



Stability in the Canadian Mortgage Market

May 2011

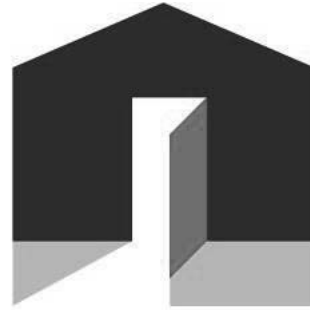
Prepared for:

Canadian Association of
Accredited Mortgage Professionals

By:

Will Dunning
CAAMP Chief Economist

**CAAMP
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1.0 Introduction and Summary

Following a threatening, but short-lived recession, which ended two years ago, the Canadian economy is well into recovery. Housing has benefitted from the recovery, and in fact has played an important role: rising housing values are encouraging consumer confidence and consumer spending, and this has been a major driver of job creation.

The residential mortgage market is, of course, intricately dependent on trends in the housing market, as well as the broader Canadian economy. It, too, is in robust health.

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
- Consumers’ Expectations About Housing Markets
- Profile of Mortgage Holders
- Rising Interest Rates Will Bring Challenges
- 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 home owners with mortgages and the remainder were renters, home owners without mortgages, or others who live with their families and are not responsible for mortgage payments or rents. The survey was conducted by Maritz (a national public opinion and market research firm) for CAAMP, during April 2011.

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 contribute to better decision-making by consumers, lenders, and policy-makers.

In this edition of the survey:

- Special attention is paid to consumers’ vulnerabilities (in the face of expectations that mortgage interest rates will rise).
- It also examines consumers’ efforts to retire their mortgages earlier than the scheduled amortization horizons.

Consumers' Expectations About Housing Markets

Consumers were asked several questions concerning their attitudes and expectations about their local housing markets. They were asked to provide their answers on a 10-point scale, where 1 is a very negative response and 10 is a very positive response.

Local Housing Market Conditions

When asked "is now a good time or a bad time to buy a new home in your community?" responses softened in the Spring 2010 survey. The average score given this spring was 5.99 out of 10, which is slightly above neutral (on this 10-point scale, a neutral rating would be 5.5). The average response has slid for three consecutive surveys, from the peak levels seen during the spring and fall of 2009. The current rating is, however, higher than in the five surveys prior to the recession. The drop in scores for this question may reflect the deterioration of housing affordability that has resulted from rapid growth of house prices in many communities.

As can be seen in Table 1-1, attitudes on this question are mixed across the regions of Canada.

<i>Survey Date</i>	<i>Atlantic</i>	<i>Quebec</i>	<i>Ontario</i>	<i>Manitoba</i>	<i>Saskatchewan</i>	<i>Alberta</i>	<i>British Columbia</i>	<i>Canada</i>
Spring 2011	6.15	5.82	6.18	5.54	5.30	6.29	5.75	5.99
Fall 2010	6.21	5.94	6.37	5.66	4.75	6.15	5.78	6.08
Spring 2010	6.23	6.25	6.57	6.11	5.72	6.15	6.13	6.32
Fall 2009	6.53	6.27	6.82	6.23	6.05	6.64	6.58	6.56
Spring 2009	6.30	5.48	6.96	5.88	5.67	6.93	6.97	6.46
Fall 2008	5.59	5.31	5.84	5.25	5.04	5.66	5.55	5.58
Spring 2008	6.25	5.64	5.90	4.97	3.93	4.75	4.91	5.52
Fall 2007	6.19	5.91	6.02	5.39	5.47	4.31	4.86	5.62
Spring 2007	5.85	3.95	5.85	5.29	6.25	4.05	5.09	5.10
Fall 2006	5.98	5.63	5.92	4.81	6.10	3.20	4.59	5.36

Source: Pollara survey for CIMBL, Fall 2006; Maritz survey for CAAMP, 2007 to 2011.

Home Buying Intentions

Each year, about 4.5% to 5.5% of Canadians buy homes. In the Spring 2011 survey, results are at the low end of this range (seen in a table on the next page), as 4.5% indicated that they were very likely to buy (giving ratings of 9 or 10 out of 10). The current survey results suggest that home buying activity may remain close to current moderate levels for the rest of this year. As is discussed later, forecasts by this author and others are consistent with these consumer responses.

**Table 1-2
Consumers' Responses by Region for "How Likely
Are You to Purchase a New Property in the Next Year?"**

<i>Survey Date</i>	<i>Atlantic</i>	<i>Quebec</i>	<i>Ontario</i>	<i>Manitoba</i>	<i>Saskatchewan</i>	<i>Alberta</i>	<i>British Columbia</i>	<i>Canada</i>
Average Score								
Spring 2011	2.76	3.25	3.46	2.84	3.72	3.52	3.22	3.32
Fall 2010	2.71	2.70	3.11	3.01	2.57	2.97	3.06	2.93
Spring 2010	2.63	2.96	2.69	2.77	3.07	3.25	2.95	2.86
Fall 2009	2.48	2.51	2.66	2.64	3.02	2.59	2.81	2.63
Spring 2009	2.92	2.70	2.81	2.71	2.88	3.04	3.15	2.86
Fall 2008	2.64	2.53	2.78	2.28	2.58	3.27	2.90	2.76
% Giving Score of 9 or 10 out of 10								
Spring 2011	3.1%	3.9%	4.2%	3.8%	3.8%	6.0%	6.2%	4.5%
Fall 2010	4.6%	3.7%	3.2%	5.5%	1.8%	6.4%	1.8%	3.6%
Spring 2010	4.2%	4.2%	2.5%	2.1%	2.1%	4.3%	3.5%	3.4%
Fall 2009	1.3%	3.1%	3.8%	4.3%	4.7%	2.9%	1.7%	3.2%
Spring 2009	7.9%	5.5%	3.7%	5.5%	2.2%	4.5%	3.4%	4.5%
Fall 2008	3.2%	4.3%	4.9%	2.3%	3.4%	6.4%	4.7%	4.6%
Source: Maritz survey for CAAMP, Fall 2008 to Spring 2011.								

Expectations about House Prices

Expectations about house prices were weak during the recession of 2008/2009, but have become considerably more optimistic. When asked "to what extent do you think housing prices in your community will go up or down in the next year?" just 8% expressed negative opinions this time (giving scores of 1 to 4 out of 10). Almost one-half (46%) expect prices to rise to varying degrees (ratings of 7 to 10) and 46% gave neutral answers (5 or 6 out of 10). The average rating of 6.36 is well above the midpoint of 5.5. As is shown in the table below, expectations about house prices are currently very similar across the country, and this has been the case for the past four surveys. Prior to the recession, there was much more variation across the country.

**Table 1-3
Average Consumers' Ratings by Region for "To What Extent Do You Think
Housing Prices in Your Community Will Go Up or Down in the Next Year?"**

<i>Survey Date</i>	<i>Atlantic</i>	<i>Quebec</i>	<i>Ontario</i>	<i>Manitoba</i>	<i>Saskatchewan</i>	<i>Alberta</i>	<i>British Columbia</i>	<i>Canada</i>
Spring 2011	6.39	6.41	6.39	6.32	6.52	6.32	6.19	6.36
Fall 2010	6.07	6.68	6.07	6.03	6.17	5.78	5.90	6.18
Spring 2010	6.24	6.51	6.51	6.45	6.46	6.46	6.38	6.46
Fall 2009	6.08	6.14	6.30	6.22	6.19	6.24	6.44	6.25
Spring 2009	5.34	5.34	5.15	5.49	5.86	5.27	5.09	5.27
Fall 2008	5.63	5.56	5.11	5.33	5.35	5.00	4.77	5.21
Spring 2008	6.26	6.22	5.96	6.64	6.98	5.47	6.35	6.10
Fall 2007	5.85	5.80	6.12	6.11	6.17	5.47	6.26	5.97
Spring 2007	5.96	6.28	6.22	5.86	6.61	6.70	6.42	6.29
Fall 2006	6.04	6.08	6.00	6.45	6.54	6.65	5.85	6.10
Source: Pollara survey for CIMBL, Fall 2006; Maritz survey for CAAMP, 2007 to 2011.								

Profile of Mortgage Holders

There are currently about 9.45 million home owners in Canada, of whom about 5.7 million have mortgages. An estimated 3.75 million home owners are mortgage-free, although they may have other forms of debt.

The average outstanding principal is \$150,000. Based on the survey findings, it is estimated that outstanding mortgage principals on primary residences total \$855 billion. In addition, home owners have about \$215 in Home Equity Lines of Credit (“HELOCs”).

Home Equity

The CAAMP study asked questions that yielded estimates of home owners’ equity.

- Among home owners who have mortgages (but not HELOCs), on average their home equity represents 49% of the value of their homes.
- For owners without mortgages but with HELOCs, the equity share is 65%.
- For owners with both mortgages and HELOCs, the equity ratio is 43%
- For owners without mortgages or HELOCs, equity is (of course) 100%.
- The total value of owner-occupied housing in Canada is estimated at \$3.17 trillion (up from the \$2.94 trillion estimated a year ago). Mortgages and HELOCs on these homes total \$1.07 trillion, leaving \$2.10 trillion in home owners’ equity. This equity is equal to 66% of the total value of the housing.

Equity Take-Out

About 15% of mortgage borrowers took equity out of their home in the past year. The average amount is estimated at \$30,000. These results imply that the total amount of equity take-out during the past year has been \$26 billion.

The most common uses for the funds from equity take-out are renovation (estimated at \$9.4 billion), followed by \$7.2 billion for investments, \$5.0 billion for debt consolidation and repayment, \$3.5 billion for purchases (including education), and \$0.9 billion for “other” purposes.

Mortgage Types and Amortization Periods

For homes that have been purchased recently (during 2010 and 2011 to date), fixed rate mortgages are most popular, with a 60% share of new mortgages. Variable and adjustable rate mortgages have a 35% share and 5% are combination mortgages.

During recent years, mortgages with longer mortgage amortization periods have become increasingly prevalent. For mortgages for homes purchased during 2010 and 2011, 59% have amortization periods of 25 years or less and 41% have extended amortization periods.

A new analysis in this edition of CAAMP's research contrasts borrowers' expectations about their repayment horizons with the original contracted horizons. In addition, for home owners 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. Using the survey data, it appears that on average regular payments are about \$400 per month (\$5,000 per year) higher than required.

Interest Rates

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

- The average mortgage interest rate for home owners' mortgages is 4.04%, slightly lower than the average of 4.09% found a year ago.
- For mortgages on homes purchased recently (during 2010 and 2011 to date), the average rate is 3.51%. For mortgages renewed recently, the average is 3.77%.
- Looking further, for borrowers who have recently renewed a mortgage, the average interest rate is now lower (by 0.66 percentage point) than the rates prior to renewal. Among borrowers who renewed, 65% (about 800,000) saw their interest rate fall, 27% (300,000) saw increases, and 8% (100,000) had no change. For borrowers who saw their interest rates increase at renewal, the increases were minor for most. It is estimated that about 100,000 of these borrowers had their rates increase by more than 1 percentage point. This amounts to less than 2% of the 5.7 million Canadian home owners who have mortgages.
- Mortgage rate discounting remains widespread in Canada. During 2010 and 2011, the average typical discounted rate for 5-year (fixed rate mortgages) has been 1.44 percentage points lower than typical "posted" rates.

Among borrowers who took out a new mortgage during 2010/11, 49% obtained the mortgage from a Canadian bank and 27% from a mortgage broker. Other categories accounted for 24% of new mortgages.

Rising Interest Rates Will Bring Challenges

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 the report.

In this Spring 2011 report, further research bolsters that conclusion.

- Large numbers of Canadian mortgage borrowers report that they can afford substantial increases in their mortgage costs. This even includes recent purchasers, whose amounts of room are similar to those for those who bought earlier.
- Among the relatively small numbers of borrowers who have limited room, most have considerable home equity and could, as a last resort, solve a problem of rising costs by selling their properties.
- As was noted earlier, many mortgage borrowers are paying more than they are required to. Analysis of the survey data suggests that for about 60% of borrowers, payments are at least \$100 per month more than required, which gives them flexibility to adjust payments in the event of future challenges.
- Because many borrowers have accelerated their repayments, they have the option, in the event of rising costs, to reduce the impact by returning towards the original amortization schedules.

Increased mortgage interest rates – as and when they materialize – will bring stresses for Canadian mortgage borrowers, but a very substantial majority of them are prepared.

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 2009/09 brought a sharp slowdown, it was short-lived, and for two years Canadian housing markets have been in mostly good health. Reflecting a post-recession environment, housing activity is slower than it was at the pre-recession economic peak.

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 2010's \$152 billion to \$155 in 2011 and \$160 billion in 2012.
- Housing starts might total 176,000 in 2011 and 175,000 in 2012. This would be much lower than was seen prior to the recession, and lower than the 2010 total of 190,000, but it would be similar to the trend seen over the past six months.

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 2011, the growth rate is forecast at 7.8% (\$80 billion), followed by 7.0% growth in 2012 (\$77 billion). By contrast, the growth rate was 12.4% in 2007 and 10.3% in 2008.

- At the end of 2011, the volume of outstanding residential mortgage credit in Canada would be about \$1.11 trillion, and by the end of 2012 the total might be about \$1.185 trillion.

About CAAMP

CAAMP is the national organization representing Canada's mortgage industry. With over 12,000 mortgage professionals, its membership is drawn from every province and from all industry sectors. This diversified membership enables CAAMP to bring together key players with the aim of enhancing professionalism.

Established in 1994, CAAMP has taken a leadership role in Canada's mortgage lending industry and has set the standard for best practices 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 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 Research 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 Consumers' Expectations About Housing Markets

Data used in this section was obtained via an online survey conducted during April 2011 by Maritz (a national public opinion and market research firm) on behalf of CAAMP. This is referred to below as the "CAAMP/Maritz" study.

Since the fall of 2006 the survey has included questions on opinions and expectations about local housing markets. The questions generally asked consumers to give their responses on a 10 point scale, where a score of 1 would be very negative, 10 would be very positive, and scores of 5 or 6 would be neutral.

"Is Now a Good Time or a Bad Time to Buy a New Home in Your Community?"

Consumer responses remain positive overall, although slightly less than in the two prior surveys.

- There was a small increase in the share of respondents who gave negative ratings (of 1 to 4, which rose to 22% from 18% last spring).
- There was also a small rise in the neutral range (5 to 6 out of 10, which rose to 34% from 32% last spring).
- Correspondingly, there was a drop for positive responses (7 to 10, to 44% from 50% last spring).
- As is shown in the table below, the average rating out of 5.99 out of 10 is lower than a year ago. It is slightly above neutral, which is 5.5 on a 1-to-10 scale. While consumer ratings have weakened on this question, they are still higher than in the five surveys from fall 2006 to fall 2008, when the average rating was 5.44 out of 10. The Spring 2011 survey continues to show positive attitudes to local housing markets in Canada.
- However, these positive responses do not necessarily indicate that home buying will increase, as will be discussed shortly.

<i>Rating</i>	<i>% Giving Rating</i>	
	<i>Spring 2010</i>	<i>Spring 2011</i>
1 (Very Bad Time)	3%	3%
2	1%	3%
3	5%	7%
4	8%	10%
5	13%	16%
6	19%	18%
7	18%	18%
8	19%	16%
9	7%	5%
10 (Very Good Time)	6%	5%
Total	100%	100%
Average Rating (out of 10)	6.32	5.99

Source: Maritz survey for CAAMP, Spring 2010 and Spring 2011.

Across the different regions of the country, findings are mixed:

- Attitudes are most positive in Alberta, Ontario, and the Atlantic provinces (each of which has an average rating greater than 6.0). Scores are lowest in Saskatchewan, followed by Manitoba, British Columbia, and Quebec.
- Nationally, more consumers gave positive ratings (44% gave scores of 7 to 10) than negative ratings (22% gave scores of 1 to 4). Positive ratings exceeded negative ratings in all of the regions except for Saskatchewan.

“How Likely are You to Purchase a New Property in the Next Year?”¹

This question was asked for the first time in the fall of 2008. As with other questions in this section, responses were given on a 10-point scale. A rating of 10 indicates “definitely will” buy a property and 1 indicates “definitely will not”.

Each year, relatively few households buy a home, typically in the range of 4.5% to 5.5%². Therefore, it is not surprising that only a small minority of consumers indicate that they definitely will buy a property, or are highly likely to. In the spring of 2010, only about 3% of consumers gave ratings of 9 or 10; this year the share climbed to 4.5%.

Rating	% Giving Rating	
	Spring 2010	Spring 2011
1 (Definitely Will Not)	49%	40%
2	8%	9%
3	12%	11%
4	9%	9%
5	6%	8%
6	6%	7%
7	4%	7%
8	2%	4%
9	1%	2%
10 (Definitely Will)	2%	3%
Total	100%	100%
Average Rating (out of 10)	2.86	3.32

Source: Maritz survey for CAAMP, Spring 2010 and Spring 2011.

¹ They full question indicated that “this could be a primary residence, or could be a second residence or investment property”.

² During 2005 to 2007, about 700,000 new and resale homes were bought annually by Canada’s households (at the time about 13 million). The totals for 2008 to 2010 were lower, in the range of 600,000 to 650,000 per year, and based on an increased number, currently about 13.5 million. These estimates of purchases rely on data from the Canadian Real Estate Association and Canada Mortgage and Housing Corporation. The author’s analysis of data from the 2001 Census suggests that actual activity might be about 15-20% higher.

It might seem that there are inconsistencies between the weakening responses given to the question on whether this is a good time to buy versus the (slightly) improved expectations about buying. The interpretation offered here is that the consolidation of the economic recovery has increased the number of Canadians who have gotten themselves into position that they can afford to buy, and they have improving confidence about prospects for the economy and their personal situations. Since the percentage of consumers who have high expectations about home-buying is at the low end of the neutral range, any improvements in market activity this year are likely to be modest.

The outlook for the housing market and the implications for mortgage lending activity are explored further in the fifth section of this report.

“To What Extent do You Think Housing Prices in Your Community Will Go Up or Down in the Next Year?”

Expectations about house prices remain positive. As is shown in the next table, as of the Spring 2011 survey consumers’ expectations are similar compared to a year ago. Few Canadians expect prices to fall (8% gave ratings of 1 to 4). Almost one-half (46%) expect prices to rise and a further 46% express neutral opinions (5 or 6 on a 10-point scale). The average rating of 6.36 out of 10 this spring is the second highest found in the ten times that this survey has been conducted.

Rating	% Giving Rating	
	Spring 2010	Spring 2011
1 (Go Down Dramatically)	1%	1%
2	1%	1%
3	1%	2%
4	4%	5%
5	14%	15%
6	30%	31%
7	30%	28%
8	13%	12%
9	4%	3%
10 (Go Up Dramatically)	3%	3%
Total	100%	100%
Average Rating	6.46	6.36

Source: Maritz survey for CAAMP, Spring 2010 and Spring 2011.

In both the Spring 2010 and Spring 2011 surveys expectations are very similar across the country.

“To What Extent Do You Think Mortgage Rates Will Change in the Next Year?”

In most of CAAMP’s prior surveys, expectations about mortgage interest rates have been generally neutral. During the past year, however, Canadians have indicated that

they expect interest rates to rise. This has no doubt been influenced by statements from senior government officials and the economics profession that interest rates will inevitably rise (and that Canadians should prepare themselves for the increases). Those increases have not yet materialized to any significant degree, which may explain why expectations have softened slightly from a year ago, to an average score of 6.70 versus 7.01 last spring.

A majority of Canadians (61%) now expect interest rates to rise to some degree (giving scores of 7 to 10 out of 10), and just 3% expect interest rates to fall. Among those people expecting rates to rise, most expect that the rises will be moderate (scores of 7 or 8) and few expect sharp rises (scores of 9 or 10).

<i>Rating</i>	<i>% Giving Rating</i>	
	<i>Spring 2010</i>	<i>Spring 2011</i>
1 (Go Down Dramatically)	0%	0%
2	0%	0%
3	0%	1%
4	1%	2%
5	9%	12%
6	19%	27%
7	38%	34%
8	23%	16%
9	6%	4%
10 (Go Up Dramatically)	3%	3%
Total	100%	100%
Average Rating	7.01	6.70
Source: Maritz survey for CAAMP, Spring 2010 and Spring 2011.		

There has been a great deal of speculation about the impacts of rising interest rates on Canadian mortgage borrowers. Several reports by CAAMP have explored the issues. This includes two editions of "Revisiting the Canadian Mortgage Market" (issued in January 2010 and January 2011), which analyzed data on recent mortgage transactions. The research has concluded that the vast majority of borrowers have sufficient room to tolerate higher interest rates. The fourth major section of this report further explores this very important issue, using data from CAAMP's April 2011 consumer survey.

3.0 Profile of Mortgage Holders

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, amortization periods, interest rates, home owners' equity, and equity take-out.

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).

Dimensions of the Mortgage Market

There are currently about 13.5 million households in Canada³, including:

- 9.45 million home owners, of which 5.7 million have mortgages and 3.75 million are mortgage-free. Some of the mortgage-free home owners (750,000 to 800,000) have Home Equity Lines of Credit (known as "HELOCs"). This leaves about 3 million home owners who have neither mortgages nor HELOCs.
- There are just over 4.0 million tenants.

Data from the CAAMP/Maritz survey indicates that the average mortgage amount is about \$150,000. For the 5.7 million home owners with mortgages, the total outstanding mortgage principal is estimated at \$855-\$860 billion⁴. HELOCs total about \$215-\$220 billion. The combined debts total about \$1.07 trillion.

About 200,000 home owners paid off mortgages during 2010. This amounts to about 3.5% of mortgage holders.

Fixed Rate Versus Variable Rate Mortgages

The CAAMP/Maritz study found that among mortgage holders 63% (3.6 million home owners) have fixed rate mortgages, 30% (1.7 million) have variable and adjustable rate mortgages, and 6% (350,000) 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 variable rate mortgages are most popular with people in the 35 to 54 age bracket (and especially for those aged 35 to 44).

³ 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).

⁴ This is lower than \$1,036 billion total reported by the Bank of Canada for residential mortgages (source: Weekly Financial Statistics, April 29, 2011). The Bank of Canada data includes investment properties, second residences, and vacant dwellings, whereas the CAAMP/Maritz estimates is for dwellings occupied by the owners as their principal residences.

Table 3-1 Percentages of Mortgages by Type, By Age Group				
<i>Mortgage Type</i>	<i>18-34</i>	<i>35-54</i>	<i>55 +</i>	<i>Total</i>
Fixed-rate	65%	60%	73%	63%
Variable or adjustable-rate	27%	34%	22%	30%
Combination	8%	6%	4%	6%
All Types	100%	100%	100%	100%
Source: Maritz survey for CAAMP, Spring 2011; analysis by the author.				

As is shown in the first column of the next table, among mortgages for homes that have been purchased quite recently (in 2010 or to date in 2011), the distribution is slightly different. This shift in preferences leaves fixed rate mortgages as the majority choice.

For mortgages that have been renewed recently, the shares are essential the same as the overall shares.

Table 3-2 Percentages of Mortgages by Type, For New Purchase Mortgages and Recent Renewals			
<i>Mortgage Type</i>	<i>Purchase During 2010/11</i>	<i>Renewal During 2010/11</i>	<i>All Mortgages</i>
Fixed-rate	60%	64%	63%
Variable or Adjustable Rate	35%	29%	30%
Combination	5%	6%	6%
All Types	100%	100%	100%
Source: Maritz survey for CAAMP, Spring 2011; analysis by the author.			

The CAAMP survey data also shows the interest rate types prior to the renewal. The table below summarizes the data for mortgage holders who renewed during 2010 and 2011. The majority of borrowers did not change their mortgage type – the three bolded results along the diagonal sum to 69%. For the remainder (a substantial minority of 31%) there was switching to and from each of the three types of mortgages.

Table 3-3 Mortgages Renewed During 2010 and 2011 Types of Mortgages Prior to and After Renewal				
<i>Current Type of Mortgage</i>	<i>Prior Type of Mortgage</i>			
	<i>Fixed Rate</i>	<i>Variable or Adjustable Rate</i>	<i>Combination</i>	<i>All Types</i>
Fixed Rate	51%	12%	0%	64%
Variable or Adjustable Rate	13%	16%	1%	31%
Combination	3%	1%	2%	6%
All Types	67%	29%	3%	100%
Source: Maritz survey for CAAMP, Spring 2011; 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 3.6 million Canadian home owners with fixed rate mortgages, 15% locked in during the past 12 months (over 500,000) and 12% locked in more than a year ago (over 400,000).

Of those who have locked-in during the past year, one-third (or 150,000 to 200,000) had purchased their homes recently (during 2009 to 2011). 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 (98%) are aware that they have the option to lock-in: less than 50,000 are unaware that they have the option. A substantial minority of variable rate mortgage holders (about 500,000) are considering converting to fixed rates. On the other hand, the majority (about 1.1 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 owners 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 (22%) have amortization periods of more than 25 years, as is shown in the first column of the table below. 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 2010 to the present. This data indicates that the majority of new mortgages (59%) have standard 25-year amortization periods, but that a substantial minority (41%) have 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 this March 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.

<i>Amortization Period</i>	<i>All Mortgages</i>	<i>Homes Purchased During 2010/11</i>
Up to 25 Years	78%	59%
More Than 25 Years	22%	41%
Including...		
26-30 years	10%	19%
31-35 years	9%	22%
36-40 years	4%	0%
Total	100%	100%
Source: Maritz survey for CAAMP, Spring 2011; analysis by the author.		

A new question in the Spring 2011 survey asked the mortgage borrowers 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.

<i>Year of Purchase</i>	<i>Original Amortization Period</i>	<i>Current Expected Period</i>	<i>Change</i>
2000-2003	21.1	20.0	-1.1
2004-2007	22.4	19.6	-2.8
2008-2011	25.4	19.8	-5.6
Source: Maritz survey for CAAMP, Spring 2011; 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 also indicates that expected amortization periods are considerable shorter than the original (contracted) periods).

<i>Original Amortization Period</i>	<i>Currently Expected Period (Average Years)</i>
26-30 years	22.2
31-35 years	24.7
36-40 years	28.1
Combined Total More Than 25 Years	24.1
Source: Maritz survey for CAAMP, Spring 2011; analysis by the author.	

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 in the next section – 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, perhaps an average of \$5,000 per year per borrower.
- An alternative interpretation might be that these consumers are unrealistic about their ability to repay debt. Given that the outcomes are in the future, we can't answer this definitively. But, the data we have on borrowers' behaviour makes this negative suggestion appear quite unlikely.

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. Interestingly, the table above provides a similar result: borrowers with extended amortizations expect their repayment periods to be about 70% of the contracted period.

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 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.

<i>Year Mortgage Paid off</i>	<i>Original Amortization Period</i>	<i>Actual Amortization Period</i>	<i>Change</i>	<i>Actual as % of Original</i>
1990s	18.5	12.2	-6.4	66%
2000-2003	21.3	14.0	-7.2	66%
2004-2007	18.4	13.0	-5.3	71%
2008-2011	18.4	11.5	-6.8	63%

Source: Maritz survey for CAAMP, Spring 2011; analysis by the author.

Payment Increases and Lump Sum Payments

The Spring 2011 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:

- 22% of mortgage holders have increased their monthly payments during the past year, and a further 16% had increased their payments in prior years (but not in the past year). This leaves 62% who reported they had never increased their payments.
- 18% have made a lump sum contribution to their mortgage in the past year, and a further 17% did so in prior years (but not in the past year). This leaves 65% who reported that they had never increased their payments.
- These payments are in addition to amortization that would occur via scheduled payments.
- Some borrowers (9%) made both forms of extra payments during the past year. On the other hand, 50% report that they have never done either.
- Among those who have renewed their mortgages recently (during 2010 to the present), 27% have voluntarily increased their payment in the past year (slightly higher than the 22% share for all mortgage holders). The share making lump sum payments is identical to the overall average of 18%.
- Looking at the most recent buyers (who purchased during 2008 to the present) among those who have mortgages, 26% have increased their payments during the past year; 24% made lump sum payments.
- It should also be noted that about 20% of home buyers do not require mortgages⁵.

⁵ The author noticed this 20% factor in analysis of 2001 Census data. More recent data from CAAMP’s consumer surveys is finding similar factors.

The following tables concerning payment increases and lump sum payments take two perspectives: the length of time that has passed since the properties were purchased and secondly, the original amortization periods of the mortgages.

The first table shows that those who purchased their properties most recently were more likely to make these special efforts than were prior purchasers.

Table 3-8 Shares of Mortgage Holders Who Made Extra Payments During the Past 12 Months, By Year Property was Purchased		
<i>Period of Purchase</i>	<i>Increased Amount of Payment</i>	<i>Made Lump Sum Payment</i>
Before 1990	8%	7%
1990-1999	24%	11%
2000-2003	15%	12%
2004-2007	23%	21%
2008-2011	26%	24%
Total	22%	18%
Source: Maritz survey for CAAMP, Spring 2011; analysis by the author.		

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 home owners with 25 year amortization periods are considerably 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 – 18% and 19% respectively – are the similar to the broader population (the 22% and 18% rates shown in the table above).

Table 3-9 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		
<i>Amortization Period</i>	<i>Increased Amount of Payment</i>	<i>Made Lump Sum Payment</i>
Up to 25 Years	28%	30%
More Than 25 Years	18%	19%
Including...		
30 years	11%	14%
35 years	16%	18%
40 years	29%	6%
Total	25%	24%
Source: Maritz survey for CAAMP, Spring 2011; 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 year 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 2011 survey asked home owners 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: 11% have missed one or more payments that they were allowed to miss; 5% 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.)

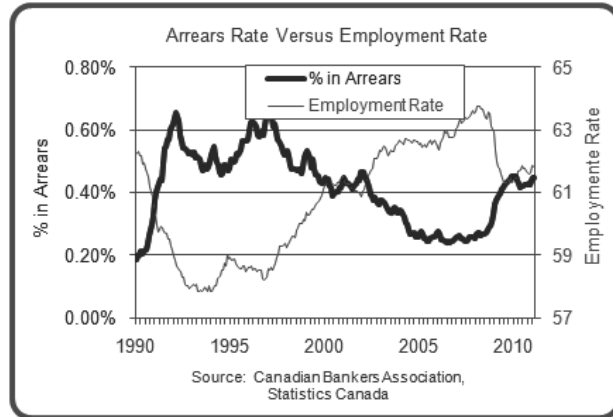
<i>Period of Purchase</i>	<i>Missed Payment(s) That Were Allowed</i>	<i>Missed Payment(s) Not Allowed</i>
Before 1990	8%	1%
1990-1999	10%	3%
2000-2005	10%	4%
2006-2011	12%	7%
Total	11%	5%
Source: Maritz survey for CAAMP, Spring 2011; analysis by the author.		

An alternative view uses data on mortgage arrears from the Canadian Bankers Association, which covers 7 major banks. 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 and a half, the arrears rate has been roughly stable at about 0.45% (this shows mortgages that are three or more months in arrears). The rate of arrears, while higher than it was at the peak of the economic cycle (typically about 0.25%), does not appear worrisome – the 0.45% rate represents less than 1 in 200 borrowers.

The lack of improvement in the arrears rate is initially puzzling.

In the Canadian context, most mortgage defaults are due to reduced ability to pay, especially including 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 also been flat. The future path for arrears will be highly influenced by economic trends, and particularly by the rate of job creation.



Types of Mortgage Professionals Consulted

Mortgage holders were asked which types of mortgage professionals they consulted when obtaining their current mortgages and, secondly, through which type of mortgage professional they obtained their mortgage. The two tables below summarize the data, focusing on consumers who obtained their current mortgage recently (either a new mortgage or a renewal of an existing mortgage).

The first table shows shares for new mortgages separately from mortgages that have been renewed, renegotiated, or transferred during 2010 to the present. The second data column shows that for new mortgages, 49% were obtained from a bank, 27% from a mortgage broker, and 24% were obtained from other types of mortgage professionals. The fourth data column shows that for mortgages that were renewed, 60% were obtained from a bank and 19% from a mortgage broker.

<i>Type of Mortgage Professional</i>	<i>New Mortgage</i>		<i>Renewal</i>	
	<i>Consumer Consulted Mortgage Professional</i>	<i>Obtained Through Mortgage Professional</i>	<i>Consumer Consulted Mortgage Professional</i>	<i>Obtained Through Mortgage Professional</i>
Mortgage Professional from a Canadian Bank	69%	49%	71%	60%
Mortgage Broker	55%	27%	35%	19%
Mortgage Professional from a Credit Union	38%	14%	26%	15%
Mortgage Professional from a Life Insurance or Trust Company	21%	7%	11%	3%
Other	7%	3%	4%	3%
Total	190%	100%	147%	100%

Source: Maritz survey for CAAMP, Spring 2011; analysis by the author.

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 4.04% as of the Spring of 2011, down slightly from the 4.09% average found a year ago.

Very few mortgages in Canada have high interest rates. In this survey, just 2% 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 2010 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 1.25 points and 1.18 points. However, the spread has been reduced for recent activity, since for all periods of initiation the spread is 1.54 points.

	<i>Mortgage Type</i>			<i>All Types</i>
	<i>Fixed-rate</i>	<i>Variable or Adjustable Rate</i>	<i>Combination</i>	
All Mortgages	4.52%	2.98%	4.63%	4.04%
Purchases During 2010/11	3.99%	2.74%	N/A	3.51%
Renewals During 2010/11	4.13%	2.95%	3.29%	3.77%

Source: Maritz survey for CAAMP, Spring 2011; 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 in the past 12 months, about two-thirds had a reduction in their interest rate and about one-quarter had an increase. On average, for all mortgages renewed during the past 12 months, the interest rate was reduced by 0.66 percentage point.

<i>Change in Interest Rate</i>	<i>Fixed-rate</i>	<i>Variable or Adjustable Rate</i>	<i>Total</i>
% with Rate Decreased	77%	43%	65%
% with Rate Unchanged	8%	11%	8%
% with Rate Increased	16%	46%	27%
% with Rate Increased by 1 Point or More	3%	17%	8%
Total	100%	100%	100%
Average Change in Interest Rate (percentage points)	- 0.80	- 0.54	- 0.66
Source: Maritz survey for CAAMP, Spring 2011; 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 5.7 million home owners who have mortgages,
- About 1.2 million have renewed their mortgages during 2010 to the present.
- About 800,000 have seen their mortgage rates fall; about 100,000 had no change in their interest rate.
- 300,000 had their rates increase.
- 100,000 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 9.45 million home owning households, 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.

A further analysis estimates changes in annual interest costs that have occurred for households who renewed their mortgages during 2010 to the present. While some of these households have seen increased interest costs, the majority have seen reductions. On average (combining borrowers with increases and those with reductions, as well as those with no changes) annual interest costs fell by about \$1,300. The total interest saving for those renewing mortgages is about \$1.6 billion per year.

Mortgage Rate Discounting

In prior editions of CAAMPs consumer surveys, estimates were developed on the extent to which actual mortgage rates are being discounted compared to typical average rates. Unfortunately, the data available in the Spring 2011 survey does not support valid estimates. However, in the past, it has been found that actual discounts are quite close to the amounts implied in the advertised rates of discount lenders.

For the period from the start of 2010 until the end of April 2011, the average spread between typical “posted” rates versus typical discounted rates (for fixed rate mortgages with 5-year terms), was 1.44 percentage points⁶. This is quite similar to the actual spread of 1.47 points that was estimated in the Spring 2010 survey.

Housing Equity

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

In prior reports, the equity amounts were calculated by comparing the value of owner-occupied homes in Canada with the associated mortgages. In the Spring 2011 survey, data was also collected on home equity lines of credit (known as “HELOCs”). This has resulted in an increase in the estimated amount of debt and a consequent reduction in estimated equity. This is an “accounting change”, not a real reduction.

The estimates of housing values, related debt, and home owner equity are summarized in the table below. In addition to the total estimates, four categories are shown: home owners with mortgages only (without HELOCs), owners with HELOCs (but without mortgages), owners with both mortgages and HELOCs, 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 13.5 million occupied dwellings in Canada. Of these, about 9.45 million are owner-occupied, including about 5.7 million with mortgages and 3.75 million without mortgages. CAAMP’s Spring 2011 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 home owners, the average dwelling value is estimated (by the occupants) at \$336,000, which results in a total combined value of \$3,170 billion (or \$3.17 trillion).

Across all of the home owners (including those with and without mortgages and/or HELOCs), the average mortgage amount is \$91,000 and the average HELOC is \$23,000, for a combined average debt \$114,000, and a total indebtedness of \$1.07 trillion.

⁶ Source: For posted rates, data are obtained from the Bank of Canada, using “Chartered Bank Administered Interest Rates: 5 Year (as at Wednesday)”; discounted rates (also for 5-year fixed rate mortgages) have been estimated by the author.

Contrasting total value with total indebtedness, Canadian home owners have about \$2.10 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 66% of with total housing value, which leaves a debt ratio of 34% of total value⁷.

For the four categories of home owners, the equity ratios are:

- Home owners with mortgages only – 49%.
- With HELOCs only – 65%.
- With both mortgages and HELOCs – 43%.
- With neither mortgages nor HELOCs – 100%.

Table 3-14					
Estimates of Home Owner Equity in Canada, as of Spring 2011					
Mortgages and HELOCs Included					
	<i>Mortgage only</i>	<i>HELOC only</i>	<i>Both Mortgage and HELOC</i>	<i>Neither</i>	<i>Total</i>
Number of Households	3,830,000	770,000	1,870,000	2,980,000	9,450,000
% of Home Owners	40.5%	8.2%	19.8%	31.5%	100.0%
Average Value of Homes	\$292,000	\$386,000	\$372,000	\$357,000	\$336,000
Total Value (\$ bn)	\$1,120	\$300	\$690	\$1,060	\$3,170
Average Mortgage	\$149,000	\$0	\$154,000	\$0	\$91,000
Average HELOC	\$0	\$136,000	\$60,000	\$0	\$23,000
Average Combined Debt	\$149,000	\$136,000	\$214,000	\$0	\$114,000
Total Combined Debt (\$ bn)	\$570	\$100	\$400	\$0	\$1,070
Average Equity	\$143,000	\$250,000	\$158,000	\$357,000	\$222,000
Total Equity (\$ bn)	\$550	\$190	\$300	\$1,060	\$2,100
Equity Ratio (%)	49%	65%	43%	100%	66%
Source: Maritz survey for CAAMP, Spring 2011; estimates by the author.					
Note: Figures may not add due to rounding.					

Most Canadian home owners have considerable amounts of equity. Among the home owners who have some form of debt on their property (shown in the first data column of the next table), 3% (175,000 to 200,000) might have negative equity, and 6% (375,000 to 400,000) have equity positions from 0% to 9.9%. A further 12% (800,000) have equity positions in the range from 10% to 24.9%. More than three-quarters (79%, or 5.1 million) have 25% or more equity. In addition, about 3 million home owners who have neither mortgages nor HELOCs have 100% equity in their homes.

⁷ Prior surveys, 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 2011 data on a like basis (excluding HELOCs), the equity ratio would be 73%.

<i>Equity as Percentage of Home Value</i>	<i>With Mortgage and/or HELOC</i>	<i>Neither</i>	<i>Total Home Owners</i>
negative equity	3%	0%	2%
0-4.99%	3%	0%	2%
5-9.99%	3%	0%	2%
10-14.99%	4%	0%	3%
15-24.99%	9%	0%	6%
25-49.99%	32%	0%	22%
50-74.99%	26%	0%	18%
75-99.9%	21%	0%	14%
100%	0%	100%	32%
Total	100%	100%	100%

Source: Maritz survey for CAAMP, Spring 2011; estimates by the author.

The survey asked mortgage holders to what extent they are comfortable with their equity position (these mortgage holders might also have HELOCs; the question was not asked for owners who have HELOCs only or no debt). The consumers' responses showed that a small minority (4%) consider themselves "very uncomfortable" with their equity positions, and a further small minority (15%) report being "somewhat uncomfortable". A substantial majority (77%) is comfortable - either "somewhat comfortable" (44%) or "very comfortable" (33%). The levels of comfort show minor variations across the regions of Canada: in all regions, large majorities are comfortable with their equity positions.

<i>Comfort Level</i>	<i>Atlantic</i>	<i>Quebec</i>	<i>Ontario</i>	<i>Manitoba</i>	<i>Saskatchewan</i>	<i>Alberta</i>	<i>British Columbia</i>	<i>Canada</i>
Very Uncomfortable	0%	3%	4%	12%	0%	6%	5%	4%
Somewhat Uneasy	15%	11%	15%	19%	21%	23%	16%	15%
Somewhat Comfortable	46%	43%	47%	42%	33%	33%	44%	44%
Very Comfortable	36%	38%	30%	27%	46%	32%	32%	33%
Don't Know or No Opinion	4%	4%	4%	0%	0%	6%	3%	4%

Source: Maritz survey for CAAMP, Spring 2011; estimates by the author.

Equity Take-out

The survey data indicates that 15% 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 \$30,000.

Various findings from the survey can be combined to generate an estimate of the total amount of equity take-out by Canadian home owners:

- At present there are about 5.7 million home owners with mortgages in Canada.
- 15% of home owners with mortgages have taken out equity during the past year (about 850,000 households).
- The average amount taken out was about \$30,000.
- Combining these factors, the total amount of equity take-out is calculated as \$26 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:

- \$5.0 billion (19%) of the money would be used for debt consolidation or repayment.
- \$9.4 billion (36%) would be used for renovation or home repair.
- \$3.5 billion (14%) would be used for purchases (including spending for education).
- \$7.2 billion (28%) is for investments.
- \$0.9 billion (3%) is for “other” purposes.

Equity take-out can occur in several forms, including mortgages as well as Home Equity Lines of Credit (HELOCs). For the first time in this survey, the Spring 2011 edition asked consumers in what form they obtained this take-out financing. The responses indicate:

- \$3.1 billion (12%) is via first mortgages (previously there was not a mortgage).
- \$9.4 billion (36%) is via increasing the principal of the primary mortgage.
- \$3.5 billion (13%) is via second mortgages.
- \$9.4 billion (36%) is via HELOCs.
- \$0.6 billion (2%) is via other forms.

4.0 Rising Interest Rates Will Bring Challenges

There are widespread expectations that interest rates will rise in Canada during the coming years, and many of the expectations are for substantial rises. This has been clearly expressed by senior government officials and the economics profession. The Spring 2011 CAAMP/Maritz survey shows that most consumers have heard these messages, as they expect interest rates to rise, to varying degrees.

Rising interest rates will result in increased costs for mortgage holders. There have been many expressions of concern – for at least the last 2.5 years – that consumers may not be prepared for the increased interest burdens.

CAAMP has attempted to contribute to the discussion, through semi-annual research reports on the mortgage market and in particular through 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. Through analysis of large datasets of individual mortgage transactions those research report:

- Profiles current debt service burdens. For mortgages initiated in 2010:
 - For variable rate mortgages, lenders used benchmark interest rates to “qualify” the borrowers. Based on actual contracted interest rates, the average gross debt service (“GDS”) ratio was 19.6%, far below typical lender standards of 32%-35%. Total debt service (“TDS”) ratios averaged 28.9%, far below the 45% standard.
 - For fixed rate mortgages, the average GDS was 22.5% and the average TDS was 32.5%, again, far below standards.
- Simulations estimated the impacts of future rises in interest rates on debt service burdens. The simulations assumed that rates would rise to 5% for all types and terms of mortgages. By contrast, current typical rates (after lender discounts) are 4.1-4.3% for five year fixed rate mortgages (which is the majority choice), 3.0-3.25% for one year fixed rate mortgages, and 2.2-2.4% for variable rate mortgages. The assumption of a 5.0% future interest rate leaves considerable room for increases, and is consistent with forecasts issued by Canada’s major banks.
- The research concludes that the vast majority of these borrowers are positioned to afford payment increases that would result if interest rates rise to the 5% assumed rate.
 - For variable rate mortgages, the average TDS would rise to 33.7%; less than one percent would have TDS ratios of 45% or more.
 - For fixed rate mortgages, the average TDS would rise to 32.5%; about one percent would have TDS ratios of 45% or more.
 - In total, about 2,000 to 2,500 recent home buyers (those who purchased in 2010) might have TDS ratios of 45% or more: this is an extremely small number relative to the 9.45 million home owners in Canada.
- The research is based on insured mortgages for recent purchases. These represent the highest risk mortgages in Canada. For the entire Canadian mortgage universe, risks are even lower.

This Spring 2011 CAAMP/Maritz survey is adding to the discussion.

The survey asked mortgage holders to indicate “the amount at which, if your mortgage payment increased this much, you would be concerned with your ability to make your payments”. Among the mortgage holders, 42% indicated that they “don’t know”. Among the 58% who provided specific responses:

- 3-4% indicated that they have no room (the affordable increase is \$0).
- A further 5% indicated their room is \$1 to \$99.
- 8% indicated that their room is \$100 to \$199.
- 17% reported room in the range of \$200 to \$299.
- This leaves 66% whose capacity is \$300 per month or more.

Similar analysis was completed for subsets of the data (depending on years when homes were purchased). For those who originated the mortgage in recent times, including the past year or slightly longer time frames, the distribution of answers is essentially the same as overall. The table below summarizes data for all mortgages and for a subset for properties purchased occurred during 2008 to the present.

<i>Room for Increases</i>	<i>All Mortgage Holders</i>	<i>Purchases 2008- Present</i>
\$0	3%	2%
\$1-99	5%	3%
\$100-199	8%	6%
\$200-\$299	17%	18%
\$300 or more	66%	72%
Total	100%	100%
Source: Maritz survey for CAAMP, Spring 2011; estimates by the author.		

The responses were combined with other data from the survey to calculate the rises in interest rates that could be tolerated. The next table summarizes the estimates, by type of mortgage. The top half of the table provides estimates for all mortgage holders; the lower half provides data for mortgages on properties purchased during 2008 to the present.

The estimates suggest that there are small percentages of mortgage holders who have very limited abilities to tolerate higher interest rates: 2% (about 100,000 borrowers) have tolerable interest rates in the range of 3-3.49%, and a further 3% have thresholds in the range 3.5-3.99% (about 175,000 to 200,000 borrowers). But on closer examination, these particular results are difficult to interpret: almost all of the borrowers in these two subsets purchased their homes prior to 2008, and their original mortgage interest rates would very likely have been 5% or higher. Why they would be challenged by rates lower than their original rates is not apparent. This analyst concludes that very few borrowers really would have difficulty with mortgage interest rates below 4%.

There is also a relatively large number of borrowers who would be challenged by rates from 4.0-4.49% (about 175,000 to 200,000 borrowers) and 4.5-4.99% (about 275,000 to

300,000 borrowers). Of this combined total of about 475,000, about 60% (275,000) have variable rate mortgages. With typical market rates for variable rate mortgages in the range of 2.2-2.4%, it should be quite some time before the rates for these borrowers approach the individuals' thresholds (4% and higher). And, in the interim, the borrowers are quite likely to see income gains that will increase their financial capacities.

For the roughly 200,000 borrowers who have fixed rate mortgages and thresholds in the 4-4.99% range, time will be a mitigating factor, as their payment levels are fixed until their next renewal, and they will see varying degrees of income growth.

Table 4-2				
Estimated Tolerable Interest Rates for Mortgage, by Type of Mortgage				
<i>Tolerable Interest Rates</i>	<i>Fixed Rate Mortgage</i>	<i>Variable or Adjustable Rate</i>	<i>Combination</i>	<i>Total</i>
All Mortgages				
<3%	0%	1%	0%	0%
3.0-3.49%	1%	4%	0%	2%
3.5-3.99%	3%	5%	0%	3%
4.0--4.49%	2%	7%	0%	3%
4.5%-4.99%	3%	9%	8%	5%
5.0%-5.49%	6%	2%	7%	5%
5.5-5.99%	6%	7%	9%	6%
6-6.99%	10%	7%	16%	9%
7.0% or more	71%	57%	60%	66%
Total	100%	100%	100%	100%
Homes Purchased During 2008 to the Present				
<3%	0%	0%	0%	0%
3.0-3.49%	1%	0%	0%	1%
3.5-3.99%	5%	8%	0%	5%
4.0--4.49%	4%	20%	0%	8%
4.5%-4.99%	4%	20%	16%	9%
5.0%-5.49%	6%	0%	15%	5%
5.5-5.99%	9%	4%	19%	8%
6-6.99%	16%	4%	32%	14%
7.0% or more	54%	45%	19%	50%
Total	100%	100%	100%	100%
Source: Maritz survey for CAAMP, Spring 2011; estimates by the author.				
Note Totals may not add due to rounding				

Three Caveats

The survey data provides us with good reason to believe that the fall-out from rising interest rates will be less severe than is suggested in the estimates above:

- Firstly, as was discussed in the prior major 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). An attempt was made to use the survey data to calculate what each borrower's current payments should be versus what it actually is. The data suggests that about 60% of mortgage borrowers are paying \$100 or more per month more than they are obliged to. It appears that on average mortgage borrowers may be paying about \$400 per month more than they are required to, or about \$5,000 per year. This supports the idea that borrowers have some capacity to reduce their payments if they are overly challenged by increased interest rates.

- Secondly, consumers' assessments of their ability to handle cost increases are based on their current situations, but the cost increases will occur in future. Most of the borrowers will see income increases (cost of living adjustments, and often real income gains due to career progression). Their future ability to absorb a cost increase should be greater than their current ability. Most borrowers have fixed rate mortgages and generally with long terms: for them, the cost increases may not occur for several years. A minority of borrowers – especially those with variable rate mortgages – will face earlier increases, although uncertainty remains about the extent and timing of rate raises for variable rate mortgages.
- Thirdly, most of the home owners with mortgages have substantial amounts of housing equity. Most of those who might face unaffordable increases in mortgage costs could solve their problems by selling their properties. Among those for whom the estimated tolerable interest rates are below 5%, an estimated 11% have less than 10% equity. This very small group – representing about 25,000 households – would have the least ease of selling out of a problem. 6% (about 10,000 households) have 10-14.9% equity and 13% (about 25,000) have 15-19.9% equity. A substantial majority (69%) has 20% or more equity.

Conclusions

Interest rates have been remarkably low for some time and have encouraged a high volume of home-buying (and associated mortgage borrowing). It is reasonable to argue that interest rates will inevitably rise and mortgage costs will correspondingly adjust upwards. (There is of course considerable uncertainty about the timing and magnitude of the increases.)

For at least 2.5 years, there have been repeated suggestions that there is imminent and major risk related to rises in mortgage interest rates. So far, the expected large increases have not materialized, and the mortgage market remains very healthy.

Obviously, we don't know what the future holds for mortgage interest rates. Therefore, different readers and different analysts will hold differing expectations and will have varying levels of concern about interest-rate related risks.

CAAMP's research here and in the "Revisiting" reports indicates that lenders and borrowers have been prudent, and risks appear to be very well-contained.

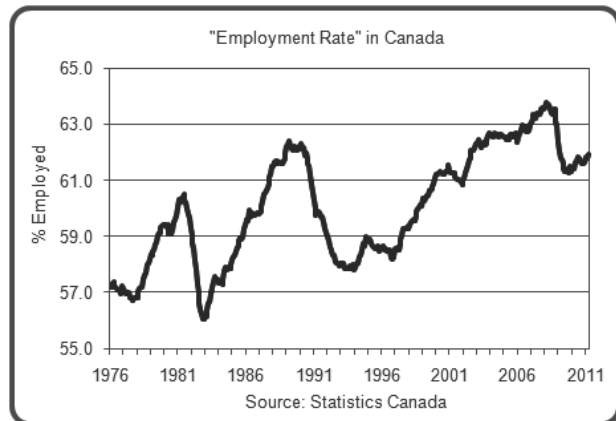
5.0 Outlook for the Housing and Mortgage Markets

The Economic Background

The Canadian economy is in recovery from the recession of 2008/09. To this point, however, the pace of recovery has to be characterized as moderate, perhaps even tepid. As of March 2011, the level of employment in Canada has just barely surpassed the pre-recession level, by about 110,000, or about 0.6%. Meanwhile, the population has continued to expand (by an estimated 3.3% 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%; recently, the rate has been in the range of 61.8%.

During this recovery period, employment has increased slightly more rapidly than the population, which has resulted in a gradual rise of the employment rate. But, during a recovery, we would hope to see employment rising more rapidly, and to see the employment rate return more quickly towards the pre-recession level.

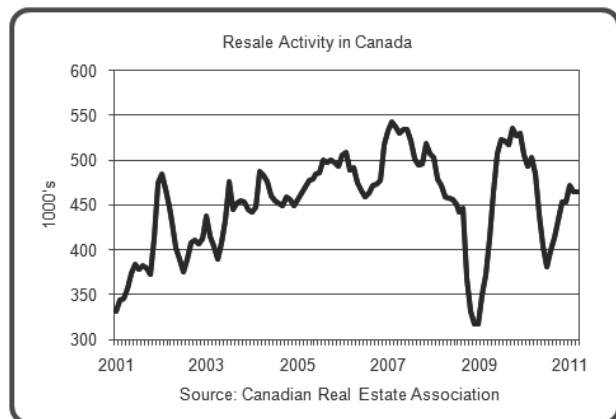
Prior to the recession, the employment rate had been at a record level. Thus, the current level, while lower than three years ago, indicates a relatively healthy economy.



Housing Market Impacts

Prior to the recession, Canada experienced very strong housing markets, which can be attributed, firstly, to robust job creation. As can be seen in the chart above, the employment rate rose strongly for more than a decade. Low interest rates and favourable affordability were also strongly stimulative.

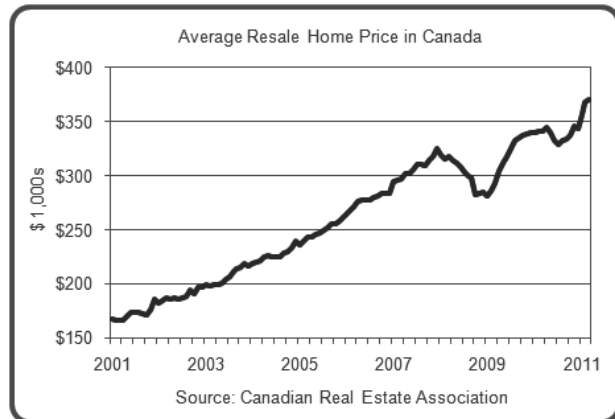
In the aftermath of the recession, there were extreme gyrations in resale activity. These can be attributed to temporary factors, including shifting consumer attitudes about their personal prospects, expectations about interest rates, and changes in mortgage lending criteria.



During the past half year, activity appears to have stabilized: the temporary factors have now been played-out, and activity is more reflective of evolving economic conditions. At present, resale activity is similar to the 2003/2004 period, but lower than was seen during 2005 to 2007.

Another way to look at the level of sales is in proportional terms, relative to the size of the population or as a share of the total housing inventory. Both the population and the inventory have expanded, so we might say that current activity is about 10% lower than during 2003/04 (relative to the size of the population) or about 15% (relative to the size of the housing inventory). This reduction in activity on a proportional basis is appropriate given the current post-recession economic environment.

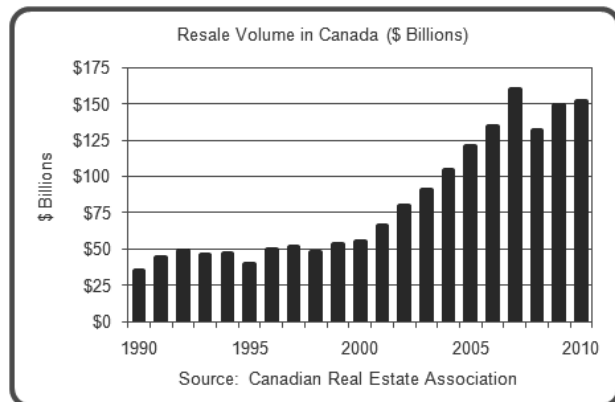
Prior to the recession, a very strong economy and housing demand resulted in rapid growth of housing values, and the average resale price rose at an average rate of 10.2% per year during 2001 to 2007.



More recently, the fluctuations in sales have activity resulted in instability of house prices, but there is still a discernible upward trend. During the past three years (up to the first quarter of 2011), prices have increased by an average annual rate of 4.8%. This is perhaps stronger than we would expect given the economic environment and a moderated level of demand.

The causes of this continued relatively strong price growth are subject to debate. But, price growth has undoubtedly been influenced by emerging shortages of development land in some major centres 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 sales resulted in a substantial recovery of the dollar volume. The 2009 and 2010 figures of about \$150 billion are roughly triple the annual figures seen during the 1990s.



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. During the past year, housing starts have slowed, which reflects the moderate rate of job creation. But, activity is also being negatively influenced by shortages of building lots (for low-rise housing) in some major markets.



The recent moderate rate of job creation will generate future demand, but that demand will feed into the housing market only gradually, and the amount of demand that is generated by moderate job creation should be substantially less than was seen prior to the recession. Overall, it appears highly likely that housing activity will remain close to current levels for some time.

Housing Market Forecasts

This author and most other forecasters suggest that the pace of economic recovery will remain modest during 2011 and 2012.

Forecasts shown here are taken from a survey of recent forecasts published by Canada's five largest banks as well as Canada Mortgage and Housing Corporation ("CMHC"), the Canadian Real Estate Association ("CREA"), and the author.

For the critical employment variable, the forecasters' expectations are quite similar for 2011, with all forecasters suggesting that growth will be slightly better than the 1.4% growth rate seen in 2010. For 2012, there are essentially two camps (of equal size):

- Those who expect further improvement in the rate of job creation (the average expected growth rate is 1.9%).
- Those who expect slower growth (with an average forecast of 1.2%). The author falls into this camp.

For this author, there is a mix of positive and negative factors:

- Positive factors include the enormous wealth that is being generated by rising housing values and resurgent stock markets, which are bolstering confidence of consumers and businesses. Continued very low interest rates are also strongly supportive.
- Negative factors include the stronger Canadian dollar, which make it more difficult for Canadians to compete in the global economy, plus continued weakness in other major industrial economies (especially the United States).

- A further factor is surging costs for commodities, which has mixed effects across the country, depending on whether regions are producers or consumers of commodities. For Canada overall, it appears that rising commodity prices are a negative factor (although there is clearly uncertainty about the path for commodities).
- This mix of influences suggests to the author that the recovery is likely to remain weak, with jobs being created at about the same rate as the population is growing.

Concerning resale housing markets:

- For 2011, the forecasters have broadly similar expectations. Taking the averages of the available forecasts, sales are expected to fall slightly (by 1.4%) to 441,000 units versus about 447,000 in 2010. Prices are expected to increase by 3.5%, to about \$350,750 versus about \$339,000 in 2010.
- For 2012, the sales forecasts range from 443,000 to 463,000; the forecasts of price change range from a drop of 1.0% to a rise of 2.7%. The averages of the 2012 forecasts suggest modest changes, with sales expected to rise by 2.7% (to about 453,000) and prices expected to rise by 0.9%, to \$354,000.
- Combining the forecasts for sales and prices, sales volumes are forecast to increase gradually, from \$152 billion in 2010, to \$155 billion in 2011 and \$160 billion in 2012.

Concerning housing starts:

- For 2011, the forecasts are broadly similar, with an average expectation for 176,000 units, about 7% lower than the 190,000 starts in 2010.
- For 2012, the average of the forecasts is for essentially no change (175,000 units). The range of expectations is from 165,000 to 184,000.

These forecasts imply that during the remainder of this year and into 2012, housing starts will be quite similar to recent levels. During the past six months, the average rate for starts has been about 177,000, very similar to the forecasts. On the other hand, the forecasts imply that resale activity will slow, as the average rate of sales over the past six months has been 457,000, well above the average 2011 forecast of 441,000.

Implications for Mortgage Lending

Expanding housing activity has resulted in rapid growth in the residential mortgage market during this decade, as is illustrated in the chart to the right. The volume of outstanding residential mortgage credit passed the \$1 trillion threshold in August 2010.

During the past 10 years, outstanding residential mortgage credit has expanded by 136%, or an average rate of 9.0% per year. The rate of growth peaked in the spring of 2008, at 13%.



At present, the year over year growth rate is 7.1%, or \$69 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. About 80% of new ownership dwellings (as well as resale purchases) result in 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 about 30% lower 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 \$26 billion of renovation activity resulted in \$16 billion of new mortgage debt.
- On the other hand, there are reductions in mortgage indebtedness through two main processes: monthly mortgage payments and lump sum payments.

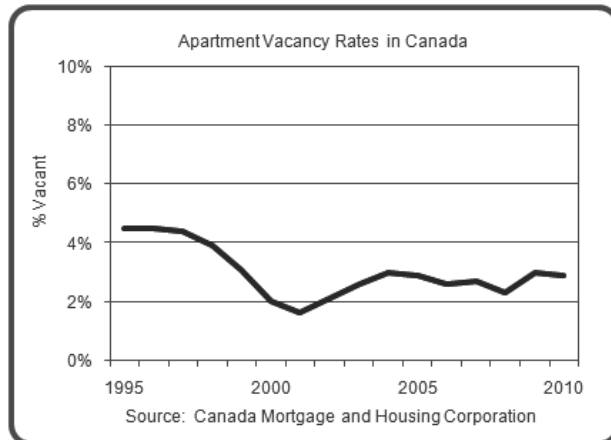
Given the rapid growth in mortgage credit that is associated with new dwellings, we must be alert to the possibility that there was over-building in Canada – in the US, excessive buying of investment properties was a significant factor in the housing market collapse. The Canadian data, however, indicates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

- Canada lacks data on vacancies in the home owner sector. However, data from the Canadian Real Estate Association shows that supplies of new listings have been more-or-less 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 out-of-line 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 that the growth has been “speculative”.

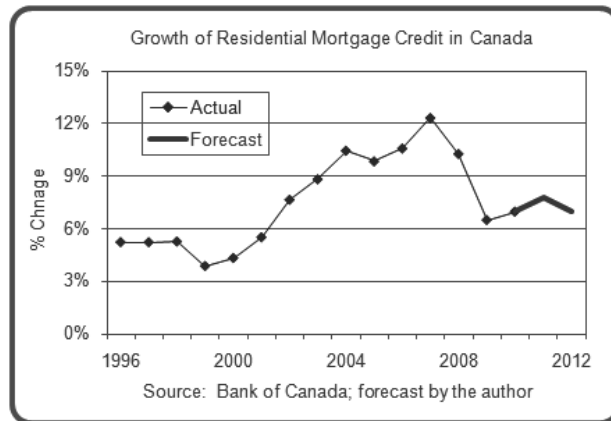


There is, in addition, a critical question of whether Canadians can afford the mortgages they have taken on. This report has addressed that issue, and concluded affirmatively.

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 7.8% in 2011 (about \$80 billion), followed by 7.0% growth in 2012 (\$77 billion).

Based on the forecasts for housing activity, the total volume of the residential mortgage market would be about \$1.11 trillion by the end of this year and about \$1.185 trillion at the end of 2012.





STABILITY IN THE CANADIAN MORTGAGE MARKET

May 2011

Significant Statistics

A copy of the full report is available to download at www.caamp.org

- There is currently \$855 billion in mortgages on principal residences and \$215 billion in Home Equity Lines of Credit (HELOC)
- Individuals with HELOCs only have an average 65 per cent equity in their homes
- HELOC prevalence is highest among middle age homeowners
- Equity takeouts amount to \$26 billion annually, with most funds used for renovations (\$9.4 billion), followed by investments (\$5.0 billion)
- The average down payment for a home purchased in the last 12 months was 30%, up from 26% for homes purchased two years ago
- Among all borrowers, 63 per cent have fixed rate mortgages, 30 per cent have variable rate mortgages and 6 per cent have a combination of both
- Less than a quarter (22 per cent) of all borrowers have amortization periods longer than 25 years
- 34 per cent of those who most recently renewed or renegotiated their mortgages did so before their term expired. The average time to pay off a mortgage is 7.4 years less than the original amortization
- 200,000 homeowners paid off their mortgages in the last 12 months
- The average mortgage interest rate discount is 1.44 per cent for those who chose a five year fixed rate mortgage in the last twelve months with the average mortgage rate being 4.04%
- Of those who renewed their mortgages in the last twelve months, 65 per cent are paying lower rates than previously
- 66 per cent of all mortgage borrowers can tolerate a monthly mortgage increase of \$300 or more
- Among borrowers who took out a new mortgage in the last 12 months, 27% obtained it from a mortgage broker. Overall mortgage broker share stands at 23%
- Canadian appetite for home buying has returned to pre-recession levels, following a slide over the past three surveys. Almost 60 per cent respondents thought that now was a good time to buy
- Optimism is returning to the market with almost half (46 per cent) of those questioned saying that they expect prices to rise



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