

ADVISORY

Canadian Association of Accredited Mortgage Professionals (CAAMP) Releases 2011 Economic Update

Revisiting the Canadian Mortgage Market –Risk is Minimal

Toronto, ON (January 19, 2011) – Prudence is what everyone is calling for when it comes to the housing market and a fresh economic review released today by CAAMP finds that Canadian “lenders and borrowers have been highly prudent in the mortgage market.”

The report, which focuses on the highest risk mortgages, is an update on CAAMP’s January 2010 report. It was prepared by CAAMP Chief Economist Will Dunning and can be found at www.caamp.org.

Highlights:

- Vast majority of borrowers holding highest risk mortgages have considerable room to absorb interest rate increases
- Assuming a 5 percent interest rate (1 percent increase on fixed and 2.5 percent increase on variable mortgages)
 - the average gross debt service (GDS) would increase to 24.6 percent and the average total debt service (TDS) would increase to 33.7 per cent
 - Less than 1 per cent of these highest risk mortgages would have TDS ratios of 45 percent or more
 - Applying these results to the broader population, there might be about 800 to 950 buyers whose mortgages were funded during 2010, with variable/adjustable rate mortgages, whose TDS ratio would be 45 percent or higher.
- Among the high ratio loans approved in 2010 – with the reduced amortization period (30 years versus the prior 35 year limit) , a small minority (about 2%) would have TDS ratios, above 45% and those loans would probably not qualify. Some of those consumers would still be able to buy, by purchasing lower priced homes
- Unaffordable premium increases are a negligible risk factor at present and in the near-to-medium term future. Recent discussions have focused on this negligible factor.
- Most mortgage defaults stem from reduced ability to pay mostly because of job loss or reduced income. Over-extension – adding more debt after taking a mortgage – is another risk
- A third cause - unaffordable increases in mortgage payments – is the source of recent concerns about future threats
- The study concludes that very few Canadians face unaffordable increases in mortgage costs and Canadian lending criteria are already tight

For more information or to arrange an interview with Jim Murphy, AMP, President and CEO of CAAMP, or Will Dunning, CAAMP Chief Economist, please contact:

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