortgage broker, and 19% were obtained from other types of mortgage representatives. The fourth data column shows that for mortgages that were renewed, 64% were obtained from a bank, 22% from a mortgage broker, and 14% were from other types of representatives.

Table 2-10
Consumers' Use of Mortgage Representatives, During 2011

Type of Mortgage Representative	*New Mortgage*		*Renewal*	
	Consumer Consulted Mortgage Professional	*Obtained Through Mortgage Professional*	*Consumer Consulted Mortgage Professional*	*Obtained Through Mortgage Professional*
Mortgage Representative from a Canadian Bank	70%	50%	79%	64%
Mortgage Broker	62%	31%	39%	22%
Mortgage Representative from a Credit Union	32%	12%	14%	10%
Mortgage Representative from a Life Insurance or Trust Company	25%	5%	7%	2%
Other	5%	2%	2%	2%
Total	192%	100%	141%	100%

Source: Maritz survey for CAAMP, spring 2012; analysis by the author.

3.0 Financial Parameters

Interest Rates

The CAAMP/Maritz study collected data on mortgage interest rates for current mortgage holders. The average mortgage interest rate for these mortgage borrowers is 3.64% as of the spring of 2012, down from the 4.04% average found a year ago.

Very few mortgages in Canada have high interest rates. In this survey, less than 1% of mortgage rates are 8% or higher.

The next table looks at average mortgage interest rates by type of mortgage, for all mortgages and for two subsets: mortgages for homes purchased during 2011 to the present and mortgages that were renewed during the same period.

This survey data shows that:

- Mortgages that have been initiated or renewed during the past year have, on average, lower interest rates compared to all mortgages.
- Interest rates vary depending on mortgage type, with fixed rate mortgages having higher rates than for variable/adjustable mortgages. For recent mortgages (the second and third lines of data), the average spreads between fixed and variable/adjustable rates are 0.59 points and 0.77 points.

Table 3-1
Average Mortgage Interest Rates

	Mortgage Type			*All Types*
	Fixed-rate	*Variable or Adjustable Rate*	*Combination*	
All Mortgages	3.88%	3.04%	3.43%	3.64%
Purchases During 2011/12	3.65%	3.06%	3.05%	3.48%
Renewals During 2011/12	3.59%	2.82%	3.25%	3.24%

Source: Maritz survey for CAAMP, spring 2012; analysis by the author.

The survey also asked those who have renewed a mortgage what the interest rate was prior to renewal, and those rates have been compared to the mortgage borrowers' current rates. The results are summarized in the next table. It shows that among borrowers who have renewed a mortgage since the start of 2011, almost three-quarters had a reduction in their interest rate and about one-fifth had an increase. On average, for all mortgages renewed during that period, the interest rate was reduced by more than one-half of a percentage point.

Table 3-2 ***Changes in Mortgage Interest Rates for Mortgages Renewed During 2011 and 2012***			
Change in Interest Rate	*Fixed-rate*	*Variable or Adjustable Rate*	*Total*
% with Rate Decreased	81%	59%	74%
% with Rate Unchanged	2%	15%	7%
% with Rate Increased	17%	26%	19%
% with Rate Increased by 1 Point or More	6%	8%	6%
Total	100%	100%	100%
Average Change in Interest Rate (percentage points)	-0.57	-0.51	-0.56
Source: Maritz survey for CAAMP, spring 2012; analysis by the author. Note: estimates are not available for combination type mortgages due to small sample size.			

Combining the various estimates developed in this study:

- Out of 5.85 million homeowners who have mortgages,
- About 1,075,000 have renewed their mortgages during 2011 to the present.
- About 800,000 have seen their mortgage rates fall.
- About 75,000 had no change in their interest rate.
- 200,000 had their rates increase.
- About 75,000 of these households have seen increases of 1 percentage point or more. For many of these households, the increases in monthly mortgage payments may be significant, but in the big picture of the Canadian housing market, in which there are 9.6 million households who own homes, this is an insignificant change.

The data from this study indicates that very few mortgage borrowers have been negatively affected by increases in interest rates for their mortgages.

Mortgage Rate Discounting

The average mortgage interest rate reported here (3.88%) for fixed rate mortgages is well below the typical posted (advertised) rates that have been available during the past year. Since the start of 2011, posted rates for five year terms have averaged 5.37%[2]. The much lower actual rates found by the survey confirm that there is a substantial amount of discounting in the mortgage market.

This section uses the survey data to generate an estimate of the extent of discounting.

The study group includes a wide range of mortgages, including a full range of lengths of term to renewal, fixed rate versus variable rate mortgages, and the mortgages have been originated over a prolonged period. This results in a wide range of mortgage rates.

[2] Source: For posted rates, data are obtained from the Bank of Canada, using "Conventional mortgage" rates (estimated as of each Wednesday).

In order to produce a meaningful summary of the interest rates, one subset of the study group was selected for further analysis:

- Mortgages that were initiated, renewed, or refinanced since the beginning of 2011.
- With fixed rates, rather than variable rates.
- With 5-year terms.

For this group of mortgage borrowers:

- For those mortgages, the average mortgage interest rate is 3.60%. In contrast, the average posted 5-year mortgage rate was 5.37%. Based on this data it appears that Canadians negotiated mortgage rate discounts averaging 1.77 percentage points (for 5-year terms).
- Every mortgage within this subset of the database had an actual interest rate lower than the average posted rate.
- Over 80% of these borrowers received a discount of one percentage point or more versus the average posted mortgage rate.

Housing Equity

Data from the consumer survey has been used to generate estimates of home equity in Canada.

The equity amounts have been calculated by comparing the value of owner-occupied homes in Canada with the associated mortgages and Home Equity Lines of Credit ("HELOCs").

The estimates of housing values, related debt, and homeowner equity are summarized in the next table. In addition to the total estimates, four categories are shown: homeowners with both mortgages and HELOCs, owners with mortgages only (without HELOCs), owners with HELOCs (but without mortgages), and owners with neither mortgages nor HELOCs.

Based on data from the 2006 Census, updated using data on completions of new housing, the author estimates that there are currently about 13.7 million occupied dwellings in Canada. Of these, about 9.6 million are owner-occupied, including about 5.85 million with mortgages and 3.75 million without mortgages. CAAMP's spring 2012 survey data has been used to further refine the estimates across four categories, which are shown in the first line of the table (the second line shows the percentages).

For Canadian homeowners, the average dwelling value is estimated (by the occupants) at $362,100, which results in a total combined value of $3,476 billion (or $3.48 trillion).

Across all of the homeowners (including those with and without mortgages and/or HELOCS), the average mortgage amount is $103,500 (for a total of $994 billion) and the average HELOC is $16,800 (total of $161 billion), for a combined average debt $120,300 and a total indebtedness of $1.15 trillion. These estimates are current as of the survey

date. While the total approved amount of HELOCs is higher, actual borrowing can and does vary from month to month and week to week.

Contrasting total value with total indebtedness, Canadian homeowners have about $2.3 trillion in home equity (shown in the second last line of data). As is shown in the last line of the table, this is equivalent to 67% of with total housing value, which leaves a debt ratio of 33% of total value[3].

For the four categories of homeowners, the equity ratios are:

- With homeowners with both mortgages and HELOCs – 41%.
- Homeowners with mortgages only – 49%.
- With HELOCs only – 82%.
- With neither mortgages nor HELOCs – 100%.

Table 3-3
Estimates of Homeowner Equity in Canada, as of spring 2012
Mortgages and HELOCs Included

	Mortgage and HELOC	*Mortgage Only*	*HELOC Only*	*Neither Mortgage Nor HELOC*	*Total*
Number of Households	2,000,000	3,850,000	625,000	3,125,000	9,600,000
% of Homeowners	20.8%	40.1%	6.5%	32.6%	100.00%
Average Value of Homes	$374,200	$341,300	$398,200	$372,800	$362,100
Total Value ($ bn)	$748	$1,314	$249	$1,165	$3,476
Average Mortgage	$163,600	$173,100	$0	$0	$103,500
Average HELOC	$58,600	$0	$70,700	$0	$16,800
Average Combined Debt	$222,200	$173,100	$70,700	$0	$120,300
Total Mortgages ($ bn)	$327	$666	$0	$0	$994
Total HELOCs ($ bn)	$117	$0	$44	$0	$161
Total Combined Debt ($ bn)	$444	$666	$44	$0	$1,155
Average Equity	$152,000	$168,200	$327,500	$372,800	$214,000
Total Equity ($ bn)	$304	$648	$205	$1,165	$2,321
Equity Ratio (%)	41%	49%	82%	100%	67%
Source: Maritz survey for CAAMP, spring 2012; estimates by the author.					
Note: Figures may not add due to rounding.					

Most Canadian homeowners have considerable amounts of home equity.

In total, about 5% of homeowners have equity ratios of less than 10%. This includes a very small percentage of owners (less than 1%) who are estimated to have negative equity. Among homeowners who have mortgages (with or without an additional HELOC) 9% have less than 10% equity (comprising an estimated 500,000 households). A further 1.15 million Canadian home owners have equity in the range of 10% to 24.99%. This

[3] Surveys completed prior to the spring of 2011, which included mortgage debt only and did not include HELOCs, generated estimates of equity ratios in the range of 70% (the Fall 2010 estimate was 72%). Compiling the spring 2012 data on a like basis (excluding HELOCs), the equity ratio would be 71%.

leaves 83% of Canadian homeowners (about 7.95 million out of 9.6 million) with 25% or more equity. Even among the 5.85 million homeowners who have mortgages (with or without a HELOC), 72% have equity ratios of 25% or higher. Among those who have a HELOC but no mortgage, 94% (almost 600,000 out of 625,000) have 25% or more equity.

Equity Take-out

The survey data indicates that 18% of mortgage holders took out equity from their homes or increased the amount of the mortgage principal within the past twelve months. The average amount of equity take-out is estimated at $43,500.

Various findings from the survey can be combined to estimate total equity take-out by Canadian mortgage holders:

- At present there are about 5.85 million homeowners with mortgages in Canada.
- 18% of them have taken out equity during the past year (about 1,050,000 households).
- The average amount taken out was about $43,500.
- Combining these factors, the total amount of equity take-out is calculated as $46 billion during the past year.

Those who took out equity were asked what they used the money for. Some people indicated more than one purpose. Based on the responses, it is estimated that:

- $9.25 billion (20%) of the money would be used for debt consolidation or repayment.
- $17.25 billion (38%) would be used for renovation or home repair.
- $7.5 billion (16%) would be used for purchases (including spending for education).
- $10.0 billion (22%) is for investments.
- $2.0 billion (4%) is for “other” purposes.

Levels of Concern With Debt

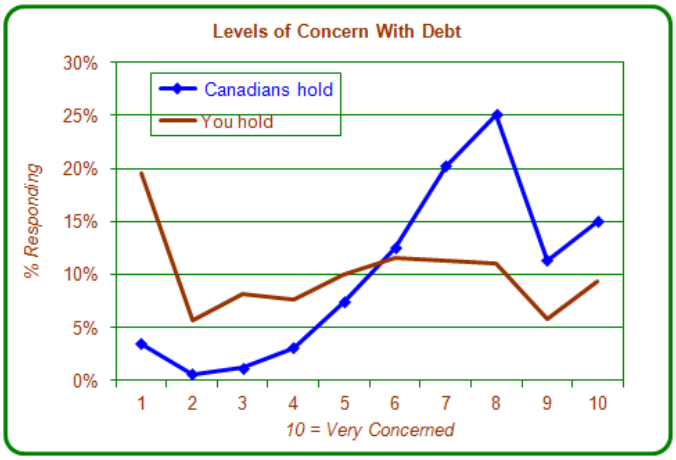
For the first time, the spring 2012 survey asked Canadians how concerned they are with:

- “The level of debts that Canadians hold, as a whole?”
- “The overall level of debt that you hold?”

They were asked to give ratings to these two questions, on a 10 point scale, where 10 indicates “very concerned”, and 1 indicates “not at all concerned”. The chart below summarizes the responses to the two questions.

Canadians have been repeatedly told that the level of indebtedness in Canada has become high, and the survey responses suggest that they broadly agree. They gave an average rating of 7.3 out of 10 regarding Canadians as a whole. More than one-quarter (26%) gave very high ratings of 9 or 10, and just 4% gave very low ratings of 1 or 2.

On the other hand, regarding their own levels of indebtedness, Canadians were considerably less concerned, giving an average rating of 5.2 out of 10. 25% gave low ratings of 1 or 2 out of 10. However, a notable minority (15%) indicate high levels of concern (9 or 10 out of 10).



The message here is that Canadians are more concerned about debts held by "other people" than about their own debts.

Impacts of Future Rises in Interest Rates

During the past four years, there have been concerns that when interest rates "inevitably" rise, consumers will be unprepared, resulting in unaffordable rises in mortgage interest costs. This has been expressed repeatedly by senior government officials and the economics profession.

CAAMP has attempted to contribute to the discussion, through semi-annual research reports on the mortgage market and in particular though two editions of a special report "Revisiting the Mortgage Market" that were published in January 2010 and January 2011. Readers with an interest in this topic are strongly encouraged to view those reports, which are available at the CAAMP website. Through analysis of large datasets of individual mortgage transactions the January 2011 report found that the vast majority of these borrowers are positioned to afford payment increases that would result if interest rates rise to a 5% rate. In total, about 2,000 to 2,500 recent home buyers (those who purchased in 2010) might have TDS ratios of 45% or more. The report concluded that this is an extremely small number relative to the total number of homeowners in Canada.

In addition, data generated by this spring 2012 consumer survey has yielded some additional findings. As was discussed in an earlier section, substantial shares of mortgage borrowers have voluntarily increased their regular payments and/or made lump sum payments. These payments reduce their potential amortization periods to less than the contracted periods. It means that if interest costs increase to unaffordable levels, the borrowers can often reduce their payments (within the limits imposed by the contracted amortization period).

Finally, the timing of interest rate increases remains uncertain. We have been talking about "inevitable" rises in rates since at least September 2008. The expectations of economists remain mixed, with about one-half expecting gradual increases during the coming year (perhaps by one percentage point in total from current levels) and about one-half expecting no increases for at least a year. It appears unlikely that borrowers will face large rises in interest rates anytime soon.

4.0 Continued Supply of Mortgages is Essential

The CAAMP/Maritz studies occasionally investigate various attitudes and expectations. For this edition, insights were obtained on the importance of having access to high ratio mortgage finance.

Tenants' Attitudes to Homeownership

Tenants were asked "For which of the following reasons would you say you are renting as opposed to purchasing?" More than one reason could be selected. On average, 1.6 reasons were given. Responses are summarized in following table.

Issues related to preferences and lifestyle received relatively few mentions. Two financial issues received very many mentions. The sixth reason (that home ownership may not be a good investment) also received few mentions. The conclusion from this research suggests that tenants retain strong interest in moving to homeownership, when their financial circumstances permit.

Table 4-1
Tenants Reasons for Renting as Opposed to Owning

Reason	*% Mentioning*
The cost of homeownership is prohibitive	33%
I don't want the responsibility of owning	18%
I have not yet saved the money I need to purchase a home (e.g. down payment, fees, taxes, etc.)	52%
I prefer renting	14%
I like my current place	19%
I believe homeownership is not a good investment at this time	13%
Other	10%
Source: Maritz survey for CAAMP, spring 2012; estimates by the author.	

Availability of Down Payments

The survey asked Canadians "If you decided you wanted to purchase a home tomorrow, how much money would you have available for the down payment and home buying fees/costs?" Responses are summarized in the next table.

Among homeowners, most have relatively large down payments available. However, among tenants, substantial shares have quite limited potential down payments. Among the 59% of tenants who indicated an amount, an amount less than $5,000 was mentioned by almost one-half (28% of the all renters, or 48% of those who indicated amounts). Just 11% of tenants indicates that they have $30,000 or more (these represent about 450,000 out of 4.1 million tenants in Canada).

Table 4-2 ***Available Down Payments***				
Amount	*Home Owners*	*Tenants*	*Others*	*Total*
< $5,000	9%	28%	15%	15%
$5,000-$9,999	3%	5%	3%	4%
$10,000-$14,999	5%	6%	1%	5%
$15,000-$19,999	2%	2%	2%	2%
$20,000-$29,999	6%	8%	6%	6%
$30,000-$49,999	6%	3%	7%	5%
$50,000-$99,999	11%	4%	6%	9%
$100,000 or more	21%	3%	7%	16%
No Response	38%	41%	53%	39%
Total	100%	100%	100%	100%
Average Amount	$116,000	$21,000	$40,000	$88,000
Source: Maritz survey for CAAMP, spring 2012; estimates by the author.				

Use of High Ratio Finance

Mortgage holders who purchased their homes recently (2007 to the present) and whose down payment was worth less than 10% of the value of the property were asked "If it had been mandatory to put 10% down in order to be able to secure a mortgage, would you still have been able to make the purchase or not?" Less than one-half (40%) of these mortgage borrowers indicated that they would have been able to make the purchase; 45% stated they would be unable to make the purchase; and 14% were unsure. The 45% who would not have been able to make the purchase represent about 525,000 purchases that would not have occurred during 2007 to the present, or about 100,000 lost purchases per year. On the other hand, we can say that the availability of 5% down payment mortgages permitted about 100,000 sales per year that might not have occurred.

The question remains whether these additional 100,000 sales per year are higher risk than are sales with larger down payments. This is not the place to answer that comprehensively. But, 5% down payment mortgages have been available in Canada for two decades. We haven't yet seen evidence that they have resulted in undue risks. Moreover, the buyers have been approved for the mortgages based on their incomes and their ability to afford the payments.

If sales were to be 100,000 units less per year as a result of reduced availability of high ratio finance, there would be economic and social consequences, including:

- Fewer new homes would be constructed, resulting in a loss of jobs. Each new single family home results in about 2 person years of employment in construction and in other industries that supply goods and services to the construction process.
- Resale market activity would be reduced, affecting employment in a range of industries that provide services to buyers and sellers.
- Fewer tenants would be able to move out of their rentals. Vacancy rates across Canada would be considerable lower, and rents would increase more rapidly.

- House prices would rise more slowly (and there would be a risk of price reductions). Homeowners would not benefit from gains in the value of their most important asset. This would negatively affect consumer confidence and spending and therefore fewer jobs would be stimulated by the “wealth effect” of rising housing values.

Conclusions

The survey results indicate that in order to maintain a fluid housing market, and to continue to receive the economic benefits of a healthy housing market, it will be important to ensure the continued availability of mortgage financing for those who can afford to make mortgage payments but have difficulty accumulating down payments.

5.0 Outlook for the Housing and Mortgage Markets

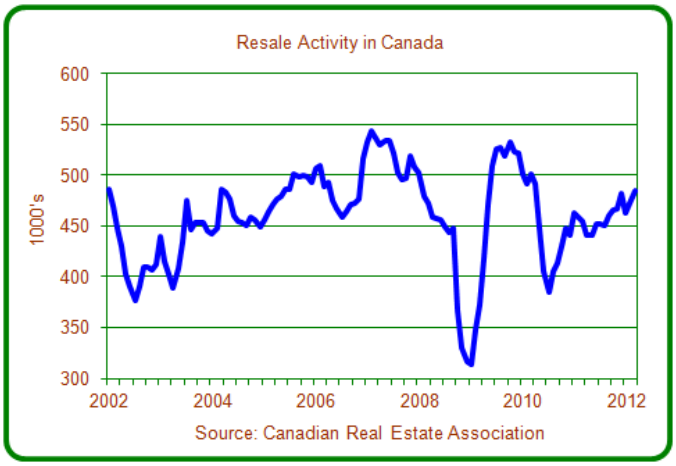
The Economic Background

The Canadian economy has fully recovered from the recession of 2008/09, in terms of the number of people employed and in economic output. As of March 2012, the level of employment is 260,000 (about 1.5%) higher than the pre-recession level. Meanwhile, the population has continued to expand (by an estimated 4.4% over the same period). Consequently, the percentage of the population that is employed (the "employment rate") is considerably below the pre-recession level: prior to the recession, the employment rate was about 63.5%; as of March, the rate was 61.8%.

Initially during the recovery, employment grew more rapidly than the population, bringing a gradual – and welcome – rise for the employment rate. But, since last summer, employment has shown little or no growth, which has caused the employment rate to drop slightly.

Prior to the recession, the employment rate had been at a record level. Thus, the current level, while lower than three years ago, indicates a relatively healthy economy, but it is remains less robust than the pre-recession state. The implication is that housing markets (and therefore mortgage demand) will remain below pre-recession levels.

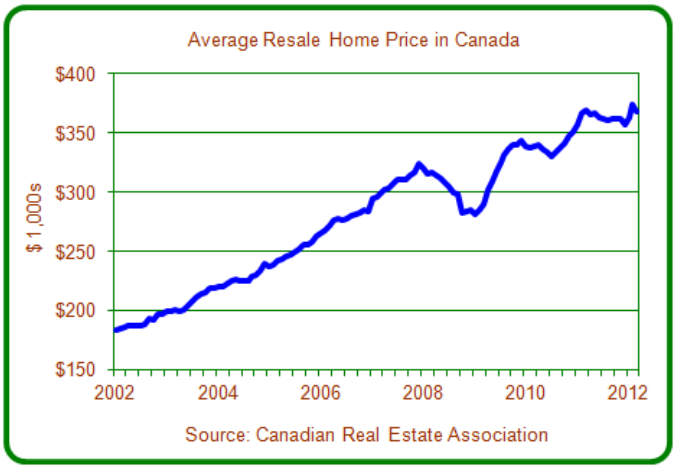
Housing Market Impacts



In the aftermath of the recession, there were extreme gyrations in resale activity. These can be attributed to temporary factors, including shifting consumer attitudes about their personal prospects, expectations about interest rates, and changes in mortgage lending criteria.

During 2011, activity appeared to have stabilized. In the past few months, activity has picked up. However, this is mostly concentrated in the Toronto area and surrounding regions of southern Ontario. Conditions remain stable in most other areas of Canada.

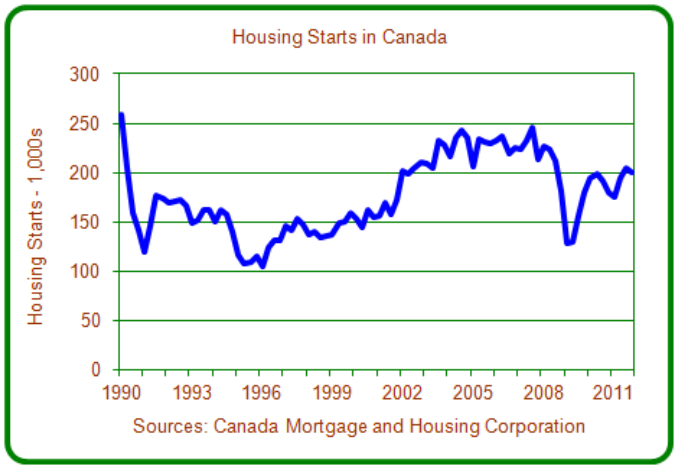
Stability of sales at a moderate level has brought stable prices in most of Canada (again, with the exception of southern Ontario). A decade-long period of rapid price growth appears to have ended, due to the slowdown of the economy and job creation.



The cause of the continued relatively strong price growth in southern Ontario is subject to debate. But, price growth has undoubtedly been influenced by emerging shortages of building lots as well as rising government-imposed costs (including the imposition of the HST in Ontario and British Columbia, and rapidly rising fees required for new residential development). While these increased costs apply to new housing, the market mechanism requires that they become reflected in resale prices - otherwise new housing would be uncompetitive and could not be built.

During the period of economic expansion, a combination of increasing sales and rapidly rising values resulted in a sharp expansion of the dollar volume of sales. Conversely the slowdown during 2008 resulted in a sharp drop in the dollar volume of sales. The recovery and stabilization of sales since 2008, and continued growth of values, resulted in a substantial recovery of the dollar volume. For 2011, the total dollar volume was slightly in excess of the prior peak (seen in 2007).

Concerning new construction of houses and apartments, starts respond less rapidly to changing economic conditions, because of the lag times that result from the need to pre-sell new units and then initiate the construction process. Starts did not recovery as strongly as did resales. While housing starts remain about 10% below the pre-recession level, they are relatively strong in historic terms.



Housing Market Forecasts

This author and most other forecasters suggest that the pace of economic recovery will remain modest during 2012 and 2013, but housing activity will be similar to recent levels.

Concerning resale housing markets:

- For 2012, the forecasters have broadly similar expectations. Taking the averages of the available forecasts, sales are expected to rise slightly (by 1.0%) to 462,000 units versus about 457,000 in 2011. Prices are expected to remain flat, close to the 2011 average of about $363,000.
- For 2013, the sales forecasts suggest further modest growth (about 1%) to about 466,000. Once again, the average price is expected to be flat.
- Combining the forecasts for sales and prices, sales volumes are forecast to increase gradually, from $166 billion in 2011, to $168 billion in 2012 and $170 billion in 2013.

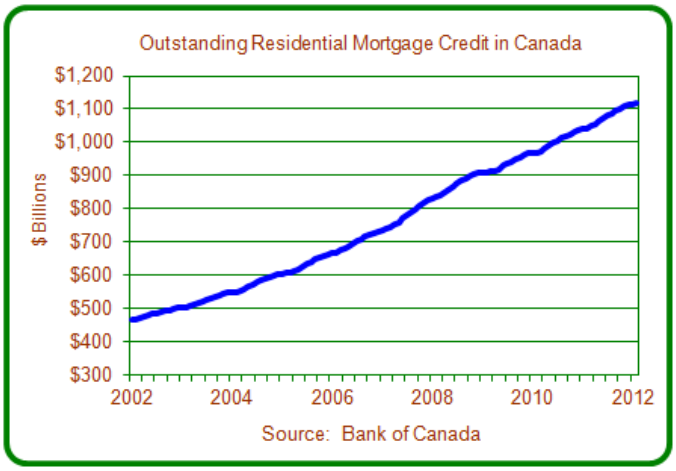
Concerning housing starts:

- For 2012, the forecasts are broadly similar, with an average expectation for 191,500 slightly below the 2011 figure of about 194,000.
- For 2013, expectations diverge, with an average of about 183,000, or a 4% drop from 2012.

These forecasts imply that during the remainder of this year and into 2013, activity will be relatively stable for resales, but a slowdown is expected for housing starts.

Implications for Mortgage Lending

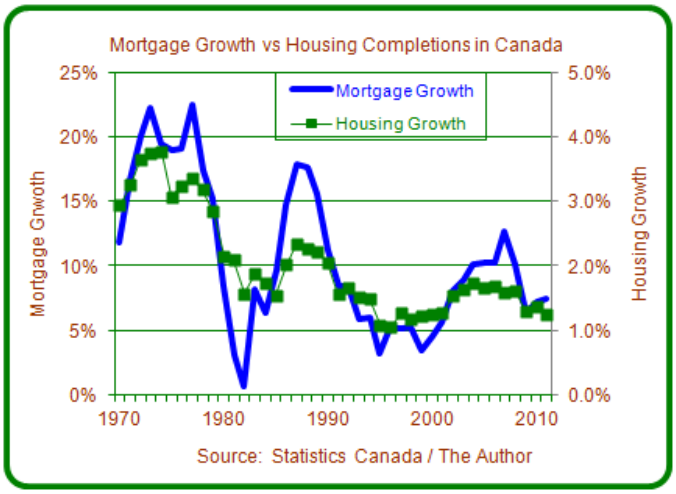
Expanding housing activity has resulted in rapid growth in the residential mortgage market during the past decade, as is illustrated in the chart to the right. The volume of outstanding residential mortgage credit now exceeds $1.1 trillion.



During the past 10 years, outstanding residential mortgage credit has expanded by 138%, or an average rate of 9.1% per year. However, the growth rate has slowed. As of this February, it is 7.1%, or $74 billion per year.

Growth of mortgage credit occurs through several processes. This section briefly discusses the processes.

- Expansion of the housing inventory. Completions of new dwellings increase the number of properties with mortgages. Most new ownership dwellings (as well as resale purchases) require mortgages. The chart to the right contrasts the rate of mortgage growth (percentage change per year) with the rate of housing completions (as a percentage of the existing housing stock). It illustrates quite clearly that growth of the housing inventory has been a major factor for growth of mortgage credit.



- Sales of existing homes represent a larger amount of housing activity, but the impact on mortgage demand is less substantial than for new housing, for two reasons. Firstly, average mortgage amounts are lower for resales than for new homes. Secondly, a sale of an existing property often involves the discharge of an existing mortgage, which reduces the net impact.
- Equity take-out has been estimated via CAAMP's consumer surveys. The most recent estimate is that during the past year $29 billion has been added to mortgage indebtedness through equity take-out.
- On the other hand, there are reductions in mortgage indebtedness through two main processes: monthly mortgage payments and lump sum payments.

Given the rapid growth in mortgage credit that is associated with new dwellings, we must be alert to the possibility that there was over-building in Canada – in the US, excessive buying of investment properties was a significant factor in the housing market collapse. The Canadian data, however, indicates that this has not been an issue here.

- Canada lacks data on vacancies in the homeowner sector. However, as an alternative measure, data from the Canadian Real Estate Association shows that supplies of new listings have been moreorless in line with growth of the housing inventory – the chart to the right shows listings as a share of the housing inventory. If there had been excessive investment, this indicator should have spiked during the past half decade, but it showed only a moderate rise that was not outofline historically.

- Vacancy data is available for rental apartments. If there was excessive building, the vacancy rate would have spiked during the second half of the past decade, but it clearly did not.

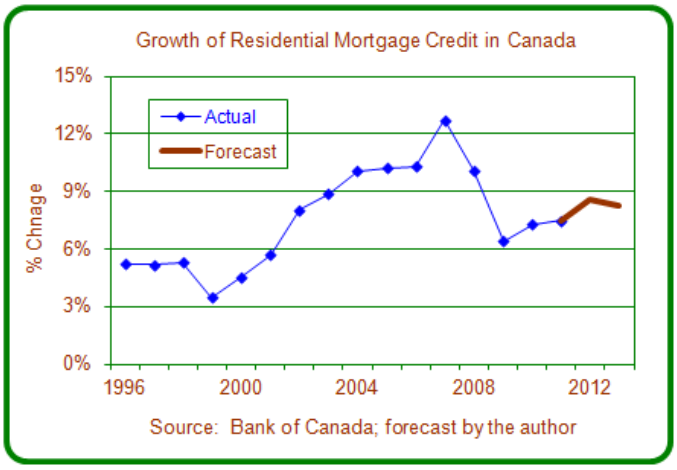
The available data indicates that rapid growth of mortgage credit in Canada has been due to strong demand for housing that resulted from rapid job creation. There is no evidence of excess supply to date.

During the past year, attention has been drawn to investment in condominium apartments in the Toronto and Vancouver areas. This author shares in that concern. However, the excess supply (the difference between future completions versus demand for the apartments) might total 10,000 to 15,000 units over the next three years in Vancouver and 20,000 to 25,000 units in the Toronto area over the same period. Moreover, vacancy rates are currently low in both Vancouver and Toronto (1.4% in both as of October 2011). Therefore, initially the excess supply will bring relief to these tight rental markets. It is likely to be sometime in 2013 before the impacts of the supply become clear. While corrections in the condominium apartment markets during 2013 and beyond might be disruptive to those sub-segments of the housing markets in those communities, the excesses represent modest proportions of the total housing stocks, and the broader repercussions should be limited.

There is, in addition, a critical question of whether Canadians can afford the mortgages they have taken on. This report has addressed that issue, and concluded affirmatively.

Forecast of Mortgage Activity

Mortgage credit will continue to expand. As is illustrated in the chart to the right, the volume of residential mortgage credit outstanding is projected to grow by 8.5% in 2012 (about $95 billion), followed by 8.2% growth in 2013 (close to $100 billion). The primary cause of the growth is anticipated completions of housing, which will be higher in both years than during 2009 to 2011.



Based on the forecasts for housing activity, the total volume of the residential mortgage market would be about $1.2 trillion by the end of this year and about $1.3 trillion at the end of 2013.

CONFIDENCE IN THE CANADIAN MORTGAGE MARKET
May 2012

Significant Statistics
An electronic version of the report is available at www.caamp.org

- There is currently $994 billion in mortgages on primary residences and $161 billion in Home Equity Lines of Credit (HELOCs).
- 83% of Canadians have at least 25% equity in their home. The average amount of equity is estimated at $214,000.
- Individuals with HELOCs have an average of 82% equity in their homes. Those with mortgages and HELOCs have an average of 41% equity in their homes. For those with just mortgages, equity is 49%.
- The total amount of equity take out during the past year is $46 billion, with most funds used for renovations ($17.25 billion), followed by investments ($10 billion) and debt consolidation ($9.25 billion).
- Among all mortgage holders, 65% have fixed rate mortgages, 29% have variable rate mortgages and 7% have a combination of both.
- 75% of outstanding mortgages have amortization periods of 25 years or less.
- For mortgages that have been repaid during the past two decades, actual repayment periods have generally been only two-thirds of the contracted periods.
- 23% of mortgage holders have increased their monthly payments in the last year. 19% have made a lump sum contribution to their mortgage.
- Among borrowers who took out a new mortgage during 2011, 31% obtained the mortgage from a mortgage broker. For current mortgages, regardless of when they were obtained, 26% were obtained from a mortgage broker.
- The average mortgage rate in 2011 is 3.64%, down from 4.04% a year earlier. For mortgages on homes purchased recently, the average rate is 3.48%.
- Of those who renewed their mortgages in the last twelve months, 74% are paying lower rates than previously.
- Accumulating down payment remains a considerable challenge to potential home buyers in Canada. 52% of tenants point to lack of a down payment as a reason they rent rather than own.
- If the minimum down payment in Canada was 10% instead of the current 5%, there would have been 100,000 fewer home purchases annually from 2007 to present day.
- There has been a considerable amount of “locking in” (converting from variable rate to fixed rate mortgages). 14% of fixed rate mortgage holders (slightly over 500,000) have locked in during the past 12 months.
- 2012 mortgage credit growth of 8.5% will be below the 10 year average of 9.1%.

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