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Annual State of the Residential Mortgage Market in Canada

Prepared for:

**Canadian Association of
Accredited Mortgage Professionals**

By:

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1.0 Introduction and Summary

This is the fifth 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
- 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 2,000 Canadians. About one-half of the sample (928 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 for CAAMP by Maritz (a national public opinion and market research firm) during 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 optimistic overall. The average score given this fall was 6.56 out of 10. As can be seen in the table on the next page, this is the highest rating seen in the seven times this question has been asked. Consumers’ attitudes were quite positive in both the spring and fall of 2009, despite the economic downturn and the weakened consumer confidence that has been seen in the past year. For the first time ever, the average ratings exceeded 6 out of 10 in all regions.

- The highest ratings were given in Ontario; the lowest were found in Saskatchewan.
- With interest rates at record low levels, improved housing affordability is the key factor in the positive responses given to this question.
- In the fall of 2009, three provinces (Ontario, Alberta, and British Columbia) saw overall ratings drop from the record high levels seen in the spring. This may be the consequence of the rapid house price increases that have been seen recently, and the shift in market balance away from “buyers’ market” to “sellers’ market”.
- The lowest ratings this fall were given in Saskatchewan, which has seen the sharpest increase in house prices and therefore has seen the most adverse change

in housing affordability. Even so, the average rating in Saskatchewan (6.05 out of 10) is in positive territory.

<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 2009	6.53	6.27	6.82	6.23	6.05	6.64	6.58	6.56
Spring 2009	6.30	5.48	6.96	5.88	5.67	6.93	6.97	6.46
Fall 2008	5.59	5.31	5.84	5.25	5.04	5.66	5.55	5.58
Spring 2008	6.25	5.64	5.90	4.97	3.93	4.75	4.91	5.52
Fall 2007	6.19	5.91	6.02	5.39	5.47	4.31	4.86	5.62
Spring 2007	5.85	3.95	5.85	5.29	6.25	4.05	5.09	5.10
Fall 2006	5.98	5.63	5.92	4.81	6.10	3.20	4.59	5.36

Source: Pollara survey for CIMBL, Fall 2006; Maritz surveys for CAAMP, 2007 to 2009.

Expectations about House Prices

Expectations about house prices have varied during the past year, but have become optimistic. When asked "to what extent do you think housing prices in your community will go up or down in the next year?" Canadian consumers gave an average rating of 6.25 out of 10 this fall, indicating that on average expectations are for moderate increases in values. Six months ago (spring 2009) and 12 months ago (fall 2008) expectations were for moderate amounts of price reductions. The table below shows:

- Expectations for house price increases are highest in British Columbia, although the other provinces are not far behind.
- Current expectations for house price increases are broadly similar to those reported in the fall 2006 to spring 2008 surveys, prior to the start of the recession.

<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 2009	6.08	6.14	6.30	6.22	6.19	6.24	6.44	6.25
Spring 2009	5.34	5.34	5.15	5.49	5.86	5.27	5.09	5.27
Fall 2008	5.63	5.56	5.11	5.33	5.35	5.00	4.77	5.21
Spring 2008	6.26	6.22	5.96	6.64	6.98	5.47	6.35	6.10
Fall 2007	5.85	5.80	6.12	6.11	6.17	5.47	6.26	5.97
Spring 2007	5.96	6.28	6.22	5.86	6.61	6.70	6.42	6.29
Fall 2006	6.04	6.08	6.00	6.45	6.54	6.65	5.85	6.10

Source: Pollara survey for CIMBL, Fall 2006; Maritz surveys for CAAMP, 2007 to 2009.

Home Buying Intentions

While there has been a sharp improvement in consumers' attitudes about the state of the housing market in their communities, the vast majority of Canadians are clearly

hesitant to buy. A question that was first asked in the fall of 2008 asked consumers how likely they were to buy a home in the next year, on a 10-point scale. Over the long term, each year about 5% of Canadian households buy homes (including condominiums). In both fall 2008 and spring 2009, about 4.5% gave responses of 9 or 10 out of 10 (indicating that they were highly to buy). However, as of the fall of 2009, the share has fallen, to just 3.2%. These responses suggest that while home buying activity is currently very robust, it may soon slow.

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

Survey Date	Atlantic	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Canada
Average Score								
Fall 2009	2.48	2.51	2.66	2.64	3.02	2.59	2.81	2.63
Spring 2009	2.92	2.70	2.81	2.71	2.88	3.04	3.15	2.86
Fall 2008	2.64	2.53	2.78	2.28	2.58	3.27	2.90	2.76
% Giving Score of 9 or 10 out of 10								
Fall 2009	1.3%	3.1%	3.8%	4.3%	4.7%	2.9%	1.7%	3.2%
Spring 2009	7.9%	5.5%	3.7%	5.5%	2.2%	4.5%	3.4%	4.5%
Fall 2008	3.2%	4.3%	4.9%	2.3%	3.4%	6.4%	4.7%	4.6%
Source: Maritz survey for CAAMP, Fall 2008 to Fall 2009.								

Consumer Choices and Satisfaction

The survey found that Canadians remain highly satisfied with the terms of their mortgages, and their experiences in obtaining their mortgages:

- 19% indicate they are highly satisfied with the terms of their mortgages (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, 77% are satisfied to some degree.
- 15% give a neutral satisfaction rate (5 or 6 out of 10).
- Just 9% are dissatisfied to some degree (1 to 4 out of 10).
- On average, the satisfaction rate is 7.6 out of 10.

Satisfaction with mortgage experiences was very similar, and the average rating was fractionally higher, at 7.7 out of 10. There are some variations across different groups.

- Satisfaction with mortgage experiences varies by age group, as the average scores given by the oldest age brackets (8.0 out of 10 for those 55 to 64 and 8.3 for those 65 and older) were considerably higher than those given by the younger age groups (6.8 for those aged 18 to 34 and 7.1 for those aged 35 to 44).
- Satisfaction is highest for those with variable and adjustable rate mortgages (average score of 8.2 out of 10, versus 7.5 for those with fixed rate mortgages rates). This is no doubt related to recent sharp drops in rates for variable rate mortgages.
- Average satisfaction ratings are lowest for those who are arranging a mortgage for the first time in their lives (average score of 7.4 out of 10) while those renewing mortgages gave an average score of 7.8, slightly above the overall average of 7.7.

About one-quarter (27%) 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 (20%). The remainder (73%) did not have any mortgaging activity during the year.

Among those who renewed or refinanced an existing mortgage during the past 12 months, 12% changed lenders and 88% remained with the same lender.

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

- Among home owners who have mortgages, the average amount of equity is about \$142,000, representing 52% of the average value of their homes (\$273,000).
- For owners without mortgages, equity is equal to the average home value of \$322,000.
- The total value of owner-occupied housing in Canada is estimated at \$2.69 trillion. Mortgages on these homes total \$706 billion, leaving \$1.98 trillion in home owners' equity. This equity is equal to 74% of the total value of the housing.

About one-in-five (18%) of mortgage borrowers took equity out of their home in the past year, slightly lower than the proportion (22%) found a year ago. The average amount is estimated at \$41,000 (identical to the estimate for 2008). These results imply that the total amount of equity take-out during the past year has been \$41 billion. The most common uses for the funds from equity take-out are debt consolidation and repayment, which accounts for \$17 billion of the total take-out. This part of the total equity take-out would result in corresponding reductions for other forms of consumer debt. Renovations accounted for about \$12 billion of the equity take-out.

The study asked mortgage borrowers about their mortgage term: 62% of mortgage borrowers reported having a term of four to five years. Just 11% have terms of more than 5 years, and the remaining borrowers (27%) 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.

Concerning types of mortgages, fixed rate mortgages remain most popular (68%). A significant minority (27%) are variable and adjustable rate mortgages. Just 6% of mortgages are a combination of fixed and variable rates.

With regard to mortgage amortization periods: two years ago the survey found that 9% of mortgages in Canada had amortization periods of more than 25 years, a year ago the share had increased to 16%, and this year the share was 18%. The share is quite high (47%) 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:

- The average mortgage interest rate for home owners' mortgages is 4.55%, a sharp drop from 5.41% a year earlier.

- For borrowers who have renewed or refinanced a mortgage during the past year, their current average interest rate is lower (by 1.12 percentage points) than the rates prior to renewal. Among borrowers who renewed, a large majority (73%) saw reductions, a small proportion (15%) saw their rates rise, and 12% had no change. While some borrowers saw their interest rates increase at renewal, the increases were minor for most. About 100,000 borrowers had their rates increase by more than 1 percentage point. This amounts to less than 2% of the 5.4 million Canadian home owners who have mortgages.
- The survey also sheds light on the extent of mortgage rate discounting in Canada. Borrowers who have taken five year, fixed rate mortgages during the past year have an average mortgage interest rate of 4.74%. Typical advertised rates averaged 5.97% over the same period – these borrowers have negotiated discounts that average 1.23 percentage points below typical advertised rates.

The survey data allows for a simulation of the impact of future renewals. Based on current market interest rates, at their next renewals most borrowers (69%) will see reductions in their mortgage interest rates; 28% would see increases and 2% would see no change. If rates remain at current levels, the net outcome would be a reduction of \$480 million per month in interest costs, or about \$5.75 billion per year, once all mortgages are renewed.

Mortgage holders report that, on average, they obtained 1.91 quotes when they obtained their current mortgages. Only 9% of borrowers obtained four or more quotes.

Among borrowers who have taken out a new mortgage during the past year, 55% obtained the mortgage from a bank, 34% from a mortgage broker, and 11% 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 2009, there was \$940 billion in outstanding residential mortgage credit in Canada. This represents more than one-third of the total credit for households and businesses.
- Growth of residential mortgage credit has slowed in the past year, as the recession negatively affected home buying activity during the past winter. Reduced numbers of housing starts also mean that fewer new homes are being completed and therefore there is less need for new mortgages for new homes. However, the growth rate during the past year (\$63 billion, or 7.1%) remains strong.
- 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 2008, the volume of approvals (\$216 billion) was almost triple the level seen during 1997 to

2000 (\$75 billion per year). However, the volume of approvals in 2008 was 1% below the all-time record set in 2007 (\$219 billion).

- Seven of the provinces saw increased approvals in 2008, while there were reductions in Alberta (-8%), British Columbia (-5%), Prince Edward Island (-3%), and the Territories (-22%).

Chartered banks account for almost one-half (48%) of residential mortgage credit, although the share has fallen from 56% a year ago. Among the other categories of lenders are NHA mortgage-backed securities (30%, up sharply from 22% a year ago), credit unions and caisses populaires (13%) and five other categories that account for 9% (down from 11% a year ago) in combination (trust and mortgage loan companies, life insurance companies, pension funds, non-depository credit intermediaries and other financial institutions, and special purpose corporations).

The rate of mortgage arrears in Canada has increased, to 0.42%, an increase of one-half from the rate seen a year earlier (0.27% as of July 2008). Increases in arrears rate have been greatest in Alberta, British Columbia, and Ontario.

Outlook for Residential Mortgage Lending

As was noted earlier, reduced home buying activity and construction of new homes has resulted in slower growth of the mortgage market. Looking forward, home-buying activity surged during the spring and summer. This will result in a resurgence of mortgage demand for as long as home sales remain strong.

But, it does seem likely that sales activity will soften in the coming months and during 2010.

- The consumer survey found weak home-buying intentions.
- Flows of new listings into Canadian housing markets are relatively low – currently 13% lower than a year ago. The main reason for listing a home is to buy another, and therefore this data also suggests that buying intentions are weakening.
- The drop in employment that occurred during the winter and spring can be expected to reduce home-buying, since job creation is the primary driver of home-buying. While employment in Canada appears to be on a recovery path, prior job losses will negatively affect housing markets for some time.

Consequently, the volume of residential mortgage credit outstanding is forecast to continue expanding, but at slower rates. While growth was 12.4% in 2007 and 10.2% in 2008, growth is forecast at about 7% per year during 2009 to 2011.

About the middle of 2010, the volume of outstanding residential mortgage credit in Canada would pass \$1 trillion, and the total at the end of 2010 would be \$1.04 trillion.

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 \$219 billion in 2007 and \$216 billion in 2008. Approvals are forecast to slow to \$186 billion in 2009, with a small recovery to \$192 billion in 2010.

About CAAMP

CAAMP is the national organization representing Canada's mortgage industry. With over 12,000 mortgage professionals representing over 1,600 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 28 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 October, 2009 by Maritz (a national public opinion and market research firm) on behalf of CAAMP. This is referred to below as the "CAAMP/Maritz" study¹. The survey included 2,000 Canadians. In this survey, 928 of the sample were home owners with mortgages and the remaining 1,072 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. Recently added questions ask whether job loss has been experienced and about levels of concern around job loss.

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, 29% of respondents gave neutral ratings (scores of 5 or 6) to this question. The share that gave positive responses (7 to 10) was 55%, considerably higher than the 16% that gave negative ratings (scores of 1 to 4). The average rating given was 6.56, indicating that on average attitudes are positive about the current state of local housing markets.

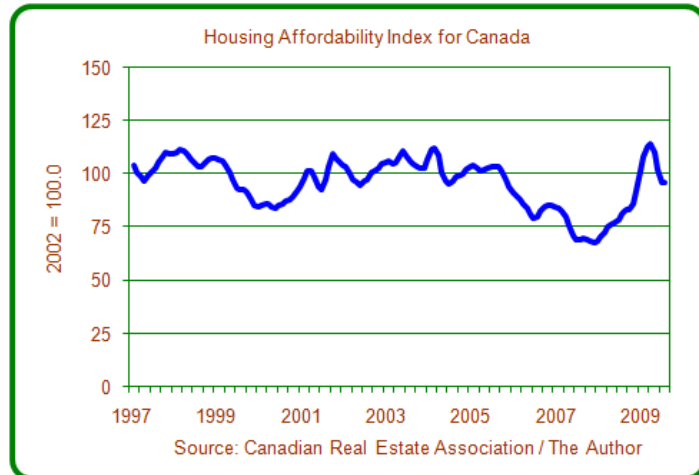
<i>Rating</i>	<i>% Giving Rating</i>	
	<i>Fall 2008</i>	<i>Fall 2009</i>
1 (Very Bad Time)	8%	4%
2	3%	2%
3	9%	4%
4	11%	6%
5	15%	13%
6	15%	16%
7	14%	18%
8	13%	19%
9	5%	8%
10 (Very Good Time)	6%	11%
Total	100%	100%
Average Rating	5.58	6.56

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

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

The Fall 2009 average rating of 6.56 out of 10 is the highest seen in the seven times that this question has been asked. Given that Canada has been in an economic recession during the past year, these results are initially surprising.

Consumers' responses to this question reflect their perceptions of economic conditions in their communities as well as their personal circumstances. While many Canadians have been negatively affected by the recession, or are worried about the future, the vast majority are in stable employment situations. In addition, the responses are influenced by housing affordability. With mortgage interest rates having fallen this year to record low levels, home ownership is now much more affordable than it was during 2006 to 2008. The strong buying that has resulted has recently resulted in rising house prices in many areas, and affordability has deteriorated slightly. The consequence is that in some areas housing markets have recently reverted to "sellers' markets" (with the re-emergence of bidding wars) and in some areas attitudes to housing markets have weakened compared to the spring (as is shown in Table 2-3, below).



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

- The current average ratings exceed 6 in all regions, indicating positive attitudes across the country.
- The highest average ratings are found in Ontario, Alberta, and British Columbia, which arguably have been the worst affected by the economic recession.
- The lowest average ratings were given in Saskatchewan, Manitoba, and Quebec.

Rating	Atlantic	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia	Canada
Negative (Rating 1-4)	14%	19%	14%	21%	17%	15%	15%	16%
Neutral (Rating 5-6)	30%	33%	27%	30%	39%	28%	28%	29%
Positive (Rating 7-10)	56%	48%	59%	49%	44%	57%	57%	55%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Average Rating	6.53	6.27	6.82	6.23	6.05	6.64	6.58	6.56

Source: Maritz survey for CAAMP, Fall 2009.

The history of responses is summarized in the next table. In prior surveys there were much wider variations across the country. For example, in the spring of 2008, Saskatchewan had by far the most negative responses, which was the consequence of rapidly rising house prices and deteriorating housing affordability. Since then, Saskatchewan residents have clearly become more comfortable with their housing markets. Alberta had experienced a similar set of changes a year and a half earlier. On the other hand, the eastern half of Canada - and Atlantic Canada in particular - has seen more stability in attitudes to housing markets.

<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 2009	6.53	6.27	6.82	6.23	6.05	6.64	6.58	6.56
Spring 2009	6.30	5.48	6.96	5.88	5.67	6.93	6.97	6.46
Fall 2008	5.59	5.31	5.84	5.25	5.04	5.66	5.55	5.58
Spring 2008	6.25	5.64	5.90	4.97	3.93	4.75	4.91	5.52
Fall 2007	6.19	5.91	6.02	5.39	5.47	4.31	4.86	5.62
Spring 2007	5.85	3.95	5.85	5.29	6.25	4.05	5.09	5.10
Fall 2006	5.98	5.63	5.92	4.81	6.10	3.20	4.59	5.36

Source: Pollara survey for CIMBL, Fall 2006; Maritz surveys for CAAMP, 2007 to 2009.

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

Expectations about house prices have rebounded. In the Fall 2008 and Spring 2009 surveys, average ratings were below the midpoint of 5.5 out of 10, indicating that in general consumers expected prices to fall slightly. In the Fall 2009 survey, however, the average rating climbed sharply, and was just slightly below the peak level that was set in the spring of 2007. The current average rating of 6.25 out of 10 indicates that, on average, consumers expect house prices to increase slightly.

<i>Rating</i>	<i>% Giving Rating</i>
1 (Go Down Dramatically)	1%
2	0%
3	1%
4	6%
5	16%
6	37%
7	26%
8	10%
9	2%
10 (Go Up Dramatically)	2%
Total	100%

Source: Maritz survey for CAAMP, Fall 2009.

In that Fall 2009 survey, average ratings were above 6 out of 10 in all regions. There were only minor variations across the country, as the ratings within the regions were close to the national average. The lowest average score was found in the Atlantic Region and the highest was in British Columbia.

<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)	3%	13%	6%	4%	6%	8%	6%	8%
Neutral (Rating 5-6)	69%	50%	53%	56%	59%	49%	46%	53%
Positive (Rating 7-10)	29%	36%	42%	39%	34%	43%	47%	40%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Average Rating	6.08	6.14	6.30	6.22	6.19	6.24	6.44	6.25

Source: Maritz survey for CAAMP, Fall 2009.

In the two prior surveys (fall 2008 and Spring 2009) expectations had been most negative in the three provinces (British Columbia, Alberta, and Ontario) that, in retrospect, were worst affected by the recession. Each of the three provinces has seen a sharp positive turn in the Fall of 2009, reflecting that the recession has been considerably less severe than had been feared, and that house prices have strengthened in recent months.

<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 2009	6.08	6.14	6.30	6.22	6.19	6.24	6.44	6.25
Spring 2009	5.34	5.34	5.15	5.49	5.86	5.27	5.09	5.27
Fall 2008	5.63	5.56	5.11	5.33	5.35	5.00	4.77	5.21
Spring 2008	6.26	6.22	5.96	6.64	6.98	5.47	6.35	6.10
Fall 2007	5.85	5.80	6.12	6.11	6.17	5.47	6.26	5.97
Spring 2007	5.96	6.28	6.22	5.86	6.61	6.70	6.42	6.29
Fall 2006	6.04	6.08	6.00	6.45	6.54	6.65	5.85	6.10

Source: Pollara survey for CIMBL, Fall 2006; Maritz surveys for CAAMP, 2007 to 2009.

Expectations About Property Purchase

A new question that was first asked 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 2% will definitely purchase (giving a score of 10 out of 10), and not many more give high ratings of 8 out of 10 (3%) or 9 out of 10 (2%). A very high percentage of Canadians (56%) say they definitely will not purchase (rating of 1 out of 10). On the 10-point scale, the average rating was 2.63. However, these results are not surprising: housing market data suggests that over the long-term about 5% of Canadian households purchase homes per year². In the Fall 2009 survey, just 3.2% of consumers gave answers of 9 or 10 out of 10, which was lower than the results for the two prior surveys (which are summarized in Table 2-8). These responses suggest that while we are currently seeing a very strong wave of home-buying, that wave may soon dissipate.

<i>Rating</i>	<i>% Giving Rating</i>
1 (Definitely Not Purchase)	56%
2	9%
3	8%
4	5%
5	5%
6	5%
7	5%
8	3%
9	2%
10 (Definitely Purchase)	2%
Total	100%

Source: Maritz survey for CAAMP, Fall 2009.

<i>Survey Date</i>	<i>Atlantic</i>	<i>Quebec</i>	<i>Ontario</i>	<i>Manitoba</i>	<i>Saskatchewan</i>	<i>Alberta</i>	<i>British Columbia</i>	<i>Canada</i>
Average Score								
Fall 2009	2.48	2.51	2.66	2.64	3.02	2.59	2.81	2.63
Spring 2009	2.92	2.70	2.81	2.71	2.88	3.04	3.15	2.86
Fall 2008	2.64	2.53	2.78	2.28	2.58	3.27	2.90	2.76
% Giving Score of 9 or 10 out of 10								
Fall 2009	1.3%	3.1%	3.8%	4.3%	4.7%	2.9%	1.7%	3.2%
Spring 2009	7.9%	5.5%	3.7%	5.5%	2.2%	4.5%	3.4%	4.5%
Fall 2008	3.2%	4.3%	4.9%	2.3%	3.4%	6.4%	4.7%	4.6%

Source: Maritz survey for CAAMP, Fall 2008 to Fall 2009.

² Currently, about 650,000 to 700,000 new and resale homes are bought annually by Canada's 13 million households.

Job Losses and Fears of Job Loss

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

- When asked if they or another primary earner in their household had lost a job in the past six months, 18% said yes in the spring and 17% said yes in the fall. Since the estimates are based on a sample survey, these results are essentially the same statistically.
- Secondly, consumers were asked to indicate on a 10-point scale how worried they are about the prospect of them or another primary earner in their household losing a job in the next six months. The results from the two surveys are very similar, as the average ratings are virtually identical. A large share of Canadians gave high scores, indicating that they have low levels of concern. However, there are many Canadians still highly concerned about the risk of job loss: 16% gave scores of 1 to 3, indicating very high levels of concern, and a further 20% gave scores of 4 to 6.
- While the tone of economic reporting has become much more positive in recent months, at the time of this survey in early October, Canadians had not yet altered their opinions about potential changes in their own employment situations.

Rating	% Giving Rating	
	Spring 2009	Fall 2009
1 (Very Worried)	7%	8%
2	3%	2%
3	4%	5%
4	6%	7%
5	9%	8%
6	5%	5%
7	8%	5%
8	10%	9%
9	6%	8%
10 (Not at all Worried)	22%	25%
Does Not Apply (no employed persons in household)	20%	17%
Total	100%	100%
Average Rating	6.74	6.72

Source: Maritz survey for CAAMP, Spring and Fall 2009.
Note: Calculation of average rating omits households with no employed persons.

A more detailed exploration of the data shows, not surprisingly, that individuals who are concerned about potential job loss respond less positively about housing market

conditions, and are less likely to buy homes, compared to those who are more confident about their employment situations.

- Those who rate their level of worry about job loss as high (1 to 6 out of 10) gave an average housing market rating of 6.32 versus 6.81 for those whose level of worry about job loss is low (7 to 10 out of 10).
- Similarly, among those with those with high levels of worry about job loss only 1.5% indicated that they were highly likely to be a home in the next year, versus 4.2% for those with low levels of worry about job loss.

These results suggest that when the economic recovery gains strength and the population becomes less fearful about job loss, home-buying plans might also recover.

3.0 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 and the experience of obtaining their current mortgage. In this section, results are highlighted for a sub-sample of households (928 households) who own a home or condominium and have a mortgage.

Satisfaction with Mortgages and Mortgage Experiences

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. On average, satisfaction was rated at 7.6 out of 10. Ratings from the current survey are:

- 77% were either completely satisfied or satisfied (scores of 7 to 10).
- This includes 19% 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).
- 15% gave neutral ratings (5 or 6).
- Just 6% indicated they were somewhat dissatisfied (rating of 2, 3, or 4).
- Only 2% indicated complete dissatisfaction (rating of 1).

A new question in the Fall 2009 survey asked mortgage consumers to what extent they are satisfied with their mortgage experience, including not only the rate and terms, but also the service received from the mortgage professional and/or the lender. Responses were very similar to those given concerning the terms of mortgages. The average rating given was 7.7 out of 10.

As is illustrated in the table, older adults are more satisfied with their mortgages and their mortgage experiences than are younger adults:

<i>Age Group</i>	<i>With Terms of Mortgage</i>	<i>With Mortgage Experience</i>
18-24	6.9	6.8
25-34	7.1	7.1
35-44	7.4	7.6
45-54	7.7	7.7
55-64	8.0	7.0
65 and Over	8.5	8.3
All Ages	7.6	7.7

Source: Maritz survey for CAAMP, Fall 2009.

Examination of the data found several factors that are related to satisfaction with mortgage terms, with interest rates being a key factor:

- Holders of variable rate and adjustable rate mortgages gave higher satisfaction ratings (averaging 8.3 out of 10) than did those with fixed rate mortgages (7.4 out of 10).
- Borrowers who believe that their current mortgage interest rate is lower than they could get in the market today gave an average score of 8.4. Those who believe their current rate is about the same as they could get today also have above average satisfaction (average score of 8.1). The average score is much lower (6.6) for those who believe their current rate is higher than is obtainable in the current market.
- Satisfaction is low for those who are currently considering doing an early refinance of their mortgage (average score of 6.7 out of 10), but is higher for those who have done an early refinance in the past year (7.7). Those who have not considered refinancing early gave even higher scores, averaging 7.9. Those who considered refinancing early, but decided not to gave below average ratings (7.2).

Mortgage Activity During the Past 12 Months

In the CAAMP/Maritz study, 27% 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 (12%).
- Renewing the current mortgage early, before the term was finished (8%).

Given the current very low levels of mortgage interest rates, many borrowers will find it in their interest to renew before the scheduled renewal dates. The survey found that 16% of mortgage holders are considering refinancing early (representing about 800,000 mortgage holders), 14% considered refinancing early, but decided not to (about 750,000 mortgage holders). The remainder (70%, or about 3.8 million mortgage holders) have either already refinanced or have not considered refinancing.

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 (88%) and only 12% changed lenders.

Housing Equity

The consumer survey asks 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 \$130,300. For those home owners with mortgages, the owners' estimates of the current values of their homes average about \$272,600. Therefore, home owners with mortgages have an average of \$142,300 in equity, and their home equity equates to about 52% of the homes' values. There are about 5.4 million Canadian home owners with mortgages.

For home owners without mortgages, the average home value is about \$322,300. There are about 3.75 million Canadian home owners without mortgages.

Across the roughly 9.15 to 9.2 million home owners in Canada, the total value of homes is estimated at \$2.69 trillion. The total outstanding mortgage principal on these homes is estimated at \$706 billion³. This means that Canadian home owners have about \$1.98 trillion in home equity, which amounts to 74% of the total value of their homes⁴.

Table 3-2 Calculation of Home Owner Equity in Canada, as of October 2009			
	<i>Average Per Household</i>	<i>Total \$ Billions</i>	<i>Number of Households</i>
Mortgage Principal Outstanding	\$130,300	\$706	5.4 million
Home Value for...			
Mortgage Holders	\$272,600	\$1,476	5.4 million
Non-Mortgage Holders	\$322,300	\$1,213	3.75 million
All Home Owners	\$293,100	\$2,689	9.15 million
Equity for Mortgage Holders	\$142,300	\$771	
Equity for All Home Owners	\$216,200	\$1,983	
% Equity for Mortgage Holders		52%	
% Equity for All Owners		74%	
Source: Maritz survey for CAAMP, Fall 2009.			
Note: Figures may not add due to rounding.			

Among Canadian home owners who have mortgages on their homes, most have considerable amounts of equity. The following table shows that only 9% of them have equity positions of less than 10%: this includes a very small number with negative equity, and 8% who have some equity, but less than 10%. A further 11% have equity positions in the range from 10% to 19.9%. More than three-quarters (80%) have 20% or more equity. Since these estimates are based on a sample survey, there is a range of uncertainty around these (and all other estimates) - the estimate that 1% of Canadian mortgage holders have negative equity shouldn't be seen as a precise estimate, but rather as an indication that there are few Canadians in this situation (there may be 50,000 to 100,000 Canadians with negative equity). While this is an uncomfortable situation for those involved, it is not a widespread issue. The survey asked mortgage

³ This total of \$706 billion is less than the total amount of residential credit outstanding (reported by the Bank of Canada as about \$935 as of July 2009) as the estimate developed here does not include rental dwellings, investment properties, or vacant units.

⁴ 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 (\$2.69 trillion) is 43% 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.

holders to what extent they are comfortable with their equity positions. Just 4% indicated that they are “very uncomfortable” with their equity positions and a further 16% indicated they are “somewhat uneasy”. The vast majority (80%) indicated that they are somewhat or very comfortable with their equity positions.

<i>Equity as Percentage of Home Value</i>	<i>% of Mortgage Holders</i>
Negative	1%
0-4.9%	3%
5%-9.9%	5%
10%-19.9%	11%
20% and over	80%
Total	100%

Source: Maritz survey for CAAMP, Fall 2009.

It was shown earlier (with results summarized in Table 2-9, above) that many Canadians are highly concerned about the risk of job loss: Further analysis finds that among mortgage holders who are concerned about job loss, most have substantial amounts of housing equity, which could in theory provide funds during a future period of unemployment. As is indicated in the table below:

- Among home owners with mortgages who are most concerned (the 16% included in the top row of data, who rated their level of concern as 1, 2, or 3 out of 10), most have 20% or more equity in their homes. Only 2% of mortgage holders are in the situation of being highly concerned about potential job loss and having less than 10% equity in their homes.
- Similar results were found for mortgage holders who indicated still-high levels of concern (ratings of 4 to 6 out of 10) – only about 2% of all mortgage holders (about 100,000 households) are in the situation of being somewhat concerned about potential job loss and having less than 10% equity in their homes.

The vast majority of Canadian mortgage holders have either a strong sense of job security or a substantial financial reserve in the form of home equity – or both.

Level of Concern About Potential Job Loss	<i>Equity Position</i>					<i>Total</i>
	<i>Negative</i>	<i>0-4.9%</i>	<i>5-9.9%</i>	<i>10-19.9%</i>	<i>20% or more</i>	
1-3 (Very High)	0%	0%	1%	2%	12%	16%
4-6 (Somewhat)	0%	1%	1%	2%	18%	23%
7-10 (Less Concerned)	1%	1%	3%	6%	40%	51%
Does Not Apply (no employed persons in household)	0%	0%	0%	0%	10%	11%
Total	1%	3%	5%	11%	80%	100%

Source: Maritz survey for CAAMP, Fall 2009.

Equity Take-out

The survey data indicates that 18% 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 9.15 to 9.2 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 5.4 to 5.425 million.
- 18% 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 \$41 billion. The total amount of take-out this year is lower than the \$46 billion that was estimated in the Fall of 2008.

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, 1.3 purposes were given:

- 52% indicated that the money would be used for debt consolidation or repayment.
- 40% gave renovation or home repair as the purpose.
- 13% mentioned making purchases or education as the purpose.
- 16% mentioned investments.
- 9% mentioned "other" purposes.

From the responses, it is estimated that 41% of the take-out (or about \$17 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.

About \$12 billion was taken out for renovations. This is lower than the estimate for 2008 (about \$14.5 billion). A follow-up question in the current survey asked if the Home Renovation Tax Credit had any influence on the decision to take equity out of the home for renovations. One-third of the applicable households indicated that it had.

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, 66% of mortgages have terms exceeding four or more years. The most common term is 5 years (56% of mortgages). A further 10% of mortgages have terms exceeding

5 years. On the other hand, 34% of mortgages have shorter terms, including 9% with terms of 1 year or less and 15% with terms from one year to less than four years.

In this edition of the survey, term selection shows minor variation across the different age groups: there is a slight tendency for younger adults to choose mid-length terms than the older age groups.

<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	7%	9%	13%	10%
1-2 years	6%	4%	6%	5%
2-3 years	11%	7%	6%	7%
3-4 years	3%	7%	3%	5%
4-5 years	64%	64%	57%	62%
5-10 years	6%	8%	10%	8%
More than 10 years	3%	2%	6%	4%
Total	100%	100%	100%	100%

Source: Maritz survey for CAAMP, Fall 2009.

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 2009 survey, consumers who have been active during the past year were considerably more likely to choose a short term. During the past year, the spread between one year and five year mortgage rates (based on typical posted rates as published by the Bank of Canada) averaged about 1.40 percentage points; a year earlier the spread was just 0.20 points. The increased spread in the past year has encouraged a shift to shorter terms.

<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	20%	5%	10%
1-2 years	6%	5%	5%
2-3 years	9%	7%	7%
3-4 years	9%	3%	5%
4-5 years	50%	66%	62%
5-10 years	4%	9%	8%
More than 10 years	2%	4%	4%
Total	100%	100%	100%

Source: Maritz survey for CAAMP, Fall 2009.

Fixed Rate Versus Variable Rate Mortgages

The CAAMP/Maritz study found that 68% of mortgage holders have fixed rate mortgages, 27% have variable and adjustable rate mortgages, and 6% 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 younger age groups. The older age groups are more likely to choose variable rate mortgages than are the younger age groups. Combination mortgages are chosen by small minorities within each age group.

<i>Mortgage Type</i>	<i>18-34</i>	<i>35-54</i>	<i>55 +</i>	<i>Total</i>
Fixed-rate	71%	71%	59%	68%
Variable or adjustable-rate	21%	24%	35%	27%
Combination	9%	4%	6%	6%
All Types	100%	100%	100%	100%

Source: Maritz survey for CAAMP, Fall 2009.

These results are very similar to the estimates developed from the 2008 survey. Moreover, a more detailed review of the 2009 data found that for mortgages that have financed or renewed during the past 12 months the choices are essentially the same as for mortgages committed previously.

In the aftermath of the “credit crunch”, interest rates for variable rate mortgages increased, and the spread relative to 5-year fixed mortgage was reduced (averaging about 0.65 points during October 2008 to this April). This no doubt discouraged their use for part of the past year. More recently, the spread has increased significantly, and is now greater than 1.50 points. Variable rate mortgages have become more attractive, and it is quite possible that next year’s results will show increased use of adjustable and variable rate mortgages.

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 3 years ago, and a year ago the federal government ceased guaranteeing new mortgages with amortization periods greater than 35 years (there is still some availability of longer amortization period for mortgages without mortgage insurance).

A small (but growing) minority of mortgage consumers (18%) have amortization periods of more than 25 years – in the year earlier survey the share was lower at 16% and two

years ago it was 9%. Most mortgages (82%) 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, almost one-half opted for an amortization period longer than 25 years. This includes 6% of new purchasers who took a mortgage with a 40 year amortization period; a year ago that share was 32%.

<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	53%	78%	89%	83%	82%
More Than 25 Years	47%	22%	11%	17%	18%
Including...					
30 years	19%	11%	5%	7%	7%
35 years	23%	11%	4%	5%	6%
40 years	6%	0%	2%	5%	4%
Total	100%	100%	100%	100%	100%
Source: Maritz survey for CAAMP, Fall 2009.					

Interest Rates

The CAAMP/Maritz study collected data on mortgage interest rates for current mortgage holders. The average mortgage interest rate is 4.55% as of October 2009, down sharply from 5.41% a year ago.

For those who have financed or renewed a mortgage during the past 12 months, the average mortgage rate is 4.42%.

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 15% of these borrowers, but were unchanged for 12%, and rates actually fell for 73% of these borrowers. On average, among borrowers who renewed a mortgage, the interest rate fell by 1.12 percentage points. Furthermore, among those who renewed mortgages, just 6% had their interest rate increase by 1 percentage point or more.

Combining the various estimates developed in this study:

- Out of about 5.4 million home owners who have mortgages,
- About 1.5 million have renewed their mortgages during the past 12 months.
- 1.1 million have seen their mortgage rates fall and 150,000 to 200,000 had no change in their interest rate.

- 200,000 to 250,000 had their rates increase. About 100,000 of these households have seen increases of 1 percentage point or more, and about 125,000 had increases of not more than 1 point. 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 about 9.15 to 9.2 million home-owning households, these numbers are not very large.

The data from this study indicates that few mortgage borrowers have been negatively affected by changes in mortgage rates, and large numbers have been positively affected.

The survey data allows for a simulation of the impact of future renewals. The simulation is based on current actual interest rates for Canadian mortgage holders, combined with rates currently being offered in the market (and assuming that interest rates remain at current levels and that borrowers make the same choices for type and term of mortgage). In this scenario, at their next renewals, most borrowers (69%) will see reductions in their mortgage interest rates; 28% would see increases and 2% would see no change. For those experiencing reductions in rates, monthly interest costs would fall by a total of \$580 million; for those facing increases, the total amount of increase would be \$100 million per month. The net outcome would be a reduction of \$480 million per month in interest costs, or about \$5.75 billion per year.

It is quite possible that interest rates will increase during the coming two years and that future renewals will be rates higher than at present. However, this analysis indicates that most mortgage borrowers will be very able to cope with any changes in interest rates that occur at their next renewals.

Little is known about the size of the “sub-prime” or “alternative” mortgage market in Canada. The survey data indicate that only about 2% of Canadian residential mortgages have rates of 8% or higher, suggesting that this market may include only 100,000 to 150,000 borrowers. Less than 1% have mortgage interest rates of 10% or more (representing about 50,000 mortgages).

Mortgage Rate Discounting

The average mortgage interest rate reported here (4.55%, 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 4.55% and five year rates have averaged 5.97%. The 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 4.74%. In contrast, over the preceding 12-month period, the average advertised 5-year mortgage rate was 5.97%⁵. Based on this data it appears that Canadians are negotiating mortgage rate discounts averaging 1.23 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 consult with?” They were able to name more than one type, with the result that the total adds to more than 100%. On average, 1.37 responses were given. The table below shows the percentages of borrowers who consulted with each of the major categories of mortgage professionals.

Table 3-9 Types of Mortgage Professionals Consulted When Obtaining Current Mortgage	
<i>Type of Organization</i>	<i>Total</i>
Representative from a Bank	71%
Mortgage Broker	35%
Representative From A Credit Union	20%
Representative from a Life Insurance/Trust Company	8%
Other	3%
Source: Maritz survey for CAAMP, Fall 2009.	

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, 60% obtained their mortgage from a bank. Mortgage brokers were the second most important source overall, accounting for about one-quarter of all mortgages. For new mortgages⁶, 55% were obtained from banks, 34% from mortgage brokers and about one-tenth (11%) of new mortgages were obtained from other types of mortgage organizations (including credit unions and life insurance companies).

⁵ 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 52 weeks from October 22, 2008 to October 14, 2009.

⁶ Includes mortgages on newly purchased home as well as new mortgages taken out on properties already owned by the borrower. For the subset of mortgages on newly-purchased properties, the broker share was 38% and the bank share was 54%.

<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 Bank	55%	65%	59%	60%
Mortgage Broker	34%	17%	24%	23%
Representative From A Credit Union	8%	13%	12%	12%
Representative from a Life Insurance/Trust Company	2%	2%	3%	2%
Other	2%	3%	2%	2%
Total	100%	100%	100%	100%

Source: Maritz survey for CAAMP, Fall 2009.

When obtaining their mortgages, Canadians received an average of 1.91 mortgage quotes. As can be seen in the table, most borrowers received just a few quotes.

<i>Number of Quotes Received</i>	<i>% Receiving</i>
0	4%
1	43%
2	28%
3	17%
4	5%
More than 4	4%
Total	100%

Source: Maritz survey for CAAMP, Fall 2009.

Important Factors for Lender Selection

The entire sample of households was asked: “of the following attributes, which three would be the most important to you when choosing a mortgage lender?” Ten 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.

- The most important attribute is the mortgage rate, which was mentioned by 77% of all households. For home owners with mortgages, 85% mentioned the mortgage rate as an important attribute. While 66% of tenants rate the interest rate as the most important factor, they 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 43% 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 30% of the consumers) is rated as less important than flexibility about payment schedules (43%).
- Term or length of the mortgage was cited by one-third of consumers.
- “Relationship” factors (the existence of a previous relationship with a lender or references from family and friends, and comments from lenders) are low in importance, as is the inclusion of additional product offerings. Homeowners 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 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 3-12
Percentages of Households Identifying Various Attributes as Important**

<i>Attribute</i>	<i>Home Owners With Mortgages</i>	<i>Owners Without Mortgage, but with Other Credit</i>	<i>Own Outright</i>	<i>Tenants</i>	<i>Other</i>	<i>All Households</i>
Mortgage rate/interest rate	85%	81%	76%	66%	55%	77%
Flexibility of payment schedule (e.g., accelerated, bi-weekly, etc.)	48%	49%	41%	35%	33%	43%
Credibility/reputation	37%	38%	43%	41%	40%	39%
Term/length of the mortgage	36%	30%	29%	28%	24%	32%
Flexibility about making additional lump sum payments	28%	38%	42%	25%	30%	30%
A previous relationship or history with the person/company	18%	18%	12%	9%	10%	14%
Speediness of approval	11%	8%	8%	13%	11%	11%
Reference from a friend or family member	7%	5%	4%	9%	11%	7%
Inclusion of additional product offerings such as better rates on other loans, grocery rebates, etc.	6%	5%	3%	4%	5%	5%
My mortgage provider has good things to say about the lenders he/she works with	2%	2%	1%	1%	1%	2%
Don't know	4%	6%	11%	21%	24%	10%
Source: Maritz survey for CAAMP, Fall 2009.						

4.0 Dimensions of the Residential Mortgage Market

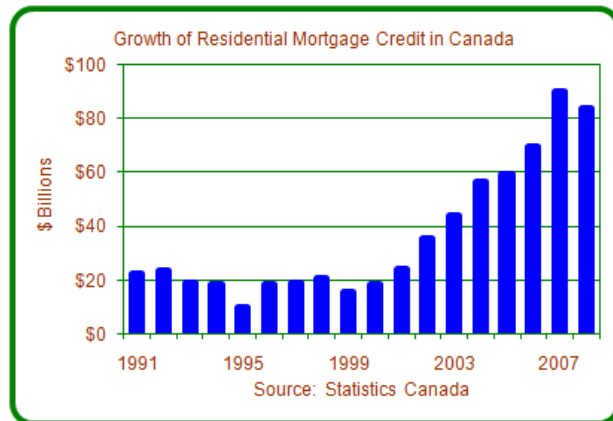
This section provides various data on mortgages and other forms of credit to provide perspectives on growth rates, and also on the size of the mortgage market in Canada.

The Volume of Credit Outstanding

Residential mortgage lending is one of the largest categories within the Canadian financial system. At the end of August 2009, there was about \$940 billion in residential mortgage credit outstanding in Canada. Over the past 15 years, the volume of outstanding residential mortgages has expanded by 182%, or growth rate of 7.1% per year. Growth was especially rapid during 2004 to 2008, exceeding 10% per year, but has eased to 7.1% (\$63 billion) in the most recent 12 month period.

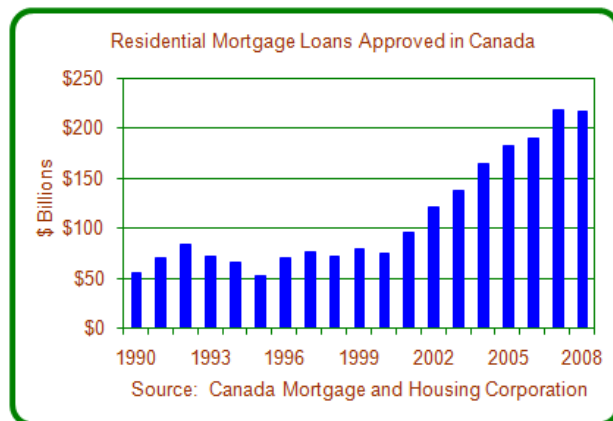


During 1991 to 2000, mortgage credit in Canada grew slowly, by an average of \$18 billion per year. Then, the growth rate accelerated. By 2004, the rate of growth (about \$57 billion) had tripled. In each subsequent year up to 2007, growth accelerated. As is discussed in a later section, this acceleration was due to expanding housing activity and rising housing values. More recently, the growth rate slowed in 2008 and 2009, due to the recession. As of August 2009, year-over-year growth is \$63 billion – still a very large amount.



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 \$216 billion for 2008, while the data on total credit shows growth of about \$84 billion. The chart (above) 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 (\$219 billion) and 2008 (\$216 billion) are almost triple the volume seen during 1997 to 2000 (\$75 billion).

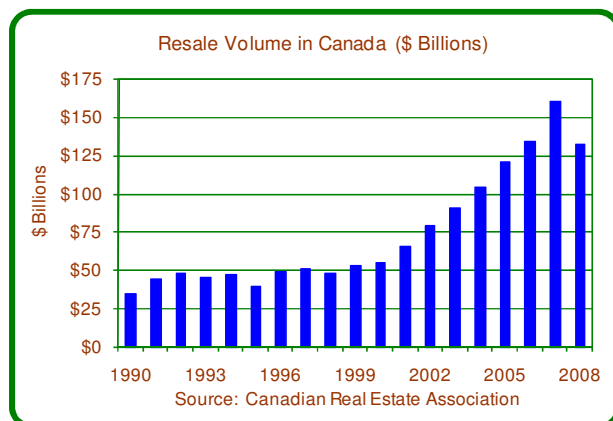
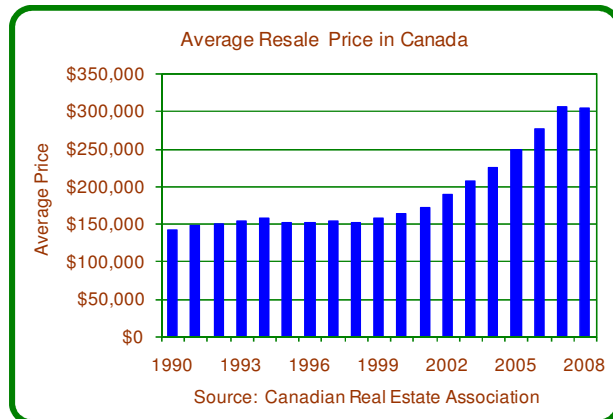
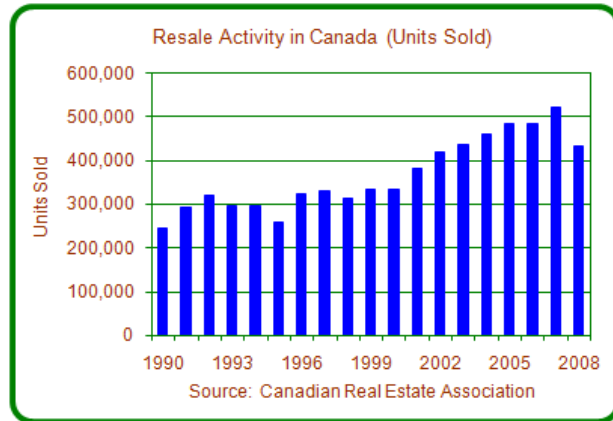
Behind the Growth of Mortgage Activity

It has been seen that mortgage activity expanded very rapidly during this decade. This is related to increasingly strong housing market activity.

Sales of existing homes were relatively flat during 1996 to 2000, with the average rate about 330,000 units per year. Activity started to expand in 2001. In 2007, sales reached an all-time high of about 524,000 units, which is 60% higher than the 1996-2000 average. In 2008, however, sales fell sharply (17%), to about 434,000 units. While this was below the levels seen during 2004 to 2007, it was strong relative to earlier years.

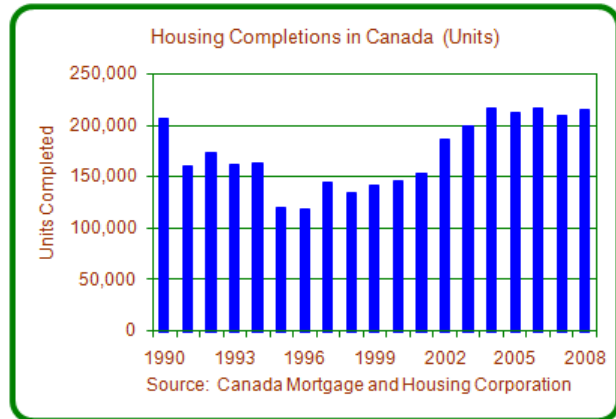
Similarly, the average resale house price was relatively flat during the 1990s, but began to increase around the end of the decade. In 2007, the average price of \$307,000 was 87% higher than in 2000, for an average increase of 9.4% per year over the seven year period. The average price fell slightly in 2008 (less than 1%).

Combining data on sales and prices, the total dollar value of sales was flat until 2001, when it began to expand very rapidly. The value of sales almost tripled (rising by 292%) in the seven years from 2000 to 2007, a growth rate of 16.5% per year. The rising value of sales caused a rapidly rising need for mortgage financing. Over that period, residential mortgage credit expanded at a rate of 9.4% per year. The dollar volume of sales fell sharply in 2008 (18%) from the 2007 record, but was



still the third highest figure of all time.

Completions of newly-built homes also result in requirements for mortgage financing. Data from CMHC shows that completions rose gradually during 1996 to 2001, and increased sharply during 2002 to 2004. During 2004 to 2008, completions exceeded 200,000 units per year. Despite the recession, completions did not fall during 2008, because of high volumes of housing starts that had occurred before the start of the recession.



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 \$41 billion dollars during the past year. This equity take-out accounts for two-thirds of the growth in total mortgage credit outstanding (\$63 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 almost one-half (48%) of outstanding residential mortgage credit. Mortgage-backed securities account for almost 30%, while credit unions/caisses populaires account for more than 10%. The remaining categories (in total) account for almost 10%.

The table shows the most recent data (for August 2009) 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, mortgage portfolios have contracted for four of the eight categories of lender listed in the table, and there has been a very substantial expansion for NHA Mortgage Backed Securities (by \$94 billion, which exceeds the \$64 billion total growth of the mortgage market). The market share for NHA-MBS has increased from 17% two years ago to the current 30%. Only one other category saw an increase in market share during the past year – pension funds - which had a fractional increase. The six other categories saw reduced market share. Large contractions in mortgage portfolios were seen for chartered banks, special purpose corporations, and the other category (non-depository credit Intermediaries and other financial institutions).

Type of Lender	August 2008		August 2009		Growth in \$ Billions	Growth %	Change in Market Share (pct points)
	\$ Billions	Market Share %	\$ Billions	Market Share %			
Chartered Banks	\$487.5	55.6%	\$455.8	48.5%	-\$31.7	-6.5%	-7.1%
Trust and Mortgage Loan Companies	\$10.0	1.1%	\$10.5	1.1%	\$0.4	4.2%	-0.0%
Credit Unions and Caisses Populaires	\$111.2	12.7%	\$118.4	12.6%	\$7.1	6.4%	-0.1%
Life Insurance Companies	\$15.5	1.8%	\$15.1	1.6%	-\$0.3	-2.1%	-0.2%
Pension Funds	\$15.3	1.7%	\$16.4	1.7%	\$1.1	7.2%	0.0%
Non-depository Credit Intermediaries and Other Financial Institutions	\$30.9	3.5%	\$27.9	3.0%	-\$3.0	-9.6%	-0.6%
NHA Mortgage Backed Securities	\$184.1	21.0%	\$277.7	29.5%	\$93.5	50.8%	8.6%
Special Purpose Corporations (Securitization)	\$22.4	2.6%	\$17.8	1.9%	-\$4.7	-20.7%	-0.7%
Total	\$877.4	100.0%	\$940.0	100.0%	\$62.6	7.1%	

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 2008, along with the provinces' (and territories') shares of approvals, plus the growth rates from 2007 to 2008. The data show that for all of Canada, mortgage approvals fell by 1% in 2008, to \$216 billion. Mortgage approvals had grown at double digit rates for six of the prior seven years. In 2008, growth was seen in seven of the ten provinces, but there were reductions in three provinces (Prince Edward Island, Alberta, and British Columbia) and the territories. CMHC cautions that the data for Quebec may be under-stated.

Province	New Housing	Existing Housing	Total	% of Canada	Growth 2007-2008
Newfoundland and Labrador	\$383	\$2,261	\$2,643	1.2%	20%
Prince Edward Island	\$70	\$429	\$500	0.2%	-3%
Nova Scotia	\$652	\$4,688	\$5,340	2.5%	2%
New Brunswick	\$377	\$2,896	\$3,273	1.5%	8%
Quebec (2)	\$4,306	\$28,146	\$32,452	15.0%	4%
Ontario	\$9,120	\$80,596	\$89,716	41.5%	1%
Manitoba	\$514	\$4,891	\$5,405	2.5%	9%
Saskatchewan	\$613	\$4,544	\$5,157	2.4%	7%
Alberta	\$5,491	\$29,188	\$34,680	16.0%	-8%
British Columbia	\$4,807	\$31,810	\$36,617	16.9%	-5%
Yukon and North West Territories	\$34	\$463	\$497	0.2%	-22%
Total	\$26,366	\$189,913	\$216,279	100.0%	-1%

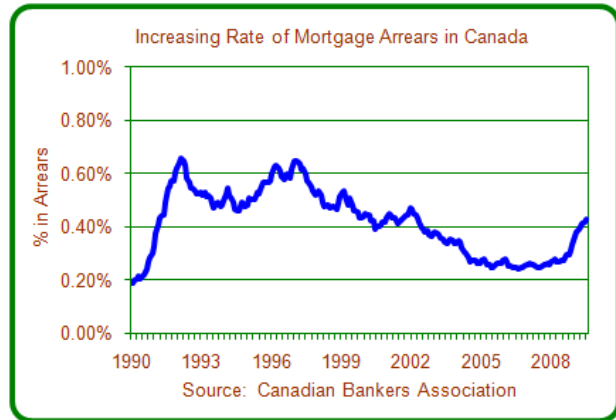
Source: Canada Mortgage and Housing Corporation, Canadian Housing Statistics, 2006 and 2007

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 eight major mortgage lenders: BMO, CIBC, HSBC Bank Canada, National Bank of Canada, RBC Royal Bank, Scotiabank, TD Canada Trust, and Manulife Bank (as of April 2004). 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 arrears rate fell during much of this decade, but then began to rise during the second half of 2008. As of July this year, the arrears rate is 0.42%, up from the low levels of about 0.25% that were seen during 2005 to 2007.

Across the regions of Canada, the highest arrears rates are in Alberta (0.62%) and Atlantic Canada (0.48%). The lowest rates are in Saskatchewan (0.23%) and Manitoba (0.25%).

A year ago (Fall 2008) this report commented that 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). It concluded that the first factor (payment increase) was very unlikely to be significant, but that the second factor (income loss) might become more significant. This does in fact appear to be the main cause for the rising arrears rate. The year-ago report also concluded that housing market conditions would enable Canadian mortgage holders in difficulty to solve their own difficulties, by, if necessary, selling their homes.

The most recent data indicates that the rate of arrears continues to rise (as of July) but the rate of increase has moderated in recent months. Given recent strength of resale markets across most of Canada, which gives borrowers in difficulty more opportunities to solve their problems in the housing market, it is highly likely that the arrears rate is close to its peak and may soon start to descend.

The next section looks into the future and concludes that housing market activity may soon slow once again. But, activity will remain sufficiently strong that almost anyone who chooses to or is forced to sell a home will face a receptive market.

5.0 Outlook for Residential Mortgage Lending

Housing Markets

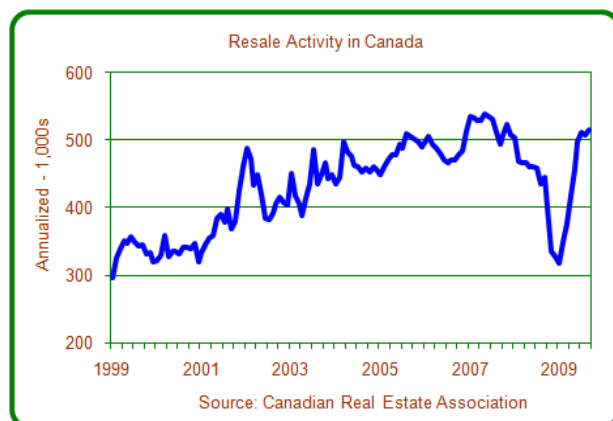
As was discussed in the prior section, through much of this decade rapid growth in the Canadian mortgage market has been driven by a very strong housing market. Housing demand, in turn, benefited from a combination of low interest rates and strong job creation.

Late in 2008, however, the Canadian economy entered recession. A sharp correction in stock markets and flows of bad economic news harmed consumer confidence. Critically, the Canadian economy shifted from creating jobs at a rapid rate (200,000 per year or better) to losing jobs. Late in 2008 and early 2009 potential home buyers stayed on the sidelines, and sales of new and existing homes fell sharply.

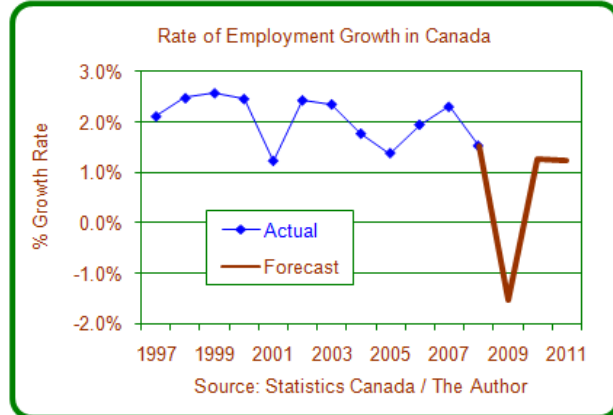
During the spring and summer of this year, it gradually became apparent that the recession would be weaker than had been feared. Those of us who were still employed - the vast majority of us, since employment fell by only about 2.5% during the recession - became more confident and willing to buy homes. Meanwhile, mortgage interest rates fell sharply, resulting in improved housing affordability.

In retrospect, during the winter of 2008/2009, home buying fell more than was warranted by the changing economic fundamentals. Later, as confidence improved, potential buyers who had delayed last winter returned to the market during the spring and summer. At the same time, improved affordability attracted other buyers.

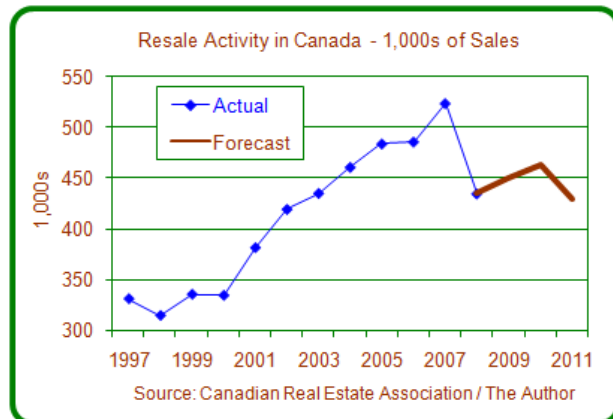
However, both of these factors that have lifted sales to very high levels are temporary factors, and their effects will wane.



Over long periods of time, job creation is the key factor that supports home-buying. At this time it seems likely that a moderate rate of job creation will occur during the coming year. But, the loss of about 400,000 jobs during the recession is a big negative factor. People don't get jobs and immediately buy homes. It takes time to get ready to buy. The recession means that there are now fewer recently-employed people who are getting ready to buy and this will likely mean that home-buying will slow during 2010.



The current wave of home-buying will cause total resale activity in 2009 to be higher than in 2008. And, a forecast of continued strength into early 2010 may cause total sales for the year to increase further. But, a wind-down of sales during 2010 is forecast to result in weakness into 2011.

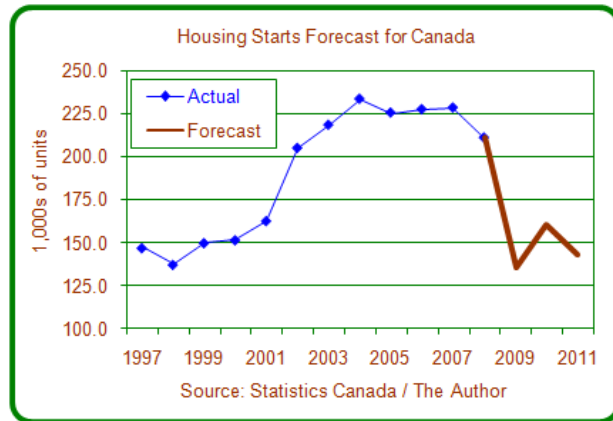


Housing markets can be affected by an "investment motive". This includes buying of homes for investment purposes, but it also includes buying by owner-occupants where the primary motivator for the purchase is the expectation of making a capital gain, rather than the real housing needs of the buyer. Estimates 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. Market data also suggests that there have been weak investment motives in Ontario and Alberta. Because of investment motives, and also because of the severity of the recession, these three provinces are seeing the most volatile housing markets.

In the new homes arena, housing starts tend to be more volatile than resale activity. Housing starts fell very sharply during the winter of 2008/2009, and at the time of writing have not shown the same degree of improvement that has been witnessed for resales. However, because of the marketing and production process for new homes, starts activity lags behind resales - it is very likely that the starts numbers will soon start to

improve. For all of 2009, housing starts numbers will be quite low. But, sales of new homes that occurred during the spring, summer, and fall of 2009 should result in increased housing starts for 2010. If the forecast is correct that resale activity will moderate during 2010, housing starts would also slow during late 2010 and in 2011.



For the new home sector, job growth is especially critical – if employment is expanding, there is a need to expand the housing stock, and housing starts result. But, if employment contracts, there is much less need to expand the housing stock, and housing starts can fall very sharply. The job losses that have occurred in this recession are expected to limit housing starts for some time to come.

Forecasts of Mortgage Lending Activity

The forecasts for the resale and new homes markets suggest that the growth rate for residential mortgage credit will be moderate during 2010 and 2011. However, it is expected that the mortgage market will continue to expand.

Taking the forecasts of housing market activity, it is projected that the amount of outstanding residential mortgage credit will increase by about 7% per year, to a 2009 year end total of \$965-970 billion, \$1.035 to \$1.04 trillion at the end of 2010 and \$1.1 trillion at the end of 2011. The forecast growth rates of about 7% per year would be a slowdown compared to 2004 to 2008, when growth averaged 10.7% per year.

The volume of new mortgage approvals has also been forecast.

- During 2008 there were \$216 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 2009 is forecast to fall to \$186 billion (about 14% lower than in 2008).
- For 2010, approvals are forecast at \$192 billion (3% higher than in 2009) and for 2011 the forecast is \$178 billion (a 7% 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 2010 and 2011.

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

Table 5-1 Forecast Summary - Canada						
<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>
1999	2.6%	335	\$53	150	\$421	\$78
2000	2.5%	334	\$55	152	\$439	\$75
2001	1.2%	381	\$66	163	\$463	\$95
2002	2.4%	419	\$79	205	\$499	\$120
2003	2.4%	435	\$90	218	\$543	\$138
2004	1.8%	461	\$104	233	\$600	\$164
2005	1.4%	484	\$121	225	\$659	\$182
2006	2.0%	486	\$135	227	\$729	\$189
2007	2.3%	524	\$161	228	\$819	\$219
2008	1.5%	434	\$132	211	\$903	\$216
2009 (F)	-1.5%	450	\$139	136	\$968	\$186
2010 (F)	1.3%	463	\$144	161	\$1,037	\$192
2011 (F)	1.2%	429	\$133	143	\$1,106	\$178
Sources: Statistics Canada, Canadian Real Estate Association, Canada Mortgage and Housing Corporation; all forecasts by the author.						