



The Canadian Residential Mortgage Market During Challenging Times

Prepared for:

**Canadian Association of
Accredited Mortgage Professionals**

By:

Will Dunning

CAAMP Chief Economist

April 2009

Table of Contents

	<u>Page</u>
1.0 Introduction and Summary	3
Consumers' Expectations About Housing Markets	3
Profile of Mortgage Holders	5
Challenges for Mortgage Borrowers	6
Outlook for the Housing and Mortgage Markets	7
About CAAMP	8
About the Author	8
About Maritz	8
Disclaimer	8
2.0 Consumers' Expectations About Housing Markets	9
"Is Now a Good Time or a Bad Time to Buy a New Home in Your Community?"	9
"How Likely are You to Purchase a New Property in the Next Year?"	11
"To What Extent Do You Think Housing Prices in Your Community Will Go Up or Down in the Next Year?"	12
3.0 Profile of Mortgage Holders	14
Recent Mortgage Activity	14
Fixed Rate Versus Variable Rate Mortgages	14
Mortgage Amortization Periods	15
Types of Mortgage Professionals Consulted	16
Interest Rates	17
Mortgage Rate Discounting	20
Housing Equity	20
Equity Take-out	22
4.0 Challenges for Mortgage Borrowers	24
Risks of Unaffordable Increases in Mortgage Costs	24
Risks Due to Job Loss	25
Risks Due to Negative Equity	26
Some Canadian Mortgage Holders are Experiencing Difficulty	27
Conclusions	28
5.0 Outlook for the Housing and Mortgage Markets	30
The Economic Background	30
Housing Market Impacts	30
Housing Market Forecasts	31
Implications for Mortgage Lending	33

List of Tables		
Table #	Contents	Page
Table 1-1	Average Consumers' Ratings by Region for "Is Now a Good Time or a Bad Time to Buy a New Home in Your Community?"	4
Table 1-2	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?"	4
Table 1-3	Consumers' Responses by Region for "How Likely Are You to Purchase a New Property in the Next Year?"	5
Table 2-1	Consumers' Ratings for "Is Now a Good Time or a Bad Time to Buy a New Home in Your Community?"	10
Table 2-2	Consumers' Ratings by Region for "Is Now a Good Time or a Bad Time to Buy a New Home in Your Community?"	10
Table 2-3	Consumers' Ratings for "How Likely Are You to Purchase a New Property in the Next Year?"	11
Table 2-4	Consumers' Ratings for "How Worried You Are Currently About the Prospect of You or Another Primary Earner in Your Household Losing a Job in the Next Six Months"	12
Table 2-5	Consumers' Ratings for "To What Extent Do You Think Housing Prices in Your Community Will Go Up or Down in the Next Year?"	13
Table 2-6	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?"	13
Table 3-1	Percentages of Mortgages by Type, By Age Group	15
Table 3-2	Percentages of Mortgages by Mortgage Type, By Activity During Past 12 Months	15
Table 3-3	Percentages of Mortgages by Length of Original Amortization Period, For New Mortgages, By Period Since Mortgage was Obtained	16
Table 3-4	Consumers' Use of Mortgage Professionals During the Past 12 Months	17
Table 3-5	Types of Mortgage Professionals Through Which Current Mortgage was Obtained, By Type of Mortgage Activity in Past 12 Months	17
Table 3-6	Average Mortgage Interest Rates by Type of Mortgage and Time Since Initiation	18
Table 3-7	Changes in Mortgage Interest rates for Mortgages Renewed During the Past 12 Months	19
Table 3-8	Calculation of Home Owner Equity in Canada, as of March 2009	21
Table 3-9	Equity Positions of Current Mortgage Holders	21
Table 3-10	Consumers' Comfort Levels with their Equity Positions	22
Table 4-1	Potential Changes in Future Mortgage Affordability	25

1.0 Introduction and Summary

The Canadian economy is in a rapid state of transition from considerable strength – which has lasted for a decade – to a highly uncertain recessionary condition. Housing markets in Canada have responded with a vengeance to changing economic prospects.

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
- Challenges for Mortgage Borrowers
- 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. One-half of the sample (1,000 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 March 2009.

Consumers’ Expectations About Housing Markets

Consumers were asked several questions concerning their attitudes and expectations about their local housing markets, and 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 became more positive in the spring 2009 survey. The average score given this spring was 6.46 out of 10, sharply higher than in the five previous times this question has been asked. Despite the rapidly developing recession in Canada, an increased percentage of consumers believe that this is a good time to buy a home. However, this does not mean that they expect to or intend to buy homes, as will be seen below. The positive responses about market conditions are no doubt influenced by the shift in market conditions from a “sellers’ market” to a “buyers’ market” in many areas of Canada, meaning that consumers have more choice in the market and more ability to negotiate. Furthermore, with lower interest rates and with some price reductions having occurred, housing affordability has improved.

As can be seen in Table 1-1, attitudes on this question became more optimistic in every region 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 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 2009.

Expectations about House Prices

Expectations about house prices deteriorated sharply in the fall of 2008 and were largely unchanged in the spring of 2009. When asked "to what extent do you think housing prices in your community will go up or down in the next year?" 33% expressed negative opinions (giving scores of 1 to 4 out of 10). Almost one-half (48%) gave neutral answers (5 or 6 out of 10). Just 19% expect prices to rise to varying degrees (ratings of 7 to 10). The average rating of 5.27 is below the midpoint of 5.5 on the 1-to-10 scale. This suggests that on average prices are expected to fall slightly.

As is shown in the table below, average expectations about house prices are in neutral territory in all regions, although there are variations across the regions that seem to be related to current economic conditions. The weakest expectations are in British Columbia and Ontario. The highest expectations are found in Saskatchewan, followed by Manitoba. Expectations are close to the national average in Alberta, Atlantic Canada, and Quebec.

<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 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 2009.

Home Buying Intentions

While there has been a sharp improvement in consumers' attitudes about the state of the housing market in their communities, the vast majority of Canadians are clearly hesitant to buy. A new question that was first asked in the fall of 2008 asked consumers

how likely they were to buy a home, on a 10-point scale. In both fall 2008 and spring 2009, the average ratings given were low. Less than 5% of consumers indicated that they were very likely to buy (giving ratings of 9 or 10 out of 10). With virtually no change in consumers' expectations about home purchase, it appears that home buying activity will remain weak at least in the short term.

**Table 1-3
Consumers' Responses by Region for "How Likely
Are You to Purchase a New Property in the Next Year?"**

Survey Date	Atlantic	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Canada
Average Score								
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 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 and Spring 2009.								

Profile of Mortgage Holders

About three-in-ten (28%) of home owners with mortgages had some form of mortgaging activity during the past 12 months: taking out a new mortgage (10%), renewing or refinancing an existing mortgage (15%), or other activities (3%). The remainder (72%) did not have any mortgaging activity during the year.

This edition of the CAAMP study asked questions that generated estimates of home owners' equity.

- Among home owners who have mortgages, the average amount of equity is \$145,000, representing 51.3% of the average value of their homes (\$283,000).
- For owners without mortgages, equity is equal to the average home value of \$309,000.
- The total value of owner-occupied housing in Canada is estimated at \$2.67 trillion. Mortgages on these homes total \$739 billion, leaving \$1.93 trillion in home owners' equity. This equity is equal to 72.3% of the total value of the housing.

About 15% of mortgage borrowers took equity out of their home in the past year. The average amount is estimated at \$42,500. These results imply that the total amount of equity take-out during the past year has been \$34 billion. The most common uses for the funds from equity take-out are debt consolidation and repayment. This accounts for about 37% of the total take-out, or about \$12.5 billion. This part of the total equity take-out would result in corresponding reductions for other forms of consumer debt.

There has been a pronounced shift towards variable rate and adjustable rate mortgages (36% of mortgages negotiated during the past year, versus 24% for mortgages negotiated previously).

Mortgages with longer mortgage amortization periods have become increasingly popular. For new mortgages initiated during the past two years, 46% have amortization periods of more than 25 years.

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

- The average mortgage interest rate for home owners' mortgages is 4.83%, a reduction from 5.41% in the fall 2008 survey.
- Looking further, at borrowers who have renewed or refinanced a mortgage during the past year, the average interest rate is now lower (by almost 1 percentage point) than the rates prior to renewal. Among borrowers who renewed, 72% saw their interest rate fall, 22% saw increases, and 6% had no change. For borrowers who saw their interest rates increase at renewal, the increases were minor for most. It is estimated that about 50,000 to 100,000 of these borrowers had their rates increase by more than 1 percentage point. This amounts to less than 2% of the 5.35 million Canadian home owners who have mortgages.
- The survey also sheds light on the extent of mortgage rate discounting in Canada. Borrowers who have taken five year, fixed rate mortgages during the past year have an average mortgage interest rate of 4.91%. Typical advertised rates averaged 6.59% over the same period – these borrowers have negotiated discounts that average 1.68 percentage points below typical advertised rates.

Among borrowers who have taken out a new mortgage during the past year, 46% obtained the mortgage from a mortgage broker and 43% from a major bank. Other categories accounted for 10% of new mortgages.

Challenges for Mortgage Borrowers

Given that the economic turmoil in the United States, which has now infected much of the world economy, began in the residential mortgage market, it is important to ask whether there are similar risks for the Canadian market.

Broadly speaking, this study finds that there are now some mortgage-related challenges in Canada, and there may be more in future, but the risks are vastly lower in Canada than in the US. Factors leading to this conclusion are:

- The US problems arguably commenced with mortgage rate resets – large increases in interest rates that increased monthly payments to unaffordable levels. Most Canadian mortgage borrowers (three-quarters) are likely to see reductions in their interest rates at their next renewals. Among the minority who will see increases, most are able to afford the potential increases in monthly costs.
- Job loss is a major risk factor, and Canada has recently seen large reductions in employment. The spring 2009 CAAMP survey found that for households with mortgages, in which one or more primary earners had experienced job loss in the past six months, 14% indicate that making their monthly mortgage payment is an issue or concern.
- However, among mortgage-holding households that have experienced job losses, most have substantial amounts of home equity, which they could use to assist during

short periods of reduced income. In a worst case, they could sell their homes to generate funds. To this point, there is no evidence of panic-selling in Canada.

- More generally, Canadians have much more home equity than Americans, and consequently have much more flexibility to deal with any reductions in income. Very few Canadian mortgage holders - estimated at just 2% - have negative equity (mortgages that exceed the values of the homes).
- Canadian lenders and mortgage insurers are demonstrating willingness to work with mortgage holders who encounter financial difficulties.
- Overall, there is a small minority of Canadian home owners who are at risk. But, the conditions that have caused a downward spiral in the US mortgage and housing markets are not present in Canada.

Outlook for Residential Mortgage Lending

The Canadian housing and mortgage markets have experienced strong growth during the past decade, mainly due to rapid job creation. However, the Canadian economy reversed direction late in 2008, and the housing market has slowed sharply in recent months. Mortgage demand has also slowed, although the volume of outstanding mortgages continues to expand.

Forecasts are that housing market activity will remain comparatively weak during the remainder of 2009. The forecasts suggest that moderate recovery of housing demand may commence during 2010.

- According to the Canadian Real Estate Association, the dollar volume of resale activity may total just over \$100 billion in 2009, and \$110 billion in 2010, sharply lower than the \$160 billion recorded in 2007.
- According to Canada Mortgage and Housing Corporation, housing starts may be in the range of 160,000 units in 2009, and just slightly more in 2010. This would be far below the average of about 229,000 units per year seen during 2004 to 2007.

The available forecasts of housing activity have been used to generate forecasts of mortgage activity: slowing housing activity implies a significant downshift of mortgage demand.

- The volume of outstanding residential mortgage credit is forecast to continue growing, but at a slower rate than in recent years. For 2009, the growth rate is forecast at 7.6%, followed by 7.0% growth in 2010. By contrast, the growth rate was 12.4% in 2007 and 10.4% in 2008.
- About mid-2010, the volume of outstanding residential mortgage credit in Canada would pass \$1 trillion, and the total at the end of 2010 would be \$1.04 trillion.
- The volume of annual approvals (including new mortgages, transfers of existing mortgages between lenders, and refinances) may fall to about \$150 billion in 2009 and \$160 billion in 2010. During 2007 and 2008, approval activity exceeded \$200 billion per year.

About CAAMP

CAAMP is the national organization representing Canada's mortgage industry. With 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 for more than 25 years. 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 March 2009 by Maritz (a national public opinion and market research firm) on behalf of CAAMP. This is referred to below as the "CAAMP/Maritz" study¹. The survey included 2,000 Canadians. In this survey, 1,000 of the sample were home owners with mortgages and the remaining 1,000 were tenants and home owners without mortgages.

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 to this question became much more positive in the spring of 2009.

- There was a reduction in the share of respondents who gave negative ratings (of 1 to 4, which fell from 32% last fall to 20% this spring).
- There was also a reduction in the neutral range (5 to 6 out of 10, which fell to 25% from 31% last fall).
- Correspondingly, there was a very large increase of positive responses (7 to 10, from 38% last fall to 55% this spring).
- The average rating out of 10 leaped from 5.58 last fall to 6.46 in the spring survey. This is by far the highest rating seen in the six times this question has been asked – the prior record was 5.62 in the fall of 2007.

Given that consumers have been exposed to increasingly negative economic news during the past half year, the sharp rise in positive responses is remarkable. However, these positive responses do not necessarily indicate that home buying will increase, as will be discussed shortly.

¹ For the CAAMP/Maritz results, calculations of percentages exclude responses of Don't Know and refusals, except where indicated otherwise.

Rating	% Giving Rating	
	Fall 2008	Spring 2009
1 (Very Bad Time)	8%	8%
2	3%	2%
3	9%	5%
4	11%	7%
5	15%	12%
6	15%	14%
7	14%	15%
8	13%	18%
9	5%	8%
10 (Very Good Time)	6%	13%
Total	100%	100%
Average Rating (out of 10)	5.58	6.46

Source: Maritz survey for CAAMP, Fall 2008 and Spring 2009.

Looking at the different regions of the country, attitudes are fairly consistent. As is shown in the following table:

- The average ratings are highest in the three provinces that have seen the largest negative effects from the downturn in economic and housing market conditions (British Columbia, Alberta, and Ontario).
- While the ratings given were below the national average in the remaining regions, all regions saw increases in the fall of 2009. The increases in the average ratings were substantial in all of the regions except for Quebec.
- In all regions, more consumers gave positive ratings (scores of 7 to 10) than negative ratings (scores of 1 to 4).

Rating	Atlantic	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Canada
Negative (Rating 1-4)	23%	33%	14%	26%	32%	11%	14%	20%
Neutral (Rating 5-6)	26%	29%	23%	32%	24%	27%	22%	25%
Positive (Rating 7-10)	51%	38%	63%	42%	43%	62%	64%	55%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Average Rating								
Fall 2008	5.59	5.31	5.84	5.25	5.04	5.66	5.55	5.58
Spring 2009	6.30	5.48	6.96	5.88	5.67	6.93	6.97	6.46

Source: Maritz survey for CAAMP, Fall 2008 and Spring 2009.

“How Likely are You to Purchase a New Property in the Next Year?”²

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% to 6%³. 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 both the fall of 2008 and the spring of 2009, about 3% of consumers indicated that they “definitely will” buy a property during the coming year, and a further 2% gave a response of 9, indicating a high likelihood of buying. In total, about 4.5% of consumers gave ratings of 9 or 10 at both of the survey dates. The average ratings given were about the same in the spring of 2009 (2.86) as in the fall of 2008 (2.76).

Rating	% Giving Rating	
	Fall 2008	Spring 2009
1 (Very Bad Time)	55%	52%
2	9%	10%
3	8%	8%
4	5%	5%
5	6%	6%
6	5%	6%
7	4%	6%
8	4%	3%
9	2%	2%
10 (Very Good Time)	3%	3%
Total	100%	100%
Average Rating (out of 10)	5.76	5.86

Source: Maritz survey for CAAMP, Fall 2008 and Spring 2009.

It might seem that there are inconsistencies between the very positive responses given to the question on whether this is a good time to buy versus the flat expectations about buying. The interpretation offered here is that consumers see very favourable changes in housing affordability (due to lower interest rates and reduced house prices in many communities) as well as in market conditions (that make it easier for home buyers to negotiate). These changes make it a better time to buy in general. On the other hand, consumers’ weak intentions to buy are being influenced by their own situations, which may include fears about job loss, as well as a desire to spend less in times of uncertainty.

² They full question indicated that “this could be a primary residence, or could be a second residence or investment property”.

³ During 2005 to 2007, about 700,000 new and resale homes were bought annually by Canada’s 13 million households. Based on recent trends, the total for 2009 might be in the range of 500,000.

The spring 2009 survey asked two new questions related to job security. Since these questions have not been asked previously, we don't know to what extent consumers' situations have changed. That said, the responses indicate that job security is a significant concern for many Canadians:

- When asked if they or another primary earner in their household had lost a job in the past six months, 18% said yes.
- Secondly, consumers were asked to indicate on a 10-point scale how worried they are about the prospect of them or another primary earner in their household losing a job in the next six months. Excluding households in which there are no employed persons, 8% gave a rating of 1 (indicating very worried) and in total 16% gave ratings of 1 to 3, indicating high levels of concern. On the other hand, almost 60% gave responses in the positive range of 7 to 10.

<i>Rating</i>	<i>% Giving Rating</i>
1 (Very Worried)	8%
2	3%
3	5%
4	8%
5	11%
6	7%
7	10%
8	13%
9	8%
10 (Not at all Worried)	28%
Total	100%

Source: Maritz survey for CAAMP, Spring 2009.

"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 slightly below neutral. As is shown in the next table, in the spring 2009 survey, more consumers expected prices to fall (33%) than to rise (19%). The average rating out of 10 was 5.27, essentially unchanged from the fall 2008 average of 5.21. In the four surveys prior to fall 2008, responses were more optimistic, with average scores close to or above 6.0.

<i>Rating</i>	<i>% Giving Rating</i>
1 (Go Down Dramatically)	2%
2	2%
3	9%
4	20%
5	19%
6	29%
7	11%
8	5%
9	1%
10 (Go Up Dramatically)	1%
Total	100%

Source: Maritz survey for CAAMP, Spring 2009.

In prior surveys, there were significant variations across the country. In the fall of 2008 and spring of 2009, the variations have been reduced. Most of the regions are now yielding average ratings that are close to the national average, with the exception of Saskatchewan, where there is much more optimism than in the other regions. Manitoba consumers provided the second highest average ratings; the lowest ratings were found in British Columbia. Compared to the fall of 2008, expectations downshifted in the eastern parts of the country and shifted upwards in the west.

<i>Rating</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>
Negative (Rating 1-4)	30%	30%	37%	21%	18%	35%	37%	33%
Neutral (Rating 5-6)	50%	52%	44%	65%	57%	44%	46%	48%
Positive (Rating 7-10)	20%	18%	19%	14%	26%	21%	17%	19%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Average Rating								
Fall 2008	5.63	5.56	5.11	5.33	5.35	5.00	4.77	5.21
Spring 2009	5.34	5.34	5.15	5.49	5.86	5.27	5.09	5.27

Source: Maritz survey for CAAMP, Spring 2009.

3.0 Profile of Mortgage Holders

This section uses data from the consumer survey to highlight consumer choices in the mortgage market. It also provides data on current actual mortgage interest rates, amounts of home owners' equity, and equity take-out.

Interest rates on current mortgages are compared to the rates that are available in the market, to investigate possible impacts of future renewals. Further questioning in the consumer survey investigated consumers' ability to afford their current mortgage payments as well as their ability to absorb future increases in payments (if increases occur).

The data and analysis developed within this section leads to a conclusion that the key factor that started the meltdown in the US mortgage market – unaffordable increases in mortgage costs – should not become an issue for Canada.

In this section, survey results are highlighted for a subset of households (1,000 households) who own a home or condominium and have a mortgage.

Recent Mortgage Activity

In the CAAMP/Maritz study, 28% of home owners with mortgages had some mortgaging activity during the preceding 12 months, including:

- Taking out a new mortgage on a newly purchased home/condominium (6%).
- Taking out a new mortgage on a home/condominium that they had recently purchased or already owned (4%).
- Renewing the current mortgage because it came up for renewal (11%).
- Renewing the current mortgage early, before the scheduled renewal date (4%).
- Other activities (3%).

Fixed Rate Versus Variable Rate Mortgages

The CAAMP/Maritz study found that 68% of mortgage holders have fixed rate mortgages, 28% have variable and adjustable rate mortgages, and 5% have "combination" mortgages, in which part of the payment is based on a fixed rate and part is based on a variable rate.

Fixed rate mortgages are most common for the youngest age group. Older age groups are slightly more likely to choose variable rate mortgages than are the youngest age groups. Combination mortgages are chosen by small minorities within each age group.

<i>Mortgage Type</i>	<i>18-34</i>	<i>35-54</i>	<i>55 +</i>	<i>Total</i>
Fixed-rate	71%	68%	59%	68%
Variable or adjustable-rate	24%	28%	35%	28%
Combination	5%	4%	6%	5%
All Types	100%	100%	100%	100%

Source: Maritz survey for CAAMP, Spring 2009.

Comparing mortgage types selected by those who have financed or renewed their mortgage during the past 12 months, versus all mortgage holders, shows that there has been a significant shift in choices towards variable rate and adjustable rate mortgages. The share for variable and adjustable rate mortgages has increased sharply, to 36% versus 24% for those who negotiated their mortgage a year or more ago. Detailed data from the survey suggests that the increased preference for variable rate mortgages has been sustained during the past six months. Variable rate mortgages continue to provide the lowest interest rate (at the time of writing, typical rates are in the range of 3.25% to 3.5%, versus 4.0% to 4.25% for fixed rate 5-year mortgages). Selection of a variable rate mortgage does leave the borrower exposed to the risk that the payment could increase, but very few consumers believe that interest will increase by very much.

<i>Mortgage Type</i>	<i>Financed or Refinanced During Past 12 Months</i>	<i>Did Not Finance or Refinance During the Past 12 Months</i>	<i>Total</i>
Fixed-rate	58%	71%	68%
Variable or adjustable-rate	36%	24%	28%
Combination	5%	4%	5%
All Types	100%	100%	100%

Source: Maritz survey for CAAMP, Spring 2009.

Mortgage Amortization Periods

Mortgage holders were asked “At the date that you first took out the mortgage on the property, what was the amortization length of the mortgage?” This question is of considerable interest, since longer amortization periods (greater than 25 years) are a relatively new phenomenon in Canada.

A small (but growing) minority of mortgage consumers (17%) have amortization periods of more than 25 years. Most mortgages (83%) have amortization periods of up to 25 years.

The table below focuses on a subset: new mortgages (mortgages that are still in their original term and have not yet been renewed) that were taken out in the past two years. Among these new mortgages, almost one-half (46%) had amortization periods exceeding 25 years. For those mortgages initiated during the period from six months to two years ago, about 30% had 40 year amortization periods. However, during the past six months, the federal government has eliminated its mortgage insurance guarantees for amortization periods of more than 35 years. Therefore, for mortgages initiated during the past six months the share that have 40 year amortization has fallen sharply, to less than 10%. Correspondingly, shares have increased for amortization periods of more than 25 years up to 35 years.

Table 3-3 Percentages of Mortgages by Length of Original Amortization Period, For New Mortgages, By Period Since Mortgage was Obtained			
<i>Amortization Period</i>	<i>Within the Past 6 Months</i>	<i>Between 6 Months to 12 Months Ago</i>	<i>1 to 2 Years Ago</i>
Up to 25 Years	54%	54%	54%
More Than 25 Years	46%	46%	46%
Including...			
30 years	16%	5%	9%
35 years	22%	8%	3%
40 years	8%	29%	32%
Total	100%	100%	100%
Source: Maritz survey for CAAMP, Spring 2009.			

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 next table summarizes the data for consumers who obtained their current mortgage during the past 12 months. Since consumers can consult more than one professional, the figures in the first column of data total to more than 100%.

Utilization of mortgage brokers is most common in Alberta (36% of recent mortgages were obtained from brokers) and British Columbia (35%), followed by Ontario (32%) and Manitoba (31%).

<i>Type of Mortgage Professional</i>	<i>% of Recent Mortgages</i>	
	<i>Consumer Consulted Mortgage Professional</i>	<i>Obtained Through Mortgage Professional</i>
Representative from a Major Canadian Bank	68%	53%
Mortgage Broker	45%	29%
Representative from a Credit Union	24%	11%
Representative from a Life Insurance or Trust Company	12%	4%
Other	3%	3%
Total	152%	100%

Source: Maritz survey for CAAMP, Spring 2009.

Further analysis looks at the types of mortgage professionals utilized for different types of mortgaging activity. For new mortgages (the first two rows of data in the table below) the largest source of mortgage finance is mortgage brokers (46%, combining the first two rows), followed closely by major banks (43%). For renewals, on the other hand, the majority of activity (61%) has occurred through the major banks.

<i>Type of Mortgage Activity</i>	<i>Representative from a Major Canadian Bank</i>	<i>Mortgage Broker</i>	<i>Representative from a Credit Union</i>	<i>Representative from a Life Insurance or Trust Company</i>	<i>Other</i>	<i>Total</i>
The first mortgage ever taken out	44%	48%	3%	2%	3%	100%
The first mortgage taken out on that property	42%	44%	3%	6%	6%	100%
A renewal of an existing mortgage because it was due for renewal	61%	18%	16%	4%	1%	100%
A renewal of an existing mortgage before it came up for renewal	58%	16%	19%	2%	5%	100%
Other	48%	30%	7%	11%	4%	100%
Total	53%	29%	11%	4%	3%	100%

Source: Maritz survey for CAAMP, Spring 2009.

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 4.83% as of the spring of 2009, down from 5.41% in the fall of October 2008.

The next table looks at average mortgage interest rates by type of mortgage, depending on the time since the initiation of the mortgage. The table provides two sets of figures, firstly for all mortgages and secondly for a subset that excludes the small number of mortgages with high interest rates (for this subset, 8% was taken as the threshold for

high interest rates). Very few mortgages in Canada have high interest rates. In this survey, just 2% of mortgage rates are 8% or higher.

This survey data indicates that:

- Interest rates vary depending on mortgage type. Fixed rate mortgages have an average rate of 5.43%, versus 3.37% for variable rate mortgages and 4.57% for combination type mortgages. On average, variable rate mortgages have rates 2.06 percentage points lower than the rates for fixed rate mortgages. If high interest rate mortgages are excluded, the gap between variable rate and fixed rate mortgages becomes even larger (3.09% versus 5.36%, for a difference of 2.27 percentage points).
- Mortgages that have been initiated during the past year have, on average, lower interest rates compared to mortgages that were initiated more than a year ago.
- For fixed rate mortgages, interest rates have fallen compared to 6 to 12 months ago. Furthermore, looking at the data that excludes high rate mortgages, fixed rate mortgages initiated during the past 6 months have rates about one-half point below the overall average.
- For variable rate mortgages, the lowest interest rates are found for mortgages that were initiated 6 to 12 months ago. During the summer and fall of 2008, many lenders altered the formulas used to set variable rate mortgages. Therefore, the most recent variable rate mortgages have rates higher than those that were arranged 6 to 12 months ago.

<i>Time Since Initiation of Mortgage</i>	<i>Mortgage Type</i>			<i>All Types</i>
	<i>Fixed-rate</i>	<i>Variable or adjustable-rate</i>	<i>Combination</i>	
All Mortgages				
Within the Past 6 Months	5.35%	3.07%	4.37%	4.51%
Between 6 Months to 12 Months Ago	5.71%	2.54%	4.40%	4.29%
1 or More Years Ago	5.40%	3.79%	4.64%	5.01%
Total	5.43%	3.37%	4.57%	4.83%
Excluding Mortgages with Interest Rates of 8% or More				
Within the Past 6 Months	4.84%	3.07%	4.37%	4.19%
Between 6 Months to 12 Months Ago	5.55%	2.54%	4.40%	4.17%
1 or More Years Ago	5.34%	3.31%	4.64%	4.85%
Total	5.36%	3.09%	4.57%	4.71%
Source: Maritz survey for CAAMP, Spring 2009.				

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 almost three-quarters had a reduction in their interest rate. On average, for all mortgages renewed during the past 12 months, the interest rate was reduced by almost 1 percentage point.

Table 3-7 Changes in Mortgage Interest Rates for Mortgages Renewed During the Past 12 months			
<i>Change in Interest Rate</i>	<i>Within the Past 6 Months</i>	<i>Between 6 Months to 12 Months Ago</i>	<i>Total</i>
% with Rate Decreased	72%	71%	72%
% with Rate Unchanged	2%	10%	6%
% with Rate Increased	26%	19%	22%
% with Rate Increased by 1 Point or More	11%	8%	9%
Total	100%	100%	100%
Average Change in Interest Rate (percentage points)	-0.81	-1.11	-0.96
Source: Maritz survey for CAAMP, Spring 2009.			

Combining the various estimates developed in this study:

- Out of 5.35 million home owners who have mortgages,
- About 825,000 have renewed their mortgages during the past 12 months.
- 600,000 have seen their mortgage rates fall and 50,000 had no change in their interest rate.
- 175,000 to 200,000 had their rates increase.
- 50,000 to 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 9.1 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 speculates on how mortgage interest rates and monthly mortgage costs may change as mortgages are renewed in future. This analysis assumes that as mortgages are renewed:

- Borrowers with fixed rate mortgages and combination mortgages will renew at 4.25%, which is a typical currently available rate, after negotiated discounts.
- Those with variable rate mortgages will renew at 3.30%.
- However, borrowers with high rates (8% or more) are assumed to renew at the existing elevated rates.

This analysis suggests that among mortgages that are scheduled for renewal during the coming year, interest rates will fall for 73%, rise for 18%, and be unchanged for 9%. Once all mortgages have been renewed, rates would fall for 72%, rise for 24%, and be unchanged for 4%.

Applying the anticipated changes in mortgage rates to the borrowers' current mortgage balances:

- For those renewing during the coming year, the average interest cost would fall by about \$70 per month. In total, these borrowers would see their annual interest costs reduced by about \$650 million.
- Once all mortgages are renewed, the average saving would also be about \$70 per month, and the total interest saving would amount to about \$4.4 billion per year.

Mortgage Rate Discounting

The average mortgage interest rate reported here (4.83%, for all current mortgages) is well below the typical posted (advertised) rates that have been available during the past six months⁴. During that period, posted rates for 1 year terms have averaged 5.65% and five year rates have averaged 6.59%. The much lower actual rates 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 remaining terms, 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. 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 during the past 6 months.
- With fixed rates, rather than variable rates.
- With 5-year terms.

For this group of mortgage borrowers, the average mortgage interest rate is 4.91%. In contrast, over the preceding 6-month period, the average advertised 5-year mortgage rate was 6.59%. Based on this data it appears that Canadians negotiated mortgage rate discounts averaging 1.68 percentage points (for 5-year terms).

Housing Equity

The following table summarizes estimates of home equity in Canada, based on data obtained via the consumers' survey.

For home owners with mortgages, the average amount of outstanding principal is about \$138,000. For those home owners with mortgages, the owners' estimates of the current values of their homes average about \$283,000. Therefore, home owners with mortgages have an average of \$145,000 in equity, and their home equity equates to about 51.3% of the homes' values. There are about 5.35 million Canadian home owners with mortgages.

⁴ Source: Bank of Canada. The averages are calculated using "Chartered Bank Administered Interest Rates: Conventional Mortgage - 1 Year (as at Wednesday)", (and for 5-year mortgages), using data for the 26 weeks from September 18, 2008 to March 18, 2009.

For home owners without mortgages, the average home value is about \$309,000. There are about 3.75 million Canadian home owners without mortgages.

Across the roughly 9.1 million home owners in Canada, the total value of homes is estimated at \$2.67 trillion. The total outstanding mortgage principal on these homes is estimated at \$739 billion. This means that Canadian home owners have about \$1.93 trillion in home equity, which amounts to 72.3% of the total value of their homes.

	<i>Average Per Household</i>	<i>Total \$ Billions</i>	<i>Number of Households</i>
Mortgage Principal Outstanding	\$138,000	\$739	
Home Value for...			
Mortgage Holders	\$283,000	\$1,520	5.35 million
Non-Mortgage Holders	\$309,000	\$1,150	3.75 million
All Home Owners	\$294,000	\$2,669	9.1 million
Equity for Mortgage Holders	\$145,000	\$780	
Equity for All Home Owners	\$212,000	\$1,930	
% Equity for Mortgage Holders	51.3%		
% Equity for All Owners	72.3%		
Source: Maritz survey for CAAMP, Spring 2009.			
Note: Figures may not add due to rounding.			

Among Canadian home owners who have mortgages on their homes, most have considerable amounts of equity. The following table shows that only 2% of them have negative equity and only 8% have equity positions of less than 10%. A further 16% have equity positions in the range from 10% to 24.9%. About three-quarters (74%) have 25% or more equity.

<i>Equity as Percentage of Home Value</i>	<i>% of Mortgage Holders</i>
negative equity	2%
0-4.99%	3%
5-9.99%	5%
10-14.99%	4%
15-24.99%	12%
25-49.99%	32%
50-74.99%	26%
75% and over	16%
Total	100%
Source: Maritz survey for CAAMP, Spring 2009.	

The survey asked mortgage holders to what extent they are comfortable with their equity position. The consumers' responses showed that a small minority (just 6%) consider

themselves “very uncomfortable” with their equity positions, and a further small minority (15%) report being “somewhat uneasy”. A large majority (74%) is comfortable - either “somewhat comfortable” (43%) or “very comfortable” (38%). However, the percentage of mortgage holders who are comfortable with their equity position to some degree has been reduced slightly from the 80% share found in the fall 2008 survey. The highest levels of comfort are found in Manitoba, Quebec, Atlantic Canada, and Alberta, while the lowest levels are seen in British Columbia and Ontario. In all regions, large majorities are comfortable with their equity positions.

**Table 3-10
Consumers’ Comfort Levels With Their Current 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	9%	2%	6%	4%	10%	5%	9%	6%
Somewhat Uneasy	10%	8%	19%	4%	13%	11%	17%	15%
Somewhat Comfortable	41%	29%	45%	52%	29%	37%	41%	41%
Very Comfortable	38%	50%	26%	37%	45%	42%	29%	33%
Don't Know or Refused	1%	12%	4%	2%	3%	5%	5%	5%

Source: Maritz survey for CAAMP, Spring 2009.

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. This is a reduction from the 22% rate found in the fall of 2008. However, the average amount of equity take-out increased, to an \$42,500, versus \$41,000 last fall. Detailed data collected in the Spring 2009 survey indicates that consumers were just as likely to take-out equity in the past six months as they were in the prior six months (at about 7.5% in each of the periods). The data also suggests that the average amount of equity take-out was higher in the most recent period (at \$44,500) than in the prior six months (\$40,500).

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 9.1 million owner-occupied dwellings in Canada.
- Next, we need an estimate of how many home owners have mortgages. The 2006 Census of Canada indicated that 57.9% of home owners had mortgages. This was an increase from 55.2% in the 2001 Census. Projecting this change suggests that at present about 59% of Canadian home owners may have mortgages, or about 5.35 million.
- 15% of home owners with mortgages have taken out equity during the past year.
- The average amount taken out was about \$42,500.

- Combining these factors, the total amount of equity take-out is calculated as \$34 billion during the past year.

Across the country, there are small variations in the percentage of home owners that have taken out equity. The proportion is highest in Manitoba and Saskatchewan (about 19%) and lowest in Quebec (10%) and the Atlantic provinces (11%). The remaining provinces (Ontario, Alberta, and British Columbia) are close to the national average.

Those who took out equity were asked what they used the money for. Some people indicated more than one purpose. Therefore, the following responses add to more than 100% - on average, 1.39 purposes were given:

- 57% indicated that the money would be used for debt consolidation or repayment.
- 45% gave renovation or home repair as the purpose.
- 16% mentioned making purchases as the purpose.
- 11% mentioned investments.
- 9% mentioned “other” purposes.

From the responses, it is estimated that 37% of the take-out (or about \$12.5 billion) was for debt reconsolidation and repayment. Therefore, while the amount of outstanding mortgage debt would have been increased by this amount, totals for other types of debt would be correspondingly reduced.

4.0 Challenges for Mortgage Borrowers

The current economic recession began in the United States' residential mortgage market and housing market. Difficulties became so widespread and severe that they infected the broader economy, which in turn is contributing to further difficulties in the housing and mortgage markets.

Due to our relationships with the US economy, many areas of Canada have entered into recession. In that light, this section considers risk factors in the Canadian residential mortgage market.

Three prime causes of mortgage default are:

- An unaffordable increase in costs. Arguably, the US problems began with resets of the interest rates for “teaser” mortgages.
- Loss of ability to pay, due to job loss or reduction of income. In the US, job losses began as a result of the housing market meltdown. Then, the mortgage, housing, and job markets merged into a vicious downward spiral.
- On top of the first two issues, negative equity – mortgage principal that exceeds the value of the home – has caused hundreds of thousands of US mortgage borrowers to give up, or else to be unable to refinance their mortgages.

Findings from the consumer survey shed light upon the relevance of these three factors for Canada.

Risks of Unaffordable Increases in Mortgage Costs

The previous section of the report found that most Canadian mortgage holders (almost three-quarters) will see their interest rates fall at their next renewal, while a minority will see their interest rates increase (among those with a renewal scheduled for the coming year, 18% may see rate increases).

For those borrowers facing interest rate increases in the coming year, the average cost increase is \$130 per month.

It was noted earlier that many of the borrowers facing increased interest rates payment have variable rate mortgages, and while their mortgage costs may increase compared to the current levels, the future interest costs are expected to be lower than the rate at the time the mortgage was initiated. For most within this subset of borrowers, any increases in payments should be manageable.

The survey asked borrowers how much their current monthly mortgage payment would have to increase before they would not be able to make their mortgage payments. The responses indicated that most borrowers have capacity to absorb payment increases. For example, just 3% indicated that they could not afford an increase of up to \$50 and a further 5% could not afford an increase of \$50 to \$100. However, 8% of the mortgage borrowers indicated that affording their current payment is already an issue or concern

for them. In total, about 15% of mortgage borrowers have relatively high sensitivity to current payment levels or little room to afford payment increases in future.

Various data obtained in the survey have been combined to assess the impacts of future renewals on borrowers' ability to afford their mortgage payments.

As many different data elements were combined in this analysis, it was possible to complete the assessments for only about one-half (52%) of the borrowers. For those borrowers for whom it was possible to complete the assessments, it was found that:

- For borrowers who report that making their mortgage payments is already an issue or concern, most will see some relief at their next renewal, as interest costs are likely to fall (however, the data does not permit us to determine if the difficulties will be fully addressed or just partially).
- For a very small minority (just 1%), making payments is already a concern, and interest costs may increase after their next renewal.
- For only about 2%, there are potential future difficulties, as payments are currently affordable but at renewal interest costs may increase by enough to be a problem.
- For the large majority of borrowers (93% of this data subset) making monthly mortgage payments is not a concern now and future payments will be affordable. For some of these (23% of borrowers), interest costs may increase at the next renewal, but not by enough to be a problem (the increases will not exceed the amounts that they say they can afford). For 70%, current interest costs are affordable and the costs will either fall or stay the same at the next renewal.

<i>Potential Impact of Interest Rate Change at Future Mortgage Renewal</i>	<i>Time to Mortgage Renewal</i>	
	<i>Within 12 Months</i>	<i>All Renewals</i>
Currently an Issue or Concern but Rate Reduction is Likely Coming	9%	4%
Currently an Issue or Concern and Rate is Unlikely to Change	< 1%	< 1%
Currently an Issue or Concern and May Worsen	1%	1%
Future Difficulty	1%	2%
Interest Rate May Increase but Not Enough to be an Issue	18%	23%
Not a Current Issue and Interest Costs Unlikely to Increase	71%	70%
Total	100%	100%
Source: Maritz survey for CAAMP, Spring 2009.		

Risks Due to Job Loss

Canada has experienced a considerable amount of job loss, commencing in late 2008. By the time this survey was conducted in March 2009 estimated job losses had totaled 357,000, or 2.1% of total Canadian employment, over a six month period. This is a very

rapid rate of decline. Given current trends, it appears highly likely that there will be at least several more months of job losses.

The CAAMP survey asked if the respondent or another primary earner in the household had lost a job in the past six months. A surprisingly large share of the mortgage holders (18%) indicated that this had occurred.

When these responses were contrasted with the responses on sensitivity to future mortgage cost changes, the results were as might be expected: in households that have experienced job loss, there is more concern about making mortgage payments.

- Among those who reported job loss, 14% indicated that making their mortgage payment is already an issue or concern; for those not reporting job loss affordability is an issue or concern for a considerably smaller share (6%).
- Also, those with job loss report that they have much less ability to afford increases in their monthly mortgage costs: 13% of this group state that they would not be able to make their payments if the monthly cost increased by up to \$100. For those without job loss, the corresponding figure is 6%.

However, among mortgage holders who report that there has been job loss in their household, most have substantial amounts of equity (68% have 25% or more equity in their homes, and 35% have 50% or more equity). A further 18% have 10% to 24.9% equity. These percentages are not substantially different than for all mortgage holders. This data on housing equity indicates that most mortgage borrowers have some flexibility to address a temporary loss of income by calling on their home equity, or if necessary to sell their home and build cash reserves.

Small minorities of home owners have limited equity (2% of owners with mortgages have negative equity and among mortgage holders that have experienced job loss in their household, 12% have less than 10% equity). For these households, limited home equity means that they have less flexibility to deal with income reductions due to job loss.

Risks Due to Negative Equity

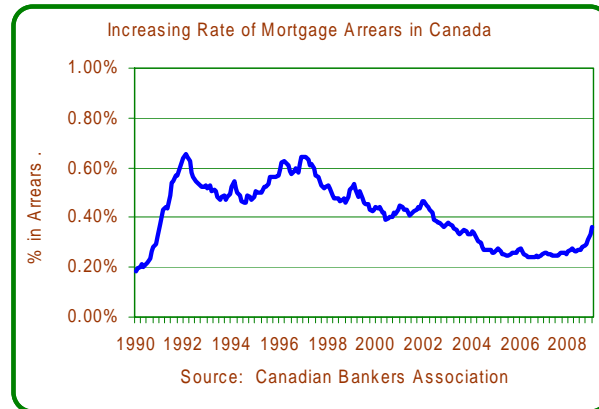
Concerning the third issue listed above, section 3 (on mortgage holders) discussed home owners' equity and found that the vast majority of Canadian mortgage borrowers have substantial amounts of equity. Just 2% have negative equity and a further 8% have less than 10% equity.

Negative equity becomes a more risky factor when households have difficulty making current payments or lose a job. Without equity, households are unable to raise funds by borrowing against the home equity or selling the property, and they have reduced options for refinancing their mortgages.

The survey data indicates that - fortunately - very few Canadian mortgage holders have negative home equity (about 2%). Furthermore, in the survey data it appears that at least two-thirds of those who have negative equity have comfortable payment levels: they do not indicate that they have current issues with their payments and report that

they have room for payments to increase by substantial amounts. Therefore, among the few Canadians with negative equity, most can and will stay the course.

Therefore, to this point, the developing economic recession has resulted in some increase in the rate of mortgage arrears rate in Canada, but at 0.36% as of January⁵, the rate is not very high.



In the event that house prices were to fall further, there would be an increase in the percentage of Canadian mortgage borrowers who have negative equity. To the extent that coincides with job loss occurs for households with negative equity, there could be a more substantial rise in the extent of mortgage affordability problems and possibly defaults.

Some Canadian Mortgage Holders are Experiencing Difficulties

It was mentioned earlier that in the spring 2009 survey 8% of Canadian mortgage holders indicated that being able to make their mortgage payment is currently an issue or concern. Applied to about 5.35 mortgage holders, this 8% factor equates to about 425,000 Canadians.

These responses do not necessarily mean that these consumers are in default on their mortgages or will default, but it does signify that budgeting for their monthly mortgage payments and other living costs is a challenge. And, it does not necessarily mean that this is a long-term challenge. For some, the challenges may be short-lived due to changes in job situations, and for others future mortgage renewals at lower interest rates will provide some relief.

Furthermore, since this is a new question, we don't know if this 8% level is high relative to what would be normal in better economic times, or if it is "normal" for a similar percentage of the population to feel pressured by their mortgage payments.

Regardless of these uncertainties, these responses do tell us that there are challenges for significant numbers of Canadian mortgage holders. Given current trends in the employment situation, it is quite possible that mortgage arrears and defaults could increase in the coming months.

The survey data does allow for further profiling of these households, and provides some indication of actions that they are taking.

⁵ As reported by the Canadian Bankers Association. The data covers eight banks: BMO, CIBC, HSBC Bank Canada, National Bank of Canada, RBC Royal Bank, Scotiabank, TD Canada Trust, and Manulife Bank.

Among the mortgage holders (8%) who indicated that making mortgage payments is an issue or concern, one-third indicated that they or another primary earner in their household had lost a job in the past 6 months.

The extent of housing equity is an important consideration. Many of those expressing concern about making their mortgage payments have limited amounts of housing equity. Fortunately, just a handful have negative equity (estimated at 3% by the survey, but this is based on a very small sample and is not considered statistically reliable). About one-quarter have from 0% to 9.99% equity, and a further one-quarter have from 10% to 24.99% equity.

The survey data indicates that some households with current or potential problems with mortgage affordability have potential to use their housing equity to address short-term problems, but many of these households have limited ability to rely on home equity.

The survey indicated that among consumers who are concerned about their current mortgage affordability, some have been taking actions:

- People in this group have been more likely to take equity out of their homes (24% in the past year) than are all mortgage holders (15%).
- In response to a question on whether they have made any applications for loans or financing in the past 12 months, among those with issues or concerns about their mortgage payments, 41% indicated they had made applications. This is higher than the 32% rate for all mortgage holders.
- The most common type of financing applied for is mortgage refinance (13% for those with concerns versus 6% for all mortgage holders).
- 13% of those with concerns applied for lines of credit (with a similar rate of 12% for all mortgage holders).
- 12% of those with concerns applied for personal loans, versus 7% for all mortgage holders.
- On the other hand, few mortgage holders with concerns about their mortgage payments applied for other types of loans or financing:
 - 4% applied for auto loans (versus 6% for all mortgage holders).
 - 6% applied for credit cards (the same as for all mortgage holders).
 - 4% applied for other types of credit (versus 2% for all mortgage holders).

Conclusions

Conditions in the United States cause us to review prospects for the Canadian housing and mortgage markets.

Data from the CAAMP mortgage consumers' survey indicates that the developing economic downturn poses risks for mortgage borrowers and the Canadian mortgage market. However:

- The US problems were largely precipitated by increases in mortgage payments that many borrowers were unable to afford. This study concludes that very few Canadians

will see increases in their mortgages payments, and among those who do face increases most will be able to absorb the increases.

- In the US, households have less housing equity – estimated at 43% versus 72% in Canada. Critically, there has been a rapid increase in the share of US mortgage borrowers who have negative equity, which has now reached about one-quarter, versus 2% for Canada. In the US, negative equity has very often prevented orderly resolution of individual mortgage affordability problems. This resulted in a flooding of resale markets and falling housing values. Before long, this resulted in a sharp downturn in the broader economy and a downward spiral encompassing the mortgage market, housing market, and job market. Canadian borrowers have much stronger equity positions, and much greater prospects for orderly resolutions when they have problems of mortgage affordability.

The greatest risk facing the Canadian mortgage market is job loss. There is willingness on the part of lenders (and mortgage insurers) to work with borrowers who face temporary reductions of income.

A very encouraging sign is that new listings in the resale market have not increased: data from the Canadian Real Estate Association shows that the volume of new listings has fallen, from an average of about 77,400 units per month (at an annualized rate) in the first nine months of 2008 to about 71,000 in the past three months. This data suggests that despite the slowing economy and softening housing market activity, there is not panic selling in Canada, unlike the US.

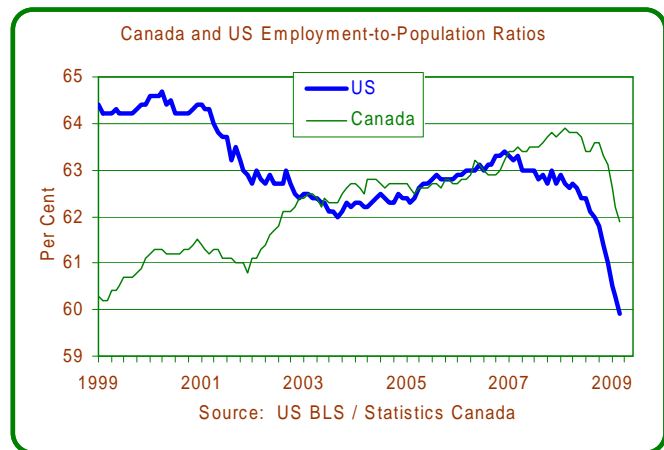
This set of circumstances suggests that risks in the Canadian residential mortgage market are vastly less than in the United States.

5.0 Outlook for the Housing and Mortgage Markets

The Economic Background

It was noted earlier that the job situation in Canada has weakened in recent months. As of March 2009 employment has fallen by 357,000 (2.1%) in six months.

An alternative indicator of the employment situation is the percentage of adults that are employed, which is also known as the “employment-to-population ratio” or “employment rate”. The chart to the right shows the employment rates for Canada and the United States. The chart illustrates that the US economy began to slow during 2007 and then entered a severe recession during 2008. In Canada, on the other hand, the sustained very high level for the employment rate during most of 2008 indicated continued economic strength. It was only late in the year that the Canadian economy deteriorated, as the consequences of:



- Reduced exports to the US.
- Falling demand (and prices) for many of the commodities produced in Canada.
- The confidence sapping effects of the stock market meltdown and (in some areas) falling housing values.
- Construction activity has slowed in Canada.

To this point the cumulative effects of recession are much worse in the US (employment has fallen by 3.7% since December 2007) than in Canada (2.1% drop in employment since October 2008). However, recently the rate of drop in Canadian employment is about as severe as in the US, as is illustrated in the chart of the employment rates.

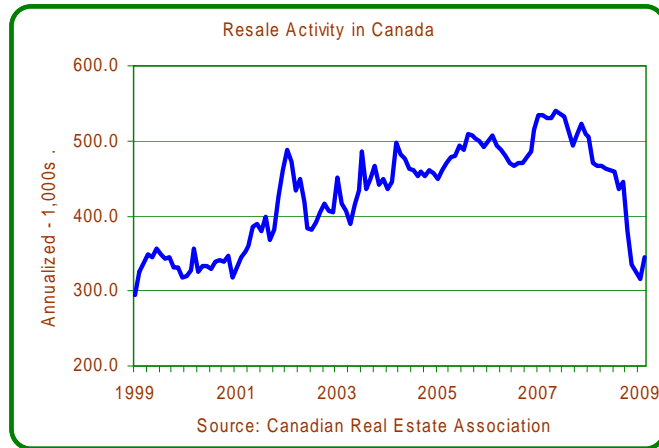
In the rapidly changing environment, it is very difficult to have confidence in economic forecasts, and in recent times forecasts have been subject to frequent revisions (generally downwards). Overall, there is consensus that Canada faces at least several more months of weakening, but there are wide differences of opinion about the timing for a recovery and its strength.

Housing Market Impacts

During the past decade, until late in 2008, Canada saw rapid rates of job creation. Job creation does not lead instantly to housing demand – people need time to prepare to buy homes. As is illustrated by resales, a strengthening economy resulted in a gradual expansion of housing demand.

However, responses are asymmetric in an economic downturn. Contrary to the gradual consumer responses in a strong economy, as the Canadian recession commenced, the negative reactions in the housing market have been very rapid and very strong.

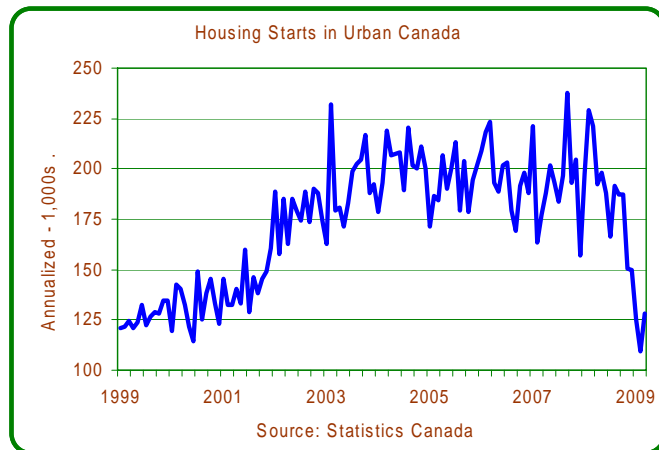
Thus, in the most recent four months (November 2008 to February 2009), resale activity has been about 37% lower than the average rate for 2007 and 24% lower than in 2008.



Weaker demand has also resulted in falling house prices in many communities. As of February, the average resale price in Canada is about 11% lower than a year earlier.

The combination of reduced sales (in units) and a lower average price has resulted in a very sharp drop in the dollar volume of sales. The average dollar volumes of sales in the past four months (about \$94 billion, at an annual rate) is about 40% lower than the 2007 volume of \$160 billion.

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 presale new units and then initiate the construction process. However, recent data on housing starts shows that slowing began late in 2008. In the first three months of 2009, in the urban areas of Canada⁶, starts were 36% lower than in 2008.



Housing Market Forecasts

Forecasts suggest that the recent weakness in resale activity and housing starts are likely to persist through 2009 with only a partial recovery in 2010.

Concerning resale markets:

⁶ At the time of writing, first quarter 2009 data is not available for all areas of Canada. Once the all area data is available, it is likely to be about 25,000 to 30,000 units higher than the urban area figures shown in the chart above.

- The Canadian Real Estate Association forecasts⁷ that resales will total 360,600 units in 2009. Combining this with CREA's forecast that the average price will fall by 8%, the dollar volume would be \$101 billion in 2009 (versus the \$160 billion volume recorded in 2007).
- For 2010, CREA forecasts that sales will increase to 396,900 and the average price will rise by 1.1%. This implies that volume will increase to \$112 billion. This would be an improvement over 2009, but would still be about 30% lower than in 2007.
- CMHC's forecasts⁸ are similar to CREA's, with sales projected at 370,500 for 2009 and 405,000 for 2010. However, CMHC indicates that due to economic uncertainty, there is a forecast range of 344,000 to 395,000 sales for 2009 and 360,000 to 420,000 for 2010. CMHC's price forecast is slightly less negative than CREA's for 2009, with the average price forecast to fall by 5.2%. For 2010, CMHC forecasts that the average price will rise by just 0.1%. Once again, CMHC indicates that there is uncertainty, and indicates that there is a very wide possible range for the rates of price increase.
- Taking CMHC's "point forecasts", the dollar volume of resales would be \$107 billion in 2009 and \$117 billion in 2010. Similar to CREA, the CMHC forecasts suggest that the dollar volumes of resales in 2009 and 2010 will be far below the 2007 record level.

Concerning housing starts:

- CMHC forecasts starts at 160,250 units for 2009, with a range of 141,000 to 180,000. The point forecast of 160,250 for 2009 would represent a 24% drop from 2008, and would be 30% lower versus the average of about 229,000 per year seen during 2004 to 2007.
- For 2010, CMHC forecasts a slight recovery, to 163,350, with a range of 143,000 to 180,000.

These forecasts for 2009 imply that during the remainder of this year housing indicators will improve from recent levels:

- During the past four months (up to February) resales (in units) have averaged about 330,000 at an annual rate, which is below the forecasts of 360,000 to 370,000 units for the full year. To achieve these full-year forecasts, the sales rates would have to average about 370,000 to 380,000 for the balance of the year.
- The price forecasts (with annual averages of about \$280,000 to \$288,000 either match or exceed the average for the most recent month (about \$280,000 in February), implying that price declines are finished.
- The CMHC housing starts forecast of about 160,000 units for this year exceeds first quarter levels, which will most likely be about 145,000 units, once final data are available. To meet the full year forecast, rates for the remainder of the year would have to rise by about 20,000 to 165,000 units.

All of these forecasts, and the implied changes for the remainder of the year are well within the realm of possibility: consumer confidence deteriorated very sharply late in

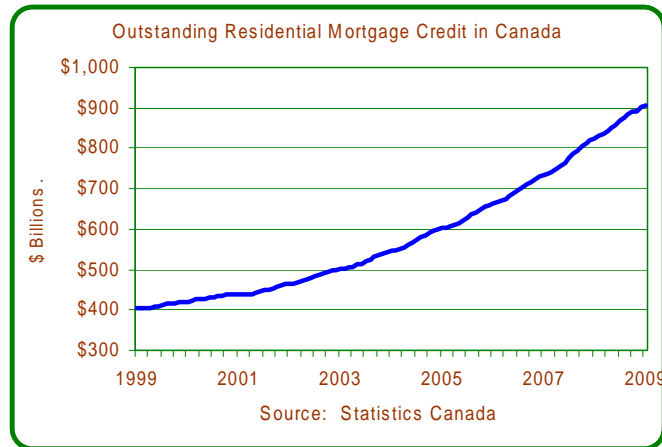
⁷ CREA's forecast is dated February 9, 2009.

⁸ CMHC's forecasts were released on February 19, 2009.

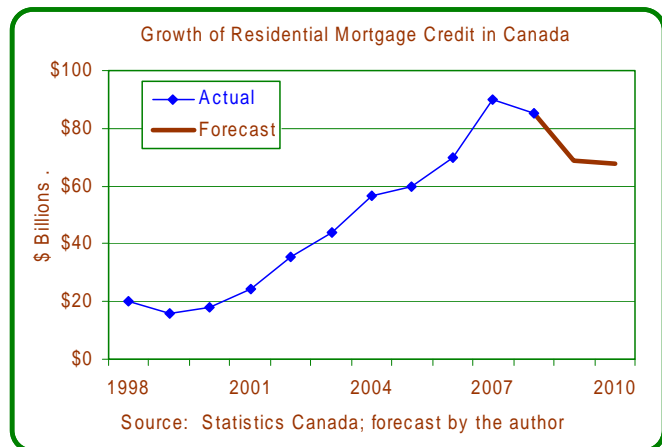
2008 and early this year; recent months may have been the “point of maximum distraction”, allowing for gradual improvements as conditions stabilize. On the other hand, given the volatility of economic indicators, there is also the possibility that current weakness in housing markets may persist for longer than expected.

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. At the beginning of the decade, outstanding residential mortgage credit amounted to \$421 billion. Growth was modest in the early years of the decade, but accelerated in the second half. By the end of 2008, the volume had more than doubled, to \$904 billion. This amounts to a very robust average annual growth rate of 8.9%.



Another perspective looks at the annual growth of the mortgage market. Growth peaked in 2007 at just under \$90 billion, a 12.4% increase. Similar rates of growth were sustained during the first half of 2008, but as resale market activity slowed in the closing months of the year, the growth rate for the mortgage market also slowed. For all of 2008, the growth rate was 10.4% (with an \$85 billion expansion during the year).

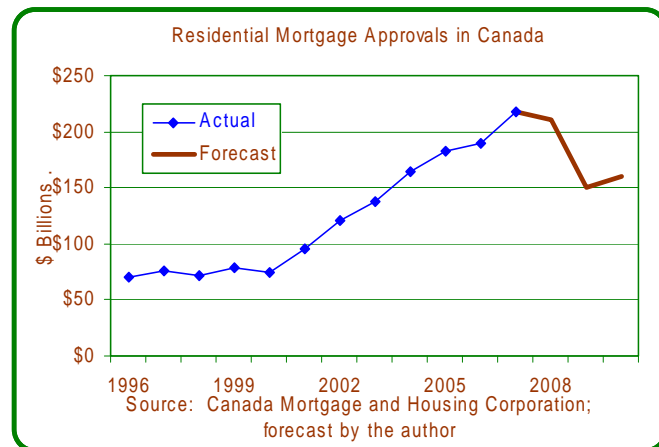


Slowing housing activity can be expected to result in a further slowdown for the mortgage market, although the market will continue to grow.

- There are still large volumes of housing under construction that will require financing once they are completed. The high volume of housing starts that occurred during most of 2008 will result in sustained completions through most of 2009. Housing completions, and the related need for mortgage funding, will begin to slow only in the second half of the year.
- Based on current housing market forecasts, the outstanding volume of residential mortgage credit is forecast to expand by close to \$70 billion in both 2009 and 2010 (growth rates of 7.6% in 2009 and 7.0% in 2010).

- The total volume of the market would pass the \$1 trillion mark about the middle of 2010 and by the end of 2010 would be in the range of \$1.04 trillion.

Another perspective on the mortgage market looks at the volume of new approvals. This category includes new mortgages plus mortgages that are transferred from one lender to another and mortgages that are refinanced. In consequence, the volumes of annual approvals are larger than was shown earlier for the growth rate of total credit. For example, the data on approvals shows total approvals of \$218 billion for 2007, while the data on total residential mortgage credit shows growth of about \$90 billion. The chart to the right shows that mortgage approval activity was relatively flat during the second half of the 1990s and has increased sharply in recent years. Total approvals for 2007 (\$218 billion) were almost triple the volumes seen during 1997 to 2000 (about \$75 billion). For 2008, final data are not yet available. Based on CMHC data for the first three quarters of the year, it appears that the year end total may be in the range of \$210 to \$215 billion, just slightly below the record set in 2007.



Looking forward, slower resale market activity and a gradual winding-down of housing construction are forecast to reduce mortgage approvals in 2009. The forecast total of \$150 billion for 2009 would be sharply lower than in 2007, but would be high relative to years prior to 2004. For 2010, the partial recovery of resale activity would boost approvals, but further slowing in housing completions would be partly offsetting. Thus, approvals are projected to increase to about \$160 billion in 2010.