

# Mortgage Market Report – Spring 2010

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May 11, 2010

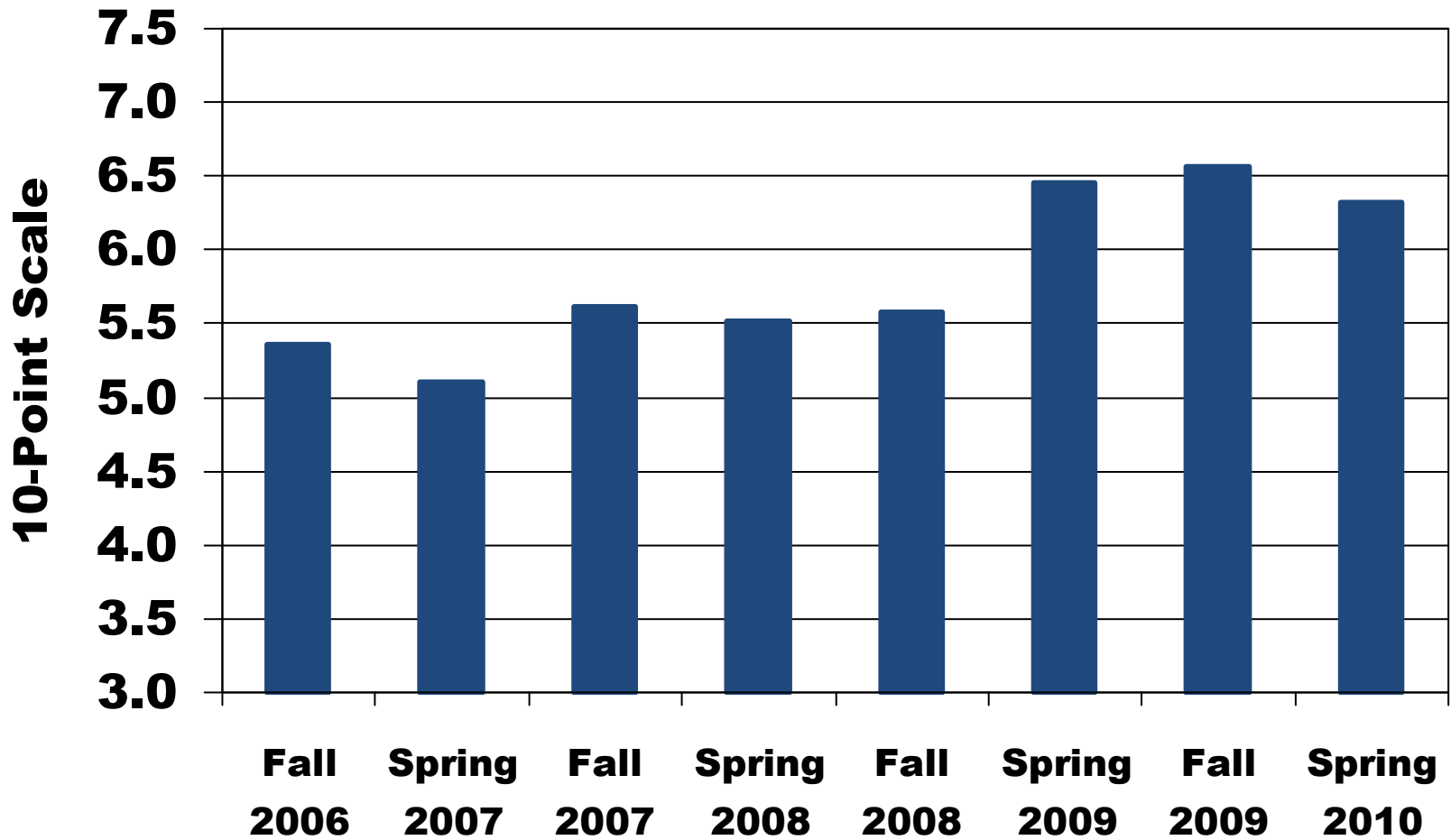
# “Prudence Paying off for Canadian Mortgage Borrowers”

May 2010

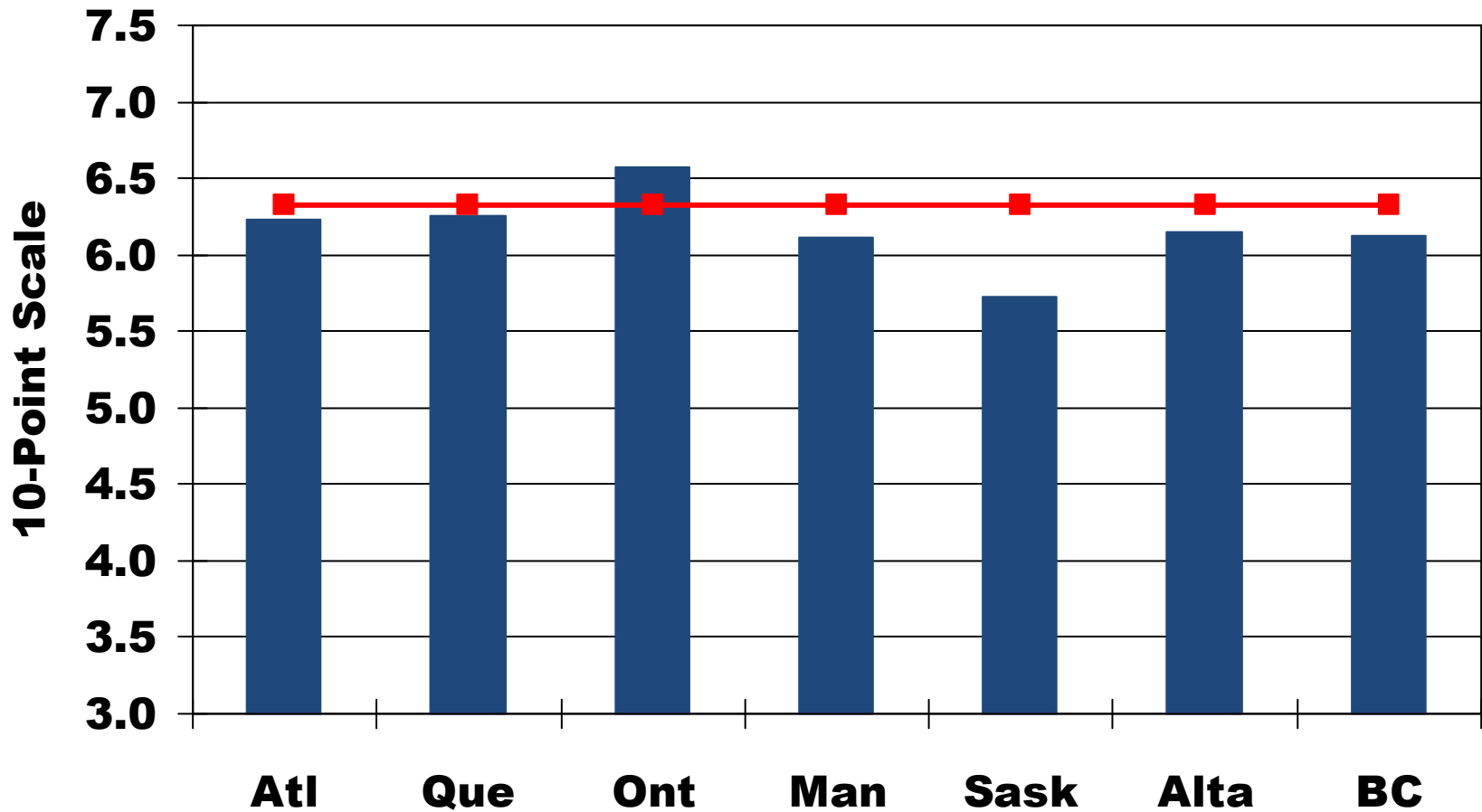
# Report Contents

- Consumer expectations
- Mortgage characteristics
- Risks in the mortgage market – considerable new material this year
- Outlook

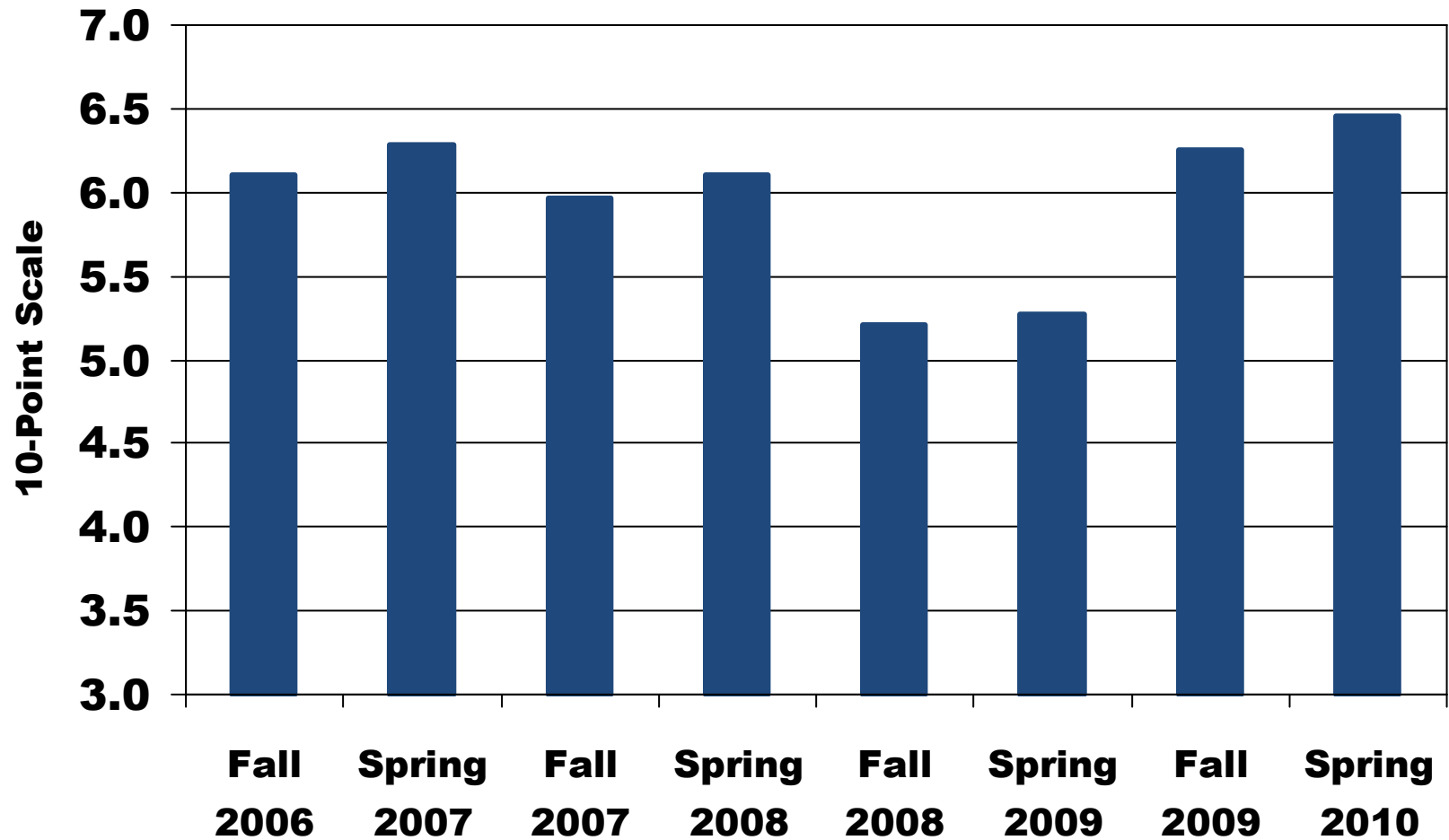
# Consumer Attitudes to Local Markets Still Positive



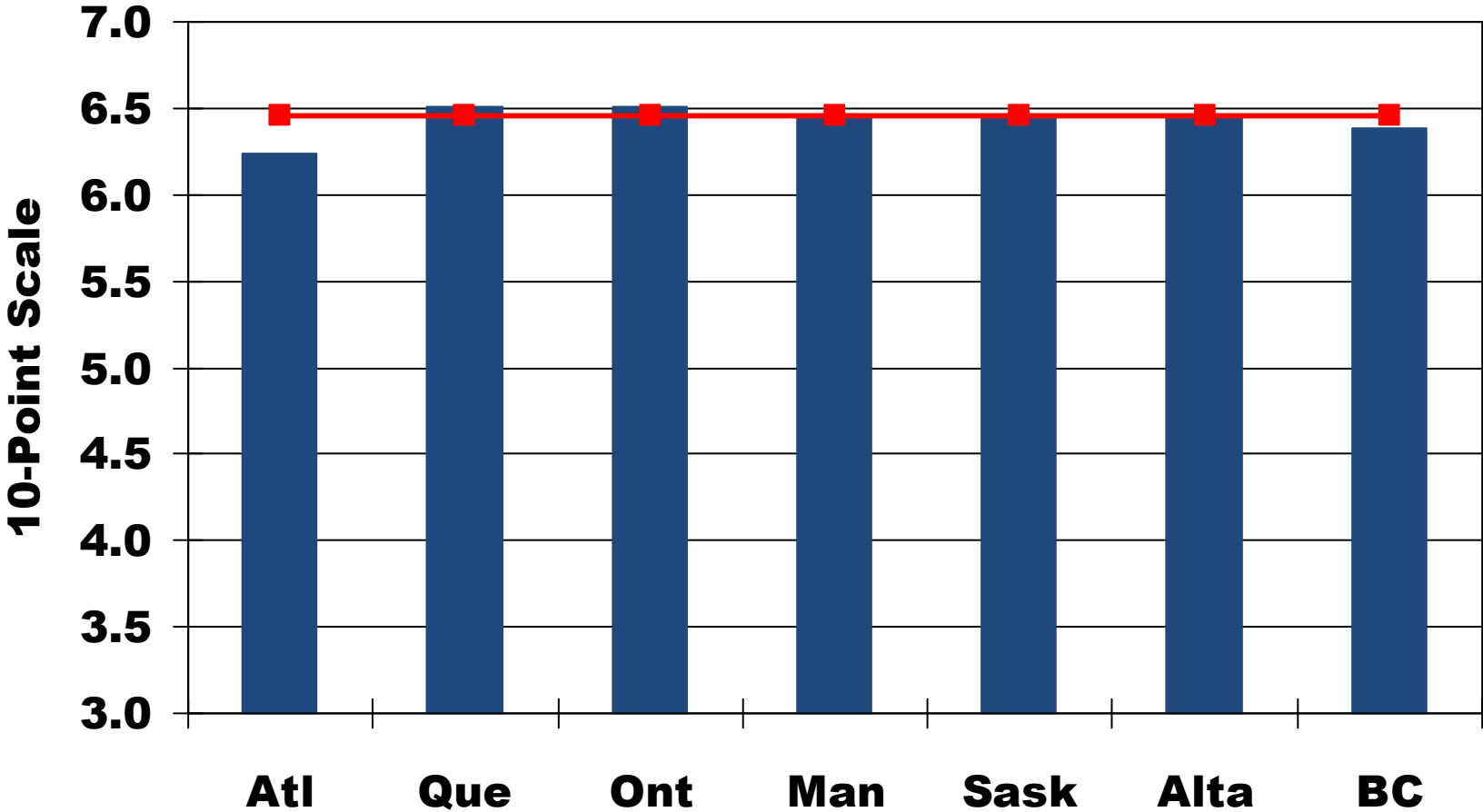
# Regional Variations in Attitudes Are Minor



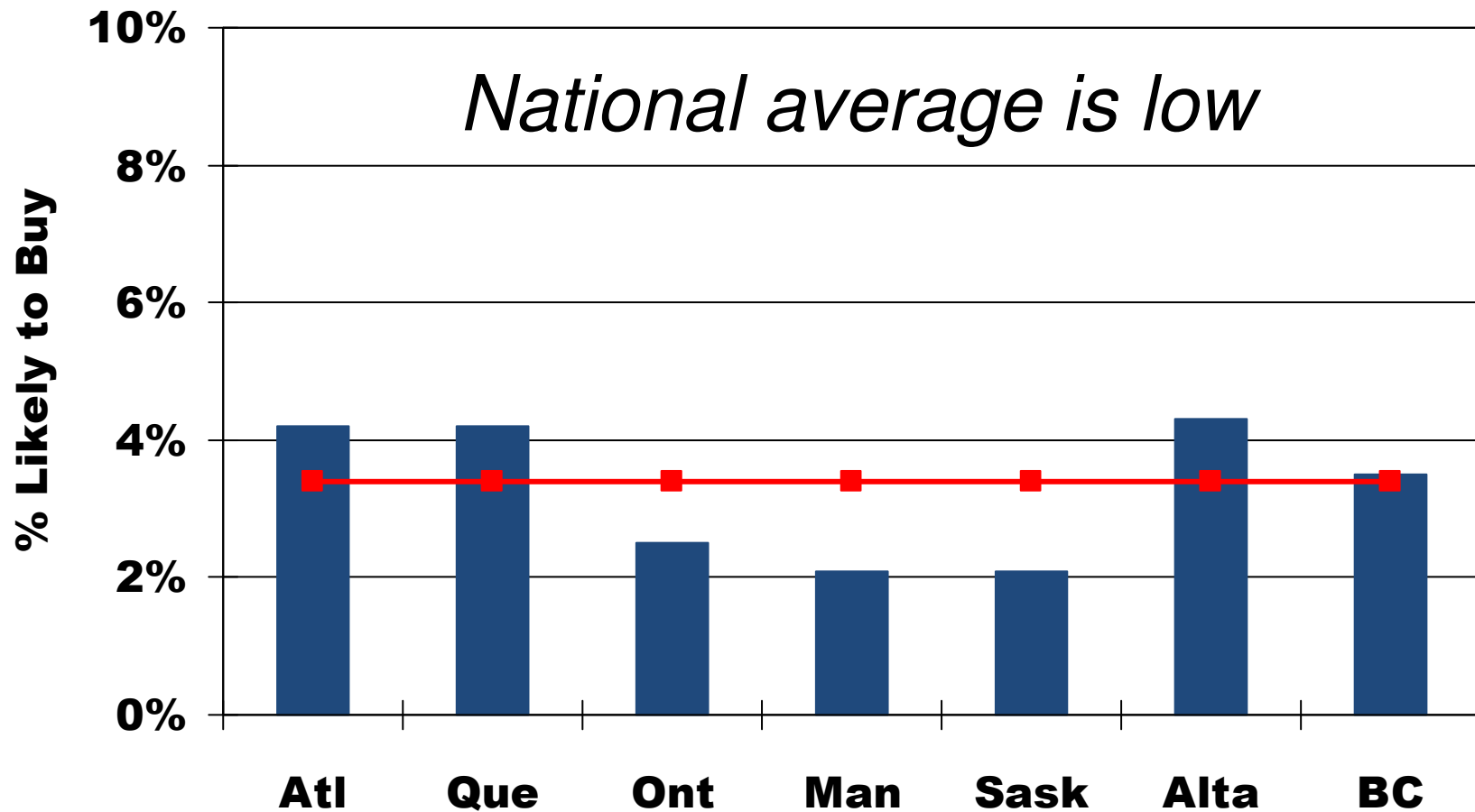
# Expectations About House Prices At Record Level



# House Price Expectations Very Similar Across Canada



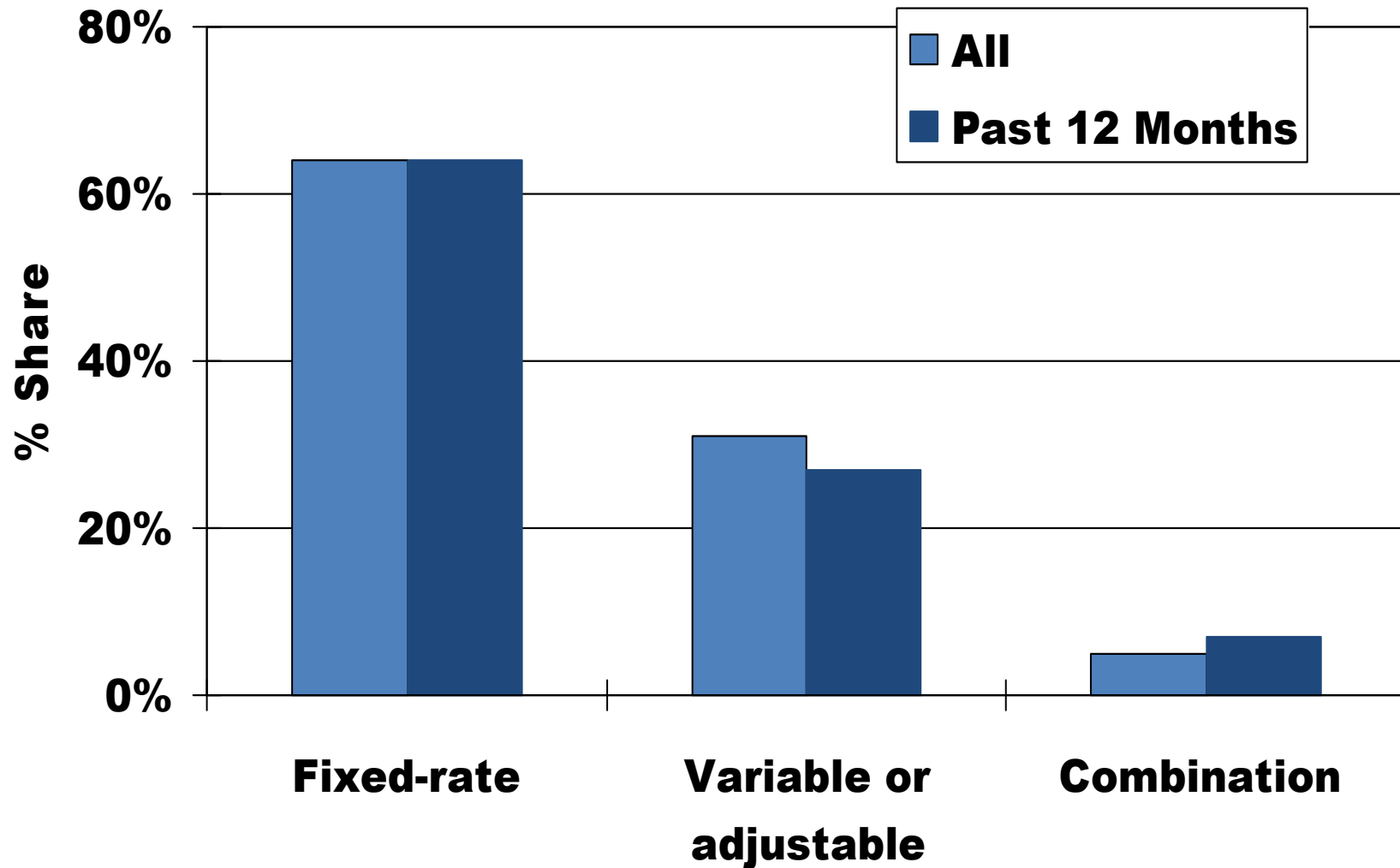
# Regional Variations in Likelihood of Buying



# Dimensions of the Mortgage Market

- \$770 billion on principal residences, including:
- \$127 billion new mortgages
- \$180 billion renewed, etc.
- No activity in past year - \$494 billion
- 3% of owners paid off mortgage in past year.

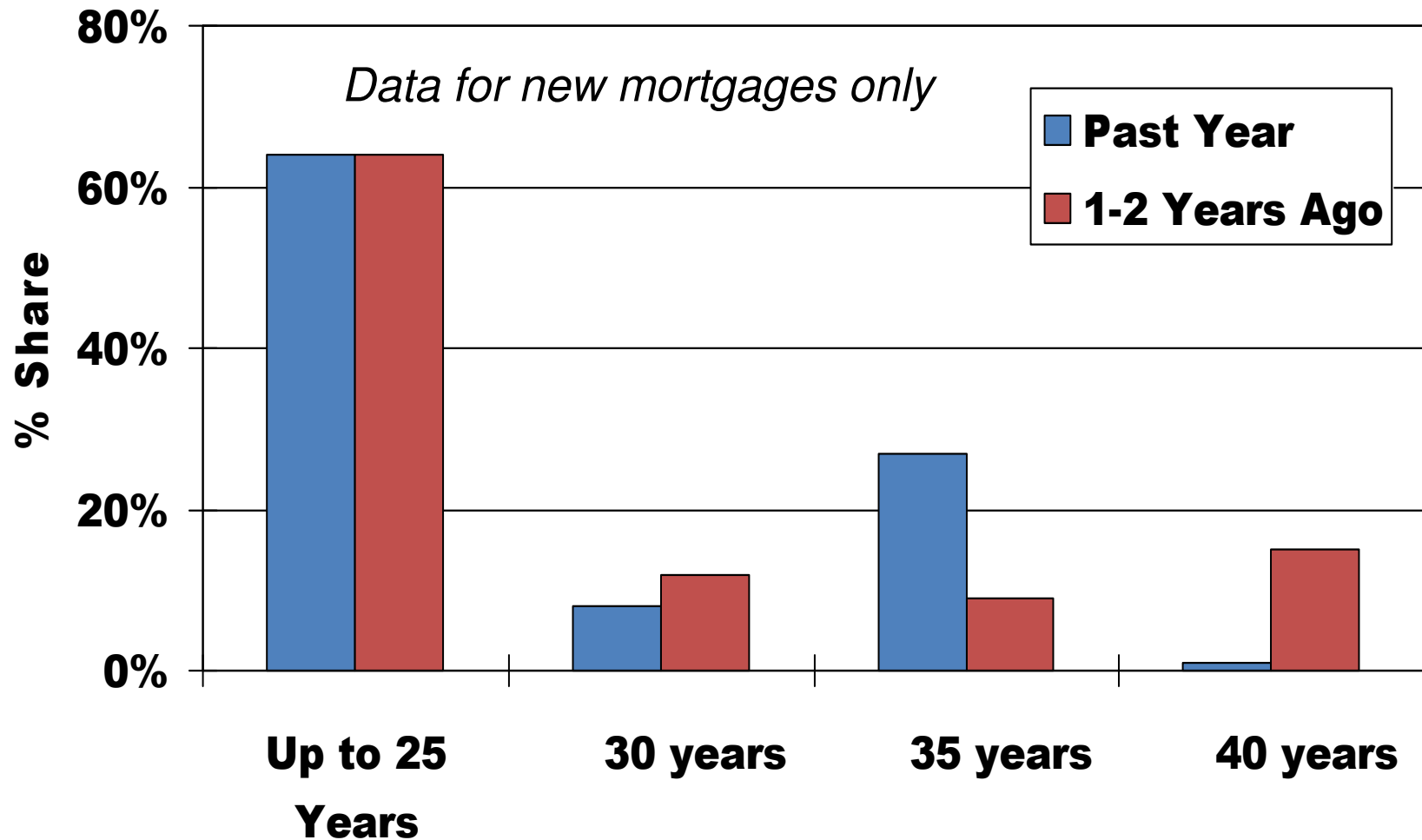
# Stability for Mortgage Types



## Choices Vary By Age Group (New Mortgages in Past Year)

Type	18-34	35-55	55+
Fixed	69%	62%	50%
Variable	25%	27%	50%
Combination	6%	11%	0%
Total	100%	100%	100%

# Substantial (but Stable) Preference for Extended Amortization



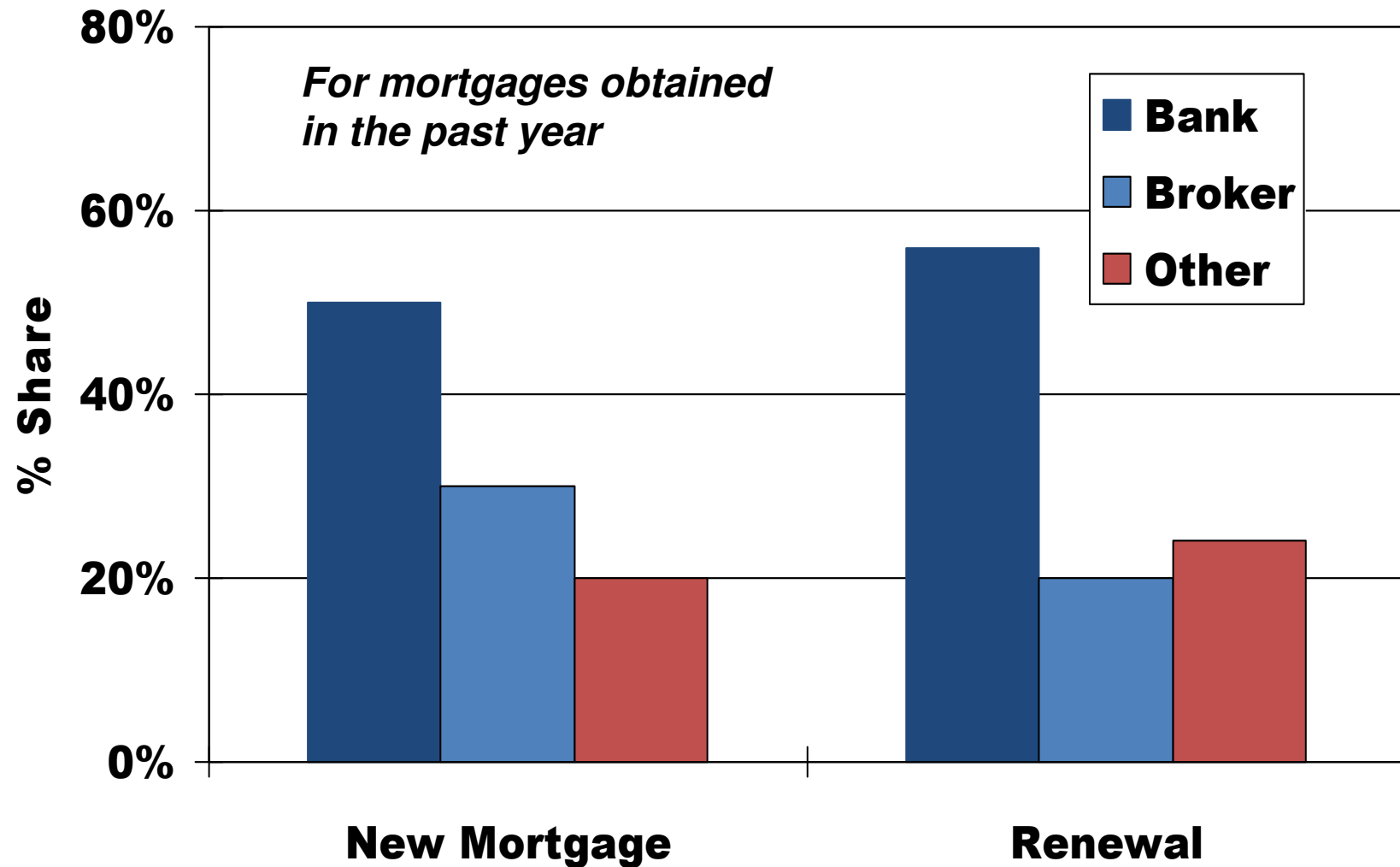
# Accelerated Amortization

- During past year, 16% voluntarily increased payments – total \$1.8 billion/year
- 13% made lump sum payments – total \$7.8 billion – highest for recent buyers
- 40% paying \$100/month or more above required amounts

# Extended Amortization is Slightly More Risky

- 4% missed payments(s) in the past year (versus 5% for am's 25 years or less)
- Not as likely to make lump sum payments or increase payments (21% versus 26%)
- Among recent buyers with extended amortization:
  - 13% might have trouble making payments at 5.25% rate (versus 11% for recent buyers with standard am's)
  - 38% are paying \$100+ extra per month (versus 45%)

# Mortgage Activity by Channel



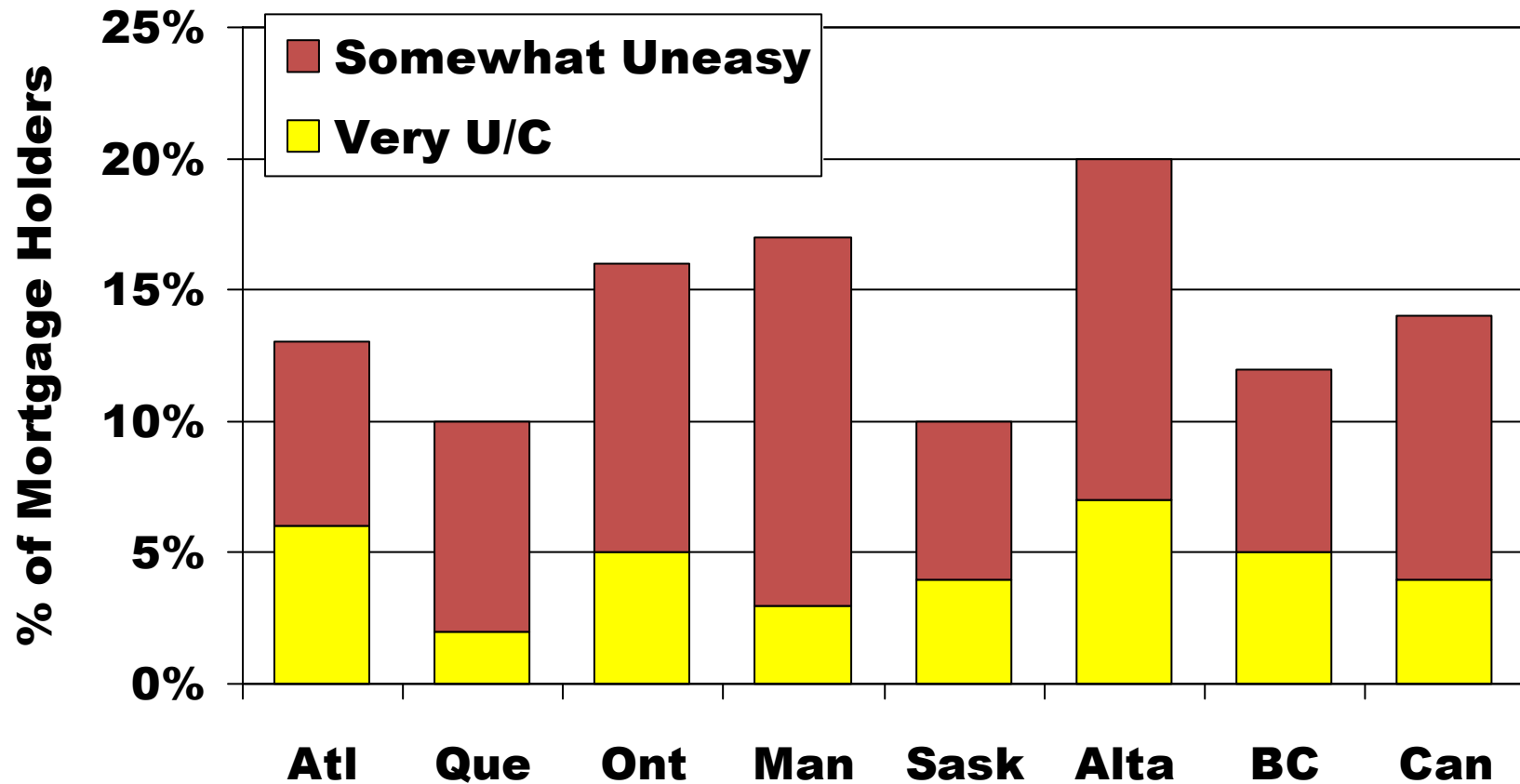
# Mortgage Interest Rates

- Average 4.09% versus 4.83% year ago
- 3.63% for mortgages in past six months
- Renewals past 6 months – 73% had reduction.
- Renewals resulted in average reduction of 1.11 points.
- For recent 5-year mortgages – average discount of 1.47 points.
- > 80% received discount of 1 point or more.

# Home Equity

- 60% of owners have mortgages:
  - Average 53% equity
  - Average of \$159,000 (versus \$145,500 year ago)
  - 92% have 10% or more equity
  - 78% have 25% or more
  - Just 1% have negative equity
- Out of 9.3 million owners:
  - Average 70% equity
  - Total equity = \$2.06 trillion

# Comfort With Equity – Few Uncomfortable



## 11% of Owners Took Out Equity

- Down from 15% year earlier
- Average amount \$33,500 (vs \$42,500); total of \$20 billion (vs \$34 billion)
- 42% of total (\$8.4 bn) for debt repayment or consolidation
- 29% (\$5.8 bn) for home renovation/repair

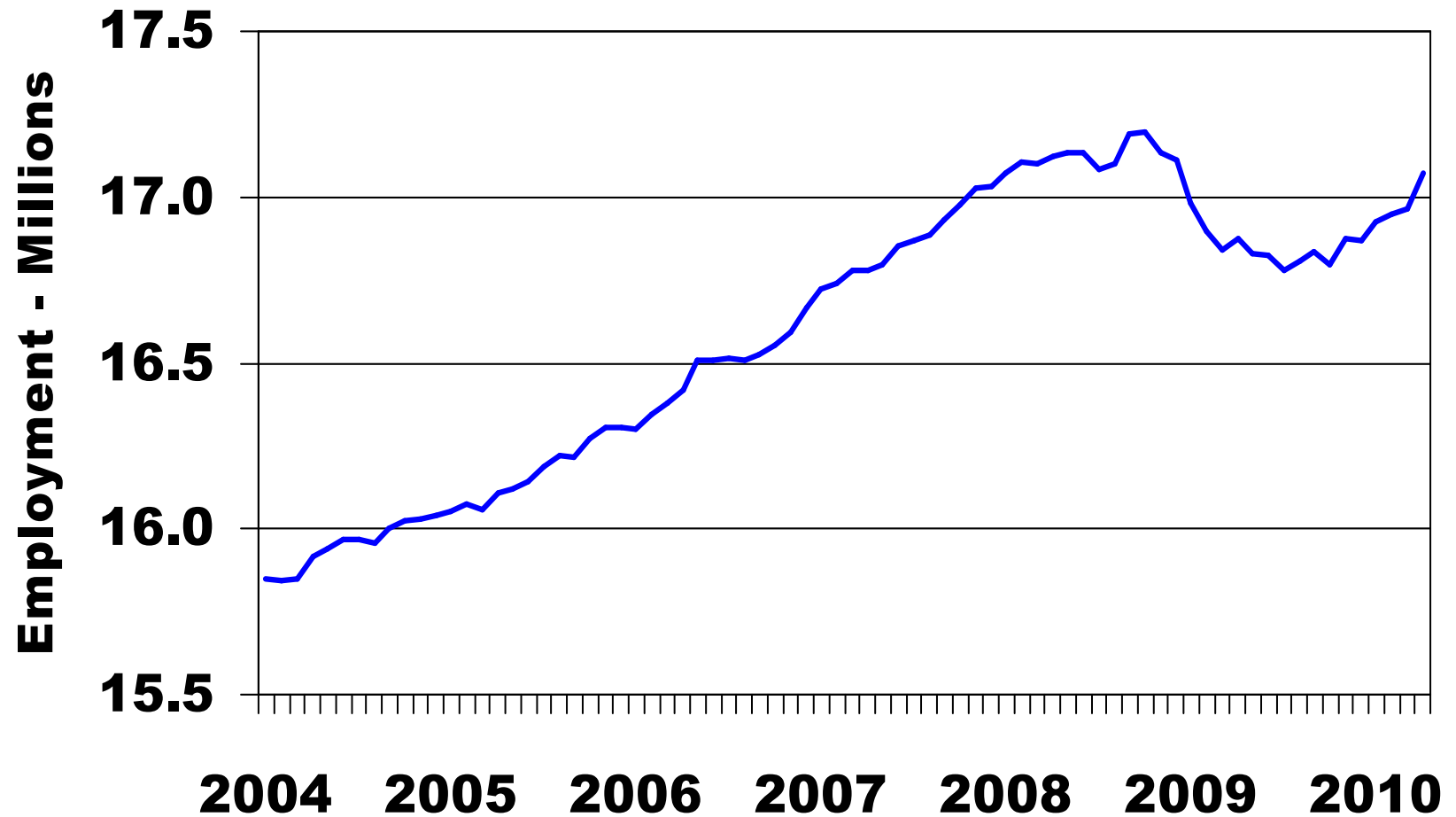
# Rental Income

- 325,000 mortgage holders have rental income
- 125,000 needed rental income to qualify for mortgage.
- Supply is significant for both owners and tenants

# Risk Factors for Default

- Loss of income
- Unaffordable increase in costs
- Negative equity

# Employment is Recovering



Source: Statistics Canada

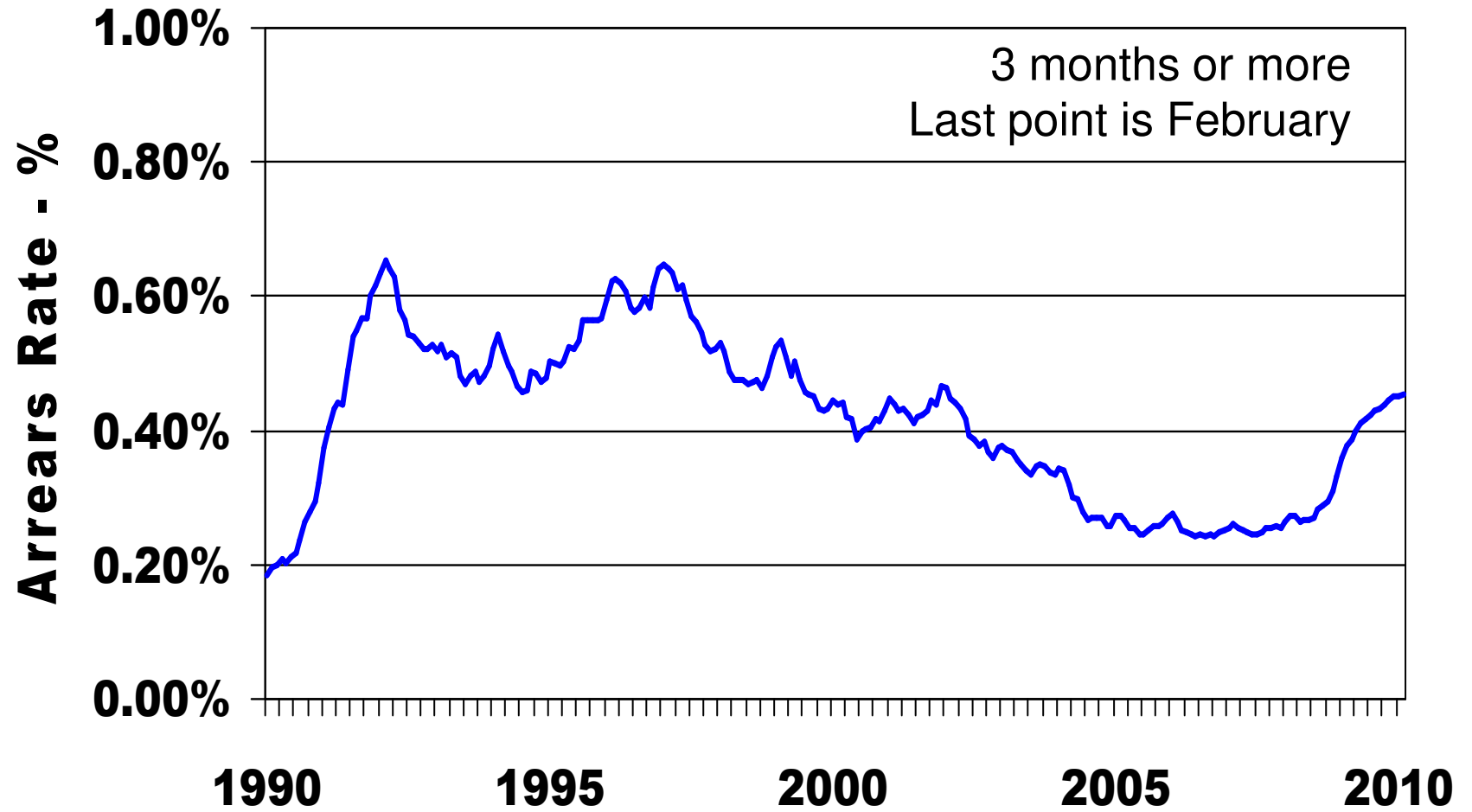
# Impact of 5.25% Mortgage Rates

- 1 million may see reductions
- 3.7 million – increases within tolerances
- 375,000 state they are already having a problem making payments – but just 50,000 of them have ever missed a payment.
- 475,000 might have problems at rate of 5.25%
  - Many have room to re-amortize
  - Incomes will rise
  - We make adjustments
  - Most have significant equity and could sell (90% have \$20 K or more; 70% have \$50 K or more)

# Risks for Variable Rate Mortgages

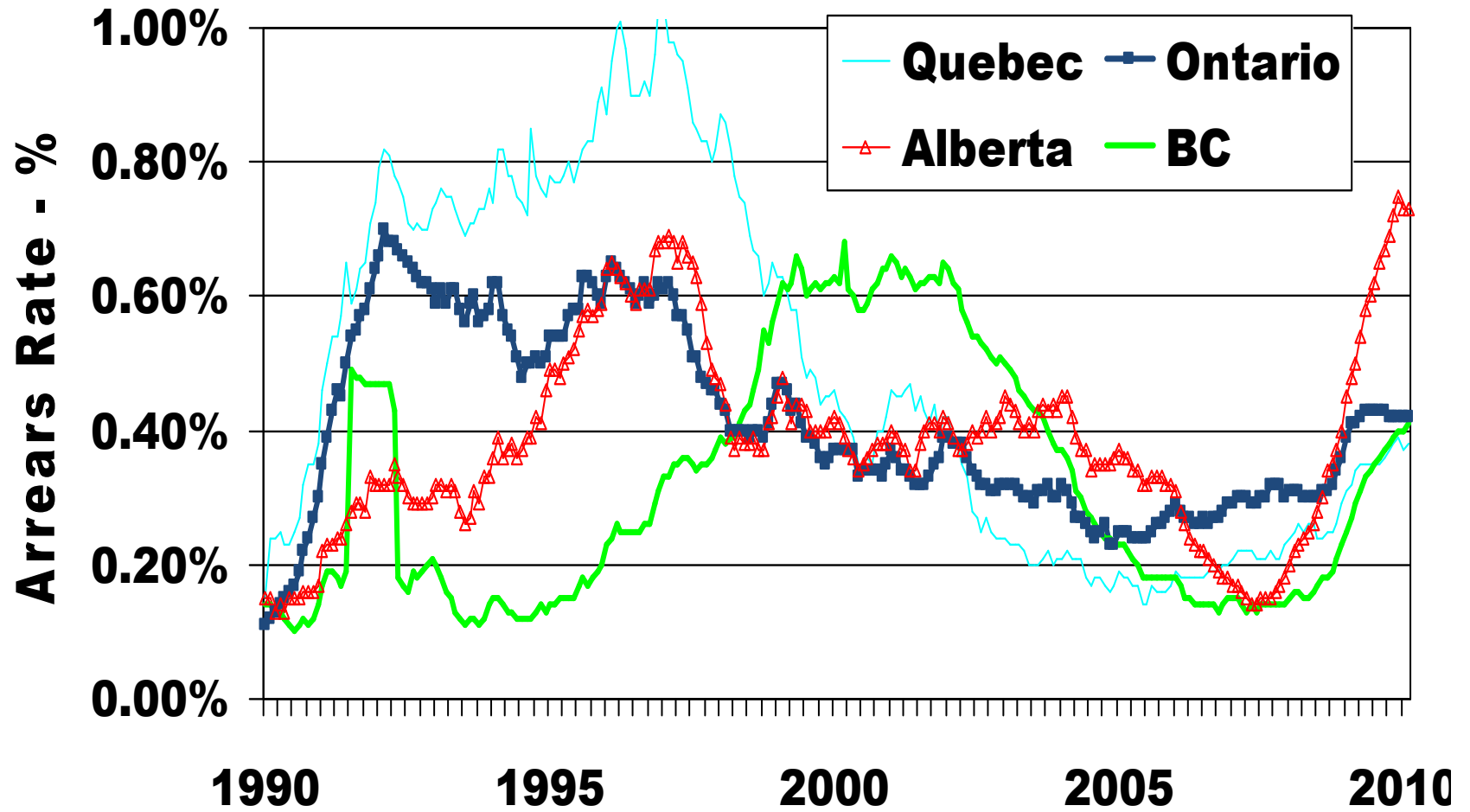
- Out of 475,00 with potentially unaffordable increases, 275,000 have variable rates
- January CAAMP study
  - Lenders have tested variable rate mortgages at 4% - most borrowers have lots of room
  - Among first-time buyers with VRMs in 2009, up to 10,000 might have trouble if rate rises to 5.25% (based on GDS/TDS)
- Option to lock-in (400,000 did in past year).
- 5.25% rate is a high assumption given current rates (1.75-2.25%) and the tepid economic recovery

# Arrears Rate Close to Peaking



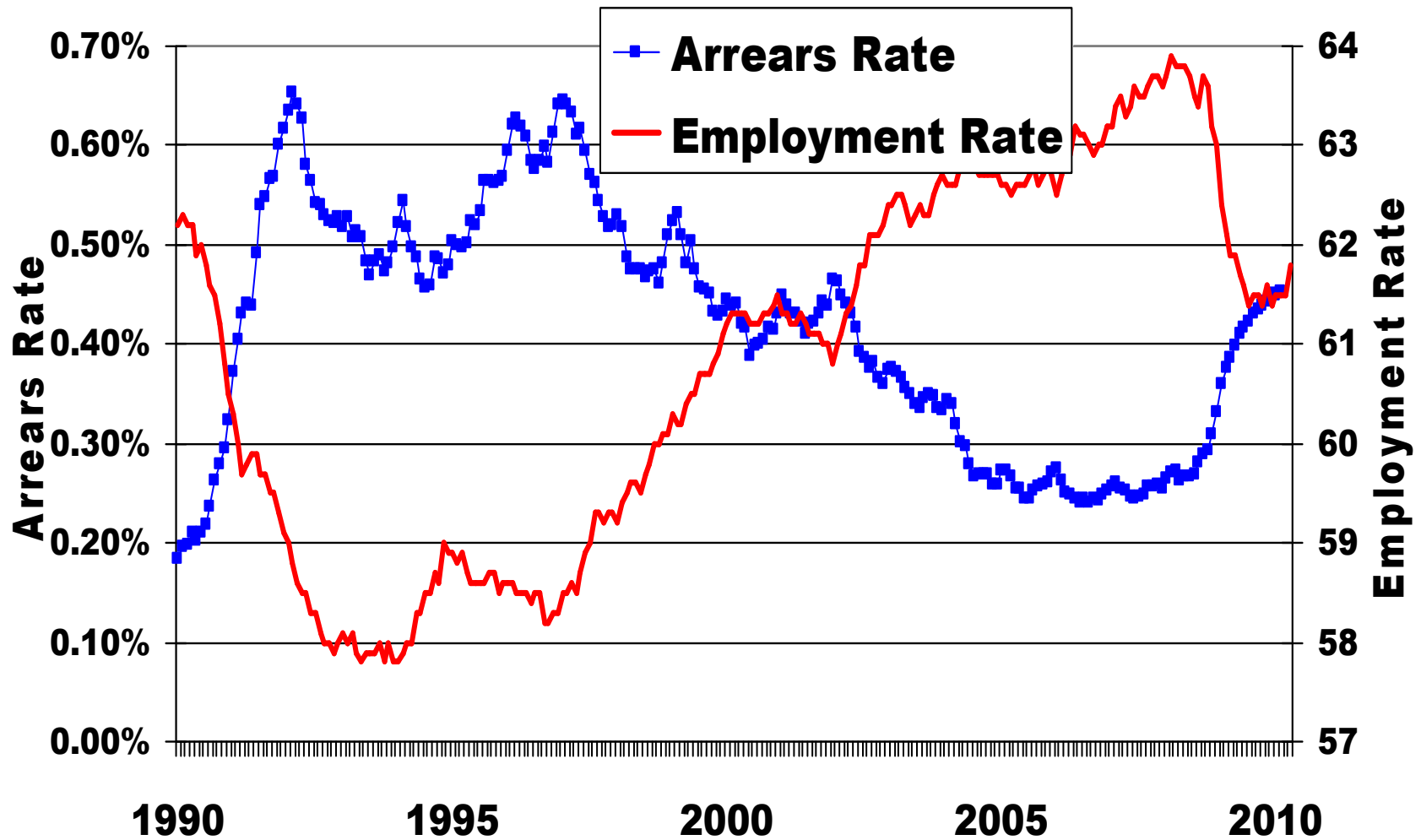
**Source: Canadian Bankers Association**

# Arrears Rates Vary Regionally



Source: Canadian Bankers Association

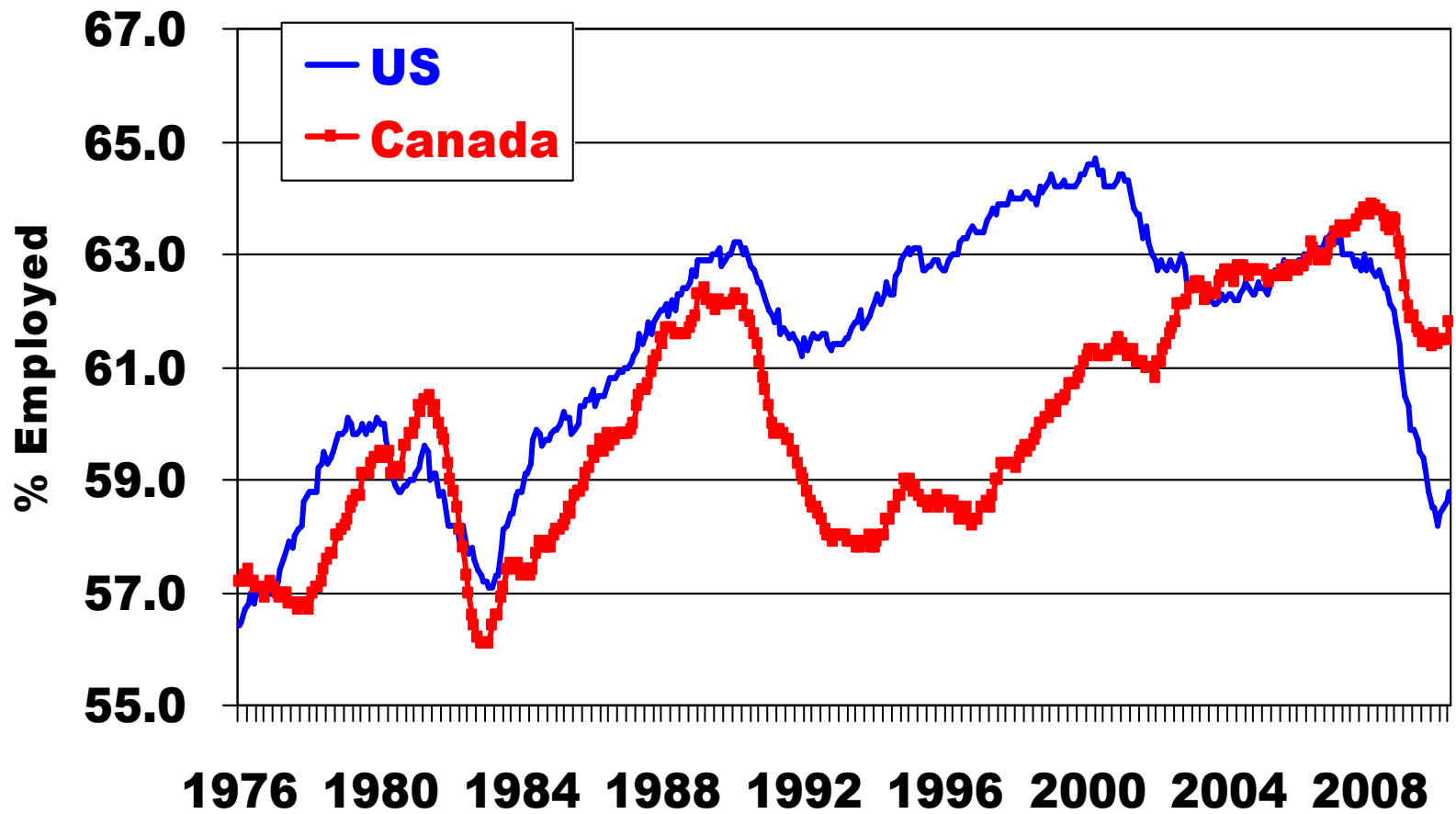
# Arrears Rate Related to Employment



Source: Canadian Bankers Association / Statistics Canada

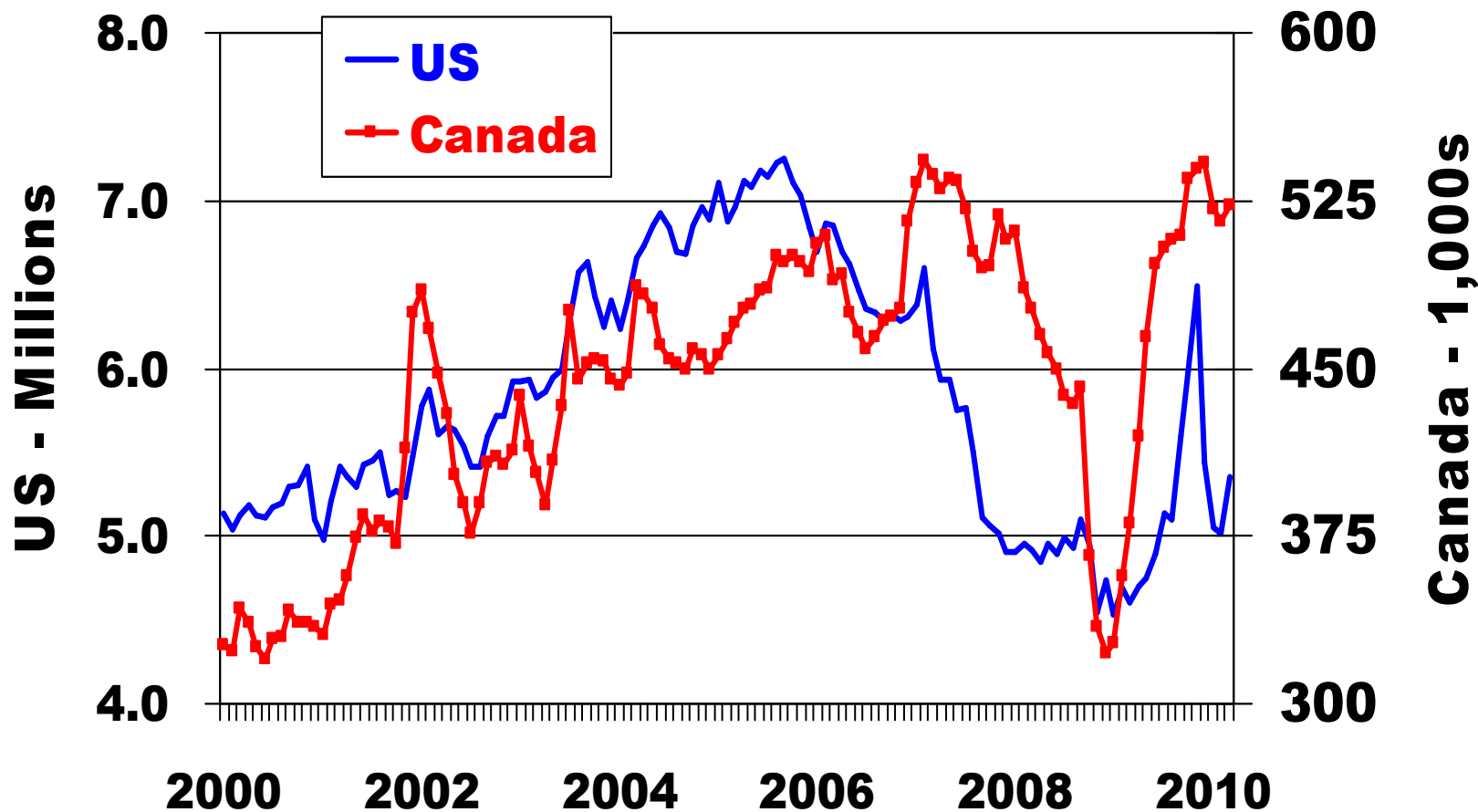
# The Outlook

# Canada Recession Was Mild



Source: US BLS / Statistics Canada

# Resale Data Also Shows Mild Recession in Canada



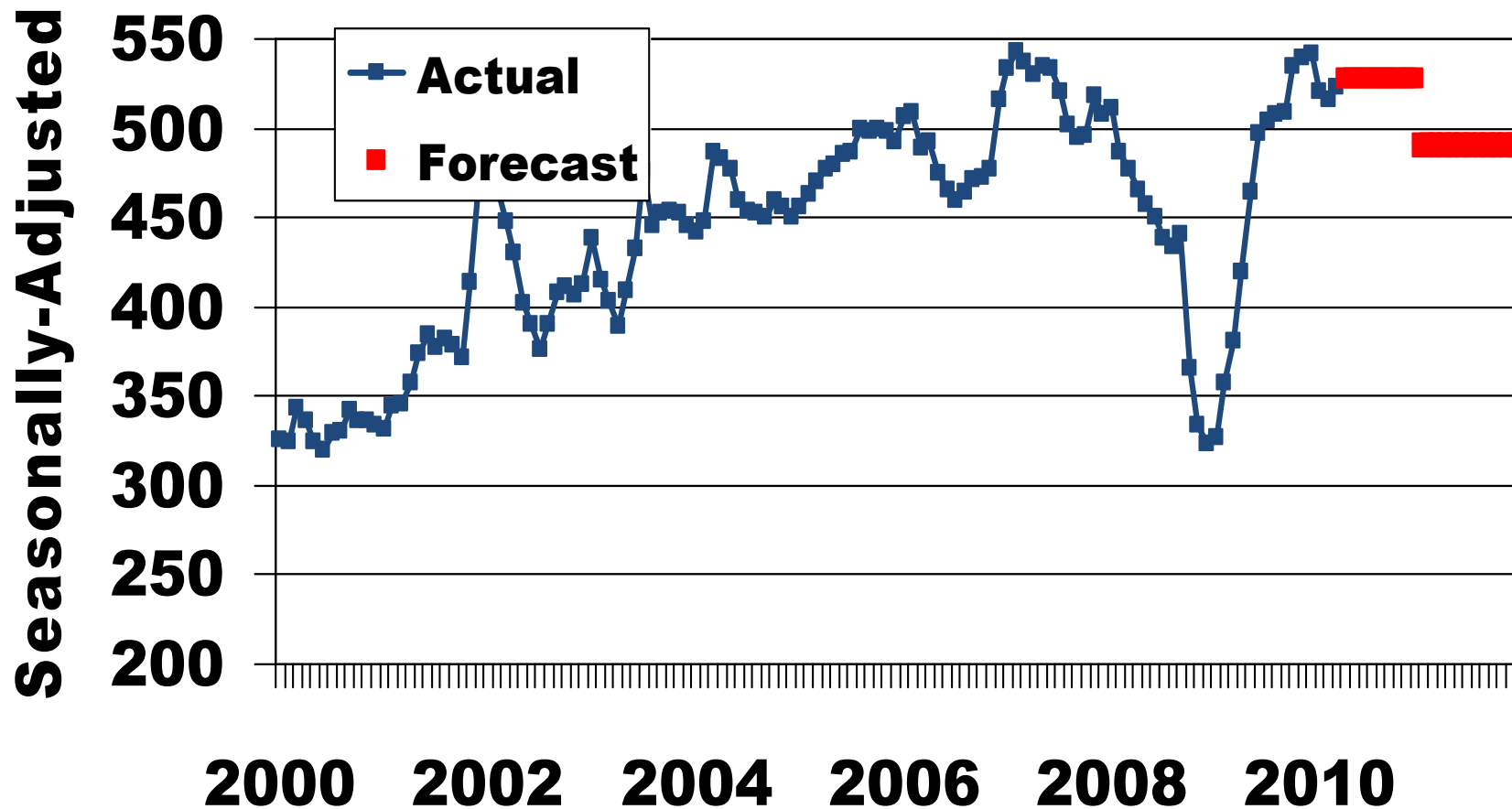
Source: CREA / NAR

## Economic Drivers Have Turned

<u>Factor</u>	<u>Impact</u>
Wealth Effect – Housing	Briefly Negative now Strongly Positive
Wealth Effect – Stocks	Substantially Recovered
Interest Rates	Mildly Positive – For Now
Canadian Dollar	Major Negative Factor
Commodity Prices	Positive in East Negative in West

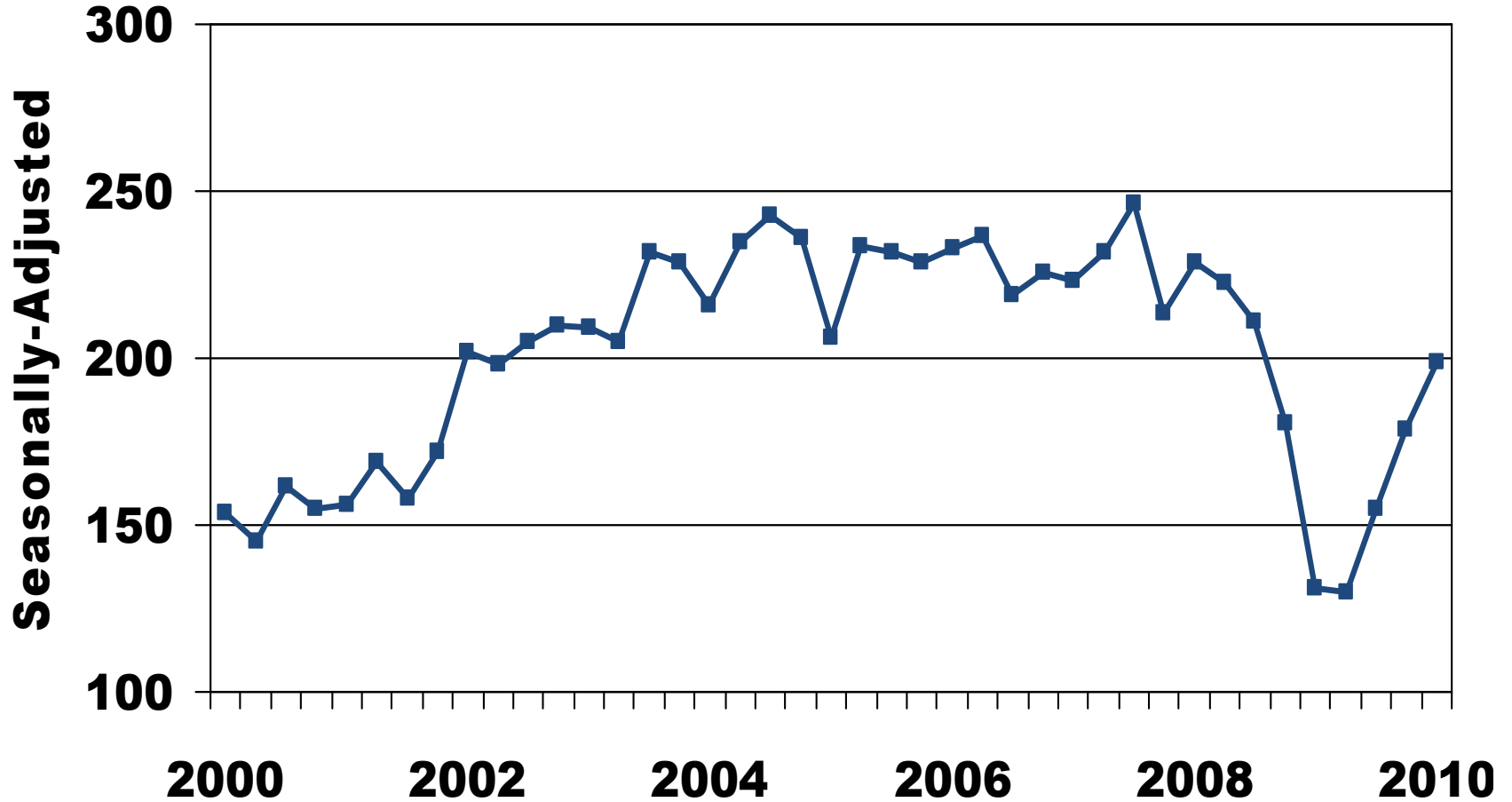
# Resale Markets - CREA Forecasts

## Some Slowing



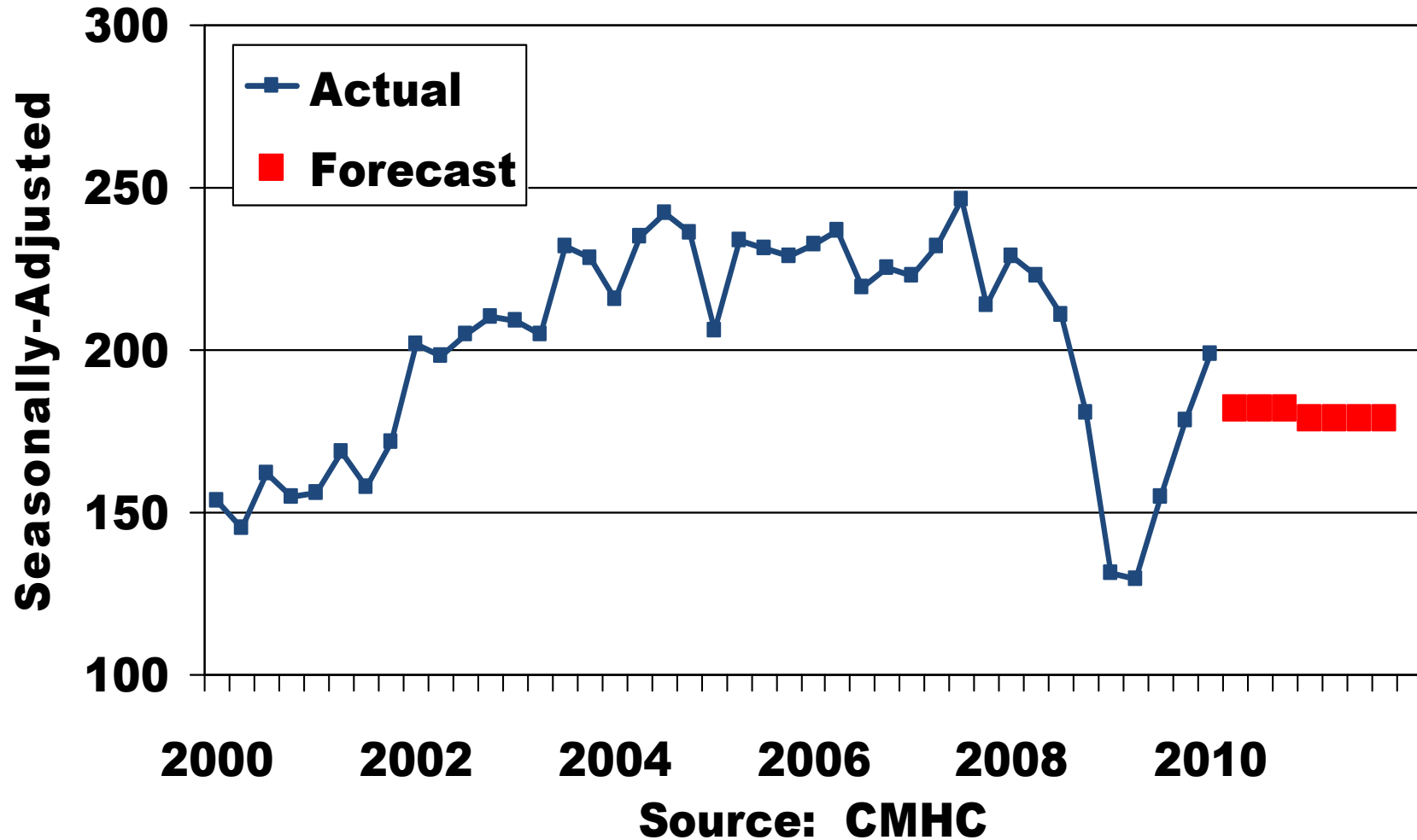
Source: CREA

# Housing Starts Have Also Recovered

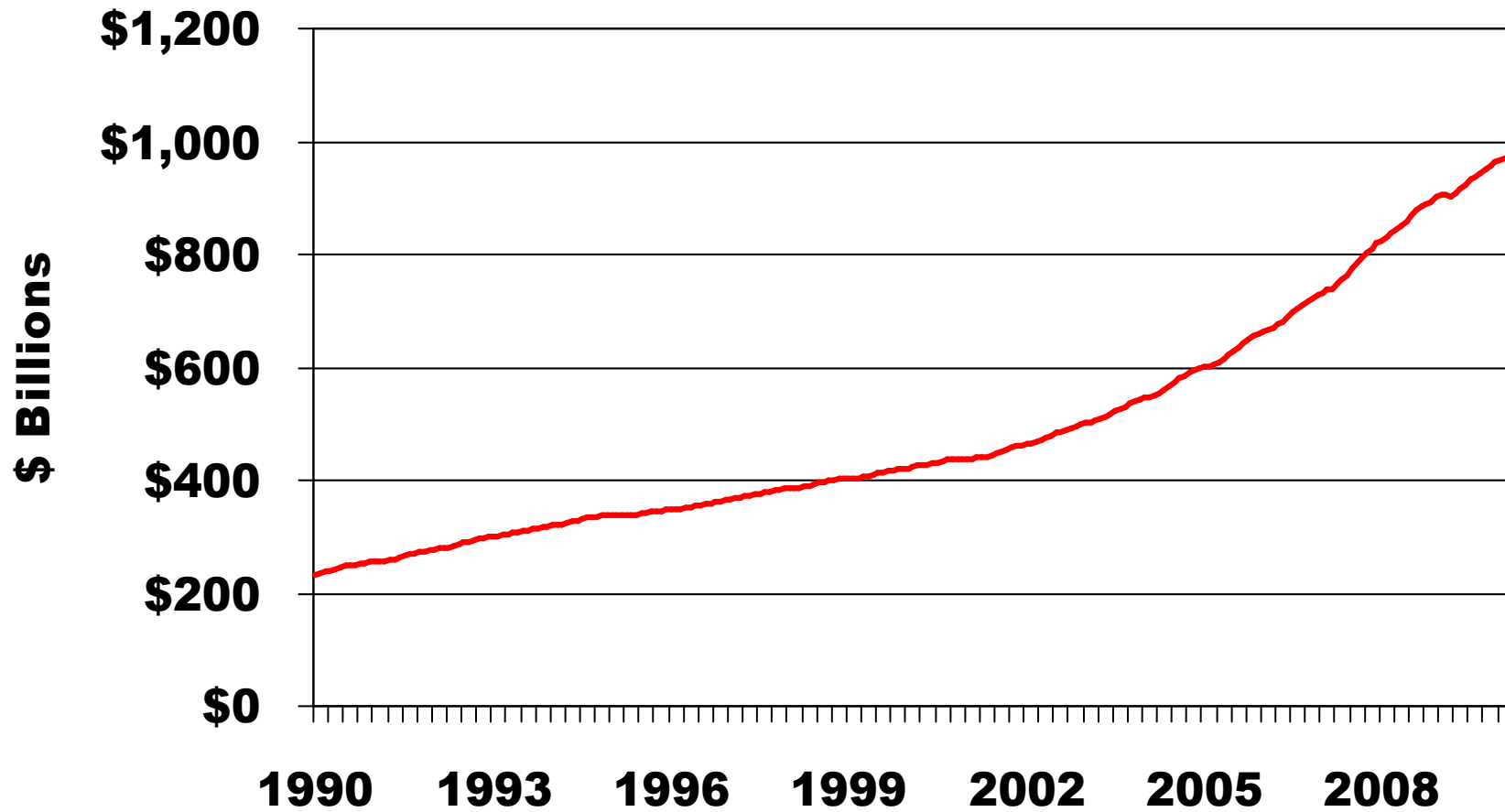


Source: CMHC

# Housing Starts – Little Change Expected for 2010/11

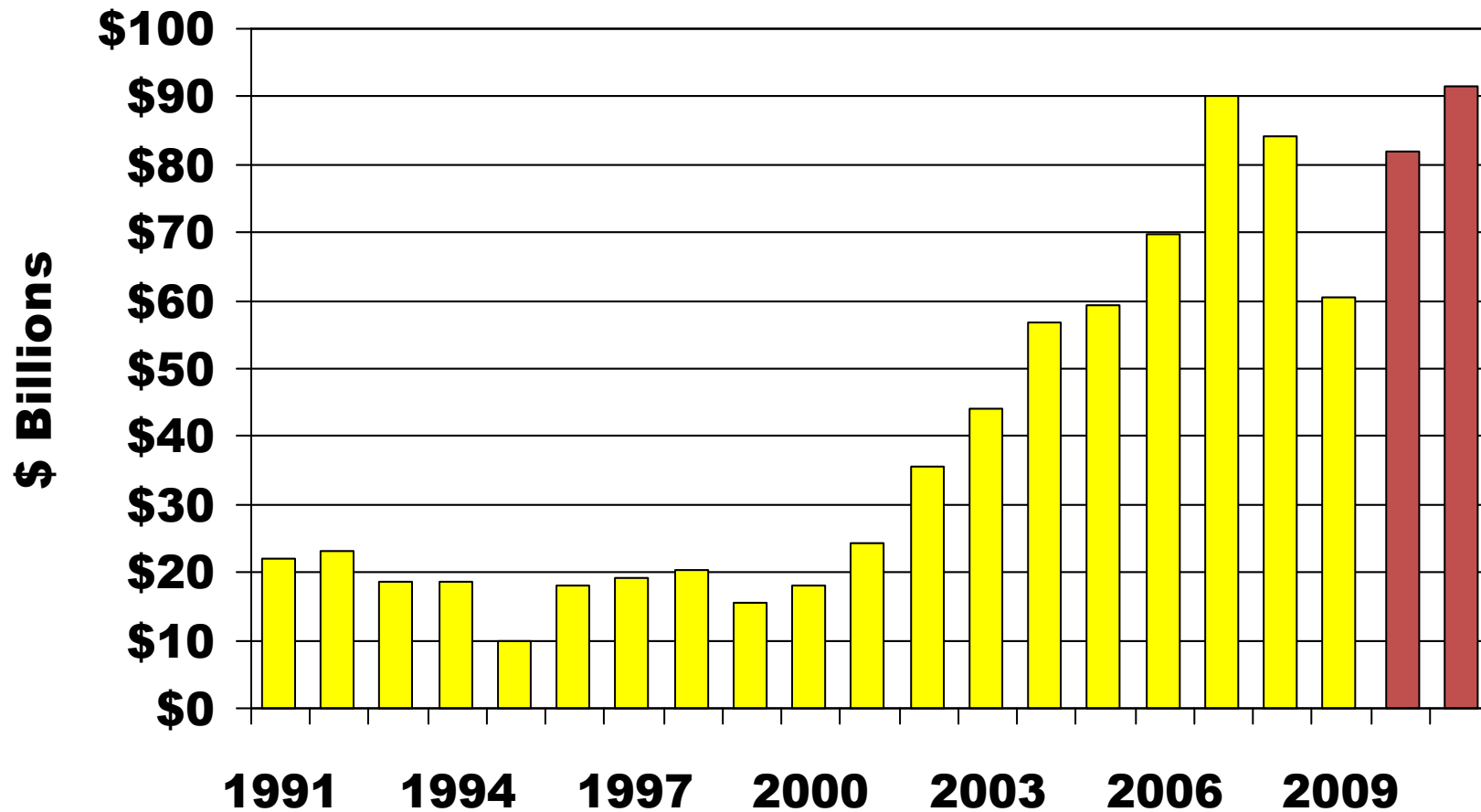


# Rapid Growth of Residential Mortgage Credit in Canada



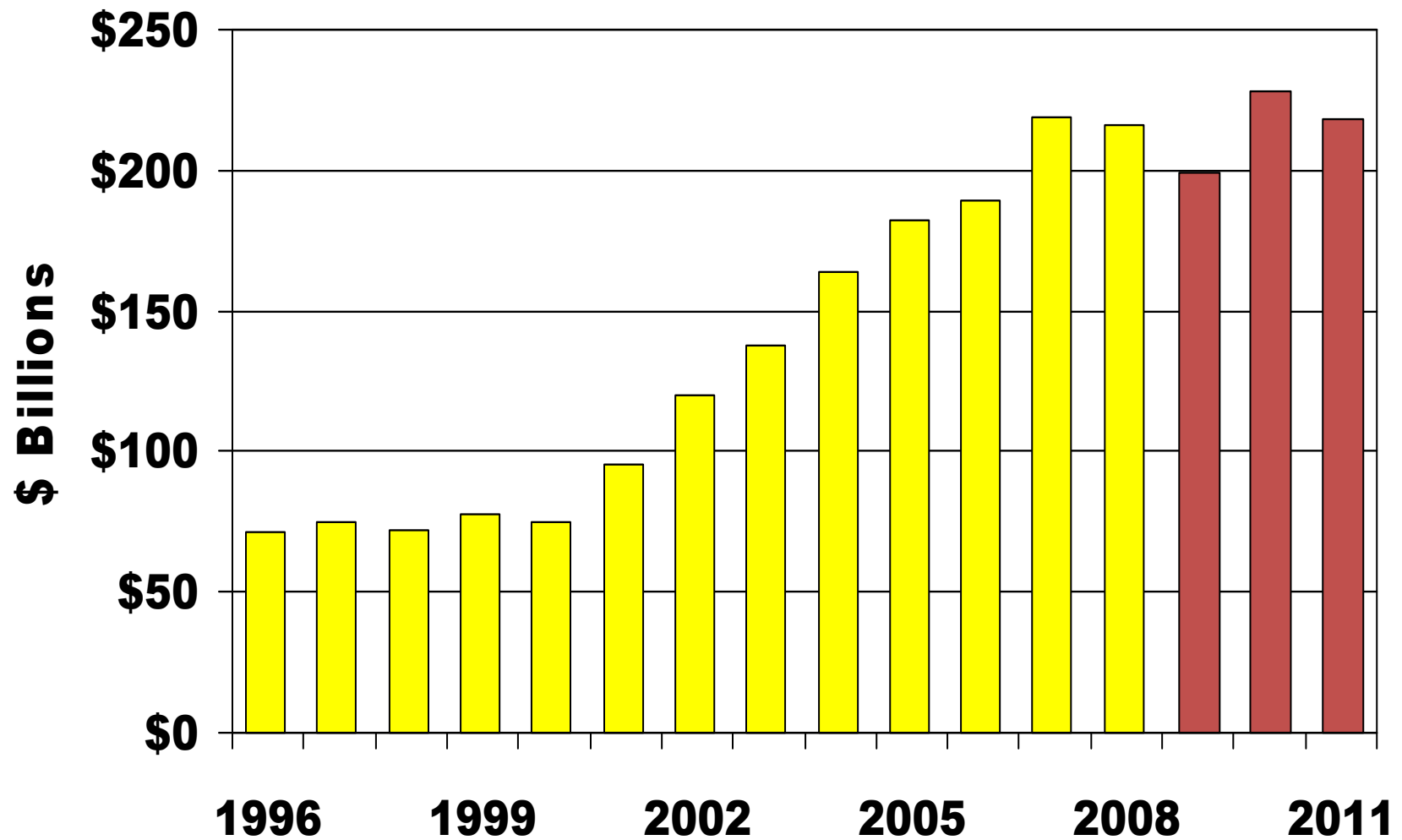
Sources: Bank of Canada / Will Dunning

# Forecast Significant Growth of Mortgage Credit



Source: Bank of Canada / Will Dunning

# Significant Annual Approvals



Source: Bank of Canada / Will Dunning

# Final Thoughts

- Recovery is developing, but we may not have seen full impacts from the recession
- Housing activity and mortgage initiation likely to slow
- Rising rates not a problem – for most
- Renewals have untapped potential for mortgage professionals