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# **Annual State of the Residential Mortgage Market in Canada**

*Prepared for:*

**Canadian Association of  
Accredited Mortgage Professionals**

*By:*

**Will Dunning**

**CAAMP Chief Economist**

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## **1.0 Introduction and Summary**

This is the fourth annual report on the State of the Residential Mortgage Market in Canada. It 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
- Impact of Changes to Mortgage Insurance
- Consumer Choices and Satisfaction
- Dimensions of the Residential Mortgage Market
- Outlook for Residential Mortgage Lending

Data used in this report was obtained from various sources, including an online survey of 2,176 Canadians. About 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 mid October.

### ***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 were neutral overall, although they were quite mixed across the country. The average score given this fall was 5.58 out of 10. As can be seen in the table on the next page, this is very close to the overall responses given in the two prior surveys, and is stronger than the results found in the fall of 2006 and spring of 2007. This fall’s survey was conducted during October 17 to 23, 2008: consumers’ attitudes are stable despite the financial market turmoil that began in Canada about September 1.

In this survey, the responses point to reduced optimism in the east and strengthening in the west.

- The average rating rebounded strongly in Saskatchewan from a quite low level seen in the spring survey, although the rating is still below the national average. Residents of Saskatchewan are still concerned about reduced housing affordability.
- Alberta continued to show strong growth in consumer ratings.
- The average rating in British Columbia recovered from prior below average ratings and is now at the national average.

- The average rating in Manitoba remains below the national average, as it has in four out of the five surveys conducted to date.
- In Atlantic Canada, where the average rating has previously been well above average, the score fell to the national average.
- In Quebec, the average score has fallen and is now below the national average.
- Finally, in Ontario, the average rating has fallen very slightly, and remains above the national average.

<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>
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 and 2008.

### Expectations about House Prices

On the other hand, expectations about house prices have deteriorated sharply. When asked "to what extent do you think housing prices in your community will go up or down in the next year?" 35% expressed negative opinions (giving scores of 1 to 4 out of 10). This share more than doubled from the 15% seen last spring. Almost one-half (46%) gave neutral answers (5 or 6 out of 10) – unchanged from last spring. The share expecting prices to rise to varying degrees (ratings of 7 to 10) fell to 20%, from 40% last spring. The average rating (5.21 on a 1-to-10 scale) suggests that on average prices are expected to fall slightly.

As is shown in the table below, expectations about house prices have fallen in all regions. The weakest expectations are in British Columbia, Alberta, and Ontario. In Saskatchewan, which has seen prices more than double in the past five years, there has been a very sharp downturn in price expectations. It appears that Saskatchewan may be following a pattern seen earlier in Alberta, where consumers had correctly anticipated that prices would rise sharply, and then also correctly anticipated a slowdown. British Columbia and Manitoba have also seen very sharp drops in expectations.

<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>
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, Spring and Fall 2007.

## ***Impact of Changes to Mortgage Insurance***

Effective October 2008, the federal government is no longer providing financial guarantees on mortgage insurance for the following types of mortgages:

- Mortgages with 40 year amortization.
- Mortgages with a down-payment of less than 5% of the property value.
- Mortgages given to borrowers with a low credit score.

The survey found that most Canadians are unaware of these changes, as only about one-third (36%) were aware of the first two changes and only 17% were aware of the third change.

Canadians generally support the changes, with 60% saying that they strongly support (19%) or somewhat support (41%) the changes. The level of support is considerably higher among those who were aware of the changes (28% strongly support) than among those who were unaware (11% strongly support).

More than three-quarters of Canadians expect the impacts on themselves to be neutral. 13% expect a negative impact and 9% expect a positive impact.

## ***Consumer Choices and Satisfaction***

The survey found that Canadians remain highly satisfied with the terms of their mortgages:

- 26% indicate they are highly satisfied (giving a rating of 10 out of 10) and a further 58% are satisfied (ratings of 7 to 9 out of 10). Combining these results, 84% are satisfied to some degree.
- 12% give a neutral satisfaction rate (5 or 6 out of 10).
- Just 5% are dissatisfied to some degree (1 to 4 out of 10).
- On average, the satisfaction rate is 8.1 out of 10. This rating is similar to the score of 8.0 found in the Fall of 2007 survey.
- In the survey the highest level of satisfaction (average rating of 8.2 out of 10) was reported by mortgage borrowers who have renewed their mortgages during the past year. This is no doubt related to interest rates. The survey found that on average those who renewed mortgage had their interest rate reduced by 0.4 percentage points.
- The reported level of satisfaction is lowest (7.7 out of 10) for borrowers who have taken out a new mortgage during the past year. Even within this small group, most are satisfied with their mortgages.
- Those with no mortgage activity during the past year reported an average satisfaction level identical to the overall average of 8.1.
- Older adults (in the age groups 35 to 54, and 55 and over) are more satisfied with their mortgages than are younger adults.

About three-in-ten (29%) of home owners with mortgages had some form of mortgaging activity during the past 12 months: taking out a new mortgage (7%), or renewing or

refinancing an existing mortgage (22%). The remainder (71%) did not have any mortgaging activity during the year.

Among those who renewed or refinanced an existing mortgage, 14% changed lenders and 86% remained with the same lender.

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

- Among home owners who have mortgages, the average amount of equity is \$136,000, representing 51.7% of the average value of their homes (\$263,000).
- For owners without mortgages, equity is equal to the average home value of \$280,000.
- The total value of owner-occupied housing in Canada is estimated at \$2.39 trillion. Mortgages on these homes total \$664 billion, leaving \$1.73 trillion in home owners' equity. This equity is equal to 72.3% of the total value of the housing.

About one-in-five (22%) of mortgage borrowers took equity out of their home in the past year, up from 17% a year earlier. The average amount is estimated at \$41,000 (up from \$35,400 in 2007). These results imply that the total amount of equity take-out during the past year has been \$46 billion, a sharp increase from the estimate of \$30 billion in the fall 2007 survey. The most common uses for the funds from equity take-out are debt consolidation and repayment. This accounts for about 40% of the total take-out, or about \$18.5 billion. This part of the total equity take-out would result in corresponding reductions for other forms of consumer debt.

The study asked mortgage borrowers about their mortgage term (measured as the term at the time the mortgage was negotiated or renewed): 61% of mortgage borrowers reported having a term of four to five years. Just 10% have terms of more than 5 years, and the remaining borrowers (29%) have terms of less than 5 years. For those who have financed or renewed their mortgages during the past year, there has been a shift towards shorter terms.

There has also been a pronounced shift towards variable rate and adjustable rate mortgages (40% of mortgages negotiated during the past year, versus 21% for mortgages negotiated previously).

These two shifts – to shorter terms and to variable rate mortgages – suggest that consumers may be expecting interest rate reductions.

During the past two years, mortgages with longer mortgage amortization periods have become available. A year ago the survey found that 9% of mortgages in Canada had amortization periods of more than 25 years<sup>1</sup>. Now, the share has increased to 16%. The share is quite high (50%) among home owners who have, during the past year, taken out a new mortgage on a newly purchased home or condominium.

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

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<sup>1</sup> Respondents were asked to state the length of the amortization period at the date when they first took out the mortgage.

- The average mortgage interest rate for home owners' mortgages is 5.41%, a reduction from 5.56% a year earlier.
- Looking further, at borrowers who have renewed or refinanced a mortgage during the past year, the average interest rate is now lower (by 0.4 percentage points) than the rates prior to renewal. Among borrowers who renewed, 31% saw their interest rate rise, 50% saw reductions, and 19% had no change. While many borrowers 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 5.25 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 5.59%. Typical advertised rates averaged 7.18% over the same period – these borrowers have negotiated discounts that average 1.59 percentage points below typical advertised rates.

Mortgage holders report that, on average, they obtained 1.96 quotes when they obtained their current mortgage. Only 4% of borrowers obtained four or more quotes.

Among borrowers who have taken out a new mortgage during the past year, 47% obtained the mortgage from a major bank, 35% from a mortgage broker, 11% from a credit union, and 6% from other sources.

### ***Dimensions of the Residential Mortgage Market***

The residential mortgage market is a large and rapidly growing component of the Canadian financial system.

- As of August 2007, there was \$880 billion in outstanding residential mortgage credit in Canada. This represents one-third of the total credit for households and businesses.
- During the past 15 years, residential mortgage credit has expanded at an average rate of 7.2% per year, which is slightly faster than the growth rate for total household and business credit (6.9%).
- Growth of residential mortgage credit has accelerated in recent years, as low interest rates and very strong job growth have resulted in increased home buying activity, for both new and existing homes and condominiums. This has resulted in increased demand for mortgages. During the past three years, mortgage credit has expanded by an average of \$82 billion per year, or 11.5% per year.
- Another perspective on growth of the mortgage market is in the volume of new approvals, which includes not just new mortgages, but also transfers between lenders as well as refinances of existing mortgages. During the second half of the 1990s annual volumes of approvals were relatively flat. However, low interest rates and stronger housing markets have resulted in rapid growth in recent times. In 2007, the volume of approvals (\$218 billion) was almost triple the level seen during 1997 to 2000 (\$75 billion per year).

- All of the provinces and the territories saw double-digit growth in approvals in 2007. The largest growth rates were in Saskatchewan (52%), the territories (35%), and Quebec (21%).

Chartered banks account for more than one-half (55%) of residential mortgage credit. Among the other categories of lenders are NHA mortgage-backed securities (21%), credit unions and caisses populaires (13%) and five other categories that account for 11% in combination (trust and mortgage loan companies, life insurance companies, pension funds, non-depository credit intermediaries and other financial institutions, and special purpose corporations). During the past year, the credit crunch has caused a shift in market shares: the share for NHA mortgage-backed securities increased from 17% to 21%, while the shares for the other categories were stable or falling.

The rate of mortgage arrears in Canada remains quite low, at 0.28% as of August 2008, which is just slightly higher than the 0.25% rate that has been typical during the past two years. The rise in the arrears rate was mainly concentrated in Alberta (from the below average rate of 0.15% a year ago to the current 0.30%, which remains close to the national average).

The survey data on current actual interest rates for Canadian mortgage holders, combined with rates currently being offered in the market, indicates that during the coming year, mortgages that come up for renewal will be renewed at interest rates similar to the current rates.

From this perspective, it is extremely unlikely that Canada will experience mortgage market problems like those in the United States. One of the key factors precipitating the difficulties in the US was resetting of mortgage rates – very few Canadian borrowers will see rate increases at their next renewals.

Another key difference between Canada and the US is that an “investment motive” – buying based on expectations of price gains rather than based on real needs – generated a housing market bubble in the US. In 2006, resale market activity in the US was about 20% higher than it should have been based on economic fundamentals; current activity is 40% lower than it should be based on fundamentals. In Canada, there is very little evidence of an “investment motive”. Therefore, Canadian housing markets are not susceptible to the exaggerated downturn that has been seen in the US. However, there has been some investment motive in British Columbia, and BC may experience more of a market slowdown than the rest of Canada.

A third key difference is that a high proportion of US mortgage borrowers were unable to meet their obligations even at the time the mortgages were approved, let alone in times of difficulty. There was little sub-prime mortgage lending in Canada and the vast majority of Canadian borrowers are able to meet their obligations.

### ***Outlook for Residential Mortgage Lending***

To this point, rapid growth in the Canadian housing market and mortgage market has been based on strong job creation. Job growth has averaged 2.1% per year during the past decade, well above the growth rate for the population (of adults), at 1.3% per year.

It now appears, however, that the Canadian economy is at a turning point, due to:

- A much stronger Canadian dollar over the past few years, which hurts producers of finished goods.
- High commodity prices (including energy, minerals, and wood products) – this has benefitted some regions but hurt others and, on balance appears to be a negative factor for the Canadian economy.
- Tighter financing conditions, which make it more difficult for businesses to invest.
- To this point, these negative factors have been more-or-less offset by positive “wealth effects” from rising house prices and healthy stock markets. Most recently, the very sharp downturn of stock markets may be the factor that tips the Canadian economy into a slowdown.

Activity in resale and new homes markets has already slowed in Canada.

Consequently, the volume of residential mortgage credit outstanding is forecast to continue expanding, but at slower rates: by 10% in 2008, and by about 8% in both 2009 and 2010.

Sometime during 2010, the volume of outstanding residential mortgage credit in Canada would pass \$1 trillion, and the total at the end of 2010 would be \$1.06 trillion.

A different measure of mortgage demand (approvals, which includes not just new mortgages but also transfers between lenders as well as refinances of existing mortgages) totaled \$218 billion in 2006. Approvals are forecast to slow to \$193 billion in 2008, \$174 billion in 2009, and \$171 billion in 2010.

### ***About CAAMP***

CAAMP is the national organization representing Canada's mortgage industry. With over 12,000 mortgage professionals representing over 1,400 companies, 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.

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

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.

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 (BA, MA), and has specialized in the analysis and forecasting of housing markets for the past 27 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.

## **2.0 Consumers' Expectations About Housing Markets**

Data used in this section was obtained via an online survey conducted during the fall of 2008 by Maritz (a national public opinion and market research firm) on behalf of CAAMP. This is referred to below as the "CAAMP/Maritz" study<sup>2</sup>. The survey included 2,176 Canadians. In this survey, 1,000 of the sample were home owners with mortgages and the remaining 1,176 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, and about the outlook for mortgage interest rates.

In this survey, a new area of questioning is the extent to which consumers are aware of recent changes in mortgage insurance in Canada, and what effect the changes might have on them.

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?"***

For all of Canada, about one-third of respondents gave neutral ratings (scores of 5 or 6) to this question. The share that gave positive responses (7 to 10) was 38%, slightly higher than the 32% that gave negative ratings (scores of 1 to 4). The average rating given was 5.58, indicating that on average attitudes are neutral about the current state of local housing markets. These survey results were virtually identical to the year earlier results, when the average rating was 5.62. The 2008 survey was conducted during mid October, well after the commencement of the current turmoil in financial markets, which has been very pronounced since September 1st. Considering the increasingly negative economic news to which consumers were being exposed prior to and during the survey period, the stability of their opinions is remarkable. As an explanation for this, it must be noted that consumers respond to this question in terms of their perceptions of events in their communities as well as their personal circumstances. The employment situation in Canada remains very positive – the percentage of adults in Canada who are employed is at or close to an all-time record high. For most Canadians, personal circumstances remain quite positive and their communities remain strong economically.

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<sup>2</sup> For the CAAMP/Maritz results, calculations of percentages exclude responses of Don't Know and refusals, except where indicated otherwise.

<i>Rating</i>	<i>% Giving Rating</i>	
	<i>Fall 2008</i>	<i>Fall 2007</i>
1 (Very Bad Time)	8%	8%
2	3%	4%
3	9%	8%
4	11%	12%
5	15%	16%
6	15%	15%
7	14%	14%
8	13%	13%
9	5%	5%
10 (Very Good Time)	6%	6%
Total	100%	100%

Source: Maritz survey for CAAMP, Fall 2007 and 2008.

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

- The average ratings are close to the national average in Atlantic Canada, Alberta, and British Columbia.
- Ontario consumers provided an average rating slightly above average.
- The lowest average ratings were given in Quebec, Manitoba, and Saskatchewan.
- Saskatchewan saw the highest proportion of negative responses, as consumers have reacted to the very rapid increases in housing values that have occurred recently. The rating given in Saskatchewan was even lower in the spring of 2008 (average of 3.93), and the bounce back suggests that consumers in that province are becoming more used to the higher prices. A similar negative reaction to rising prices occurred in Alberta two years ago, and attitudes of Alberta's consumers to their housing markets have now substantially recovered.

<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)	29%	33%	29%	39%	44%	32%	33%	32%
Neutral (Rating 5-6)	31%	33%	30%	30%	27%	27%	32%	31%
Positive (Rating 7-10)	40%	34%	41%	32%	29%	41%	35%	38%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Average Rating	5.59	5.31	5.84	5.25	5.04	5.66	5.55	5.58

Source: Maritz survey for CAAMP, Fall 2008.

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

Canadians have down-shifted their expectations about prospects for house prices in their community. In the Fall 2008 survey, more consumers expected prices to fall (35%) than to rise (20%). The average rating out of 10 was 5.21. This is a sharp drop compared to the prior four surveys, in which the average scores were close to or above 6.0.

<i>Rating</i>	<i>% Giving Rating</i>
1 (Go Down Dramatically)	3%
2	1%
3	10%
4	21%
5	19%
6	26%
7	13%
8	5%
9	1%
10 (Go Up Dramatically)	1%
Total	100%
Source: Maritz survey for CAAMP, Fall 2008.	

Once again, there are significant variations across the different regions of the country. As is shown in the following table:

- Attitudes about house prices are most optimistic in Atlantic Canada (5.63) and Quebec (5.56). These scores are neutral. Atlantic Canada is the only region in which the number of consumers expecting increases outnumbers those expecting decreases.
- Scores are slightly lower in Saskatchewan (5.35) and Manitoba (5.33).
- In Ontario (average score of 5.11) twice as many consumers expect decreases (37%) as expect increases (19%).
- Expectations are even more negative in Alberta (average score of 5.00, and 40% expect reductions) and British Columbia (score of 4.77, with 48% expecting reductions, which is almost four times as high as the 14% share who expect increases).

<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)	18%	30%	37%	26%	31%	40%	48%	35%
Neutral (Rating 5-6)	58%	43%	45%	56%	42%	47%	38%	45%
Positive (Rating 7-10)	23%	27%	19%	18%	27%	13%	14%	20%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Average Rating	5.63	5.56	5.11	5.33	5.35	5.00	4.77	5.21

Source: Maritz survey for CAAMP, Fall 2008.

### ***Expectations About Property Purchase***

A new question in the Fall 2008 survey asked Canadians how likely they are to purchase a new property in the next year. This could include a primary residence, second residence, or an investment property.

As is shown in the following table, few Canadians expect to buy new properties in the near future. Only 3% will definitely purchase (giving a score of 10 out of 10), and not many more give high ratings of 8 out of 10 (4%) or 9 out of 10 (2%). A very high percentage of Canadians (55%) say they definitely will not purchase (rating of 1 out of 10). On the 10-point scale, the average rating was 2.76. However, these results are not surprising. Housing market data suggests that at most only 5% to 6% of Canadian households purchase homes each year<sup>3</sup>. Over time, as more data is developed, changes in the survey results may provide indications of future market trends.

<i>Rating</i>	<i>% Giving Rating</i>
1 (Definitely Not Purchase)	55%
2	9%
3	8%
4	5%
5	6%
6	5%
7	4%
8	4%
9	2%
10 (Definitely Purchase)	3%
Total	100%

Source: Maritz survey for CAAMP, Fall 2008.

<sup>3</sup> Currently, about 700,000 new and resale homes are bought annually by Canada's 13 million households.

For those who rated their likelihood of buying as 6 out of 10 or higher (which included 17% of those surveyed), a follow-up question asked, if they do purchase a property, would they require a mortgage? 87% indicated that they would require a mortgage and 13% would not.

### **3.0 Impact of Changes to Mortgage Insurance**

Effective October 2008, changes have been made to the way mortgages can be insured in Canada. The federal government is no longer providing mortgage insurance for the following types of mortgages:

- Mortgages with 40 year amortization.
- Mortgages with a down-payment of less than 5% of the property value.
- Mortgages given to borrowers with a low credit score.

The survey asked which of those changes the consumers were aware of. The responses indicated that:

- 36% were aware of elimination of mortgages with 40 year amortization.
- 36% were aware of the change to a minimum 5% down-payment.
- 17% were aware of the minimum credit score requirement.
- 51% indicated that they were not aware of any changes.

Home owners tend to be more aware of these changes than are renters and people who do not rent or own (for example, living with parents).

The consumers were then asked how strongly they support or oppose the changes. The following table summarizes the responses. Overall, consumers support the changes by a margin of about two-to-one.

	Elimination of 40-Year Amortization	Minimum 5% Down-Payment	Minimum Credit Score	Overall
Strongly Support	28%	30%	29%	19%
Somewhat Support	25%	31%	33%	41%
Somewhat Oppose	19%	16%	16%	17%
Strongly Oppose	12%	13%	10%	8%
Don't Know	16%	10%	13%	15%

Source: Maritz survey for CAAMP, Fall 2008.

Looking at owners and renters separately, renters are about as likely as owners to oppose the measures (for both housing tenures minorities oppose the measures), but renters are more likely to respond that they don't know if they oppose or support the measures, and renters are less likely than owners to say they support the measures.

Support for the measures is strongest among those consumers who said they were aware of the changes: among these consumers, strong support for the changes overall was indicated by 28% of respondents. For those who indicated that they weren't aware of any of the changes, strong support was indicated by 11%.

Finally, the consumers were asked what impact the changes would have on them in the next five years. The impacts were expected to be neutral by about two-thirds of consumers, and the remaining responses were evenly split between expecting positive and negative effects.

	Elimination of 40-Year Amortization	Minimum 5% Down-Payment	Minimum Credit Score
Positive Effect	13%	17%	17%
No Effect	72%	67%	68%
Negative Effect	15%	16%	15%

Source: Maritz survey for CAAMP, Fall 2008.

The final question asked the consumers to rate the overall effect of the changes on themselves. Responses were given on a 10-point scale, where 1 is very negative and 10 is very positive. Most of the responses were neutral (78% gave responses of 5 or 6, and the average rating of 5.43 is in the middle of the scale) and there are very few responses at the ends of the scale: among those who expect to be affected, the impacts are not expected to be very strong.

Looking at the housing tenures of the consumers, renters are slightly more negative about the impacts than are home owners and others: 23% of renters gave negative responses of 1 to 4, versus 9% for home owners.

<i>Rating</i>	<i>% Giving Rating</i>			
	<i>Home Owners</i>	<i>Renters</i>	<i>Other</i>	<i>Total</i>
1 (Very Negative)	1%	6%	3%	3%
2	1%	2%	0%	1%
3	2%	6%	4%	3%
4	5%	9%	11%	6%
5	34%	36%	39%	35%
6	50%	30%	25%	43%
7	4%	6%	11%	5%
8	2%	3%	5%	2%
9	1%	2%	1%	1%
10 (Very Positive)	1%	1%	1%	1%
Total	100%	100%	100%	100%
Average Rating	5.55	5.13	5.41	5.43

Source: Maritz survey for CAAMP, Fall 2008.

## 4.0 Consumer Choices and Satisfaction

This section uses data from the consumer survey to highlight consumer choices in the mortgage market, including term selection, renewal activity, equity take-out, and research and shopping behaviour. It also provides data on amounts of home owners' equity, actual mortgage interest rates, and on consumers' satisfaction with their mortgages. In this section, results are highlighted for a subset of households (1,000 households) who own a home or condominium and have a mortgage.

### Satisfaction with Mortgages

The CAAMP/Maritz survey found high levels of satisfaction with mortgage terms. Respondents were asked to rate their satisfaction on a 10 point scale, where 1 means completely dissatisfied and 10 means completely satisfied. Ratings from the current survey are:

- 84% were either completely satisfied or satisfied (scores of 7 to 10).
- This includes 26% of respondents who indicated that they were completely satisfied (they provided a rating of 10) with the terms of their mortgages.
- A further 58% indicated that they were satisfied (a rating of 7, 8, or 9).
- 12% gave neutral ratings (5 or 6).
- Just 5% indicated they were somewhat dissatisfied (rating of 2, 3, or 4).
- Only 1% indicated complete dissatisfaction (rating of 1).

On average, satisfaction was rated at 8.1 out of 10. This is similar to the average rating of 8.0 found in the fall 2007 survey.

Older adults are more satisfied with their mortgages than are younger adults:

- Among those aged 55 and older the average satisfaction rating was 8.4, versus 8.0 among 18 to 34 year olds, and 7.9 for those 35 to 54.
- Males and females are about equally satisfied with their mortgages.

<i>Age Group</i>	<i>Females</i>	<i>Males</i>	<i>Both Sexes</i>
18-24	8.0	8.0	8.0
35-54	8.1	7.7	7.9
55 and Over	8.3	8.6	8.4
All Ages	8.1	8.0	8.1

Source: Maritz survey for CAAMP, Fall 2008.

The fractional increase in the level of satisfaction compared to last year (by 0.1 points) may be related to interest rates. The survey data indicates that:

- Among people who have renewed their mortgages during the past year, the average score given (8.2 out of 10) was slightly higher than the overall average. For these mortgage borrowers, renewals during the past year have resulted in reductions in interest rates: 50% of those renewing had their rates drop while a smaller proportion (31%) had increases. On average, rates fell by 0.40 percentage points on renewal.
- Among those taking out new mortgages, satisfaction was below average, as the average rating given was 7.7 out of 10.
- Finally, people who had no mortgaging activity during the past year gave satisfaction scores that equaled the overall average of 8.1.

Looking at the data from a different angle, people who have variable rate mortgages (25% of mortgage holders) or mortgages that combine variable and fixed rates (7% of mortgage holders) gave slightly higher satisfaction ratings (averages of 8.1 and 8.2 respectively) compared to people who have fixed rate mortgages (who gave an average rating of 8.0). Again, this higher satisfaction may be related at least in part to interest rates, since rates for variable rate mortgages are currently lower than rates for fixed rate mortgages.

### ***Mortgage Activity During the Past 12 Months***

In the CAAMP/Maritz study, 29% of home owners with mortgages had some mortgage activity during the preceding 12 months, which could include:

- Taking out a new mortgage on a newly purchased home/condominium (6%).
- Taking out a new mortgage on a home/condominium that they already owned (1%).
- Renewing the current mortgage because it came up for renewal (15%).
- Renewing the current mortgage early, before the term was finished (6%).

### ***Mortgage Mobility***

Consumers who have renewed or refinanced a mortgage were asked if they remained with the same lender or switched to a different lender. Among those who renewed during the past 12 months a very large majority of borrowers stayed with the same lender (86%) and only 14% changed lenders.

### ***Housing Equity***

For the first-time in this series of surveys, the fall 2008 survey asked questions intended to estimate the total amount of home owners' equity in Canada. The following table summarizes the results. Based on the consumers' responses, for those home owners with mortgages, the average amount of outstanding principal is about \$127,000. For those home owners with mortgages, the owners' estimates of the current values of their homes average about \$263,000. Therefore, home owners with mortgages have an average of \$136,600 in equity, and their home equity equates to about 51.7% of the homes' values. There are about 5.25 million Canadian home owners with mortgages.

For home owners without mortgages, the average home value is about \$280,000. There are about 3.65 million Canadian home owners without mortgages.

Across the roughly 8.9 million home owners in Canada, the total value of homes is estimated at \$2.39 trillion. The total outstanding mortgage principal on these homes is estimated at \$664 billion<sup>4</sup>. This means that Canadian home owners have about \$1.73 trillion in home equity, which amounts to 72.3% of the total value of their homes<sup>5</sup>.

	<i>Average Per Household</i>	<i>Total \$ Billions</i>	<i>Number of Households</i>
Mortgage Principal Outstanding	\$127,000	\$664	
Home Value for...			
Mortgage Holders	\$263,000	\$1,375	5.25 million
Non-Mortgage Holders	\$280,000	\$1,019	3.65 million
All Home Owners	\$270,000	\$2,393	8.9 million
Equity for Mortgage Holders	\$136,000	\$711	
Equity for All Home Owners	\$195,000	\$1,729	
% Equity for Mortgage Holders	51.7%		
% Equity for All Owners	72.3%		
Source: Maritz survey for CAAMP, Fall 2008.			
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 7% of them have equity positions of less than 10%. A further 15% have equity positions in the range from 10% to 24.9%. More than three-quarters (78%) have 25% or more equity.

<i>Equity as Percentage of Home Value</i>	<i>% of Mortgage Holders</i>
< 10%	7%
10%-24.9%	15%
25%-49.9%	29%
50%-74.9%	31%
75% and over	18%
Total	100%
Source: Maritz survey for CAAMP, Fall 2008.	

<sup>4</sup> This total of \$664 billion is less than the total amount of residential credit outstanding (reported by the Bank of Canada as about \$881 as of August 2008) as the estimate developed here does not include rental dwellings, investment properties, or vacant units.

<sup>5</sup> This estimate is similar to estimates from Statistics Canada's Survey of Financial Survey, which indicates home equity rates of 74.1% in 2005 and 72.6% in 1999. The total value estimated here for owner-occupied housing (\$2.39 trillion) is 24% higher than the \$1.88 trillion estimated by Statistics Canada for 2005. The increase is due to a combination of growth in the average value of homes as well as an increase in the number of owner-occupied dwellings.

The survey asked mortgage holders to what extent they are comfortable with their equity position. The consumers' responses showed that a quite small minority (just 4%) consider themselves "very uncomfortable" with their equity positions, and a further small minority (10%) report being "somewhat uneasy". A very substantial majority, of more than 80%, is comfortable - either "somewhat comfortable" (43%) or "very comfortable" (38%). The highest level of comfort is found in Saskatchewan, while the lowest levels are seen in Ontario and Atlantic Canada.

**Table 4-4  
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	6%	1%	5%	4%	0%	5%	4%	4%
Somewhat Uneasy	13%	7%	15%	6%	8%	6%	9%	10%
Somewhat Comfortable	47%	49%	41%	50%	32%	35%	42%	43%
Very Comfortable	33%	35%	35%	36%	58%	49%	42%	38%
Don't Know or Refused	1%	8%	4%	4%	2%	4%	4%	5%

Source: Maritz survey for CAAMP, Fall 2008.

A more detailed analysis finds that those who have taken out their mortgage recently (less than three years ago) are slightly less comfortable than those who obtained the mortgage three or more years earlier: 76% of those with recent mortgages indicate that they are somewhat or very comfortable with their equity position, versus 84% for those whose mortgages were originated three or more years ago.

### ***Equity Take-out***

The survey data indicates that 22% 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 \$41,000.

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 8.9 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 5.25 million.
- 22% of home owners with mortgages have taken out equity during the past year.

- The average amount taken out was about \$41,000.
- Combining these factors, the total amount of equity take-out is calculated as \$46 billion. For 2007, the estimate is about \$30 billion<sup>6</sup>.

Across the country, there are small variations in the percentage of home owners that have taken out equity. The proportion is about 26% in the three prairie provinces, but about 20% to 21% in the other provinces.

Average amounts taken-out vary across the country, from about \$30,000 in Atlantic Canada, Quebec and Saskatchewan, to about \$40,000 in Ontario and Manitoba, \$47,000 in Alberta, and \$57,000 in British Columbia.

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, 1.27 purposes were given:

- 56% indicated that the money would be used for debt consolidation or repayment.
- 39% gave renovation or home repair as the purpose.
- 14% mentioned making purchases as the purpose.
- 7% mentioned investments.
- 11% mentioned "other" purposes.

From the responses, it is estimated that 40% of the take-out (or about \$18.5 billion) was for debt reconsolidation and repayment. Therefore, while the amount of outstanding mortgage debt would have increased by this amount, totals for other types of debt would be correspondingly reduced.

### ***Mortgage Terms***

The CAAMP/Maritz study examined lengths of mortgage terms. This measures the length of the mortgage terms at the time of contracting – the actual remaining term will be shorter, depending on when the mortgage was contracted. The data indicates that, in total, 71% of mortgages have terms exceeding four or more years. The most common term is 5 years (61% of mortgages). A further 10% of mortgages have terms exceeding 5 years. On the other hand, 29% of mortgages have shorter terms, including 9% with terms of 1 year or less and 20% with terms from one year to less than four years.

Looking at the data in more detail, term selection varies across the different age groups, as the younger adults are more likely to have a mortgage with a term of four or more years (81%) versus just under 70% for those aged 35 to 54 and for the 55 and older age group. The following table shows the term selections for each of three age groups.

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<sup>6</sup> In the Fall 2007 report, equity take-out was estimated at a slightly lower figure of \$29 billion. With the release of Census data on shelter costs in May 2008, which provided new data on the numbers of Canadian home owners with mortgages, the 2007 estimate has been recalculated.

<i>Length of Mortgage Term</i>	<i>Age Group</i>			
	<i>18-34</i>	<i>35-54</i>	<i>55 +</i>	<i>All Ages</i>
1 year or less	6%	10%	9%	9%
1-2 years	2%	5%	6%	5%
2-3 years	5%	11%	9%	10%
3-4 years	5%	5%	6%	5%
4-5 years	72%	58%	57%	61%
5-10 years	6%	7%	8%	7%
More than 10 years	3%	3%	4%	3%
Total	100%	100%	100%	100%

Source: Maritz survey for CAAMP, Fall 2008.

The next table looks at terms chosen by Canadians who have financed or refinanced their mortgage during the preceding 12 months, in contrast with those who have not made financing changes during the past year (in other words, with those who made choices more than one year ago). In the 2008 survey, consumers who have been active during the past year were considerably more likely to choose a short term. This does not appear to have been influenced by the levels of actual interest rates, since, during the past year the spread between one-year and five year mortgage rates has been quite small – averaging about 20 basis points. The shift towards shorter terms suggests that consumers may believe that interest rates are more likely to fall than to rise.

<i>Length of Mortgage Term</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>
1 year or less	19%	5%	9%
1-2 years	9%	3%	5%
2-3 years	12%	9%	10%
3-4 years	6%	5%	5%
4-5 years	47%	66%	61%
5-10 years	4%	8%	7%
More than 10 years	3%	4%	3%
Total	100%	100%	100%

Source: Maritz survey for CAAMP, Fall 2008.

### ***Fixed Rate Versus Variable Rate Mortgages***

The CAAMP/Maritz study found that 66% of mortgage holders have fixed rate mortgages, 27% have variable and adjustable rate mortgages, and 7% 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	73%	65%	63%	66%
Variable or adjustable-rate	19%	30%	27%	27%
Combination	8%	6%	10%	7%
All Types	100%	100%	100%	100%

Source: Maritz survey for CAAMP, Fall 2008.

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 essentially doubled, to 40% versus 21% for those who negotiated their mortgage a year or more ago. This result is also consistent with the suggestion made above that consumers may believe that interest rates are more likely to fall than to rise.

<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	52%	72%	66%
Variable or adjustable-rate	40%	21%	27%
Combination	8%	7%	7%
All Types	100%	100%	100%

Source: Maritz survey for CAAMP, Fall 2008.

### ***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, having become available only about 2 years ago.

A small (but growing) minority of mortgage consumers (16%) have amortization periods of more than 25 years – in the year earlier survey the share was lower at 9%. Most mortgages (84%) have amortization periods of up to 25 years.

The table below provides more detail, showing amortization periods for various categories of mortgaging activity. Among those who have taken out a mortgage on a home that they have just purchased, one-half opted for an amortization period longer than 25 years - one-third (32%) of new purchasers took a mortgage with a 40 year amortization period. Currently, 6% of all mortgage holders have a 40 year amortization period.

With recent changes to the federal government’s mortgage insurance guarantees, which no longer accept amortization periods of more than 35 years, it is possible that the number of qualified homed buyers will be reduced, which may reduce home buying activity and mortgage demand going forward.

<i>Amortization Period</i>	<i>New Mortgage on a New Purchase</i>	<i>New Mortgage on a Home Already Owned</i>	<i>Renewal</i>	<i>Not Active</i>	<i>Total</i>
Up to 25 Years	50%	55%	89%	86%	84%
More Than 25 Years	50%	45%	11%	14%	16%
Including...					
30 years	5%	9%	4%	5%	5%
35 years	13%	27%	4%	3%	4%
40 years	32%	9%	3%	5%	6%
Total	100%	100%	100%	100%	100%
Source: Maritz survey for CAAMP, Fall 2008.					

### ***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 5.41% as of October 2007, down from 5.56% a year ago.

For those who have financed or renewed a mortgage during the past 12 months, the average mortgage rate is 5.59%.

The survey also asked those who have renewed a mortgage during the past 12 months what the interest rate was prior to renewal, and those rates have been compared to the mortgage borrowers’ current rates. This analysis found that the interest rates increased for 31% of these borrowers, but were unchanged for 19%, and rates actually fell for 50% of these borrowers. On average, among borrowers who renewed a mortgage, the interest rate fell by 0.40 percentage points. Furthermore, among those who renewed mortgages, just 9% had their interest rate increase by 1 percentage point or more.

Combining the various estimates developed in this study:

- Out of 5.25 million home owners who have mortgages,
- About 1,125,000 have renewed their mortgages during the past 12 months.
- 550,000 have seen their mortgage rates fall and 200,000 to 225,000 had no change in their interest rate.
- 350,000 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 8.9 million home owning households, this is an insignificant change.

The data from this study indicates that few mortgage borrowers have been negatively affected by recent increases in mortgage rates.

### ***Mortgage Rate Discounting***

The average mortgage interest rate reported here (5.41%, for all current mortgages) is well below the typical posted (advertised) rates that have been available during the past year. During the past year, posted rates for 1 year terms have averaged 6.97% and five year rates have averaged 7.18%. 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 12 months.
- With fixed rates, rather than variable rates.
- With 5-year terms.

For this group of mortgage borrowers, the average mortgage interest rate is 5.59%. In contrast, over the preceding 12-month period, the average advertised 5-year mortgage rate was 7.18%<sup>7</sup>. Based on this data it appears that Canadians are negotiating mortgage rate discounts averaging 1.59 percentage points (for 5-year terms).

### ***Research and Shopping Behaviour***

Homeowners with mortgages were asked “when you took out the mortgage that you currently have on your residence, which of the following mortgage professionals did you

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<sup>7</sup> Source: Bank of Canada. The average is calculated using “Chartered Bank Administered Interest Rates: Conventional Mortgage - 5 Year (as at Wednesday)”, using data for the 53 weeks from October 24, 2007 to October 22, 2008.

consult with?" They were able to name more than one type, with the result that the total adds to more than 100%. On average, 1.49 responses were given. The table below shows the percentages of borrowers who consulted with each of the major categories of mortgage professionals.

<i>Type of Organization</i>	<i>Total</i>
Representative From A Major Canadian Bank	72%
Mortgage Broker	40%
Representative From A Credit Union	21%
Representative From Mortgage Loan/Investment Co.	8%
Other	8%
Source: Maritz survey for CAAMP, Fall 2008.	

In addition, the consumers were asked through which type of professional they ultimately obtained their mortgage. The table below shows the results for all mortgage borrowers (in the right hand column of the table), and for three subtotals of borrowers: those who took out new mortgages, those who renewed mortgages, and those who had no mortgaging activity in the past 12 months. Among all mortgage holders, almost 60% obtained their mortgage from a major Canadian bank. However, the share is less than one-half for those taking out new mortgages. Mortgage brokers were the second most important source overall, accounting for one-quarter of all mortgages. For new mortgages, mortgage brokers' share was higher at 35%. Less than 20% of mortgages were obtained from other types of mortgage organizations (including credit unions and life insurance companies).

<i>Type of Organization</i>	<i>Took Out New Mortgage</i>	<i>Renewed Mortgage</i>	<i>No Activity</i>	<i>Total</i>
Representative From A Major Canadian Bank	47%	60%	57%	57%
Mortgage Broker	35%	20%	25%	25%
Representative From A Credit Union	11%	13%	10%	11%
Representative From Life Insurance Companies	1%	0%	2%	2%
Other	5%	7%	5%	6%
Total	100%	100%	100%	100%
Source: Maritz survey for CAAMP, Fall 2008.				

When obtaining their mortgages, Canadians received an average of 1.96 mortgage quotes. As can be seen in the table, most borrowers received just a few quotes. Only 4% received more than 4 quotes.

<i>Number of Quotes Received</i>	<i>% Receiving</i>
0	3%
1	40%
2	30%
3	20%
4	4%
More than 4	4%
Total	100%
Source: Maritz survey for CAAMP, Fall 2008.	

Borrowers who obtained a new mortgage in the past 12 months received slightly more quotes (an average of 1.99 quotes) than did borrowers who renewed their mortgages (who received an average of 1.85 quotes).

<i>Activity</i>	<i>Average Number of Quotes Received</i>
Obtained New Mortgage	1.99
Renewed Mortgage	1.85
Not Active	2.00
Total	1.96
Source: Maritz survey for CAAMP, Fall 2008.	

### ***Important Factors for Lender Selection***

The entire sample of households (including home owners with mortgages as well as owners who do not have mortgages, tenants, and people who identified themselves as living with family), was asked: “of the following attributes, which three would be the most important to you when choosing a mortgage lender?”. Eight different attributes were available for selection. If none were selected, the response was recorded as “don’t know”.

The results are summarized in the following table. In addition to showing the results for all households (in the far right-hand column), subtotals are shown for the various categories of household tenure arrangements.

- By far, the most important attribute is the mortgage rate, which was mentioned by 83% of all households. For home owners with mortgages, 92% mentioned the mortgage rate as an important attribute. While 71% of tenants rate the interest rate as the most important factor, the mention it less frequently than do home owners. Putting this another way – those who are most experienced and involved in the

mortgage market are most likely to consider mortgage rates a critical factor in lender selection.

- Flexibility of payment schedules was mentioned by about one-half of all households. This attribute is considered more important by owners, especially by owners with mortgages, than by the other tenure groups.
- Credibility of lender is also considered important. The importance does not vary across the different tenures.
- Flexibility of making lump sum payments (listed by 36% of the consumers) is rated as less important than flexibility about payment schedules (48%).
- Term or length of the mortgage is considered an important factor by one-third of consumers.
- “Relationship” factors (the existence of a previous relationship with a lender or references from family and friends) are low in importance, as is the inclusion of additional product offerings. Home owners are much more likely to select previous relationship or history as an important factor than are non-owners.
- The number of consumers whose response is “don’t know” is quite low, especially among home owners who have mortgages.
- A message in these responses is that in the very competitive mortgage lending industry there is some room for lenders to differentiate themselves in the minds of consumers, through offering different features and by building relationships.
- Overall, however, these consumers are sending a strong message that the key factor is price – the mortgage interest rate.

**Table 4-14**  
**Percentages of Households Identifying Various Attributes as Important**

<i>Attribute</i>	<i>Home Owners With Mortgages</i>	<i>Owners Without Mortgage</i>	<i>Tenants</i>	<i>Other</i>	<i>All Households</i>
Mortgage rate	92%	81%	71%	83%	83%
Flexibility of payment schedules (i.e. accelerated, bi-weekly, etc.)	52%	47%	43%	41%	48%
Credibility of lender	43%	43%	39%	42%	42%
Flexibility about making additional lump sum payments	32%	42%	36%	36%	36%
Term/length of the mortgage	33%	29%	34%	36%	33%
A previous relationship/history with lender	22%	20%	8%	8%	17%
Reference from a friend/family member about the lender	6%	5%	7%	9%	6%
Inclusion of additional product offerings such as better rates on other loans, grocery rebates, etc.	6%	7%	6%	7%	6%
Don't Know	2%	5%	16%	9%	7%

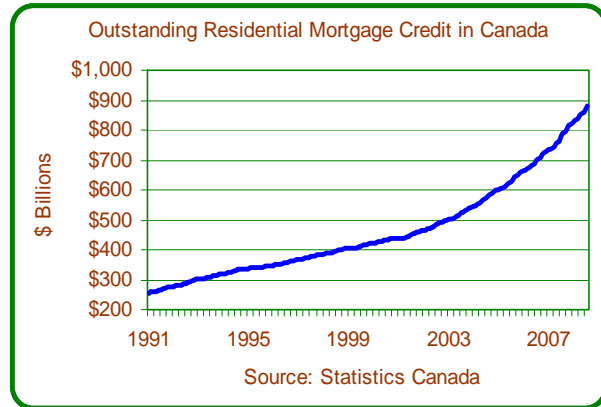
Source: Maritz survey for CAAMP, Fall 2008.

## 5.0 Dimensions of the Residential Mortgage Market

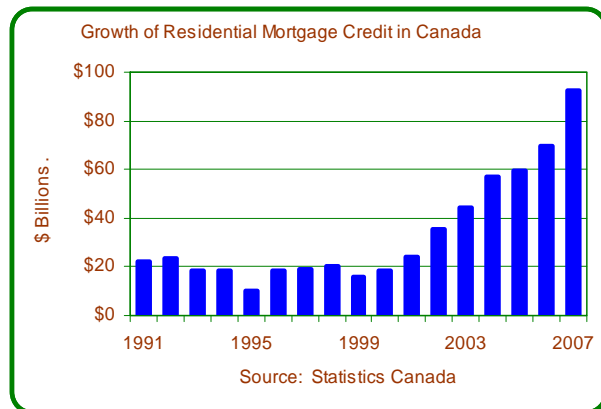
This section provides various data on mortgages and other forms of credit to provide perspectives on growth rates, and also on the size of the mortgage market in Canada.

### The Volume of Credit Outstanding

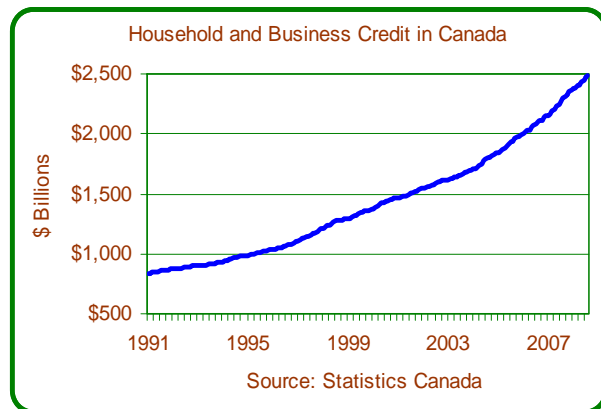
Residential mortgage lending is one of the largest categories within the Canadian financial system. At the end of August 2008, there was about \$880 billion in residential mortgage credit outstanding in Canada. Over the past 15 years, the volume of outstanding residential mortgages has expanded by 182%, for an average growth rate of 7.2% per year. Growth has accelerated in recent times: during the past year, the growth rate has been 11.9% (\$94 billion). In the prior year the growth rate was also 11.9% (\$84 billion).



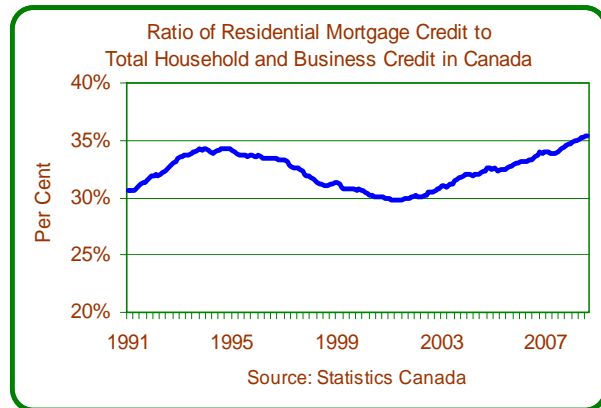
During 1991 to 2000, the volume of outstanding mortgage credit in Canada grew slowly, expanding by an average of \$18 billion per year. Beginning in 2001, the growth rate accelerated. By 2004, the rate of growth (about \$57 billion) had tripled compared to the 1991 to 2000 period. In each subsequent year, the amount of growth accelerated. As is discussed in a later section, the acceleration of mortgage credit growth was due to expanding housing activity combined with rising housing values.



The chart to the right shows total household and business credit. Over the past 15 years, total household and business credit expanded at an average rate of 6.9% per year, which is less than the 7.2% rate for residential mortgages. That pattern has been accentuated over the past 3 years: total household and business credit grew by 8.6% per year, while residential mortgage credit expanded by 11.5% per year.

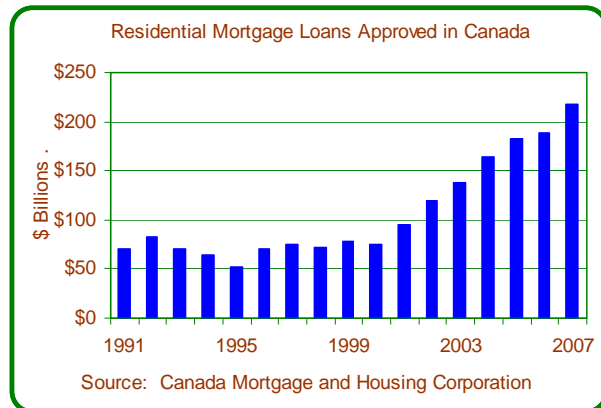


Residential mortgages account for about one-third of total credit to households and businesses. As can be seen in the chart to the right, the share varies over time. During the early 1990s, residential mortgages accounted for a rising percentage of total household and business credit. This can be related to the weak economic conditions of the time, which resulted in reduced investment and borrowing in the business sector. During the second half of the 1990s strong economic growth resulted in increased business investment, which caused businesses to increase their share of credit, and the share fell for residential mortgages. Since the beginning of 2001, residential mortgage credit has taken an increasing share of the credit market, as the housing sector has been one of the strongest performers within the Canadian economy - increased home-buying has generated an increased need for mortgage credit.



### **Annual Approvals**

Another perspective on the mortgage market looks at the volume of new approvals. This category includes brand new mortgages plus mortgages that are transferred from one lender to another and mortgages that are refinanced. Therefore, 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 credit shows growth of about \$94 billion. This chart 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) are almost triple the volume seen during 1997 to 2000 (\$75 billion).



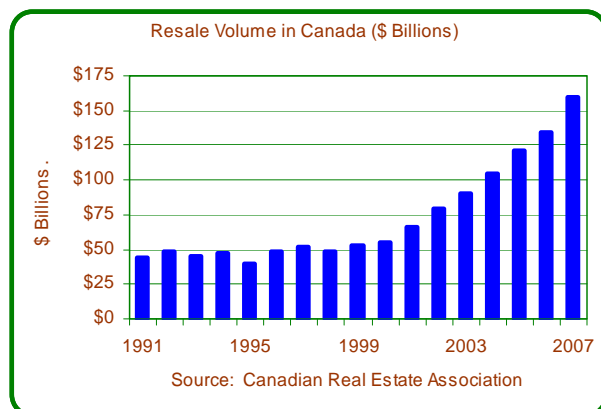
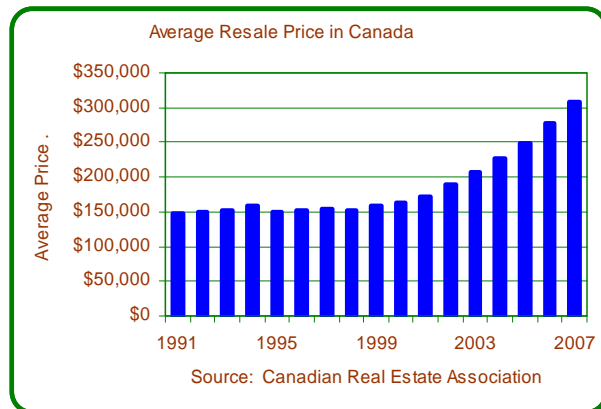
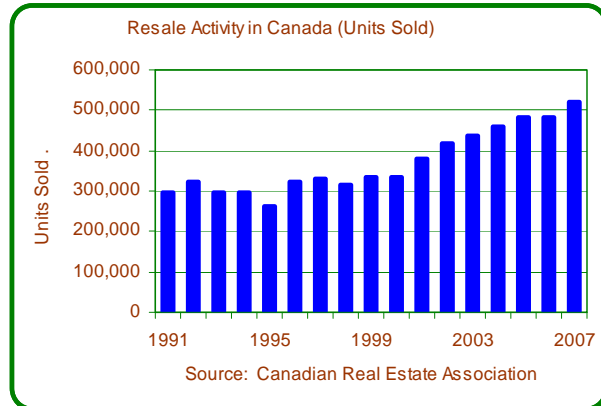
## Behind the Growth of Mortgage Activity

It has been seen that mortgage activity has expanded very rapidly in recent years. This is related to increasingly strong housing market activity.

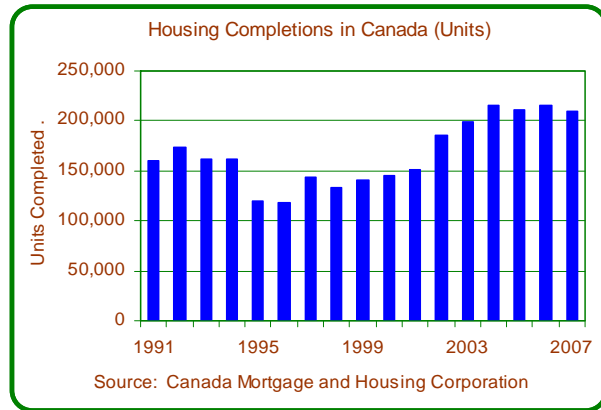
Sales of existing homes were relatively flat during 1996 to 2000, at an average of just under 330,000 units per year. Activity started to expand in 2001. In both 2005 and 2006, sales were at an all-time high of about 484,000 units, which is 48% higher than the 1996-2000 average, and a further record was set in 2007, at about 521,000 units.

Similarly, the average resale house price was relatively flat during the 1990s, but began to increase around the end of the decade. In 2007, the average price of \$307,000 was 87% higher than in 2000, representing an average increase of 9.4% per year over the seven year period.

Combining the data on sales with the price data, the total dollar value of sales was flat until 2001, when it began to expand very rapidly. The volume of sales almost tripled (rising by 292%) in the seven years from 2000 to 2007, for a growth rate of 16.5% per year. The rising dollar value of sales resulted in a rapidly rising requirement for mortgage financing. Over the same period, outstanding residential mortgage credit expanded at a rate of 9.4% per year.



Completions of newly built homes also result in requirements for mortgage financing. Data from CMHC shows that the number of completions rose gradually during 1996 to 2001, and then increased sharply during 2002 to 2004. While completions eased in 2007, they remained very high at more than 200,000 units.



Another factor that influences the volume of mortgage lending is refinancing (increasing the amount of a mortgage to take advantage of home equity). Calculations shown earlier in this report indicate that equity take-out has amounted to \$46 billion dollars during the past year. This equity take-out accounts for about one-half of the growth in total mortgage credit outstanding (\$94 billion) over the past year (to August).

### ***Mortgage Lending by Category of Lender***

Residential mortgage financing is provided by a wide variety of lending institutions, ranging from the large chartered banks to credit unions and caisses populaires, insurance companies, pension funds, and lenders who bundle the mortgages and resell them to investors as mortgage-backed securities. As is shown in the following table, the chartered banks account for more than one-half (55%) of outstanding residential mortgage credit. Credit unions/caisses populaires and mortgage-backed securities both account for more than 10%, and the remaining categories (in total) account for about 11%.

The table shows the most recent data (for August 2008) as well data for the same month a year ago. This data indicates that there has been considerable shifting during the past year. In response to the credit crunch, most of the growth has occurred within the category of NHA Mortgage Backed Securities (\$53 billion out of total growth of \$94 billion). This category expanded by 39% in the past year, on top of 24% during the prior year, and its market share has increased from 16% two years ago to the current 21%. Only one other category saw an increase during the past year - trust and mortgage loan companies - which had a fractional increase. The six other categories saw reduced market share. While the chartered banks had \$33 billion growth of residential mortgage loans, the market share fell from 58% a year ago to the current to 55%. Only one category saw a reduction in size, special purpose corporations, whose mortgage assets contracted by 10%.

**Table 5-1  
Residential Mortgage Credit, by Category of Lender, August 2007 and 2008**

Type of Lender	August 2007		August 2008		Growth %	Change in Market Share (pct points)
	\$ Billions	Market Share %	\$ Billions	Market Share %		
Chartered Banks	\$454.6	57.8%	\$487.5	55.3%	7.2%	-2.4%
Trust and Mortgage Loan Companies	\$8.7	1.1%	\$9.9	1.1%	13.4%	0.0%
Credit Unions and Caisses Populaires	\$103.8	13.2%	\$110.9	12.6%	6.8%	-0.6%
Life Insurance Companies	\$14.6	1.9%	\$15.5	1.8%	6.1%	-0.1%
Pension Funds	\$13.3	1.7%	\$14.7	1.7%	10.3%	-0.0%
Non-depository Credit Intermediaries and Other Financial Institutions	\$30.7	3.9%	\$30.8	3.5%	0.2%	-0.4%
NHA Mortgage Backed Securities	\$135.3	17.2%	\$188.1	21.4%	39.0%	4.2%
Special Purpose Corporations (Securitization)	\$25.8	3.3%	\$23.1	2.6%	-10.2%	-0.6%
<b>Total</b>	<b>\$787.1</b>	<b>100.0%</b>	<b>\$880.8</b>	<b>100.0%</b>	<b>11.9%</b>	

Source: Bank of Canada, Weekly Financial Statistics, October 20, 2006

### ***Mortgage Approvals by Province***

Canada Mortgage and Housing Corporation collects data on mortgage approvals by province. The table below summarizes the data on approvals in 2007, along with each province's (and territory's) share of approvals, as well as the growth rates from 2006 to 2007.

The data show that for all of Canada, mortgage approvals increased by 15.3% in 2007, to \$218 billion. Mortgage approvals have grown at double digit rates for six of the past seven years. During those seven years, approvals have almost tripled (rising by 192%).

In 2007, double digit growth was seen in every province and the territories. Growth exceeded 20% in Saskatchewan, the territories, and Quebec.

CMHC cautions that the data for Quebec may be under-stated.

<i>Province</i>	<i>New Housing</i>	<i>Existing Housing</i>	<i>Total</i>	<i>% of Canada</i>	<i>Growth 2006-2007</i>
Newfoundland and Labrador	\$273	\$1,938	\$2,211	1.0%	17.9%
Prince Edward Island	\$59	\$454	\$513	0.2%	14.0%
Nova Scotia	\$732	\$4,485	\$5,217	2.4%	16.5%
New Brunswick	\$343	\$2,700	\$3,044	1.4%	17.3%
Quebec (2)	\$4,129	\$27,072	\$31,201	14.3%	20.5%
Ontario	\$9,579	\$79,636	\$89,216	40.9%	13.2%
Manitoba	\$448	\$4,492	\$4,940	2.3%	15.6%
Saskatchewan	\$575	\$4,266	\$4,841	2.2%	51.7%
Alberta	\$5,821	\$31,948	\$37,769	17.3%	10.8%
British Columbia	\$4,198	\$34,463	\$38,661	17.7%	16.4%
Yukon and North West Territories	\$45	\$592	\$637	0.3%	34.7%
<b>Total</b>	<b>\$26,202</b>	<b>\$192,047</b>	<b>\$218,249</b>	<b>100.0%</b>	<b>15.3%</b>

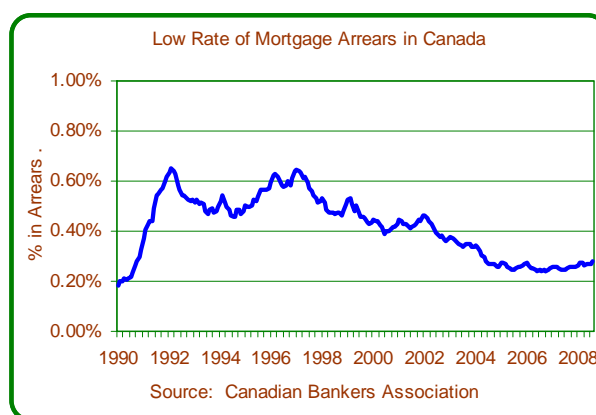
Source: Canada Mortgage and Housing Corporation, Canadian Housing Statistics, 2006 and 2007

Note: (1) Mortgage approval data are gross and may not fully capture lending activities of credit unions, caisses populaires, other small institutions and privately-insured loans in some areas.

(2) Quebec data is understated due to low response rate to the surveys in that province.

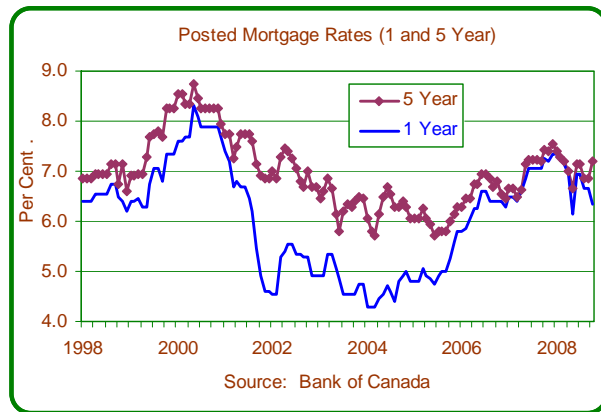
### ***Mortgage Arrears***

The Canadian Bankers Association provides data on mortgage arrears, which is obtained from seven major mortgage lenders (BMO, CIBC, HSBC Bank Canada, National Bank of Canada, RBC, Scotiabank, and TD Canada Trust). In the data, a mortgage is counted as in arrears after three months. The data indicates that during the 1990s, on average, 0.5% of residential mortgages were in arrears. The rate has fallen during this decade. During the past two years the arrears rate has been stable at about 0.25%. In recent months there has been a small rise in the arrears rate, to 0.28% as of August 2008.



This small rise in the national arrears rate has been concentrated in Alberta, where the rate has increased from 0.15% a year ago (well below the national average) to the current 0.30% (slightly above the national average). A small increase has occurred in British Columbia (from 0.14% to 0.18%, which is still below the national average). On the other hand, the arrears rate has fallen in Saskatchewan, from 0.35% a year ago to a current 0.21%. Arrears rates are essentially stable in the remaining regions.

The chart to the right shows mortgage rates in Canada as typically advertised (that is, before lender discounts). These posted mortgage interest rates in Canada have been higher during 2007 and 2008 than they were during 2003 to 2006. Despite this, the arrears rate has increased only fractionally and remains quite low.



Based on this data, for borrowers who have recently completed five year terms and renewed at current rates, the actual

mortgages rates usually will not have increased by very much, as rates for five year terms are not much different now than they were five years ago. Moreover, most of these borrowers will have seen incomes rise by at least 10% during the five years and they have the ability to accommodate the increase in monthly payments.

On the other hand, for those with shorter terms who have renewed mortgages during the past two years, interest rates and monthly payments may have increased more substantially and caused more hardship. But, as has been seen, there has been very little change in the arrears rate – for the most part any impacted borrowers have managed to adjust to higher interest rates. Looking forward, the impact of mortgage renewals can be expected to remain negligible:

- Relatively few mortgages are for short terms - the consumer survey found that only 9% of mortgages have terms of one year or less.
- Moreover, most of these borrowers with short term mortgages have been in their current homes for several years. Since they originally obtained their mortgage they have seen enough income growth that they are able to tolerate the recent increases in their mortgage payments.
  - The survey data indicates that there are very few mortgage borrowers in Canada who obtained their mortgages within the past year and have a term of one year or less – just 1%. The average current interest rate in this group is 5.0%. A similar rate is currently obtainable in the market (after typical lender discounts for one year terms) so in general this group should not see payment increases at their next renewal.
  - Just 3% of borrowers have terms up to two years for mortgages obtained in the past two years. These borrowers have an average current interest rate of 6.1%, and on average they may see their payments fall at their next renewal.
  - 13% of borrowers have terms up to three years for mortgages obtained in the past three years. For these borrowers the average interest rate is currently 5.6% and in general there should be little change in payments on renewal.

There are many problems causing the current turmoil in the United States' housing and mortgage markets. It can be argued that one of the most significant problems is mortgage rate resets (increases in rates). This data from a survey of Canadian consumers indicates that increased interest rates is not and should not become a significant issue in Canada. This data and the continued low level of the mortgage

arrears rate confirms that Canadian mortgage consumers are currently very capable of handling their mortgage obligations.

There are two main factors that can cause mortgage borrowers to fall behind on their payments – an increase in the payment or a reduction of income (usually due to job loss or a reduction in hours).

This report argues that the first factor (payment increase) is very unlikely to be significant.

As for the second factor (income loss) may become more significant during the next year or two. A downturn in manufacturing is well underway, and job losses in that sector have not materially affected the arrears rate to this point: in the key manufacturing province of Ontario, the arrears rate is 0.31% as of August 2008, unchanged from a year ago, although higher than the 0.26% rate seen two years ago. The story is similar in Quebec, where the current arrears rate of 0.24% is slightly higher compared to one year ago (0.21%) and two years ago (0.19%).

While economic change may already be causing some Canadian mortgage holders to have difficulty, housing market conditions enable them to solve their own difficulties, by, if necessary, selling their homes.

The next section looks into the future and concludes that housing market activity, which has slowed during 2008, will slow further in 2009. But, activity will remain sufficiently strong that anyone who chooses to or is forced to sell a home will face a receptive market.

## 6.0 Outlook for Residential Mortgage Lending

### Housing Markets

As was discussed in the prior section, rapid growth in the Canadian mortgage market has been driven by a very strong housing market. Housing demand, in turn, has benefited from a combination of low interest rates and strong job creation.

As was shown in a prior chart, mortgage interest rates bottomed in 2005 and have increased. The five year rate is the most important rate for the housing market. The posted (typical advertised) rate has increased by more than 1 percentage point compared to the 2005 average of 6.0%. After discounts a typical rate at present is 5.75%, also about 1 percentage point higher versus an average of 4.7% in 2005. Combining higher interest rates with rapidly rising house prices, housing affordability has deteriorated sharply across the country.

However, while affordability is an important consideration, it is not the key factor for the housing market. Even more important is job creation, especially the number of jobs that have been created over the past three or four years. As can be seen in the chart to the right, Canada has seen very strong job growth during the past decade, averaging 2.1% per year. The rate of job growth has been considerably more rapid than the growth rate for the adult population in Canada (1.3% per year over the past decade). The consequence is that the percentage of adults who are employed has risen to an all-time record level, which is an extremely positive economic indicator. This economic strength has propelled the Canadian housing market and mortgage market.



Job creation in Canada has slowed during 2008 and it is very likely that there will be further slowing in 2009. It is quite possible that the level of employment will actually fall:

- The strong Canadian dollar has hurt areas of the country that sell a lot of finished goods and services to the US. While the dollar has weakened recently, it will take some time for this to positively affect employment.
- The deepening economic slowdown in the US is another negative factor for exporters.
- Tightened credit market conditions are making it difficult for businesses to create new jobs by investing, and lack of working capital is making it difficult even to maintain some existing jobs.
- High commodity prices are beneficial in some areas of Canada (mainly the west) but are a drag on growth in the east. Overall for Canada, high commodity prices have a negative effect in direct terms (although they also have an offsetting positive effect through a “wealth effect”, as stock market values rise). Similar to the effects of the strong dollar, it will take some time for the recent weakening of commodity prices to

start benefitting eastern Canada. Meanwhile, in commodity-producing areas, heightened uncertainty will reduce growth.

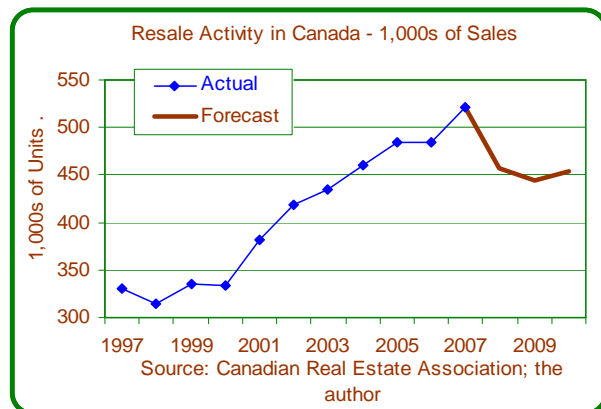
- To this point, negative effects from the dollar and strong commodity prices have been offset by very positive “wealth effects” that are created by rising house values and the stock market surge of 2003 to 2007. The recent sharp downturn of the Canadian stock market, if it is sustained, may reverse much of that wealth effect. Similarly, the recent slowdown of house price growth will reduce the potential rate of job creation.

Job creation has slowed in Canada, but with the year-over-rate at 1.6% as of September (still in excess of the rate of population growth, which is 1.4%), job creation – to this point – remains quite healthy.

However, it does appear that the Canadian economy is now at a turning point:

- Negative effects have been gradually accumulating from the strong dollar and high commodity prices. This by itself was probably enough to generate a slowdown late this year and into 2009.
- With the sudden addition of the stock market downturn, it appears that during 2009 Canada will see very little job creation, and could even see job losses.
- For 2010, however, the weakening of the Canadian dollar should be a positive factor, resulting in better job creation.

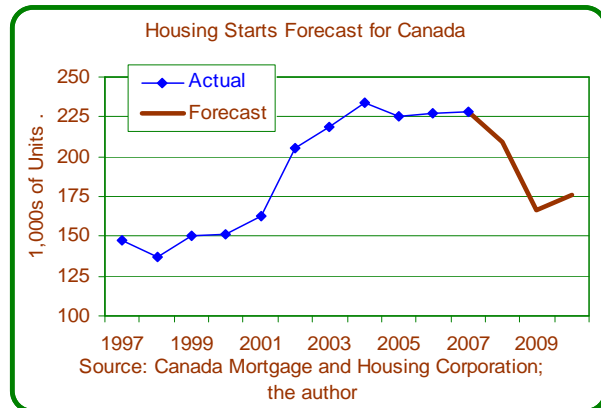
With reduced housing affordability and heightened uncertainty, the resale market has slowed sharply in 2008, from the record level that was set in 2007. In most of the country (except for Alberta and British Columbia) the reductions were modest and have brought activity back to 2005 and 2006 levels (or better) - resale markets are generally quite healthy. However, the slowing can be expected to continue into 2009. For 2010, while job creation is expected to improve, that may not translate into more housing demand, because there is a lag between job creation and housing activity.



Another factor that can affect housing market is an “investment motive”. This includes buying of homes for investment purposes, but it also includes buying by owner-occupants where the primary motivator for the purchase is the expectation of making a capital gain, rather than the real housing needs of the buyer. Estimates by this author suggest that there has been a very strong investment motive in the United States. At the peak of the US housing market in 2006, perhaps 20% of sales were driven by the investment motive. This created a self-reinforcing upward cycle – that is, a bubble. When that bubble burst there was inevitably a reverse of the investment motive – call it a “panic motive” – where buying was deterred by fears of future losses of values. The author estimates that at present in the US sales are 40% lower than they would otherwise be, based on job market conditions and affordability.

In Canada it appears that the investment motive is largely absent. In most provinces, housing demand is driven by job creation and affordability, and movements in house prices have little effect on activity. However, British Columbia is an exception to this. In consequence, it is likely that the housing market contraction will be exaggerated in British Columbia. Market data also suggests that there has been a weak investment motive in Alberta. Because the effect has been weak, overall the Alberta market will benefit from the current softness in prices - affordability is being improved in Alberta, which is setting the stage for a future housing market recovery.

In the new homes arena, housing starts peaked in 2004 and then fell slightly. Activity has slowed in 2008 and for the full year starts are forecast to be about 8% less than in 2007. A sharp reduction (about 20%) is forecast for 2009. For 2010, there is a possibility of some recovery, depending on employment trends.



The prospects for recovery are greatest in Alberta - housing starts in Alberta are currently less than might be expected based on job creation. Consumers in Alberta have been deterred by the deterioration of affordability. The forecast suggests that eventually job creation will assert itself as the primary factor in the Alberta housing market. The consumer survey, which showed that Albertans have become more optimistic about their housing markets, supports this suggestion.

### **Forecasts of Mortgage Lending Activity**

The expectation of slower activity in the resale and new homes market suggest that the growth rate for residential mortgage credit will continue to slow during 2009 and 2010. However, the market is expected to continue to expand.

Taking the forecasts of housing market activity, it is projected that the amount of outstanding residential mortgage credit will increase by 10.2% in 2008 (to a year end total above \$900 billion) with further growth of 8.1% in 2009 (to \$978 billion) and 8.2% in 2010 (to \$1.06 trillion).

This would be a slowdown compared to the very rapid growth seen in recent years: residential mortgage credit expanded at an average rate of 11.5% per year during the past three years (ending in August 2008).

The volume of new mortgage approvals has also been forecast.

- During 2007 there were \$218 billion in mortgage approvals for new and resale homes (this total includes new mortgages, as well as transfers between lenders and refinancing of existing mortgages).
- Approval activity in 2008 is forecast to fall to \$193 billion (11.8% lower than in 2007).

- For 2009, approvals are forecast at \$174 billion (9.9% lower than in 2008) and for 2009 the forecast is \$171 billion (a 1.6% reduction). While the volume of approvals is projected to contract, these forecast levels of activity exceed any years prior to 2005, indicating that mortgage lenders will continue to be very busy during 2009 and 2010.

Key elements of the forecasts are shown in the following table.

<b>Table 6-1 Forecast Summary - Canada</b>						
<i>Year</i>	<i>Employment Growth (%)</i>	<i>Resale Activity (1,000s of Units)</i>	<i>Resale Volume (\$ Billions)</i>	<i>Housing Starts (1,000s of Units)</i>	<i>Mortgage Credit Outstanding (\$ Billions)</i>	<i>Mortgage Approvals (\$ Billions)</i>
1998	2.5%	315	\$48	137	\$403	\$72
1999	2.6%	335	\$53	150	\$419	\$78
2000	2.5%	334	\$55	152	\$437	\$75
2001	1.2%	381	\$66	163	\$461	\$95
2002	2.4%	419	\$79	205	\$497	\$120
2003	2.4%	435	\$90	218	\$541	\$138
2004	1.8%	461	\$104	233	\$598	\$164
2005	1.4%	484	\$121	225	\$657	\$182
2006	2.0%	484	\$134	227	\$728	\$189
2007	2.3%	521	\$160	228	\$821	\$218
2008 (F)	1.5%	457	\$140	209	\$905	\$193
2009 (F)	-0.2%	445	\$133	166	\$978	\$174
2010 (F)	1.4%	454	\$136	176	\$1,059	\$171

Sources: Statistics Canada, Canadian Real Estate Association, Canada Mortgage and Housing Corporation; all forecasts by the author.