Annual State of the Residential Mortgage Market in Canada

Prepared for:

Canadian Association of Accredited Mortgage Professionals

By:

Will Dunning

CAAMP Chief Economist

November 2007

Table of Contents

List of Tables

1.0 Introduction and Summary

This is the third 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 - those results have an accuracy of +or- 2.2%, 19 times out of 20. One-half of the sample were home owners with mortgages and the remainder were renters, home owners without mortgages, or others who live with their families and are not responsible for mortgage payments or rents. The survey was conducted by Maritz (a national public opinion and market research firm) for CAAMP, in late September/early October 2007.

Consumers' Expectations About Housing Markets

Consumers were asked several questions about 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.

<u>Local Housing Market Conditions</u>

When asked "is now a good time or a bad time to buy a new home in your community?" responses were neutral overall, but were quite mixed across the country. The average score given this fall was 5.62. As can be seen in the table on the next page, this is the highest score recorded in the three surveys that have been conducted to date.

The most positive responses were given in Atlantic Canada, Ontario, and Quebec. The lowest average rating was found in Alberta, although as can be seen in the table below, expectations have strengthened in Alberta during the past year.

Compared to last spring, average scores increased in five of the seven regions shown below. A small decline was seen in British Columbia, and a large decline occurred in Saskatchewan, which is related to the extremely rapid house price growth that has occurred during the past two years. Quebec saw a large bounce-back from a very low rating last spring, and expectations in Quebec are now higher than the national average.

Table 1 **Average Consumers' Ratings by Region for *"Is Now a Good Time or a Bad Time to Buy a New Home in Your Community?"***								
Survey Date	*Atlantic*	*Quebec*	*Ontario*	*Manitoba*	*Saskatchewan*	*Alberta*	*British Columbia*	*Canada*
Fall 2007	6.19	5.91	6.02	5.39	5.47	4.31	4.86	5.62
Spring 2007	5.85	3.95	5.85	5.29	6.25	4.05	5.09	5.10
Fall 2006	5.98	5.63	5.92	4.81	6.10	3.20	4.59	5.36
Source: Pollara survey for CIMBL, Fall 2006; Maritz survey for CAAMP, Spring and Fall 2007.								

The most common reason given for negative responses was high house prices. For positive responses the most common reason was that interest rates are low. Comments that house prices in their community are low and/or rising were also frequently cited by people who have positive opinions about whether this is a good time to buy.

Expectations about House Prices

When asked "to what extent do you think housing prices in your community will go up or down in the next year?" a small minority of consumers expressed negative opinions (just 15%, and among those, the expectations are for limited reductions). Almost one-half (49%) gave neutral answers and 37% expected prices to rise to varying degrees. The average rating (5.97 on a 1-to-10 scale) suggests that on average moderate price increases are expected.

The highest expectations are found in British Columbia and the lowest are in Alberta.

The average rating on this question has dropped, compared to both of the prior surveys. The largest downward shift in expectations has occurred in Alberta and Saskatchewan – these two provinces have seen extreme growth in house prices during the past two years and consumers clearly expect that reduced affordability will bring a slowdown in their local housing markets.

Table 2 **Average Consumers' Ratings by Region for *"To What Extent Do You Think Housing Prices in Your Community Will Go Up or Down in the Next Year?"***								
Survey Date	*Atlantic*	*Quebec*	*Ontario*	*Manitoba*	*Saskatchewan*	*Alberta*	*British Columbia*	*Canada*
Fall 2007	5.85	5.80	6.12	6.11	6.17	5.47	6.26	5.97
Spring 2007	5.96	6.28	6.22	5.86	6.61	6.70	6.42	6.29
Fall 2006	6.04	6.08	6.00	6.45	6.54	6.65	5.85	6.10
Source: Pollara survey for CIMBL, Fall 2006; Maritz survey for CAAMP, Spring and Fall 2007.								

Mortgage Interest Rates

The question "to what extent do you expect mortgage interest rates to increase or decrease in the near future?" received neutral responses from the majority (64%). Among the remainder, there were more expectations of increases (26%) than of decreases (10%). Most of those expecting increases or decreases thought the changes would be minor. The average score given, at 5.81 is virtually unchanged compared to the prior surveys in the fall of 2006 (5.83) and the spring of 2007 (5.86).

Impact of Events in the US

A new set of questions in this survey explored awareness of events in the American housing and mortgage markets, and levels of concern about the events.

Most Canadians (about three-quarters) are aware of the events.

Few Canadians have high levels of concern (just 9% rated their level of concern at 9 or 10 on a 10 point scale).

Among those who have some level of concern, most (58%) say the events have not affected their recent financial choices and decisions. A small percentage (8% of those who are concerned about the events) expects negative effects on the Canadian economy. Small percentages (4% for each category) say that they are avoiding large purchases or investing conservatively.

Consumer Choices and Satisfaction

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

- 24% indicate they are highly satisfied (giving a rating of 10 out of 10) and a further 58% are satisfied (ratings of 7 to 9 out of 10). Combining these results, 81% are satisfied to some degree.
- 13% give a neutral satisfaction rate (5 or 6 out of 10).
- Just 6% are dissatisfied to some degree (1 to 4 out of 10).
- On average, the satisfaction rate is 8.0 out of 10. This rating is a reduction from the score of 8.3 found in both the Fall of 2005 and Fall of 2006 survey. This small reduction is largely due to the interest rate increases that have occurred during the past two years. Among mortgage borrowers, there is a small minority (about 8%) that has renewed mortgages during the past year and the new interest rate is higher than they had previously. These borrowers tend to be less satisfied than the average, giving an average rating of 7.6. Even within this small group, most are satisfied with their mortgages.
- Older adults (aged 55 and over) are more satisfied with their mortgages than are younger adults.
- The most-cited reason for satisfaction with mortgages is low rates (mentioned by 60%).
- Various reasons related to flexibility of terms and payments were mentioned by, in total, 58%.
- Among those who are neutral or dissatisfied, the most common reason for dissatisfaction is the interest rate (mentioned by 46%). This response represents 9% of all mortgage holders.

About one-third (34%) of home owners with mortgages had some form of mortgaging activity during the past 12 months: taking out a new mortgage, or renewing or refinancing an existing mortgage.

Among those who renewed or refinanced an existing mortgage, 13% changed lenders and 87% remained with the same lender.

About one-in-six (17%) of mortgage borrowers took equity out of their home in the past year. The average amount is estimated at $35,400. These results imply that the total amount of equity take-out during the past year has been $29 billion[1]. The most common uses for the funds from equity take-out are debt consolidation and repayment (mentioned by 47% of respondents) and to finance home renovations (43%).

The study asked mortgage borrowers about their mortgage term (measured as the term at the time the mortgage was negotiated or renewed): 52% of mortgage borrowers reported having a term of four to five years, which is unchanged from a year ago. Just 10% have terms of more than 5 years, and the remaining borrowers (39%) have terms of less than 5 years.

During the past year, mortgages with longer mortgage amortization periods have become available. Already, 9% of mortgages in Canada have amortization periods of more than 25 years[2]. The share is quite high (37%) 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 5.56%, which is an increase from 5.05% a year earlier.
- Interest rates are higher than this for people who have been active in the mortgage market during the past year: for those taking out a new mortgage the average rate is 5.71% and for those who renewed an existing mortgage the average is 5.86%.
- Looking further at borrowers who have renewed or refinanced a mortgage during the past year, the average interest rate is 5.86%; the average rate prior to the renewal/refinance was just fractionally lower at 5.84%. Among borrowers who renewed, 43% saw their interests rate rise, 34% saw reductions, and 23% had no change. While many borrowers saw their interest rates increase at renewal, the increases were minor for most. It is estimated that about 75,000 to 80,000 of these borrowers had their rates increase by more than 1 percentage point. This amounts to less than 2% of the 4.8 million Canadian home owners who have mortgages.
- The survey also sheds light on the extent of mortgage rate discounting in Canada. Borrowers who have taken five year, fixed rate mortgages during the past year have an average mortgage interest rate of 5.49%. Typical advertised rates averaged

[1] In prior years' surveys, estimates of equity take-out were limited to borrowers who took out equity when they renewed their mortgages. The estimate this year includes all borrowers, whether or not they renewed their mortgages.

[2] Respondents were asked to state the length of the amortization period at the date when they first took out the mortgage.

6.81% over the same period – these borrowers have negotiated discounts that average 1.31 percentage points below typical advertised rates.

Almost three-quarters of mortgages (72%) have fixed interest rates, 21% have variable or adjustable rates, and 7% have “combination” mortgages in which the payment is based partly on a fixed rate and partly on variable rates.

Mortgage holders report that, on average, they obtained 1.94 quotes when they obtained their current mortgage. Only 7% of borrowers obtained four or more quotes.

The types of mortgage professionals consulted most frequently are:

- Major Canadian banks (66%)
- Mortgage brokers (28%)
- Credit unions (11%)
- Mortgage loan and investment companies (6%)
- Life insurance companies (1%).

Among borrowers who have taken out a new mortgage during the past year, 59% consulted with a major bank and 43% consulted with a mortgage broker.

Dimensions of the Residential Mortgage Market

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

- As of August 2007, there was $787 billion in outstanding residential mortgage credit in Canada. This represents one-third of the total credit for households and businesses.
- During the past 15 years, residential mortgage credit has expanded at an average rate of 6.9%, which is slightly faster than the growth rate for total household and business credit (6.6%).
- Growth of residential mortgage credit has accelerated in recent years, as low interest rates and very strong job growth have resulted in increased home buying activity, for both new and existing homes and condominiums. This has resulted in increased demand for mortgages. During the past two years, mortgage credit has expanded by an average of $77 billion per year, or 11.4% per year.
- Another perspective on growth of the mortgage market is in the volume of new approvals, which includes not just new mortgages, but also transfers between lenders as well as refinances of existing mortgages. During the second half of the 1990s annual volumes of approvals were relatively flat. However, low interest rates and stronger housing markets have resulted in rapid growth in recent times. In 2006, the volume of approvals ($189 billion) was two and a half times the figure for 2000 ($75 billion).

Chartered banks account for three-fifths of residential mortgage credit. Among the other categories of lenders are NHA mortgage-backed securities (17%), credit unions and caisses populaires (13%) and five other categories that account for 12% in combination (trust and mortgage loan companies, life insurance companies, pension funds, non-depositary credit intermediaries and other financial institutions, and special purpose corporations). During the past year, two categories have gained market share: the share for NHA mortgage-backed securities has increased by 1.6 percentage points while the share for special purpose corporations has increased by 0.2 percentage point. Pension funds have maintained their share while the other categories have lost market share.

Among the provinces, Ontario accounted for almost one-half (41.6%) of approvals in 2006. Ontario has seen a reduced share of the national total in recent years (down from 48.4% just three years earlier), as mortgage activity has expanded rapidly in most of the other provinces.

In addition to Ontario, three provinces accounted for more than 10% each (British Columbia, Quebec, and Alberta) and each of the remaining provinces and territories had shares below 3% of the national total.

Despite the rises in interest rates that have occurred during the past two years, the arrears rate for residential mortgages has not increased.

Outlook for Residential Mortgage Lending

Interest rates in Canada have increased during the past two years. With house prices rising rapidly, housing affordability has deteriorated sharply. Yet, a new sales record will be set in the resale housing market in 2007. This points out the importance of job creation. Job creation may slow during 2008 and 2009, which would lead to a gradual slowing of housing activity – in 2008 and 2009 sales of existing homes and starts of new homes would be below peak levels, but they would still be quite high in historic terms.

Consequently, the volume of residential mortgage credit outstanding is forecast to expand by 11.7% in 2007, with growth of 9.3% in 2008 and 8.4% in 2009. By the end of 2009, there would be $963 billion of residential mortgage credit in Canada, up from the August 2007 figure of $787 billion.

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 $189 billion in 2006. Approvals are forecast to total $219 billion in 2007, $222 billion in 2008, and $231 billion in 2009.

About CAAMP

CAAMP is the national organization representing Canada's mortgage industry. With over 10,500 mortgage professionals, its membership is drawn from every province and from all industry sectors. This diversified membership enables CAAMP to bring together key players with the aim of enhancing professionalism.

In 2004, CAAMP (formerly the Canadian Institute of Mortgage Brokers and Lenders, or "CIMBL") 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 26 years. In addition to acting as the Chief Economist for CAAMP he operates an economic analysis consulting firm, Will Dunning Inc.

About Maritz

Maritz Research is a wholly owned subsidiary of Maritz Inc., the largest performance improvement company in the world, headquartered in St. Louis, Missouri. For more than 20 years, Maritz Inc. has been the largest provider of customer satisfaction research in the United States and a major supplier of brand equity research. In Canada, Maritz Research has been developing marketing research solutions for Canadian clients under the brand Maritz-Thompson Lightstone since 1977, and has grown to become one of Canada's largest full-service marketing research consultancies.

Disclaimer

This report has been compiled using data and sources that are believed to be reliable. CAAMP, Maritz, Will Dunning, and Will Dunning Inc. accept no responsibility for any data or conclusions contained herein.

The opinions and conclusions in this report are those of the author and do not necessarily reflect those of CAAMP.

2.0 Consumers' Expectations About Housing Markets

Data used in this section was obtained via an online survey conducted during the fall of 2007 by Maritz (a national public opinion and market research firm) on behalf of CAAMP. This is referred to below as the "CAAMP/Maritz" study[3]. The survey included 2,000 Canadians - those results have an accuracy of +or- 2.2%, 19 times out of 20. One-half of the sample was home owners with mortgages and the remainder were tenants and home owners without mortgages.

Since the fall of 2006 the survey has included questions on opinions and expectations about local housing markets, and about the outlook for mortgage interest rates.

In this survey, an additional area of questioning was the extent to which consumers are aware of events in the United States housing and mortgage markets and the extent to which they are concerned about those events.

The questions asked consumers to give their responses on a 10 point scale, where a score of 1 would be very negative, 10 would be very positive, and scores of 5 or 6 would be neutral.

"Is Now a Good Time or a Bad Time to Buy a New Home in Your Community?"

For all of Canada, about one-third of respondents gave neutral ratings (scores of 5 or 6) to this question. The share that gave positive responses (7 to 10) was 38%, higher than the 31% that gave negative ratings (scores of 1 to 4). The average rating given was 5.62, indicating that on average attitudes are neutral about the current state of local housing markets.

Table 3
Consumers' Ratings for "Is Now a *Good Time or a Bad Time to Buy a New Home in Your Community?"*

Rating	*% Giving Rating*
1 (Very Bad Time)	8%
2	4%
3	8%
4	12%
5	16%
6	15%
7	14%
8	13%
9	5%
10 (Very Good Time)	6%
Total	100%

Source: Maritz survey for CAAMP, Fall 2007.

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

Looking at the different regions of the country, however, there are significant variations. As is shown in the following table:

- Ratings are much more positive in the east than in the west, as average ratings in Atlantic Canada, Ontario and Quebec are substantially higher than in Alberta, Saskatchewan, the Territories, British Columbia, and Manitoba.
- In particular, in Saskatchewan and Alberta the percentage of people who gave negative responses (60% and 59% respectively gave scores of 1 to 4) is almost triple the rate seen in Atlantic Canada, Ontario, and Quebec. In British Columbia the proportion giving negative scores is double the proportion in the east.
- In Alberta, only 20% of respondents gave a positive rating for this question, which is only one-half of the share in the east.
- In the east, the percentage of Canadians who gave positive responses to this question is substantially higher than the percentage who responded negatively, indicating that the overall balance of opinion is quite positive in those regions. West of Manitoba, the opposite is true, and the results for those provinces show a negative balance of opinion.

Table 4
Consumers' Ratings by Region for *"Is Now a Good Time or a Bad Time to Buy a New Home in Your Community?"*

Rating	*Atlantic*	*Quebec*	*Ontario*	*Manitoba*	*Saskatchewan*	*Alberta*	*British Columbia*	*Canada*
Negative (Rating 1-4)	21%	24%	23%	33%	60%	59%	44%	31%
Neutral (Rating 5-6)	32%	33%	34%	36%	15%	22%	33%	32%
Positive (Rating 7-10)	47%	43%	44%	31%	25%	20%	23%	38%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Average Rating	6.19	5.91	6.02	5.39	4.67	4.31	4.86	5.62

Source: Maritz survey for CAAMP, Fall 2007.

Reasons for Opinions

Respondents were invited to give reasons for their ratings. More than one reason could be given. On average, the respondents who gave reasons gave 1.14 reasons. The responses were grouped into several categories and are summarized in the table below.

- Among those who gave a negative or neutral rating (score of 1 to 6 on the question of whether this is a good time to buy a home in their community) the most common reason for the rating is the level of house prices – this was cited by 50% of those who gave a negative or neutral rating.
- On the other hand, among those who rated this as a good time to buy, a substantial share (10%) expressed an opinion that house prices are high in their community, but still gave positive ratings on whether it is a good time to buy in their community.
- Low and/or growing house prices were cited by 30% of those people who gave a positive rating. Among those who rated this is a bad or neutral time to buy, 7% mentioned this as a factor.

- The amount and quality of housing supply was mentioned by 12% of those with positive attitudes but just 2% of those with neutral or negative attitudes.
- Interest rates were mentioned as a factor by about one-fifth of respondents. Among those who rated this as a good time to buy, 31% mentioned low interest rates as a factor; among those who see this as a neutral or bad time to buy, 12% mentioned interest rates as a factor.
- A wide variety of comments were made that can be grouped as "market conditions". This includes "sellers' market", "buyers' market", and "the housing market is about to peak". 14% of those who rated this as a good time to buy mentioned one or more of these market factors, and 17% of those with neutral or negative attitudes mentioned these market factors.
- Local economic conditions were mentioned by less than 10% of respondents.
- Many personal opinions were expressed, such as "buying a home is a good investment", as well as comments like "some cannot afford to buy homes". These miscellaneous comments were made by 12% of respondents.
- A small percentage of respondents said they didn't have a reason for their opinion.

Table 5
Consumers' Reasons Given for Opinions

Reasons	*Good Time to Buy (Score of 7 to 10)*	*Neutral or Bad Time to Buy (Score of 1 to 6)*
Prices are high	10%	50%
Market stabilized/prices low	15%	4%
Market/housing prices will continue to go up	15%	3%
Lots of properties for sale	12%	2%
Interest rates are low/fair	31%	4%
Interest rates are high	1%	8%
Seller's market/hot market	5%	6%
Buyer's market/slow market	7%	2%
Market is about to peak/just peaked	2%	9%
Good economy	6%	1%
Bad economy	3%	5%
Good location/community	6%	1%
Other	10%	12%
Don't know	5%	11%

Source: Maritz survey for CAAMP, February 2007.

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

For all of Canada, few consumers (15%) express negative opinions (ratings of 1 to 4) about the prospects for house prices in their community, and very few of these people expect large decreases. Those expecting prices to increase to some degree (37% gave responses of 7 to 10) out-number those expecting reductions by more than two-to-one. About one-half (49%) expressed neutral opinions (scores of 5 or 6). The average score given was 5.97, suggesting that, overall, Canadians expect moderate increases in house prices. The average score this fall is down from the average of 6.10 in the fall 2006 survey and 6.29 in the spring 2007 survey.

Table 6 **Consumers' Ratings for *"To What Extent Do You Think Housing Prices in Your Community Will Go Up or Down in the Next Year?"***	
Rating	*% Giving Rating*
1 (Go Down Dramatically)	1%
2	1%
3	4%
4	9%
5	28%
6	21%
7	20%
8	11%
9	3%
10 (Go Up Dramatically)	3%
Total	100%
Source: Maritz survey for CAAMP, Fall 2007.	

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

- Attitudes about house prices are least optimistic in Alberta, where 35% of consumers expect reductions, slightly more than the 30% who expect increases. This is a surprising result considering the extent of price increases during the past year, and that just six months ago Albertans had the most optimistic expectations.
- The greatest expectations for price increases are in British Columbia. Expectations for price growth are above average in Ontario, Manitoba, and Saskatchewan.
- In Atlantic Canada and Quebec expectations are slightly below the national average.

Table 7 **Consumers' Ratings by Region for *"To What Extent Do You Think Housing Prices in Your Community Will Go Up or Down in the Next Year?"***								
Rating	*Atlantic*	*Quebec*	*Ontario*	*Manitoba*	*Saskatchewan*	*Alberta*	*British Columbia*	*Canada*
Negative (Rating 1-4)	13%	12%	13%	5%	15%	35%	13%	15%
Neutral (Rating 5-6)	56%	58%	47%	59%	43%	36%	40%	49%
Positive (Rating 7-10)	31%	30%	41%	36%	42%	30%	47%	37%
Total	100%	100%	100%	100%	100%	100%	100%	100%
Average Rating	5.85	5.80	6.12	6.11	6.17	5.47	6.26	5.97
Source: Maritz survey for CAAMP, Fall 2007.								

"To What Extent do You Expect Mortgage Interest Rates to Increase or Decrease in the Near Future?"

On balance, Canadians expect that mortgage interest rates will increase slightly in the near future:

- While 64% of respondents gave neutral responses to this question (5 or 6 out of 10), 26% gave responses of 7 to 10 (indicating that they expect increased rates), while a small minority (10%) gave responses of 1 to 4 (indicating expectations of reduced rates).
- Moreover, among those who indicated that they expect reductions, most expected the reductions would be minor (a score of 4).
- Most of those who expect increased mortgage interest rates expect minor increases (giving scores of 7 or 8).
- The average score given, at 5.81, indicates that on average the expectation is for minor increases in mortgage interest rates. The average score in this survey is very similar to the score found a year ago (5.83) and in the spring 2007 survey (5.86).

The stability of consumers' opinions on this question is interesting, especially given that the opinions of economists have shifted during the past year. While a significant minority of consumers are saying are that they expect interest rates to rise (slightly), their responses may really be a reflections of a "risk management" attitude - they are managing their finances to be able to cope with future changes in rates.

Table 8
Consumers' Ratings for *"To What Extent Do You Expect Mortgage Interest Rates To Increase or Decrease in the Near Future?"*

Rating	*% Giving Rating*
1 (Go Down Dramatically)	0%
2	0%
3	1%
4	9%
5	36%
6	28%
7	17%
8	6%
9	1%
10 (Go Up Dramatically)	2%
Total	100%

Source: Maritz survey for CAAMP, Fall 2007.

The Impact of Events in the US Housing Market

In the fall 2007 survey, consumers were asked three questions about recent changes in the American housing and mortgage markets.

About three-quarters of Canadians are aware of media coverage about the American housing and mortgage markets, although 22% said they were not at all aware and 6% said they had little awareness. About one-tenth indicated a high level of awareness (giving a rating of 9 or 10 on a 10 point scale).

Table 9 Consumers' Ratings for their Awareness of Media Coverage of the American Housing and Mortgage Markets	
Rating	*% Giving Rating*
1 (Not Aware At All)	22%
2	6%
3	8%
4	7%
5	12%
6	12%
7	15%
8	10%
9	5%
10 (Following Very Closely)	4%
Total	100%
Source: Maritz survey for CAAMP, Fall 2007.	

For those who rated their awareness as 3 out of 10 or higher (which included 72% of those surveyed), a follow-up question asked "how concerned are you about recent changes in the American housing and mortgage markets?" These responses showed that for most of these people, levels of concern are not very high – 53% gave ratings of 5 or less on a 10 point scale and 47% gave ratings of 6 or higher. But, just 8% gave ratings of 9 or 10.

Table 10 Consumers' Ratings for their Concern About Recent Changes in the American Housing and Mortgage Markets	
Rating	*% Giving Rating*
1 (Not At All Concerned)	7%
2	3%
3	9%
4	13%
5	21%
6	15%
7	15%
8	10%
9	3%
10 (Very Concerned)	5%
Total	100%
Source: Maritz survey for CAAMP, Fall 2007.	

The third question in this area asked those people who are concerned with the recent changes in the American housing and mortgage market (who gave ratings of 6 to 10 on a 10 point scale) "How, if at all, have the recent changes in the American housing and mortgage market affected your recent financial choices and decisions?". The majority of these people (58%) indicated that this concern has not affected their recent financial choices or decisions. Other opinions expressed are:

- 8% thought the events would negatively affect the Canadian economy.
- 4% are avoiding large purchases and new debt.
- 4% are not investing or investing conservatively, but the same percentage is considering buying, investing, or making purchases.
- 4% say the markets are down or they feel financial pressure.
- 3% expect that interest rates will rise.
- 3% are being careful or feel nervous.
- Various other comments were made by 9%.
- Just 4% refused to answer or said they don't know.

The over-riding conclusion from this sequence of findings is that most Canadians see little impact on Canada or on themselves.

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 actual mortgage interest rates and on consumers' satisfaction with their mortgages. In this section, results are highlighted for a subset of households (1,000 households) who own a home or condominium and have a mortgage. The size of this sample results in accuracy within +or- 3.1%, 19 times out of 20.

Satisfaction with Mortgages

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

- 81% were either completely satisfied or satisfied (scores of 7 to 10).
- This includes 24% 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).
- 13% gave neutral ratings (5 or 6).
- Just 4% indicated they were somewhat dissatisfied (rating of 2, 3, or 4).
- Only 1% indicated complete dissatisfaction (rating of 1).

On average, satisfaction was rated at 8.0 out of 10. This is a reduction from the average score of 8.3 found in the fall 2005 and fall 2006 surveys.

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

- Among those aged 55 and older the average satisfaction rating was 8.2, versus 8.0 for those 35 to 54, and 7.7 among 18 to 34 year olds.
- Males and females are about equally satisfied with their mortgages.

Table 11
Average Satisfaction Ratings for Mortgages
by Sex and Age Group

Age Group	*Females*	*Males*	*Both Sexes*
18-24	7.7	7.6	7.7
35-54	8.0	8.0	8.0
55 and Over	8.2	8.3	8.2
All Ages	8.0	7.9	8.0

Source: Maritz survey for CAAMP, Fall 2007.

Considering that mortgages interest rates have increased compared to a year ago, it is not surprising that the level of satisfaction has been reduced slightly. The survey data provides some explanation for this:

- Among people who have renewed their mortgages during the past year, 43% saw their mortgage interest rates increase. This sub-group gave the lowest satisfaction ratings (an average score of 7.6, which is below the average score of 8.0 for all mortgage holders).
- People who renewed mortgages but saw their interest rate fall (34% of those who renewed) or unchanged (23% of those who renewed) gave average satisfaction scores of 8.1, fractionally above average.
- Similarly, people who have taken a new mortgage (either on a newly-purchased home or on a home they owned already) also gave average satisfaction ratings of 8.1.
- Finally, people who had no mortgaging activity during the past year gave satisfaction scores that equaled the overall average of 8.0.

Looking at the data from a slightly different angle, people who have variable rate mortgages (21% of mortgage holders) or mortgages that combine variable and fixed rates (7% of mortgage holders) provided lower satisfaction ratings (average of 7.8) compared to people who have fixed rate mortgages (who gave an average rating of 8.1). Because of interest rate increases during the past year, virtually all of the holders of variable rate mortgages and combination mortgages have experienced an increased interest rate compared to a year ago. Despite this, their satisfaction ratings are just slightly below the average for all mortgage holders.

The study also looked at satisfaction ratings for those who obtained their current mortgage through a mortgage broker, compare to those who did not. It found that those who used a broker gave an average satisfaction rating of 8.1, somewhat higher than the average of 7.9 for those who did not use a broker.

Reasons for Satisfaction

Those who indicated they were either somewhat satisfied or completely satisfied were asked why they are satisfied. For each respondent, up to three responses were recorded. Because most of the respondents gave more than one reason for their satisfaction, the percentages shown below total to well over 100%. On average, 1.6 reasons were given

The most common reason for satisfaction is “good interest rates”, which was cited by 60% of respondents. Other reasons were:

- Payment plan options (25%)
- Ability to make lump sum or extra payments (19%)
- Duration or length of mortgage (18%)
- Flexibility (10%)
- Good service (8%)
- Satisfied, without specifying a reason (7%)
- Happy with terms or conditions (4%)
- Flexibility of payment schedule (4%)
- Trust or know the lender or the lender’s representative (1%)

- Other reasons (8%)

Some of these responses can be grouped into four general categories:

- As noted above, the interest rate was mentioned as a reason for satisfaction by 60%. This is a reduction from 67% in the 2006 survey.
- Reasons related to “flexibility”, which combines responses of “payment plan options”, “ability to make lump sum or extra payments”, “duration/length”, and “flexibility of payment schedule”, were mentioned by 58% of those who are satisfied with their mortgages.
- “General satisfaction” reasons, which combines “satisfied”, “happy with terms or conditions”, and “other”, were mentioned by 20%.
- “Service and trust” reasons, which combine “good service” and “trust or know the lender or the lender’s representative”, received a smaller share of mentions (9%).

Further analysis investigated whether there are variations across the different age groups. In last year’s survey, it was found that younger borrowers were much more likely to mention interest rates than are older borrowers; older borrowers were more likely to mention other reasons related to flexibility, service and trust, or to indicate general satisfaction. This year, there were no differences among the age groups in any of the categories.

<u>Reasons for Dissatisfaction</u>

People who were dissatisfied with the terms of their mortgage or were neutral (giving satisfaction scores from 1 to 6) were asked what terms of their mortgage they were dissatisfied with. About 19% of the respondents fell into this grouping. This includes about 6% who were dissatisfied (a score of 1 to 4) and about 13% who were neutral (scores of 5 or 6). On average, these respondents gave less than 1 reason each (just 0.9) for their dissatisfaction. Among these 19% of borrowers, causes of dissatisfaction were:

- The interest rate (46%, unchanged from last year).
- Poor customer service (10%).
- Locked-in or dislike length of mortgage (8%).
- Lack of flexibility (7%).
- Penalties (6%).
- Misunderstanding of terms and conditions (4%).
- Other (9%).

Combining the percentage of the sample (19%) that is neutral or dissatisfied to some degree about the terms of their mortgages, with the rates at which these concerns are expressed, results in the following estimates of the frequencies relative to the total number of mortgage holders.

- The interest rate (9%).
- Poor customer service (2%).
- Locked-in or dislike length of mortgage (2%).

- Lack of flexibility (1%).
- Penalties (1%).
- Misunderstanding of terms and conditions (1%).
- Other (2%).

Mortgage Activity During the Past 12 Months

In the CAAMP/Maritz study, about one-third (34%) of home owners with mortgages had some mortgaging activity during the preceding 12 months, which could include:

- Taking out a new mortgage on a newly purchased home/condominium (11%).
- Taking out a new mortgage on a home/condominium that they already owned (6%).
- Renewing the current mortgage because it came up for renewal (14%).
- Renewing the current mortgage early, before the term was finished (4%).

Mortgage Mobility

Those who renewed or refinanced their mortgage during the past 12 months were asked if they remained with the same lender or switched to a different lender. A very large majority of borrowers stayed with the same lender (87%) and only 13% changed lenders.

Equity Take-out

The survey data indicates that 17% 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 $35,400.

Various findings from the survey can be combined to generate an estimate of the total amount of equity take-out by Canadian home owners:

- At present there are about 8.8 million owner-occupied dwellings in Canada.
- Next, we need an estimate of how many home owners have mortgages. According to Statistics Canada's most recent survey of household spending (from 2005), 53% of Canadian home owners have mortgages. Interestingly, this is a reduction from the 55% share found in the 2001 Census – while there has been very large growth in the number of home owners in recent years, which has increased demand for mortgages, it has also happened that a large number of longer-term home owners have become mortgage-free. It is possible that the share of owners with mortgages has increased slightly since the 2005 survey, because there has been a very large volume of completions of new homes during 2006 and 2007. The consequence is that the percentage of home owners with mortgages has been roughly stable, and is assumed to be 55%. This indicates that there are about 4.8 million home owners with mortgages at present.
- 17% of home owners with mortgages have taken out equity during the past year.
- The average amount taken out was about $35,400.

- Combining these factors, the total amount of equity take-out is calculated as $29 billion. To put this into perspective, personal disposable income of Canadians is about $900 billion per year. Equity take-out is equivalent to about 3% of disposable income.

This estimate of $29 billion is considerably larger than was estimated in the 2006 survey – the figure of $10.1 billion estimated in 2006 was for only equity taken out at the time of renewal. The much larger figure for 2007 includes equity taken out by people who took on new mortgages, as well as equity that was taken out at times other than the renewal dates (this can include drawing on secured lines of credit).

Out of the $29 billion in equity take-out, about 40% was taken by those who took out new mortgages, 30% was taken by those renewing mortgages, and 30% was by people who took equity through their existing mortgages or secured lines of credit.

The survey data enables us to draw some conclusions about the characteristics of people who have taken out equity:

- Across the age groups, there are no significant differences in the percentages of home owners that take out equity (except that there was negligible take-out by people aged less than 25).
- The amounts taken out are highest for owners in their "middle working ages" of 35 to 54 (an average of about $38,000).
- Across the country, there are small variations in the percentage of home owners that have taken out equity. In Atlantic Canada and central Canada (including Quebec, Ontario, and Manitoba) the shares are slightly below the national average of 17%; in the west (Saskatchewan, Alberta, and British Columbia) the share is about 20%.
- Average amounts taken-out vary across the country, from $24,000 in Atlantic Canada, to $32,000 in central Canada, and $45,000 in the west.
- It might be expected that people who expect house prices to increase rapidly would be more likely to take equity from their homes, and might take out larger amounts, but the data finds only a weak relationship. An earlier section reviewed expectations of Canadians concerning the future of house prices in their communities. Among those expecting increases (about 39% of Canadians), 19% have taken out equity in the past year, slightly above the average rate of 17%, and the average amount taken out $37,000 was slightly above the average of $35,400. Those with neutral expectations about house prices (about 49% of Canadians) took out equity at the average rate, and took out the average amount. Among those with the lowest expectations about house prices (13% of Canadians), just 12% took out equity and the average amount taken out ($28,000) was 20% below average.

Those who took out equity were asked what they used the money for. Some people gave more than one purpose. Therefore, the following responses add to more than 100%. On average, 1.2 purposes were given:

- 47% indicated that the money would be used for debt consolidation or repayment.
- 43% gave renovation or home repair as the purpose. This category was mentioned much more often by older adults (55 and over, at 53%), than by those in the middle (35 to 54, at 44%), and those under 35 (30%).

- Other responses included “other” (11%, usually to fund family expenses), to invest (6%), car purchase or repair (5%), to start up or invest in a business (5%) to purchase another property (4%), and to add a garage or granny suite (1)%.

Mortgage Terms

The CAAMP/Maritz study examined lengths of mortgage terms, and found that the most common term is 5 years (52% of mortgages). 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. A further 10% of mortgages have terms exceeding 5 years. In total, 61% of mortgages have terms of four or more years. On the other hand, 39% of mortgages have shorter terms, including 12% with terms of 1 year or less and 27% with terms from one year to less than four years.

Looking at the data in more detail, term selection varies across the different age groups, as the oldest group of adults is less likely than the younger age groups to have a mortgage with a term of four or more years (58% for those aged 55 and older versus 62% for those aged 35 to 54 and 67% for those aged 18 to 34). The following table shows the term selections for each of three age groups.

Table 12
Percentages of Mortgages by Length of Term,
By Age Group

Length of Mortgage Term	*Age Group*			
	18-34	*35-54*	*55 +*	*All Ages*
1 year or less	8%	12%	14%	12%
1-2 years	9%	8%	11%	9%
2-3 years	11%	13%	9%	11%
3-4 years	6%	7%	8%	7%
4-5 years	58%	53%	50%	52%
5-10 years	8%	8%	7%	8%
More than 10 years	2%	2%	1%	1%
Total	100%	100%	100%	100%

Source: Maritz survey for CAAMP, Fall 2007.

The next table looks at terms chosen by Canadians who have financed or refinanced their mortgage during the preceding 12 months, in contrast with choices made (earlier) by those who have not made financing changes during the past year. In the 2007 survey, there are no significant differences in choices between these two groups – this indicates that changes in interest rates and in other economic and market conditions have not altered consumer choices concerning mortgage terms.

Table 13 Percentages of Mortgages by Length of Term By Activity During Last 12 Months			
Length of Mortgage Term	*Financed or Refinanced During Past 12 Months*	*Did Not Finance or Refinance During the Past 12 Months*	*Total*
1 year or less	13%	11%	12%
1-2 years	10%	8%	9%
2-3 years	6%	14%	11%
3-4 years	7%	7%	7%
4-5 years	54%	50%	52%
5-10 years	8%	8%	8%
More than 10 years	2%	1%	1%
Total	100%	100%	100%
Source: Maritz survey for CAAMP, Fall 2007.			

Mortgage Amortization Periods

Commencing with this survey, 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 30 years) are a new phenomenon in Canada.

Responses have been grouped into categories of "up to 10 years", etc. A small minority of mortgage consumers (9%) have amortization periods of more than 25 years. Just over one-half of mortgages have amortization periods of about 25 years, and 37% have amortization periods of 20 years or less.

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, a very high percentage (37%) has opted for an amortization period longer than 25 years. This is far higher than for those who have renewed or refinanced an existing mortgage, or had no mortgaging activity during the past year.

Table 14 **Percentages of Mortgages by Length of Original Amortization Period, By Activity During Last 12 Months**					
Amortization Period	*New Mortgage on a New Purchase*	*New Mortgage on a Home Already Owned*	*Renewal*	*Not Active*	*Total*
Up to 10 Years	2%	11%	10%	6%	7%
11-15 Years	7%	16%	13%	12%	12%
16-20 Years	10%	26%	21%	18%	18%
21-25 Years	43%	30%	52%	58%	54%
26-30 Years	11%	11%	2%	4%	5%
31-35 Years	11%	5%	1%	1%	2%
36-40 Years	15%	2%	0%	1%	2%
Subtotals					
Up to 20 Years	20%	53%	44%	37%	37%
21-25 Years	43%	30%	52%	58%	54%
More Than 25 Years	37%	18%	4%	5%	9%
Total	100%	100%	100%	100%	100%
Source: Maritz survey for CAAMP, Fall 2007.					

Fixed Rate Versus Variable Rate Mortgages

The CAAMP/Maritz study found that 72% of mortgage holders have fixed rate mortgages, 21% have variable and flexible rate mortgages, and 7% have "combination" mortgages, in which part of the payment is based on a fixed rate and part is based on a variable rate.

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

Table 15 **Percentages of Mortgages by Type, By Age Group**			
Age Group	*Fixed Rate Mortgage*	*Variable Rate Mortgage*	*Combination Mortgage*
18-34	77%	18%	6%
35-54	73%	20%	7%
55+	67%	26%	6%
All Ages	72%	21%	7%
Source: Maritz survey for CAAMP, Fall 2007.			

Comparing mortgage types selected by those who have financed or renewed their mortgage during the past 12 months, versus all mortgage holders, shows no differences: in other words, it appears that recent turbulence in financial markets has not caused consumers to alter their decisions about which type of mortgage they should take.

Interest Rates

The CAAMP/Maritz study collected data on mortgage interest rates for current mortgage holders. The average mortgage interest rate for these mortgage borrowers is 5.56% as of October 2007, which is a substantial increase from the average of 5.05% found a year ago.

For those who have financed or renewed a mortgage during the past 12 months, the average mortgage rate is 5.79%, slightly higher than the average of 5.45% for those who have not been active during the past year.

The survey also asked those who have renewed a mortgage what the interest rate was prior to renewal, and those rates have been compared to the mortgage borrowers' current rates. This analysis found that the interest rates rose for 43% of these borrowers, but were unchanged for 23%, and rates actually fell for 34% of the borrowers. Furthermore, among those who renewed mortgages, just 9% had their interest rate increase by more than 1 percentage point.

Combining the various estimates developed in this study:

- Out of 4.8 million home owners who have mortgages,
- About 835,000 have renewed their mortgages during the past 12 months.
- 350,000 to 375,000 of them have seen their mortgage rates increase.
- 75,000 to 80,000 of these households have seen increases of more than 1 percentage 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 8.8 million home owning households, this is an insignificant change.

It has also been calculated that for the borrowers who have renewed their mortgages during the past year, the current average rate is 5.86%, which is a very small increase from the borrowers' prior average rate of 5.84%.

Interest rates have increased in Canada during the past two years, but they are not much different than they were five years ago. The data from this study indicates that few mortgage borrowers have been negatively affected by the recent increases in mortgage rates. This is consistent with projections that were developed in CAAMP's spring 2007 report ("Consumer Mortgage Choices in a Changing Market") which calculated that mortgage renewals during the coming year would, on average, have a neutral impact on borrowers.

The average mortgage interest rate reported here (5.56%, for all current mortgages) is well below the typical posted (advertised) rates that have been available during the past year, which confirms that there is a substantial amount of discounting in the mortgage market. This section uses the survey data to generate an estimate of the extent of discounting.

The study group includes a wide range of mortgages, including a full range of remaining terms, fixed rate versus variable rate mortgages, and the mortgages have been originated over a prolonged period. This results in a wide range of mortgage rates. In order to produce a meaningful summary of the interest rates, one subset of the study group was selected for further analysis:

- Mortgages that were initiated, renewed, or refinanced during the past 12 months.
- With fixed rates, rather than variable rates.
- With 5-year terms.

For this group of mortgage borrowers, the average mortgage interest rate is 5.49%. In contrast, over the preceding 12-month period, the average advertised 5-year mortgage rate was 6.81%[4]. Based on this data it appears that on Canadians are negotiating mortgage rate discounts averaging 1.31 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 home/condominium, which of the following mortgage professionals did you consult?" They were able to name more than one type, with the result that the total adds to more than 100%. The table below shows the percentages of borrowers who consulted with each of the major categories of mortgage professionals. In addition to showing results for all mortgage borrowers (in the right hand column of the table), it also shows the shares 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, two-thirds consulted with the major banks, but the share is lower for those taking out new mortgages and higher for those renewing mortgages. Mortgage brokers were the second most consulted type of lending organization, consulted by over one-quarter of all mortgages, but by over 40% of those taking out new mortgages. About one-quarter of borrowers consulted with other types of mortgage professionals (including credit unions, mortgage loan or investment companies, life insurance companies, and others).

Table 16
Types of Mortgage Professionals Consulted
When Obtaining a Mortgage,
By Type of Mortgage Activity in Past 12 Months

Type of Organization	*Took Out New Mortgage*	*Renewed Mortgage*	*No Activity*	*Total*
Representative From A Major Canadian Bank	59%	75%	66%	66%
Mortgage Broker	43%	23%	26%	28%
Representative From A Credit Union	15%	9%	10%	11%
Representative From Mortgage Loan/Investment Co.	7%	5%	6%	6%
Representative From Life Insurance Companies	1%	0%	1%	1%
Other	7%	5%	6%	5%

Source: Maritz survey for CAAMP, Fall 2007.

[4] 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 4, 2006 to September 26, 2007.

When obtaining their mortgages, Canadians received an average of 1.94 mortgage quotes. As can be seen in the table, most borrowers received just a few quotes. Only 3% received more than 4 quotes.

Table 17 Number of Quotes Received When Obtaining a Mortgage	
Number of Quotes Received	*% Receiving*
0	4%
1	41%
2	29%
3	19%
4	3%
More than 4	3%
Total	100%
Source: Maritz survey for CAAMP, Fall 2007.	

Borrowers who obtained a new mortgage in the past 12 months received slightly more quotes (an average of 2.14 quotes) than did borrowers who renewed their mortgages (who received an average of 1.95 quotes).

Table 18 Average Number of Quotes Received When Obtaining a Mortgage, By Mortgage Activity During the Past 12 Months	
Activity	*Average Number of Quotes Received*
Obtained New Mortgage	2.14
Renewed Mortgage	1.95
Not Active	1.88
Total	1.94
Source: Maritz survey for CAAMP, Fall 2007.	

Important Factors for Lender Selection

The entire sample of households (including home owners with mortgages as well as owners who do not have mortgages, tenants, and people who identified themselves as living with family), was asked: “of the following attributes, which three would be the most important to you when choosing a mortgage lender?”. The results are summarized in the following table. In addition to showing the results for all households (in the far right-hand column), subtotals are shown for the various categories of household tenure arrangements.

- By far, the most important attribute is the mortgage rate, which was mentioned by 82% of all households. For home owners with mortgages, 90% mentioned the mortgage rate as an important attribute. Clearly, the price (the interest rate) is the predominant factor in choosing a mortgage lender.

- Other attributes are considered important. Flexibility of payment schedules was mentioned by one-half of all households. The degree of importance for this attribute does not seem to vary by very much across the different tenure arrangements.
- Credibility of lender and flexibility of making lump sum payments are roughly equal in importance, each being mentioned by about 40% of the respondents, and term or length of the mortgage was mentioned by about one-third.
- “Relationship” factors (the existence of a previous relationship with a lender or references from family and friends) are low in importance, as is the inclusion of additional product offerings.
- Mortgage borrowers attach slightly more importance to relationships than do non-owners and owners who do not have mortgages.
- Overall, these consumers are sending a strong message that the key factor is price – the mortgage interest rate.

Table 19
Percentages of Households Identifying Various Attributes as Important

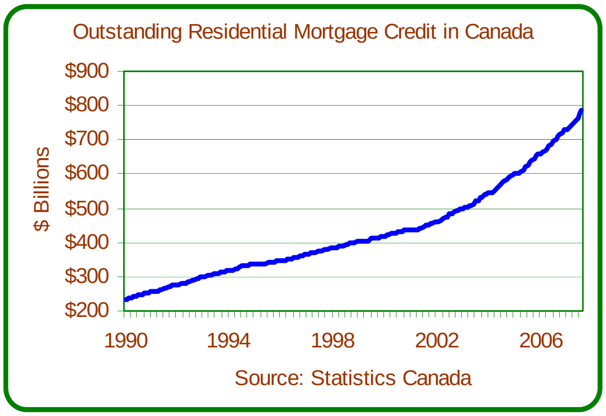
Attribute	*Home Owners With Mortgages*	*Owners Without Mortgage*	*Tenants*	*Living with Family*	*All Households*
Mortgage rate	90%	81%	70%	67%	82%
Flexibility of payment schedules (i.e. accelerated, bi-weekly, etc.)	53%	50%	45%	37%	50%
Credibility of lender	38%	45%	37%	38%	39%
Flexibility about making additional lump sum payments	33%	49%	34%	36%	37%
Term/length of the mortgage	33%	31%	35%	36%	33%
A previous relationship/history with lender	21%	14%	10%	8%	16%
Reference from a friend/family member about the lender	6%	5%	12%	12%	8%
Inclusion of additional product offerings such as better rates on other loans, grocery rebates, etc.	10%	5%	8%	10%	8%
Don't Know	2%	3%	10%	15%	5%
Source: Maritz survey for CAAMP, Fall 2007.					

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.

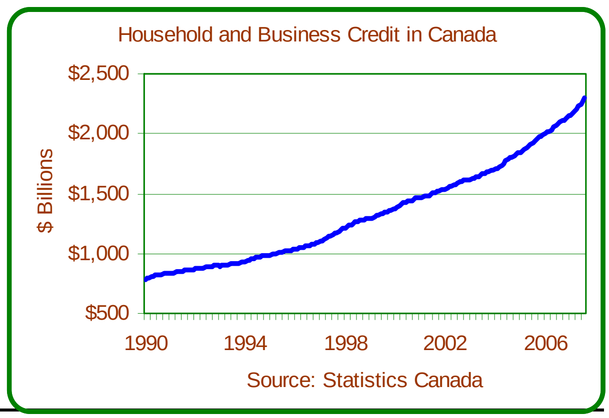
The Volume of Credit Outstanding

Residential mortgage lending is one of the largest categories within the Canadian financial system. At the end of August 2007, there was about $787 billion in residential mortgage credit outstanding in Canada. Over the past 15 years, the volume of outstanding residential mortgages has expanded by 173%, for an average growth rate of 6.9% per year. Growth has accelerated in recent times: during the past year, the growth rate has been 12.7% ($85 billion) and in the prior year the growth rate was 10.8% ($68 billion).

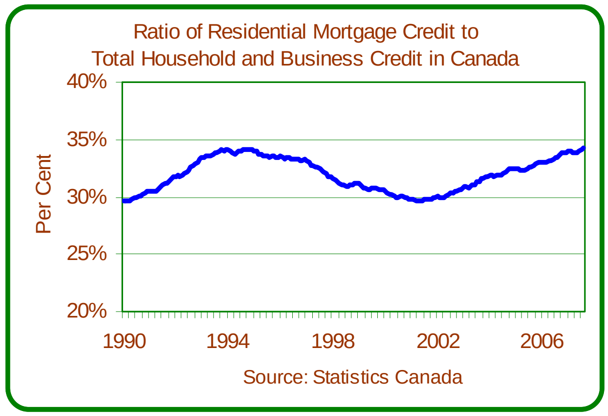


During 1991 to 2000, the volume of outstanding mortgage credit in Canada grew slowly, expanding by an average of $18 billion per year. Beginning in 2001, the growth rate accelerated. By 2004, the rate of growth (about $57 billion) had tripled compared to the 1991 to 2000 period. In each subsequent year,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

The chart to the right shows total household and business credit. Over the past 15 years, total household and business credit expanded at an average rate of 6.6% per year, which is less than the 6.9% rate for residential mortgages. That pattern has been sustained over the past 3 years: total household and business credit grew by 8.5% per year, while residential mortgage credit expanded by 10.9% per year.

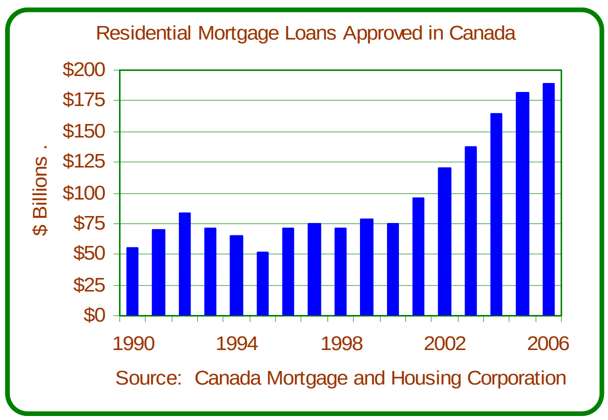


Residential mortgages account for about one-third of total credit to households and businesses. As can be seen in the chart to the right, the share varies over time. During the early 1990s, residential mortgages accounted for a rising percentage of total household and business credit. This can be related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



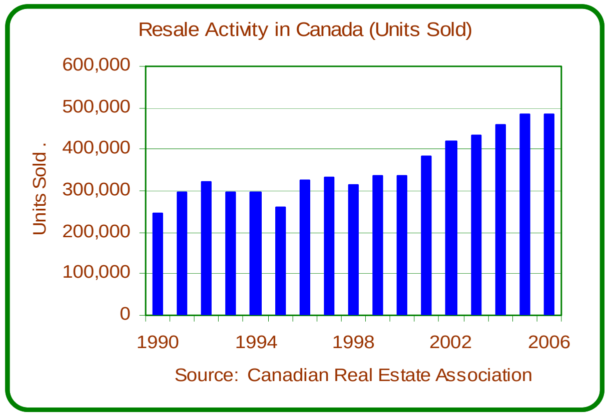
Annual Approvals

Another perspective on the mortgage market looks at the volume of new approvals. This category includes brand new mortgages plus mortgages that are transferred from one lender to another and mortgages that are refinanced. Therefore, the volumes of annual approvals are larger than was shown earlier for the growth rate of total credit. For example, the data on approvals shows total approvals of $189 billion for 2006, while the data on total credit shows growth of about $70 billion. This chart shows that mortgage activity was relatively flat during the second half of the 1990s and has increased sharply in recent years. Total approvals for 2006 ($189 billion) are almost two and a half times the volume seen in 2000 ($75 billion).



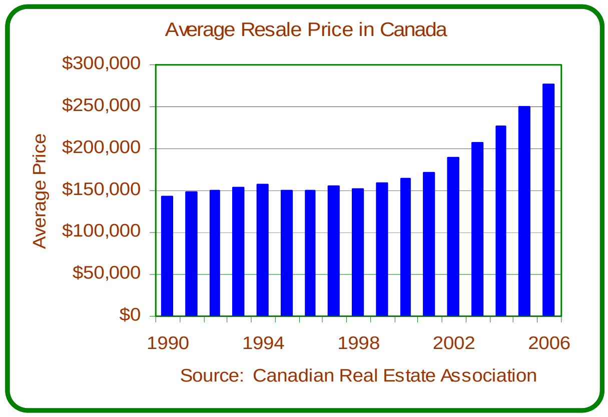
Behind the Growth of Mortgage Activity

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

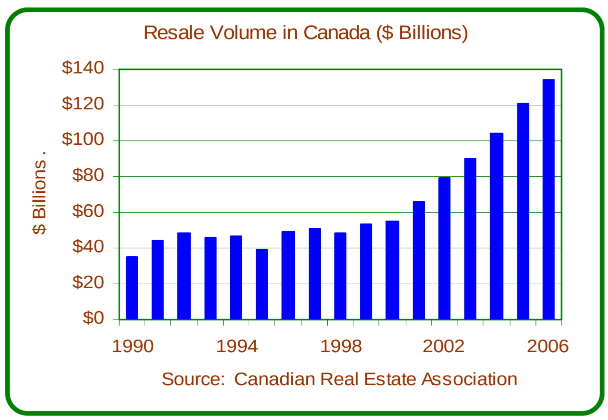


Sales of existing homes were relatively flat during 1996 to 2000, at an average of just under 330,000 units per year. Activity started to expand in 2001. In both 2005 and 2006, sales were at an all-time high of about 484,000 units, which is 48% higher than the 1996-2000 average.

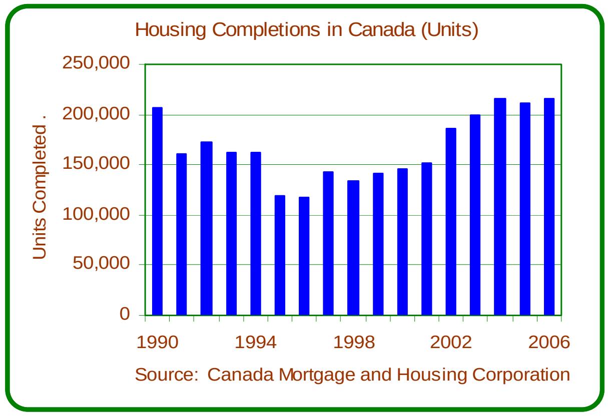
Similarly, the average resale house price was relatively flat during the 1990s, but began to increase around the end of the decade. In 2006 the average price of almost $277,000 was 69% higher than in 2000, representing an average increase of 9.1% per year over the six year period.



Combining the data on sales with the price data, the total dollar value of sales was flat until 2001, when it began to expand very rapidly. The volume of sales more than doubled (rising by 144%) in the six years from 2000 to 2006, for a growth rate of 16% per year. The rising dollar value of sales resulted in a rapidly rising requirement for mortgage financing. Over the same period outstanding residential mortgage credit expanded at a rate of 8.9% per year.



Completions of newly built homes also result in requirements for mortgage financing. Data from CMHC shows that the number of completions rose gradually during 1996 to 2001, and then increased sharply during 2002 to 2004. Completions exceeded 200,000 units each year during 2004 to 2006.



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 $29 billion dollars during the past year. This equity take-out accounts for about one-third of the growth in total mortgage credit outstanding ($85 billion) over the past year.

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 just under three-fifths (58%) of outstanding residential mortgage credit. Credit unions/caisses populaires and mortgage-backed securities both account for more than 10%, and the remaining categories (in total) account for about 12%.

The table shows the most recent data (for August 2007) as well data for the same month a year ago. This data indicates that there has been some shifting in the shares held by the different types of mortgage lenders: NHA Mortgage Backed Securities and special purpose corporations have both seen very large growth in the past year (23.6% and 20.1%, respectively, which is well in excess of overall growth of 12.1%). In consequence, their shares of the market have increased. Conversely, shares have fallen for chartered banks, credit unions and caisse populaires, life insurance companies, and non-depositary credit intermediaries and other financial institutions. The pension funds category has seen a very small amount of growth in its market share.

Table 20 Residential Mortgage Credit, by Category of Lender, August 2006 and 2007						
Type of Lender	*August 2006*		*August 2007*		*Growth*	*Change in Market Share*
	$ Billions	*Market Share %*	*$ Billions*	*Market Share %*		
Chartered Banks	$411.7	58.7%	$454.6	57.8%	10.4%	-0.9%
Trust and Mortgage Loan Companies	$7.7	1.1%	$8.5	1.1%	10.2%	0.0%
Credit Unions and Caisses Populaires	$94.7	13.5%	$103.0	13.1%	8.7%	-0.4%
Life Insurance Companies	$14.6	2.1%	$15.4	2.0%	5.2%	-0.1%
Pension Funds	$11.9	1.7%	$13.7	1.7%	14.9%	0.0%
Non-depositary Credit Intermediaries and Other Financial Institutions	$28.7	4.1%	$28.7	3.6%	0.0%	-0.4%
NHA Mortgage Backed Securities	$109.5	15.6%	$135.3	17.2%	23.6%	1.6%
Special Purpose Corporations (Securitization)	$22.8	3.2%	$27.3	3.5%	20.1%	0.2%
Total	$702.0	100.0%	$786.9		12.1%	
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 2006, along with each province's (and territory's) share of approvals, as well as the growth rates from 2005 to 2006.

The data show that for all of Canada, mortgage approvals increased by 4.0% in 2006, to $189 billion. While this is a relatively slow rate of growth, it followed five consecutive years of double-digit growth, during which activity had more than doubled (rising by 146%).

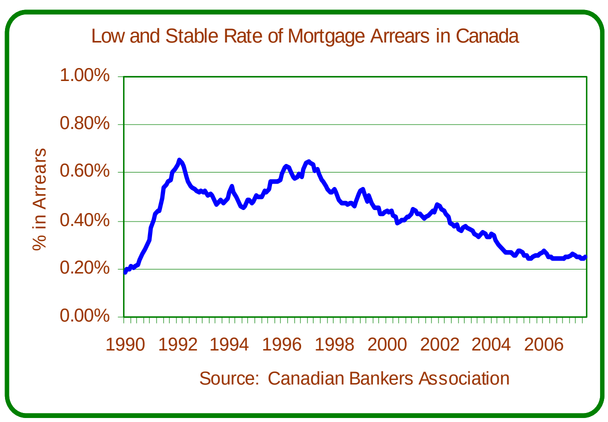
In 2006 very strong growth rates were seen in Saskatchewan and Alberta, while approvals fell in Newfoundland and Labrador, Prince Edward Island, Nova Scotia, and Ontario.

Ontario accounted for over 40% of residential mortgage approvals in 2006. British Columbia, Quebec, and Alberta each accounted for more than 10% of activity. CMHC cautions that the data for Quebec may be under-stated.

Table 21 Approvals of Residential Mortgages by Province, 2006, Millions of Dollars (1)					
Province	*New Housing*	*Existing Housing*	*Total*	*% of Canada*	*Growth 2005-2006*
Newfoundland and Labrador	$229	$1,646	$1,876	1.0%	-8.9%
Prince Edward Island	$59	$391	$450	0.2%	-9.9%
Nova Scotia	$583	$3,895	$4,478	2.4%	-1.8%
New Brunswick	$291	$2,304	$2,595	1.4%	6.7%
Quebec (2)	$3,666	$22,224	$25,890	13.7%	2.9%
Ontario	$9,746	$69,096	$78,843	41.6%	-3.7%
Manitoba	$515	$3,756	$4,271	2.3%	5.1%
Saskatchewan	$405	$2,787	$3,192	1.7%	16.1%
Alberta	$6,466	$27,621	$34,088	18.0%	31.1%
British Columbia	$4,291	$28,922	$33,214	17.5%	2.9%
Yukon and North West Territories	$41	$432	$473	0.2%	7.7%
Total	$26,293	$163,076	$189,369	100.0%	4.0%
Source: Canada Mortgage and Housing Corporation, Canadian Housing Statistics, 2005 and 2006					
Note: (1) Mortgage approval data are gross and may not fully capture lending activities of credit unions, caisses populaires, other small institutions and privately-insured loans in some areas.					
(2) Quebec data is understated due to low response rate to the surveys in that province.					

Mortgage Arrears

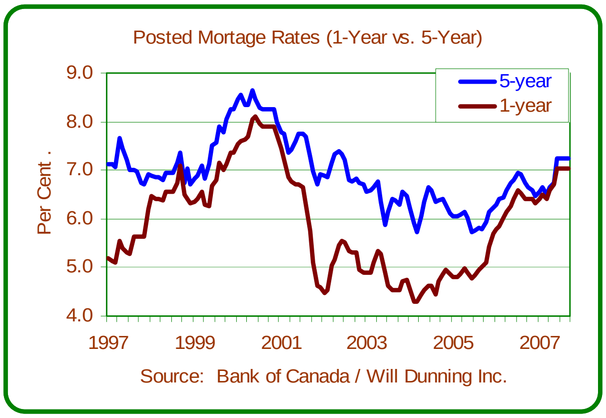
The Canadian Bankers Association provides data on mortgage arrears, which is obtained from seven major mortgage lenders (BMO, CIBC, HSBC Bank Canada, National Bank of Canada, RBC Royal Bank, Scotiabank, and TD Canada Trust). The data indicates that during the 1990s, on average, 0.5% of residential mortgages were in arrears. The rate has fallen during this decade. During the past two years the arrears rate has been stable at about 0.25% (the most recent data is for August 2007).



The arrears rates are lowest in British Columbia (0.14%) and Alberta (0.15%) and highest in Atlantic Canada (0.37%) and Saskatchewan (0.35%).

In the data, a mortgage is counted as in arrears after three months.

Mortgage interest rates have increased in Canada during the past two years, especially for short term mortgages, but longer term rates have also increased. Despite this, the arrears rate has not increased. In the past, it appeared that when mortgage interest rates changed the arrears rate moved after a lag of as much as a year and a half. The lack of increase in the arrears rate to date confirms that Canadian mortgage consumers are very capable of handling their mortgage obligations.



5.0 Outlook for Residential Mortgage Lending

Housing Markets

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

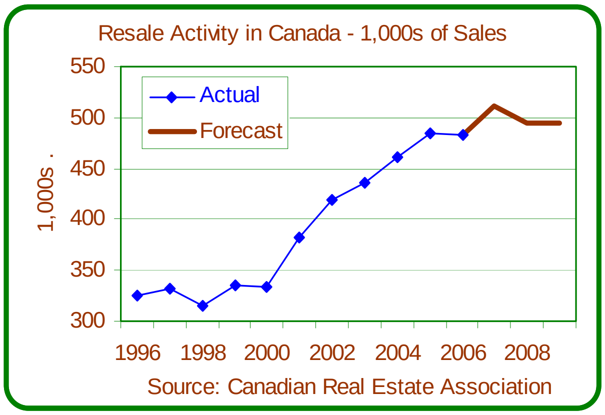
As was shown in the chart on the prior page, mortgage interest rates bottomed in 2005 and have increased. The five year rate, which is the most important rate for the housing market, has increased by more than 1 percentage point compared to the 2005 average of 6.0%. The rate for one year mortgages has increased by about 2 percentage points compared to 2005. Combining higher interest rates with rapidly rising house prices, housing affordability has deteriorated sharply across the country.

However, while affordability is an important consideration, it is not the key factor that drives the housing market. Even more important is job creation, especially the number of jobs that have been created over the past three or four years. As can be seen in the chart to the right, Canada has seen very strong job creation during the past decade, which has averaged about 2.1% per year. The rate of job growth has been considerably more rapid than the growth rate for the adult population in Canada (about 1.5% per year). The consequence is that the percentage of adults who are employed has risen to an all-time record level, which is an extremely positive economic indicator. This economic strength has propelled the Canadian housing market and mortgage market.

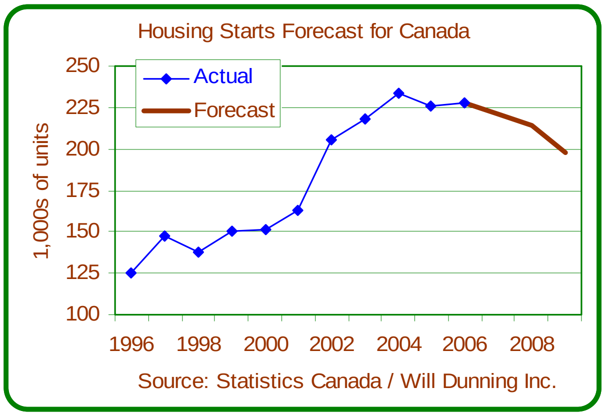
Looking forward, it is possible that the rate of job creation in Canada will slow during 2008 and 2009:

- The strong Canadian dollar is hurting areas of the country that sell a lot of finished goods and services to the US.
- The evolving economic slowdown in the US is another negative factor for exporters.
- Interest rates are higher than they were two years ago.
- High commodity prices are beneficial in some areas of Canada (mainly the west) but are a drag on growth in the east.
- These negative factors are offset by the very positive “wealth effects” that are created by rising house values and the stock market surge of the past five years.
- Overall, it appears that employment growth will slow. The forecast expects that job growth will be about 1.2% or 1.3% in 2008 and 2009. There will be variations across the country, with employment rising most rapidly in areas that produce resources and less rapidly in areas that are more dependent on finished manufactured goods.

With reduced housing affordability and the expectation of slower job creation, resale market activity is expected to slow during 2008 and 2009 – but only slightly. Strong job creation in earlier years will continue to generate strong housing demand for some time to come. Therefore, sales in 2008 and 2009 are expected to be only slightly below the record that will be set in 2007.



In the new homes arena, housing starts peaked in 2004 and have declined slightly. Further reductions are forecast for 2008 and 2009, but with activity at or above 200,000 units per year, there will be strong demand for take-out mortgages in both years.



Forecasts of Mortgage Lending Activity

The expectation of continued high levels of activity in the resale and new homes market suggest that residential mortgage credit will continue to expand rapidly during 2008 and 2009.

Taking the forecasts of housing market activity, it is projected that the amount of outstanding residential mortgage credit will increase by 11.7% in 2007 (to a year end total of about $813 billion) with further growth of 9.3% in 2008 (to $888 billion) and 8.4% in 2009 (to $963 billion).

This would be a slight slowdown compared to the very rapid growth seen in recent years: residential mortgage credit expanded at an average rate of 10.9% per year during the past three years (ending in August 2007).

The volume of new mortgage approvals has also been forecast.

- During 2006 there were $189 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 2007 would be about $219 billion (15.8% higher than in 2006).

- For 2008, approvals are forecast at $222 billion (just 1.4% higher than in 2007) and for 2009 the forecast is $231 billion (4.1% growth). While the rate of growth in approvals is expected to slow, the forecast level of activity indicates that mortgage lenders will continue to be very busy during 2008 and 2009.
- During 2006 the growth rate for approvals was less than the growth rate for total mortgage credit outstanding. This is expected to continue during 2008 and 2009. It implies that transfers and/or refinancing activity will grow more slowly than will new initiations.

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

Table 22
Forecast Summary - Canada

Year	*Employment Growth (%)*	*Resale Activity (1,000s of Units)*	*Resale Volume ($ Billions)*	*Housing Starts (1,000s of Units)*	*Mortgage Credit Outstanding ($ Billions)*	*Mortgage Approvals ($ Billions)*
1997	2.1%	331	$51	147	$383	$75
1998	2.5%	315	$48	137	$403	$72
1999	2.6%	335	$53	150	$419	$78
2000	2.5%	334	$55	152	$437	$75
2001	1.2%	381	$66	163	$461	$95
2002	2.4%	419	$79	205	$497	$120
2003	2.4%	435	$90	218	$541	$138
2004	1.8%	461	$104	233	$598	$164
2005	1.4%	484	$121	225	$657	$182
2006	2.0%	484	$134	227	$728	$189
2007(F)	2.2%	511	$153	221	$813	$219
2008(F)	1.1%	495	$156	214	$888	$222
2009(F)	1.3%	494	$164	197	$963	$231

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