Annual State of the Residential Mortgage Market in Canada

December 2015

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1.0 Introduction and Summary

Housing market activity remains an important driver of the Canadian economy. Housing activity creates jobs in the construction and real estate industries, with further impacts in the myriad of industries that support construction and real estate through related goods and services. Moreover, since home equity is an enormous repository of wealth in Canada (now in the range of $3 trillion), trends in house prices have great influence on the confidence of consumers and businesses. As such, the "housing wealth effect" is a very powerful driver of job creation in Canada.

During the past few years, there have been two primary sources of job creation in Canada – housing has been joined by investment in energy projects. With the sharp downturn in the price of oil and a scaling back of investment plans, that two-legged support has become one-legged.

Strength of the housing market has relied a great deal on continued exceptionally-low interest rates. An additional key factor for the success of Canadian housing markets has been the existence of a stable and competitive housing finance system, which has been remarkably successfully at channeling mortgage funds to homebuyers (and investors) who are capable of meeting the resultant payment obligations.

This report by Mortgage Professionals Canada (formerly CAAMP) reviews trends in the housing and mortgage markets, and assesses implications for the evolution of mortgage credit in Canada.

Moreover, since Canada unfortunately has very limited "official" data on mortgage markets, Mortgage Professionals Canada has taken a leading role in generating new data, via semi-annual consumer surveys (since 2005).

This report has been prepared for Mortgage Professionals Canada by Will Dunning, Chief Economist. It provides an overview of the evolving state of the residential mortgage market in Canada. Major sections of this report consist of:

- Introduction and Summary
- Mortgage Choices
- Financial Parameters
- Consumer Sentiment
- Outlook for the Mortgage Market

Data used in this report was obtained from various sources, including an online survey of 2,001 Canadians. More than half (58%) were homeowners with mortgages and the rest were renters (16%), homeowners without mortgages (22%), or others who live with their families and are not responsible for mortgage payments or rent (4%). The survey was conducted by Bond Brand Loyalty (formerly Maritz Research) for Mortgage Professionals Canada during October 2015.

Evolving Approaches

Mortgage Professionals Canada has conducted semi-annual consumer surveys since the fall of 2005. The research has a core of data on the residential mortgage market. The content has evolved over time, as Mortgage Professionals Canada has sought to contribute to an increased understanding of the residential mortgage market. Mortgage Professionals Canada has developed new data to support better decision-making by consumers, lenders and policymakers.

Included in this edition of the survey, in addition to the core research, is:

- The prevalence of "secondary suites" (renting out part of a dwelling) has been investigated.
- Rising house prices have made it more difficult to save down payments. A simple analysis that contrasts house prices with wage growth indicates that time required to save down payments (say, a fixed 20% of current prices) has become considerably longer.
- A discussion of "homeownership as forced saving" shows that, as interest rates have fallen, the amounts of principal repaid each month have increased substantially. Implications include that rapid repayment of principal is mitigating risk in the mortgage market.
- Contrary to frequent assertions, Canada is not "over-building" housing.

Mortgage Choices

Mortgage Types and Amortization Periods

For homes that have been purchased during 2015, 89% have mortgages (and may also have a Home Equity Line of Credit, or "HELOC"). 11% have neither a mortgage nor a HELOC.

For home owners with mortgages, fixed-rate mortgages remain most popular. For homes that have been purchased during 2015, and have a mortgage, 76% of the mortgages have fixed interest rates. A fifth have variable or adjustable rates, and combination mortgages have a 4% share.

For mortgages on homes purchased during 2014 or 2015, 75% have contracted amortization periods of 25 years or less and 24% have extended amortization periods. For all mortgages (regardless of the date of purchase) 85% have contracted periods of no more than 25 years.

For homes purchased during 2014 or 2015, the average contracted amortization period is 23.5 years. Canadians are highly motivated to repay their mortgages as quickly as possible and these surveys find consistently that each year more than a third of mortgage holders take actions that will shorten their amortization periods (making lump sum payments, increasing their regular payment to more than is required, or increasing the frequency of payments). The most recent buyers expect that, on average, they will repay their mortgages in 19.2 years, which is 4.3 years shorter than their average contracted period.

Among Canadian mortgage holders, 14% either rent or plan to rent out part of their home (representing about 775,000 to 800,000 secondary residences). This activity is not just confined to first-time buyers, or recent buyers – it is widespread across different groupings of homeowners who have mortgages. This frequently occurs out of economic necessity but, for a large minority (41%), it is a choice, not a necessity.

Secondary suites don't just support homeownership – they are also an important source of moderate cost rental accommodations.

The rate of mortgage arrears continues to fall gradually in Canada and is now quite close to the pre-recession level.

Among borrowers who took out a new mortgage during 2015, 45% obtained the mortgage from a Canadian bank and 42% from a mortgage broker. Other categories accounted for 13% of new mortgages.

Financial Parameters

There are currently about 9.74 million homeowners in Canada, of whom about 5.71 million have mortgages and may also have a Home Equity Line of Credit (HELOC). 520,000 have no mortgage but do have a HELOC. In total, about 2.15 million Canadian homeowners have HELOCs. An estimated 3.51 million homeowners have no financing on their homes.

Interest Rates

Looking at interest rates, Mortgage Professionals Canada's data indicates that:

- The average mortgage interest rate for homeowners' mortgages is 3.07%, a drop from the average of 3.24% in the fall of 2014 and 3.50% in the fall 2013 survey.
- For mortgages on homes purchased during 2015, the average rate is 2.80%, versus 2.89% a year earlier. For mortgages renewed this year, the average interest rate is 2.67%.
- Looking further, for borrowers who have recently renewed a mortgage, a large majority (83%) saw their interest rate drop. Among all borrowers who renewed in 2015, on average their interest rates fell by 0.75 percentage points.
- Among about one million borrowers who will have renewed or refinanced mortgages during 2015, 825,000 to 850,000 will have reductions in their interest rates, 75,000 will have no change, and about 100,000 will have increases (very few of these have increases of more than 1 percentage point).
- Mortgage rate discounting remains widespread in Canada. So far this year, the average actual rate for 5-year fixed-rate mortgages (2.81%) has been 1.87 percentage points lower than typical "posted" rates (which have averaged 4.68%).

Impacts of Future Rises in Interest Rates

It is now widely expected that rates for fixed-rate mortgages will soon start to rise in Canada (although not necessarily for variable-rate mortgages). There is, of course, plenty of room to debate how substantial those rate increases will be.

This edition of Mortgage Professionals Canada's report looks at buyers who will renew during the coming two years and purchased during 2011 to 2015[1] (and, therefore, are facing their first renewal). Various data from the survey were combined to estimate the impact on interest costs if they renewed at a 3.5% interest rate.

For this subset of mortgage holders, about 890,000 mortgages will be renewed during the coming two years. Of these:

- 140,000 will see their interest costs unchanged or fall.
- 150,000 will have increases of no more than $50 per month.
- 200,000 are expected to have increases in the range of $51 to $100.
- 200,000 will have increases of $101 to $200.
- 200,000 will have increases of more than $200.

As a result, almost half (400,000 out of 890,000) may see their interest costs rise by more than $100/month. The following mitigating factors, however, must be taken into consideration:

- 300,000 of them have made voluntary extra payments and, therefore, have some room to reduce their payments within their originally contracted amortization periods.
- Most of them borrowed less than they were "qualified" for, and at the outset had budgetary room to accommodate future cost increases.
- To varying degrees, most will have experienced income growth since they purchased the home.
- Mortgage holders who do face large cost rises at renewal may be able to obtain some rental income (as is already being done by 14% of Canadian mortgage holders).

While we can't say for certain what the impacts will be for future renewals at higher interest rates, the impacts are likely to be much less dire than is often suggested.

As a sidebar, commentary and studies on risks related to future mortgage renewals generally do not consider the four mitigating factors discussed above, and most likely overstate the risks.

[1] Previous buyers who have already renewed at least once face much less risk, in part because most of them previously successfully handled an interest rate higher than any rate they might expect during the next few years.

Home Equity

Mortgage Professionals Canada's study posed several questions that yielded estimates of homeowners' equity:

- On average, home equity in Canada is equivalent to 71% of the value of the homes.
- Among homeowners who have mortgages (but not HELOCs), on average, their home equity represents 49% of the value of the homes.
- For owners with both mortgages and HELOCs, the equity ratio is 54%.
- For owners without mortgages but with HELOCs, the equity share is 84%.
- More than 85% of homeowners in Canada have 25% or more equity in their homes.

Equity Take-Out

About 9% of homeowners (about 850,000 out of 9.74 million) took equity out of their home in the past year. The average amount is estimated at $70,000. These results imply that the total amount of equity take-out during the past year has been $59 billion, of which $44 billion was via mortgages and $15 billion was via HELOCs.

The most common use of funds from equity take-out are debt consolidation and repayment (estimated at $20.8 billion), followed by $13.5 billion for renovation or home repair, $11.0 billion for investments, $8.1 billion for purchases , and $5.5 billion for "other" purposes. Equity take-out is most common among homeowners who purchased their home during 2000 to 2010.

Sources of Down Payments by First-time Homebuyers

On average, first-time buyers make down payments equal to 21% of the price of their homes. This percentage has remained quite stable over time.

The largest source of funds for down payments is personal savings (48% for all first-time buyers and 46% for buyers who purchased their first home during 2011 to 2015). This category of personal savings has been roughly stable since 1990. Funds from parents and other family members (in the form of loans and gifts) have been a small part of down payments, averaging 15% for all first-time buyers. This share was stable until recently, rising to 19% for recent buyers. Loans from financial institutions have been a larger source of down payments, at a share of 26%, which has been stable over time. Other sources include 8% via withdrawals from RRSPs (including via the Home Buyers' Plan), and 3% from all other sources. The share from RRSPs rose after the Home Buyers' Plan was created in 1992, but appears to have fallen in recent years.

The Rising Cost of Down Payments

For new homebuyers, monthly mortgage costs have been relatively stable compared to incomes, as interest rates have fallen. But, the rapid rise in house prices means that required down payments have increased relative to incomes. As a simple illustration of this, a 20% down payment on an average priced house is now equal to 93 weeks at the average wage in Canada. A decade ago it was 68 weeks, and two decades ago 53 weeks.

This is not to say that it takes 93 weeks to save a down payment – the actual period depends on individual circumstances, including what percentage of income can be saved. Actual periods for saving down payments will generally be considerably longer, which causes most first-time buyers to resort to other sources of funds in addition to their savings.

Homeownership as "Forced Saving"

Mortgage payments are a blend of interest payment and repayment of principal. As interest rates have fallen, the share of the payment that goes to principal has increased sharply. At today's rates, and assuming a 25-year amortization period, 50% of the first payment is principal repayment. A decade ago the share would have been 31%.

Among the implications of this are:

- Rapid repayment of principal, resulting in rapid improvement of the homeowner's equity positions, means that, once the mortgage loan is made, risk diminishes rapidly.
- It may also help to explain why consumers consider mortgages "good debt".
- For the past decade, monthly mortgage payments have been roughly flat as a share of income. But, the share of interest relative to income has fallen considerably, and the share of "forced saving" relative to income has correspondingly increased sharply.
- Most mortgage borrowers understand that the principal part of their payment, while a cost, goes to their bottom line and improves their financial situation.
- The "net cost" of homeownership (excluding principal repayment) is now very low in historic terms (in relation to incomes, and indeed relative to the cost of renting equivalent accommodations). This goes a long way to explaining the continued strength of housing activity in Canada, despite rapid growth of house prices, and the continued strong role of housing in the broader economy.

Consumer Sentiment

In this section, consumers were asked to indicate their level of agreement or disagreement with six different statements. A score of 10 would indicate complete agreement while a rating of 1 indicates complete disagreement.

Consumers generally agree (average score of 6.80) with a statement that "low interest rates have meant that a lot of Canadians became homeowners over the past few years who probably should not be homeowners".

But, responses to questions about personal circumstances – ability to weather a potential downturn in home prices (average rating of 6.92) and low levels of "regret" about their own mortgage choices (a low average of 3.67) paint a different picture that, as individuals, Canadians have behaved cautiously. It is not immediately obvious how this contradiction can be resolved. Perhaps the responses to the first question reflect what they are seeing in the media and hearing in comments from opinion leaders more so than reflecting actual behavior.

There is a strong belief that "real estate in Canada is a good long-term investment" (7.37) and agreement that mortgages are "good debt" (7.06).

By a very large margin, Canadian homeowners are happy with their decisions to buy their homes (91% are "happy"). To the extent that some of them regret the decision to buy, the regrets are about the particular property purchased (6%) rather than about homeownership in general (3%). This pattern holds for both recent buyers and those who purchased earlier.

A home is both a place to live and an investment. According to the fall 2014 survey, Canadian homeowners (those who have purchased during the past decade) see their homes as: 73% a place to live and 27% an investment. This allocation is consistent across buyers who purchased during different periods and among different age groups.

Outlook for the Mortgage Market

Growth of mortgage credit in Canada is driven by several factors. The most important is the volume of new housing that is completed and requires mortgage financing. Housing completions are expected to slow but only slightly and this will contribute to a very gradual slowing in the rate of mortgage credit growth.

Another significant factor is that low interest rates mean that consumers pay less for interest and, therefore, are able to pay off principal more rapidly. Current low interest rates have, therefore, tended to reduce the rate of mortgage debt growth.

Resale market activity and price growth tend to increase the rate of mortgage credit growth.

A further factor, which will persist for the long term, is that Canadians move away from slow growth communities to high growth areas that have higher house prices and larger associated mortgages. This factor drives as much as a quarter of mortgage growth in Canada.

Changes in the mortgage insurance criteria that took effect in July 2012 have substantially impacted resale housing activity in Canada. Prior issues of this report have explored this in

detail. This edition points out that, since those policy changes, market trends have diverged in Canada versus the US. Housing activity in Canada remains lower than it should be based on economic conditions (in particular, exceptionally low interest rates).

The negative impacts of the policy changes have been greatest in the slow growth provinces. In the stronger provinces, there is much less of an obvious impact because, at the same time as demand has been deliberately reduced by policy, there are also supply side issues that have limited home buying.

Most recently, on December 11, the federal government announced that down payment requirements for insured mortgages are being changed, effective February 15. For purchase amounts above $500,000, the minimum down payment will be 10% for the portion of the price that exceeds $500,000. For the portion of the price under $500,000, the 5% minimum down payment still applies. Mortgage Professionals Canada expects that this will not have significant adverse effects on the housing market: only a small minority of home buyers and mortgage borrowers will be affected and for most of them the additional required down payments will be relatively insubstantial.

It is often asserted that housing construction activity in Canada has been too strong relative to economic fundamentals. Yet, history shows repeatedly that most of the time housing starts are nowhere near the estimated demographic requirements. What history does show – and convincingly – is that housing starts are closely related to the employment situation, as measured by the employment-to-population ratio (the percentage of adults who have jobs). In recent times, housing starts may actually be slightly lower than warranted by economic conditions. This is further evidence that the 2012 mortgage insurance policy changes continue to impede housing activity (and thereby weaken the overall economy).

Mortgage credit growth in Canada has averaged 7.7% per year during the past decade. The growth rate has slowed, and is currently 5.9% year-over-year (as of September). The growth rate is likely to slow gradually during 2016 (to about 5.25% by year-end).

By the end of 2015, total outstanding residential mortgage credit is forecast at $1.35 trillion. By the end of 2016 the figure may be $1.43 trillion, and at the end of 2017 the total may be approaching $1.5 trillion.

About Mortgage Professionals Canada

Mortgage Professionals Canada (formerly CAAMP) is the national mortgage broker channel association representing the largest and most respected network of mortgage professionals in the country. Its membership is drawn from every province and from all industry sectors. Through its extensive membership database, Mortgage Professionals Canada provides consumers with access to a cross-country network of the industry's most respected and ethical professionals.

The association ensures an effective and efficient mortgage marketplace by:

- Promoting consumer awareness of the benefits of dealing with the mortgage broker channel
- Advocating for member interests on legislative and regulatory issues
- Developing, monitoring and promoting responsible mortgage industry standards and conduct
- Providing timely and relevant information to members and mortgage consumers

About the Author

Will Dunning is an economist, and has specialized in the analysis and forecasting of housing markets since 1982. In addition to acting as the Chief Economist for Mortgage Professionals Canada, he operates an economic analysis consulting firm, Will Dunning Inc.

About Bond Brand Loyalty

Bond Brand Loyalty (previously Maritz Research Canada) 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 one of the largest providers of customer satisfaction research in North America, and a major supplier of research, helping clients understand Choice, Experience, and Loyalty to their brand. In Canada, Bond Brand Loyalty has been developing marketing research solutions for Canadian clients under the Thompson Lightstone and Maritz brands 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. Mortgage Professionals Canada, Bond Brand Loyalty, 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 Mortgage Professionals Canada or Bond Brand Loyalty.

2.0 Mortgage Choices

This section uses data from the consumer survey to highlight consumer choices in the mortgage market.

Dimensions of the Mortgage Market

There are currently about 14.1 million households in Canada[2], including:

- 9.74 million homeowners of whom 5.71 million have mortgages. Of these, 1.59 million also have Home Equity Lines of Credit (HELOCs) and 4.12 million have a mortgage without a HELOC.
- 520,000 have no mortgage but do have a HELOC.
- In total, about 2.11 million homeowners have HELOCs. Of these, about 400,000 have a zero balance owing.
- 3.51 million have neither a mortgage nor HELOC.
- There are about 4.39 million tenants.

Housing and Mortgaging Activity During 2015

Combining various data from the consumer survey, it is estimated that:

- By year-end, about 660,000 households will live in homes that they purchased during the past year (newly-constructed or resale). The average price is $408,800, for a total value of $270 billion.
- Of these, about 70,000 did not take out any financing. Out of the 590,000 who took out financing (a mortgage and/or HELOC), 500,000 took out a mortgage only and 90,000 took out both a mortgage and a HELOC.
- The total amount of financing (mortgages plus HELOCs) for these recent buyers is $188 billion.
- Among these recent homebuyers, there had been an estimated total of $35 billion in mortgages on existing homes that they sold (which would have been discharged or transferred at the time). The combination of $188 billion in financing on purchased homes minus $35 billion on prior dwellings means that home purchases in 2015 have resulted in a net credit growth of $153 billion.
- About 100,000 Canadian homeowners fully repaid their mortgages during 2015 (up to the date of the fall survey). A further 40,000 expect to fully repay their mortgage before the end of the year. In combination, about 140,000 mortgages will have been fully repaid during the year.

[2] This estimate of total households is based on data from Statistics Canada's 2011 National Household Survey, updated using data from Canada Mortgage and Housing Corporation on housing completions and changes in vacancies.

- About one million homeowners will renew or refinance their mortgages during 2015. The remaining principal for these mortgages averages $203,000, for a combined total principal of $200 billion. About 250,000 of the borrowers who will have renewed their mortgages in 2015 also have HELOCs, on which they owe an average of $45,000, and a combined total of $11 billion.

Other findings on mortgaging activity include:

- The fall 2015 survey estimates that 850,000 homeowners (9% of all homeowners) took equity out of their homes during the past year, adding about $44 billion to their home mortgages and $15 billion to their HELOCs.
- Based on the various information provided by consumers, it is estimated that regular mortgage payments, on an annualized basis, total just over $100 billion, which includes $69 billion pay down of mortgage principal and $32 billion in interest payments. As such, across all mortgage holders, out of total regular mortgage payments of just over $100 billion per year, less than a third of the total is for interest and more than two-thirds of the payments are principal repayment.
- In addition, it is estimated later in this section that about one million current mortgage holders made lump sum payments in the past year, totaling $16 billion.
- Furthermore, among the 140,000 Canadians who have (or are expected to) repaid their mortgages during 2015, lump sum payments total about $5 billion.
- About 950,000 mortgage holders voluntarily increased their regular payments during the past year, by amounts that equate to almost $4 billion per year.

The reader is cautioned that these estimates are based on a sample survey and, as such, are subject to variation.

Fixed-Rate Versus Variable-Rate Mortgages

The study found that 67% of mortgage holders (3.8 million out of 5.71 million) have fixed- rate mortgages, 24% (about 1.5 million) have variable- and adjustable-rate mortgages, and 7% (about 400,000) have "combination" mortgages, in which part of the payment is based on a fixed rate and part is based on a variable rate. As is shown in the first column of the first table, among mortgages for homes that were purchased during 2015 up to the time of the survey, fixed-rate mortgages were chosen much more frequently, with the share at 76%. Among these recent buyers, 78% of first-time buyers chose fixed-rate mortgages versus 70% for repeat buyers. For mortgages that have been renewed this year, the fixed-rate share is considerably lower, but at 63% it remains the majority choice. This year, there has been about a half-point spread between fixed-rate mortgages and variable-rate mortgages. A sizable minority of borrowers is choosing the lower payment associated with a variable-rate mortgage rather than the higher, but secure, cost of a fixed-rate mortgage.

Table 2-1 *Percentages of Mortgages by Type,* *for New Purchase Mortgages and Recent Renewals*			
Mortgage Type	*Purchase During 2015*	*Renewal or Refinance During 2015*	*All Mortgages (1)*
Fixed Rate	76%	63%	67%
Variable or Adjustable Rate	20%	33%	27%
Combination	4%	4%	7%
All Types	100%	100%	100%
Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author. Note: (1) includes mortgages that were neither originated nor renewed recently.			

Mortgage Amortization Periods

Mortgage holders were asked several questions related to mortgage amortization to profile their choices and expectations.

- Mortgage holders were asked about the contracted amortization periods at the time the mortgages were initiated, and when they expect to have their mortgages repaid. This data is used to compare their current expectations to the original amortization periods.
- Then, more detailed information is obtained on actions taken by mortgage borrowers to shorten or lengthen their amortization periods, (e.g., through voluntary payment increases, lump sum payments, etc.).
- On the other hand, equity take-out adds to indebtedness.

A large majority of residential mortgages in Canada have contracted amortization periods of 25 years or less. The first column of the next table indicates that 85% of mortgages have original contracted periods of no more than 25 years and 15% have original contracted periods exceeding 25 years. For homes that have been purchased recently (during 2014 or 2015), the proportion with amortization periods of 25 years or less is lower, but at a still-high 75%. The share with extended amortization periods had increased during the prior past half-decade due to the availability of longer term mortgages (during 2009 to 2012, the average contracted amortization period was longer, at 23.8 years). But, since July 2012, the maximum amortization period for insured mortgages is 25 years. Uninsured mortgages can be amortized over longer periods.

As is discussed in the next section, large numbers of mortgage holders are taking action to shorten their amortization periods, and expect to repay their mortgages in less than the contracted amount of time.

Table 2-2 *Percentages of Mortgages by Length of Original Amortization Period*		
Amortization Period	*All Mortgages*	*Homes Purchased During 2014/15*
Up to 24 Years	42%	28%
25 Years	43%	47%
26-30 years	12%	23%
More than 30 Years	3%	1%
Total	100%	100%
Average Amortization Period	24.1	23.5
Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.		

Actions that Accelerate Repayment

The Mortgage Professionals Canada survey asked homeowners who have mortgages about actions that can change the number of years it takes to pay off a mortgage. Three different actions were listed. The responses are summarized in the next table.

Mortgage holders who purchased their homes during the past decade are most likely to take one or more of these actions (among those who purchased during 2005 to 2015, 36% took one or more of the actions).

Table 2-3 *Actions Taken in the Past Year to Shorten Amortization Periods, by Period of Purchase*					
Period of Purchase	*Increased Amount of Payment*	*Made a Lump Sum Payment*	*Increased Frequency of Payments*	*Took One or More of these Actions*	*Took None of these Actions*
Before 1990	11%	Nil	6%	16%	84%
1990s	16%	11%	6%	31%	69%
2000-2004	16%	12%	6%	30%	70%
2005-2009	20%	20%	4%	37%	63%
2010-2015	16%	21%	8%	36%	64%
All Purchase Periods	17%	18%	7%	35%	65%
Number Taking Action	950,000	1,025,000	400,000	2,285,000	3,425,000
Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.					

The survey also collected data on the dollar amounts of increased payments and lump sum payments. Various survey data can be combined to estimate total amounts.

- About 950,000 mortgage holders voluntarily increased their regular payments during the past year. The average amount of increase was about $340 per month, for a total of almost $4 billion per year. This is the effect of increases that were made during the past year. In addition, voluntary increases that were made in prior years continue to contribute to accelerated repayment of mortgages.
- Just over one million made lump sum payments during the past year. The average amount was about $15,300, for combined repayment estimated at $15.5 billion.
- As shown in the table above, 7% of mortgage holders (about 400,000) increased the frequency of their payments.
- 35% of mortgage holders (about 2.3 million out of 5.71 million) took one or more of these three actions during the past year.

In addition, the survey asked homeowners without mortgages when they had repaid the mortgage. About 140,000 borrowers will have repaid their mortgages by the end of this year. On average, lump sum payments of $38,000 are being made at the time of pay-off, for a combined total of over $5 billion for 2015.

The survey data indicates that total regular mortgage payments result in about $69 billion in principal repayment (at an annualized rate).

This snapshot portrays activity during a short period of just 12 months. Similar efforts have been found in the prior editions of the survey, resulting in considerable shortening of actual amortization periods compared to the originally contracted amortization periods.

On the other hand, out of 9.74 million homeowners, about 9% (850,000) took out equity during the past year, through either increasing their mortgage amount (about 575,000 households) or drawing on a HELOC (about 375,000 households). These numbers include a small amount (about 100,000 households) who took out equity via both mortgage and HELOC. Withdrawals via mortgage increases totaled about $44 billion and draws on HELOCs totaled about $15 billion, for a combined total of about $59 billion[3]. Equity take-out averaged about $76,000 per household that took out equity via mortgages and $41,000 for take-out via HELOCs. Averaged across all 9.74 million homeowners, the figure is about $6,100.

[3] In issues of these reports up to the spring of 2013, equity take-out was calculated only for take-out via increased mortgage principals. Therefore, equity take-out calculations here should not be compared to estimates in the prior reports.

These activities, in combination, are shortening amortization periods.

- Among homeowners who purchased during 2014 and 2015, the average expected total amortization period is 19.2 years, which is 4.3 years shorter than their average contracted amortization period of 23.5 years.
- Among those who purchased during 2009 to 2012 (the heyday of extended amortization), the average expected amortization period is 19.1 years, which is 4.7 years (20%) shorter than the average contracted period of 23.8 years.
- In total, more than half of mortgage holders (54%) expect to pay off their mortgages in less than their contracted amortization period.

Renting Secondary Suites

This edition of the survey has investigated the extent to which homeowners who have mortgages either rent or plan to rent an area (e.g., basement, room in a house, etc.) within their primary residence. The survey found that 14% (or about 775,000 to 800,000 mortgage holders) do rely (or plan to) on the income from renting part of their dwelling. Interestingly, the responses do not show much variation across different groups:

- 15% of first-time buyers are in this situation, but so are 13% of buyers who have owned more than one home.
- The responses do not vary according to when the homes were bought. For each of the buying periods in the 1990s and later, the shares are close to the 14% average. It is only for the pre-1990 buying period that the share differs (6%), and there are few homeowners whose current home was purchased during that period.
- By age group, the share is slightly above the 14% average for homeowners less than 35 years old (at 16%), and slightly below average for the 35 to 54 age bracket (13%) and the 55 and older group (12%).

Looking across the regions, there were some variations, with the highest shares found in Saskatchewan, Alberta, and British Columbia (20%). In the remaining provinces, shares were below the 14% average.

The mortgage holders who do rent (or plan to rent) part of their dwelling were asked to characterize their situations (from a list of 4 choices):

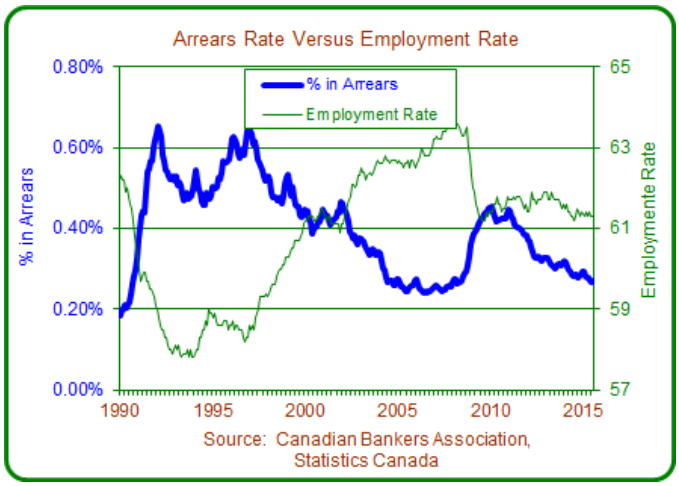
- 21% indicated: "I need to rent a room/unit in my home to afford my mortgage".
- 25% chose: "I would have to make major lifestyle changes if I did not have rental income".
- 13% responded: "I would have to make minor lifestyle changes if I did not have rental income".
- And 41% selected: "I don't need to rent a room/unit in my home to afford my mortgage but I choose to".

These "secondary suites" often reside in grey areas, in regard to municipal zoning and property standards (as well as insurance). Given that secondary suites have for many years been an important source of support for homebuyers, as well as an important source of moderate cost rental accommodations, it would be useful to clarify and simplify the processes for complying with municipal standards.

Mortgage Arrears

Data on mortgage arrears from the Canadian Bankers Association, which covers 10 major banks, shows that a very small percentage of Canadian mortgage holders are behind on their payments (this data shows mortgages that are three or more months in arrears). The data shows that the arrears rate continues to recover from the spike that occurred during the recession of 2008/09. As of August 2015, the arrears rate of 0.27% (1-in-370 borrowers) is just fractionally above the pre-recession level.

In Canada, most mortgage defaults are due to reduced ability to pay, especially including job loss, but also income reductions due to reduced hours or reduced hourly pay rates. Marital breakdown is also a cause of financial difficulty (this usually fits into the category of reduced ability to pay). The chart to the right illustrates the importance of changes in the employment situation. It contrasts arrears rates with the Canadian "employment rate" (the percentage of adults who are employed). This data shows very clearly that changes – up or down – in the employment rate are followed in a few months by changes in the arrears rate (in the opposite direction). The employment rate remains below the pre-recession level, and correspondingly the arrears rate is still a bit higher than the pre-recession level of about 0.25%. While the employment rate has fallen slightly compared to two years ago, the arrears rate has continued a gradual improvement. The change in the employment rate has been relatively minor. Meanwhile, low interest rates continue to work their magic. To this point, the reduction in oil prices, which has hit the housing markets in the oil-producing regions, has not had any material effect on arrears rates.



Types of Mortgage Representatives Consulted

Mortgage holders were asked from which type of representative they obtained their current mortgage on their primary residence.

For all current mortgages on homes, 57% were obtained from a bank (in the last column of data in the table). Mortgage brokers had a 30% share, credit unions were the source for 8% of these mortgages, followed by 5% from life insurance or trust companies and just 1% reported obtaining their mortgage via an "other" source.

Looking at three categories of activity, for recent homebuyers (the first column of data), 45% of mortgages were obtained from banks, 42% from mortgage brokers, 10% from credit unions, just 2% from life insurance and trust companies, and only 1% from "other". For renewals and refinances, there was a higher tendency to use banks (62%) and fewer renewals and refinances occurred via mortgage brokers (27%) or other mortgage professionals.

Table 2-4
Consumers' Use of Mortgage Representatives

Type of Mortgage Representative	*Purchase During 2015*	*Renew or Refinance During 2015*	*Not Active During 2015*	*All Mortgage Holders*
Mortgage Representative from a Canadian Bank	45%	62%	57%	57%
Mortgage Broker	42%	27%	29%	30%
Mortgage Representative from a Credit Union	10%	7%	8%	8%
Mortgage Representative from a Life Insurance or Trust Company	2%	3%	5%	5%
Other	1%	0%	1%	1%
Total	100%	100%	100%	100%
Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.				

Measured as a share of total mortgage principals, for purchases during 2015, banks account for 37%, mortgage brokers for 55%, and the other categories of mortgage professionals account for 8%.

3.0 Financial Parameters

Interest Rates

The consumer survey collected data on mortgage interest rates for current mortgage holders. The average mortgage interest rate for these mortgage borrowers is 3.07% as of the fall of 2015, and down from the 3.24% rate seen in the fall of 2014 and 3.50% in the fall of 2013.

Very few residential mortgages in Canada have high interest rates. In this survey, only 6% of mortgages have interest rates of 5% or more and 1% have rates of 8% or more.

The next table looks at average mortgage interest rates by type of mortgage, for all mortgages and for three subsets: mortgages for homes purchased during 2015 up to the date of the survey, renewals this year, and mortgages for which there was neither an initiation or renewal this year.

This survey data shows that:

- For mortgages that have been initiated or renewed during the past year, interest rates are generally equal to or lower than interest rates for all mortgages.
- Interest rates vary depending on mortgage type, with fixed-rate mortgages generally having higher rates than for variable/adjustable mortgages. For mortgages for new purchases that occurred during 2015, the spread between fixed versus variable/adjustable rates is 0.73 percentage points.

Table 3-1
Average Mortgage Interest Rates

Activity During 2015	*Mortgage Type*			*All Types*
	Fixed Rate	*Variable or Adjustable Rate*	*Combination*	
Purchases During 2015	2.96%	2.23%	2.49%	2.80%
Renewals During 2015	2.79%	2.42%	2.80%	2.67%
Not Active During 2015	3.31%	2.77%	3.22%	3.19%
All Mortgages	3.20%	2.67%	3.13%	3.07%

Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.

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. The results are summarized in the next table. It shows that, among borrowers who have renewed a mortgage during 2015, a very large majority – three-quarters (83%) had a reduction in their interest rate. Just 10% had an increase and 7% had no change. On average, for all mortgages renewed during that period, the interest rate was reduced by 0.75 percentage points.

Table 3-2 *Changes in Mortgage Interest Rates for* *Mortgages Renewed During 2015*			
Change in Interest Rate	*Fixed Rate*	*Variable or Adjustable Rate*	*Total*
% with Rate Decreased	82%	87%	83%
% with Rate Unchanged	7%	8%	7%
% with Rate Increased	11%	6%	10%
Total	100%	100%	100%
Average Change in Interest Rate (percentage points)	-0.73	-0.83	-0.75
Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.			

Combining the various estimates developed in this study, out of 5.71 million homeowners who have mortgages:

- About one million will renew their mortgage during 2015.
- For 825,000 to 850,000, their mortgage rates will have fallen.
- About 75,000 will have no change in their interest rate.
- About 100,000 will have their rates increase. For almost all of these, the increase is 0.5 percentage points or less.
- Very few of these households (probably less than 50,000) have seen increases of 1 percentage point or more.

The data from this study indicates that few mortgage borrowers have been negatively affected by increases in interest rates for their mortgages.

Impacts of Future Rises in Interest Rates

Exceptionally low interest rates continue to support the Canadian housing market (and, in turn, housing activity continues to provide strong support to the broader economy). Low interest rates also created "affordability space" in which housing prices may rise, and prices have risen to varying degrees across the country. In consequence, there is risk that a large rise in interest rates could make mortgage payments unaffordable for large numbers of mortgage holders, as they renew their mortgages.

The consumer survey indicates that about 1.7 million mortgages will be renewed during the coming two years. Among these mortgages, the current interest rate averages 3.02%. Close to 60% of these mortgages (about one million) have current interest rates below 3% and, therefore, many of these borrowers will see increased interest costs at their next renewal.

But, not all of them will be affected. With the passage of time, borrowers will have seen income increases, some will have made additional payments in the past or are currently paying more than they are required to, so that they have room to adjust their payment levels. Moreover, some of these borrowers have already renewed once or more, and they may have already handled interest rates higher than they are likely to encounter during the coming years.

Therefore, in order to focus on borrowers who are most likely to be vulnerable, the table below looks at those whose purchase occurred since the start of 2011.

About 3.15 million homeowners purchased their homes during 2011 to 2015. Of these, an estimated 890,000 will renew mortgages during the coming two years. Their current average mortgage rate is 2.94%. More than 80% of them (about 760,000) have interest rates below 3.5%. With variable-rate mortgages currently being offered at rates of 2.6% or less, and fixed-rate mortgages typically below 3%, if interest rates are relatively unchanged, most of these mortgage renewers would see little change in their interest costs.

Table 3-3
Mortgage Interest Rates for Mortgages with Upcoming Renewals (Next Two Years), for Home Purchases Made During 2011 to 2015

Distribution of Interest Rates	*Percent*	*Estimated Number*
Below 2%	9%	80,000
2.0-2.49%	19%	170,000
2.5-2.99%	37%	320,000
3.0-3.49%	22%	190,000
3.5-3.99%	6%	60,000
4.0% or more	7%	70,000
Total	100%	890,000

Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.

Economists continue to expect that interest rates will soon rise, and most expect that those rises will be non-trivial. A survey of current forecasts from the major banks indicates that the average expectation is for bond yields to rise by 1.5 points by the end of 2017. Mortgage rates may be expected to rise by similar amounts. Yet, during the past half-decade, there has been a consistent expectation of a future rise of similar magnitudes. So far, those expectations have been proven wrong.

Based on evolving economic conditions – with the pace of economic recovery remaining tepid in Canada – an interest rate of 3.5% appears reasonable for testing purposes. This would allow for a three-quarter point rise in typical rates for five-year fixed-rate mortgages, and a rise of more than one point for variable-rate mortgages. Several elements from the consumer survey have been combined to estimate the impact on monthly interest costs if interest rates rise to

3.5% at renewal. Results of those simulations are shown in the table below. These simulations indicate that about 400,000 of these recent buyers (2011 to 2015) would see their monthly interest costs rise by more than $100 per month.

Among the 400,000 mortgage holders whose interest costs may rise by more than $100 per month (if they renew at a rate of 3.5% or higher) three-quarters (300,000) have made voluntary extra payments and, therefore, they have some flexibility to adjust their future payment levels (they could reduce the amounts of principal they repay each month and still be within their contracted amortization periods). In addition, most of these homebuyers at the outset did not borrow the full amount for which they were qualified and they have budgetary room to accommodate higher mortgage costs. Furthermore, to the extent that their incomes have increased they have room to accommodate cost increases.

These estimates also indicate that even with a 3.5% interest rate, there will continue to be mortgage holders whose monthly costs will fall at their next renewals.

Table 3-4
Impact of a 3.5% Mortgage Interest Rate on Monthly Interest Costs, for Mortgages with Upcoming Renewals, for Home Purchases Made During 2011 to 2015

Number Renewing	890,000
Average Impact on Monthly Interest Costs	$102
Monthly Cost Fall or Unchanged	140,000
Monthly Cost Rise, Including	750,000
Less than $50	150,000
$51-100	200,000
$101-200	200,000
More than $200	200,000
Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.	

Mortgage Rate Discounting

As was reported earlier, for new homes purchased during 2015, the average interest rate for fixed-rate mortgages was 2.96%. Since the start of 2015, posted rates for five- year terms have averaged 4.68%[4]. The much lower actual rates found by the survey 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 lengths of term to renewal, fixed-rate versus variable-rate mortgages, and mortgages that have been originated

[4] Source: For posted rates, data are obtained from the Bank of Canada, using "conventional mortgage" rates (estimated as of each Wednesday), up to October 28.

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 since the beginning of 2015.
- With fixed rates, rather than variable rates.
- With 5-year terms.

For this group of mortgage borrowers:

- The average mortgage interest rate is 2.81%. In contrast, the average posted five-year mortgage rate over the same period was 4.68%.
  Based on this data it appears that Canadians negotiated mortgage rate discounts averaging 1.87 percentage points (for five-year terms).
- Every mortgage within this subset of the database had an actual interest rate lower than the average posted rate: the highest rate reported within this group was 4.2%.
- The lowest interest rate reported within this group was 2.42%.

Housing Equity

The consumer survey provides data that can be used to generate estimates of home equity in Canada: the equity amounts are calculated by comparing the current value of owner-occupied homes in Canada with the associated mortgages and HELOCs.

The next table shows the estimates of equity positions for four groups of homeowners. In the current survey, the overall equity position is estimated at 71%. In other words, for every $1,000 in house value in Canada, there is about $290 of debt (mortgage and/or HELOC) and $760 of homeowner equity.

Two further findings have been consistent across the surveys:

- For all homeowners, more than 85% have equity ratios of 25% or higher (this includes owners with housing related debt and those with no housing related debt).
- Even among the 5.71 million homeowners who have mortgages (with or without a HELOC), more than 75% have equity ratios of 25% or higher.

The data for the fall of 2014 indicates that out of 9.74 million homeowners in Canada, 8.45 million have 25% or more equity. On the other hand, fewer than 300,000 (3% of homeowners) have less than 10% equity.

Combining data from the survey, the total value of owner-occupied primary residences in Canada is estimated at $4.23 trillion. Associated finance (mortgages and HELOCs) on these dwellings is estimated to total $1.22 trillion. In consequence, as of the fall of 2015, total homeowners' equity in Canada has surpassed $3 trillion.

Table 3-5 *Equity Ratios for Canadian Homeowners, as of Fall 2015*					
Equity as Percentage of Home Value	*HELOC only*	*Mortgage only*	*Mortgage and HELOC*	*Neither Mortgage Nor HELOC*	*Total*
Negative Equity	0%	1%	4%	0%	1%
0-4.99%	0%	2%	0%	0%	1%
5-9.99%	0%	2%	1%	0%	1%
10-14.99%	3%	6%	0%	0%	3%
15-24.99%	0%	16%	5%	0%	8%
25-49.99%	7%	31%	37%	0%	20%
50-74.99%	23%	25%	30%	0%	17%
75-99.9%	59%	17%	23%	0%	14%
100%	8%	0%	0%	100%	36%
Total	100%	100%	100%	100%	100%
Number of Households	520,000	4,120,000	1,590,000	3,510,000	9,740,000
25% or more	97%	73%	90%	100%	87%
Average Equity Ratio	84%	54%	54%	100%	71%
Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.					

Among Canadian homeowners who have HELOCs, not all of the available funds have been accessed. The survey data indicates that the average approved HELOC is $136,000, but the actual amount owed averages about $59,000. As such, HELOC holders have, on average, accessed 43% of the available amounts. The survey found that 18% of HELOC holders do not currently owe anything on the HELOC. On the other hand, 10% have fully utilized the available HELOC.

Table 3-6 *Percentages of Available HELOCs Advanced, as of fall 2015*	
% Advanced	*% of HELOC Holders*
0%	18%
0.1% to 10%	13%
10.1% to 25%	9%
25.1% to 50%	19%
50.1% to 75%	13%
75.1% to 90%	10%
90.1% to 99.9%	8%
100%	10%
Total	100%
Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.	

A further analysis of equity looks at how the equity ratios vary depending on when the homes were purchased. Results are summarized in the next table. Even for the most recent purchase period (2011 to 2015, which accounts for about 3.5 million out of 9.74 million homeowners in Canada), there is considerable home equity: within that group, 76% have 25% or more equity. On the other hand, among the most recent purchasers, just 8% have less than 10% equity.

Table 3-7
Equity Ratios for Canadian Homeowners, as of Fall 2015, by Period of Purchase

Equity as Percentage of Home Value	*Before 1990*	*1990-1999*	*2000-2004*	*2005-2010*	*2011-2015*	*Total*
Negative Equity	0%	0%	0%	1%	2%	1%
0-4.99%	0%	0%	1%	0%	4%	1%
5-9.99%	0%	0%	0%	0%	3%	1%
10-14.99%	1%	0%	1%	1%	5%	3%
15-24.99%	1%	4%	3%	8%	11%	8%
25-49.99%	1%	7%	20%	28%	40%	20%
50-74.99%	5%	12%	28%	19%	16%	17%
75-99.9%	12%	16%	24%	14%	6%	14%
100%	79%	61%	23%	29%	14%	36%
Total	100%	100%	100%	100%	100%	100%
25% or more	97%	96%	95%	89%	76%	87%

Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.

Equity Take-out

The survey data indicates that 9% of all homeowners (850,000 out of 9.74 million homeowners) took out equity from their homes or increased the amount of the mortgage principal within the past 12 months. This is a reduction from prior surveys, when the rate was typically about 11%.

The total amount of take-out is estimated at $59 billion, and the average amount of equity take-out is estimated at about $70,000. Out of the $59 billion, $44 billion was via increases to mortgage principals and $15 billion was via HELOCs.

Those who took out equity were asked what they used the money for. Some people indicated more than one purpose. Based on the responses, it is estimated that:

- $20.8 billion (35%) of the money would be used for debt consolidation or repayment.
- $13.5 billion (23%) would be used for renovation or home repair.
- $8.1 billion (14%) would be used for purchases (including spending for education).
- $11.0 billion (19%) is for investments.
- $5.5 billion (9%) is for "other" purposes.

Further analysis found that take-out was much less frequent among recent buyers (5% among homeowners who purchased during 2011 to 2015) than among earlier buyers (11% of owners who purchased before 2011 have taken out equity during the past year).

Table 3-8 *Percentages of Homeowners Taking Out Equity During the Past Year, by Period of Home Purchase*	
Period of Purchase	*% Taking Equity*
Before 1990	5%
1990s	11%
2000-2004	19%
2005-2010	12%
2011-2015	5%
All Periods	9%
Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.	

The next table compares equity positions for buyers who have taken out equity versus those who have not. This data shows that, for those who have taken out equity, equity ratios are very similar for all homeowners. Notably, among those who have taken out equity, there are very few who have little equity remaining. Out of 850,000 who took out equity, about 20,000 have less than 10%.

Table 3-9 *Equity Positions for Homeowners Taking Out Equity During the Past Year Versus Those Who Have Not Taken Equity Out*			
Equity as Percentage of Home Value	*Did Not Take Out Equity*	*Took Equity*	*All Homeowners*
negative equity	1%	1%	1%
0-4.99%	1%	2%	1%
5-9.99%	1%	0%	1%
10-14.99%	2%	2%	3%
15-24.99%	5%	11%	8%
25-49.99%	18%	34%	20%
50-74.99%	13%	28%	17%
75-99.9%	12%	22%	14%
100%	47%	0%	36%
Total	100%	100%	100%
< 10%	3%	2%	3%
25% or more	90%	84%	87%
Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.			

Sources of Down Payments by First-Time Homebuyers

Starting with the fall 2014 report, this survey has explored down payments made by first-time buyers. Homeowners have been asked when they bought their first home, and how large the down payment was as a percentage of the purchase price. The responses indicate that down payment amounts have been quite stable over time at about 20%.

Table 3-10 *Average Down Payment for First-Time Homebuyers, by Period of Purchase*	
Period	*% Down-Payment*
Before 1990	21%
1990-1999	19%
2000-2004	19%
2005-2010	22%
2011-2015	21%
Total	21%
Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.	

Comments have been made that, in a more expensive housing market, parents are increasingly helping their children with down payments, via gifts and loans. The data indicates that there is truth to the suggestion that parents are providing more help, but it also shows that this help is less significant than may be imagined. The table below summarizes the responses on sources of down payments.

Looking at the bottom line in the next table, the largest source of down payments has, by far, been personal savings. Help from parents is a considerably smaller source, including help in the form of gifts (10%) and loans (5%), for a total of 15%. Loans from financial institutions (26%) have constituted a major source of funds for down payments as have withdrawals from RRSPs (8%).

There have been some interesting changes over time:

- Personal savings as a source remain close to the long-term average (with the share for the most recent period quote close to the long-term average).
- On the other hand, withdrawals from RRSPs are now much higher than in the earlier years (because the Home Buyers' Plan, or HBP, which allows tax-free access to RRSP funds, started in 1992).
- Combining personal savings plus RRSP withdrawals, the combined share has been relatively consistent at just about 55%. The implication is that the role of personal savings has not really changed, but the advent of HBP provided an opportunity to save some income tax.
- Combining two categories of support from family members, the share has trended upwards over time. The share for the most recent period (19%) is above the long-term average of 15%.

But, even at this recently elevated share, we cannot say that this source of funds has become an important driver of home buying, contrary to some often-heard opinions.

- The share provided by loans from financial institutions has trended downwards, and the most recent share (19%) is below the long-term average (26%).

Table 3-11
Sources of Down Payments for First-Time Homebuyers, by Period of Purchase

Period of Purchase	*Personal savings or co-buyer's personal savings*	*Gift from parents/ other family members*	*Loan from parents/ other family members*	*Loan from a financial institution*	*Loan from my employer*	*Withdrawal from RRSP (including Home Buyers' Plan)*	*Other*	*Total*
Before 1990	52	6	5	30	1	3	3	100
1990s	42	10	5	29	0	11	3	100
2000-04	40	12	4	25	0	16	3	100
2005-10	49	12	4	21	0	11	2	100
2011-15	46	15	4	19	1	12	2	100
Total	48	10	5	26	1	8	3	100

Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.

The Rising Cost of Down Payments

Reductions in interest rates have allowed house prices to rise sharply (considerably more rapidly than incomes). But, because price rises have not fully kept up with the lower interest rates, the ability to afford mortgage payments has not been substantially impaired (as will be explored shortly). On the other hand, the rapid rise in house prices has meant that it is more difficult to save down payments.

The chart explores this. It results from comparing the dollar amounts for 20% down payments (based on the average resale house price, reported by the Canadian Real Estate Association) versus the average weekly earnings (as reported by Statistics Canada's Survey of Employment, Payrolls, and Hours.) This is a simplistic presentation, as potential first-time homebuyers do not save all of their income (obviously), and they do not usually

buy average-priced homes. Actual times required to accumulate down payments will generally be considerably longer than the periods shown.

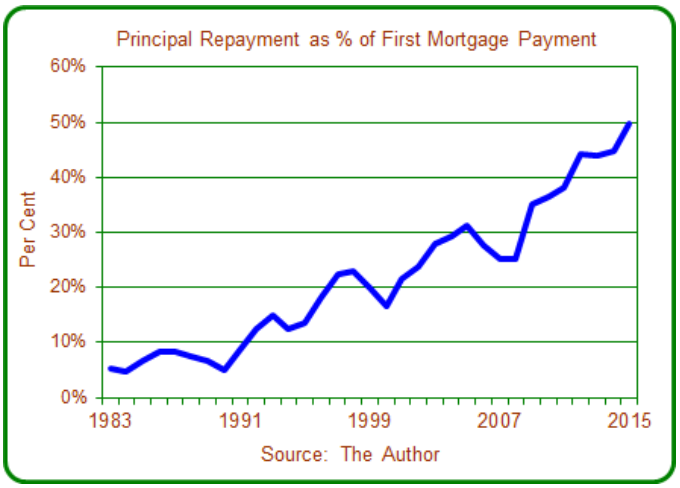
It was shown above that down payments by first-time buyers have been consistent over a long period of time, at about 20% of purchase prices, and that sources of down payments have changed relatively little. Given the increasing burden of down payments relative to incomes, that stability is surprising.

Homeownership as "Forced Saving"

Mortgage payments include a blend of interest and repayment of principal. As was discussed earlier, on average in Canada, total mortgage payments are at present just under one-third interest and just over two-thirds principal repayment.

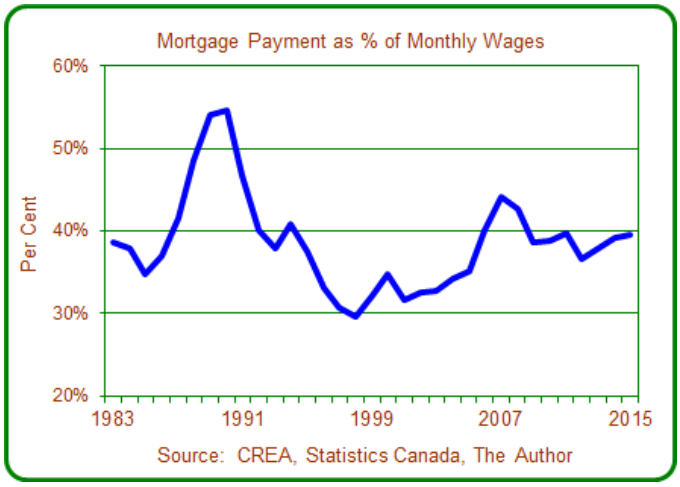
At the start of a mortgage, the blend between principal and interest depends on the interest rate (and, of course, on the amortization period). At lower interest rates, the monthly payments include a higher amount of principal repayment, in both absolute dollar terms and as a percentage of the monthly payment. Several charts explore the implications of this.

As mortgage interest rates have fallen, the mix has shifted markedly away from interest costs towards principal repayment. This chart shows the evolution of the shares that are principal repayment (assuming a 25-year amortization period, and based on typical rates each year for a five-year, fixed-rate mortgage, after lender discounts). At current discounted interest rates (typically 2.8% from major lenders), in the first month, 50% of the total payment is repayment of principal. A decade ago, based on interest rates at the time (typically 4.7%), the share would have been 31%. Two decades ago (typical rate of 8.2%), the share would have been 13%.



The share of payments that is principal repayment will rise incrementally each month. Based on current parameters, for an 80% mortgage on the average priced resale home, during the first year the total principal repayment would be $9,880 (an average of $823 per month), exceeding the total interest cost of $9,668 per year ($806 per month).

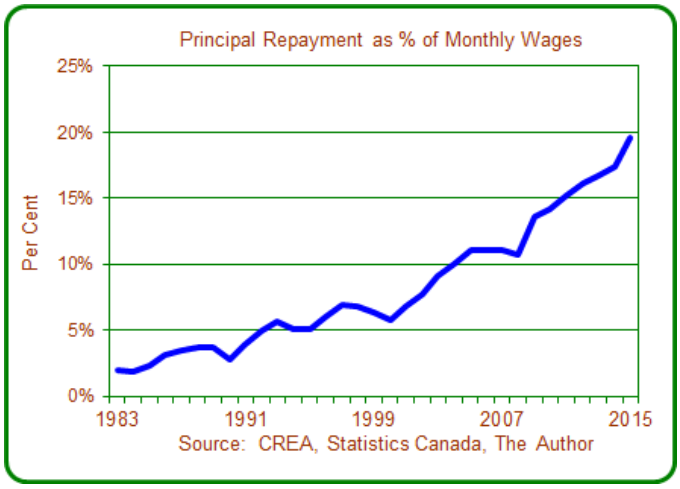
The chart to the right contrasts monthly mortgage payments for average priced homes (based on an 80% loan-to-value ratio, at typical discounted rates) versus monthly incomes. This is a simplistic presentation to illustrate changes over time. Actual circumstances will vary widely depending on factors that include actual purchase price, how many income earners there are in the household, and total household income. The point being illustrated is that, despite rapid growth in house prices in recent years, the debt-service burden has been roughly flat in relation to income since 2009. The figure for 2015 (39.5%) is just slightly higher than the long-term average of 38.6%).



Recalling that mortgage payments are a mix of interest and principal, many homebuyers will surely consider the components: how much will they actually pay in interest versus how much forced saving will they do? The chart to the right shows that the interest burden (in relation to wages, as of the first month) has fallen sharply and is now at the lowest level in this entire history. The figure for 2015 (19.9%) is far below the long-term average of 30.4%.

On the other hand, the forced saving component of mortgage payments has risen sharply in relation to incomes.

In these illustrative calculations, for 2015 forced savings via mortgage payments amount to 19.6% of monthly incomes (versus the long-term average of just 8.2%).



To conclude this discussion:

- The affordability of homeownership can be calculated on a "gross" basis (considering the total blended mortgage payment). On this basis, homeownership affordability is currently at a typical level.
- But, we should also consider affordability on a "net" basis because, while principal repayment is a cost, it improves the homeowner's bottom line by reducing mortgage indebtedness. On this net basis, homeownership is now at its most affordable in a very long time.
- Homebuyers are now entering into very aggressive forced saving programs.

This excellent "net affordability" goes a long way to explaining why housing activity remains quite strong in Canada, despite the rapid run-up in house prices.

4.0 Consumer Sentiment

Attitudes to Topical Questions

Since the fall of 2010, some editions of the consumer surveys have investigated attitudes on current issues related to housing markets and mortgages. The respondents have been offered various statements and asked to indicate the extent to which they agree or disagree with each, on a 10-point scale. A response of 10 would indicate complete agreement and a response of 1 indicates complete disagreement. Average responses of 5.5 out of 10 would indicate neutrality.

The statements are about current issues, some of which have been widely discussed in the media. The next table summarizes responses, showing the average scores. The responses have changed relatively little over time.

- It remains true that there is moderately strong agreement that "low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners". The last two fall surveys have found slight drops in the strength of the agreement.
- On the other hand, consumers seem to be satisfied with the choices they have made, as few "regret taking on the size of mortgage I did" (this question is asked only of mortgage holders). Collectively, consumers believe their choices have been responsible, but collectively they believe that other people are being irresponsible. It is likely that beliefs about other people are shaped by messages in the media and from pundits more so than by actual behaviour.
- Levels of regret about mortgages are quite similar, regardless of when the homes were purchased: for buyers during 2005 to 2010 and 2011 to 2015, the average level is 3.56 out of 10, essentially equal to the overall average of 3.67.
- Canadians' confidence about their ability to weather a downturn in the housing market strengthened in the aftermath of the recession, and has been stable since 2013 (shown by the average scores for the third question).
- Canadians have strongly agreed with the proposition that real estate is a good long-term investment, and that opinion is stable over time.
- The level of confidence about the economy appears to be roughly stable compared to last year, at a slightly above the neutral mark of 5.5, despite the plunge in the price of oil and the slowdown in growth that was seen earlier this year.
- There is strong agreement that mortgages are "good debt", and the figures have been relatively stable over time.

Table 4-1 *Summary of Consumer Responses to Topical Question, by Date of Survey* *(Average Scores on a Scale of 1 to 10)*						
	Fall 2010	Fall 2011	Fall 2012	Fall 2013	Fall 2014	Fall 2015
Low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners	6.88	7.11	7.01	7.04	6.98	6.80
I regret taking on the size of mortgage I did	3.86	4.04	3.88	3.82	3.89	3.67
I/My family would be well-positioned to weather a potential downturn in home prices	6.54	6.72	6.67	6.93	6.95	6.92
Real estate in Canada is a good long-term investment	7.13	7.27	7.26	7.44	7.35	7.37
I am optimistic about the economy in the coming 12 months	N/A	6.02	6.13	6.36	6.25	6.23
I would classify mortgages as "good debt"	N/A	7.07	7.05	7.20	7.15	7.06
Source: Mortgage Professionals Canada survey, Fall 2010 to fall 2015; Estimates by the author.						

Expectations

For several years, questions have been asked about expectations. Again, the responses are given on a 10-point scale. The most striking aspect of these responses is that they have been quite stable over time.

- On the question of whether this is a good time to buy a home or condominium, average scores remain just above the neutral level of 5.5 out of 10.
- Concerning house price growth, the responses indicate expectations for moderate growth, and there has been little change compared to prior years (apart from a higher figure in 2011).
- Likewise, expectations about interest rates are for moderate rises. The average response has been flat since 2013, although at a slightly lower level than before 2013.
- Expectations about buying homes have also been flat. The low level of the average scores is appropriate, since only about 5% of Canadian households buy a home in any given year.

Table 4-2 *Summary of Consumer Responses on Expectations, by Date of Survey* *(Average Scores on a Scale of 1 to 10)*						
	Fall 2010	Fall 2011	Fall 2012	Fall 2013	Fall 2014	Fall 2015
Now is a good or bad time to buy a home/condominium in my community	6.08	6.21	6.10	6.00	6.05	6.03
Expectations for housing prices in my community	6.18	6.64	6.34	6.22	6.31	6.35
Expectations for mortgage interest rates	6.54	6.56	6.51	6.21	6.21	6.16
How likely are you to purchase a new property in the next year (this could be a primary residence, a second residence or investment property)?	2.93	3.00	2.91	2.98	3.10	3.04
Source: Mortgage Professionals Canada survey, fall 2010 to fall 2015; Estimates by the author.						

Happiness with Decision to Buy a Home

Since the spring of 2014, homeowners have been asked whether they are happy with their decision to buy their home. This question found a very high degree of satisfaction with homeownership. Three optional responses were available:

- By far, homeowners are happy with the decision to buy their home (91%).
- A small minority (3%) indicated that "I regret my decision and – I wish I did not choose to own a home".
- In addition, 6% indicated "I regret my decision – I wish I had purchased a different home/property".
- These responses are very similar to the results from prior surveys.
- The details indicate that levels of happiness are slightly above average for buyers who purchased before year 2000.

Table 4-3 *Happiness with Decision to Buy a Home, by Period of Purchase*						
	Pre 1990	*1990s*	*2000-04*	*2005-10*	*2011-15*	*Total*
I am happy with my decision	95%	95%	92%	91%	89%	91%
I regret my decision – I wish I did not choose to own a home	0%	1%	0%	4%	3%	3%
I regret my decision – I wish I had purchased a different home/property	5%	4%	7%	6%	8%	6%
Total	100%	100%	100%	100%	100%	100%
Source: Mortgage Professionals Canada survey, Fall 2015; analysis by the author.						

An Investment or a Place to Live?

To what extent do people see their homes as investments? This is related to the on-going debates about whether there is a "housing bubble" in Canada: if housing is viewed too strongly as an investment, and expectations about price growth cause activity to depart significantly from what it should be (based on economic fundamentals), then there would be risk of a bubble.

Homeowners who purchased during 2005 or later were asked: "How do you think of your home from these two perspectives [as a place to live versus as an investment]? These two numbers should add up to 100%." The responses indicate that, on average, homes are viewed 73% "as a place to live" and 27% "as an investment". We don't have a benchmark for what is reasonable, and we don't know what the responses would have been in earlier times, but we can use the data to look at variations for different buyers. The results are remarkably stable whether we look at age groups, period of purchase of the current home or the first home, income groups, or region of the country. The view that housing is about 30% an investment does not seem excessive considering that homeownership has indeed performed very well as an investment.

Table 4-4
Housing as a Place to Live and an Investment, by Age Group

	18-34	*35-54*	*55+*	*Total*
As place to live	*73%*	*72%*	74%	73%
As an investment	27%	28%	26%	27%
Source: Mortgage Professionals Canada survey, Fall 2015; Analysis by the author.				

As an aside, if there was a bubble psychology, we would expect to see a strong relationship between house price growth and resale market activity. This analyst has investigated the statistical relationships for Canada, the provinces, and many of the major market areas. This research finds that price growth has only a very weak effect on activity: housing market activity in Canada is very much determined by economic fundamentals rather than by "speculative attitudes" (or, alternatively, by fear about "missing out").

Another analysis approach by the author has looked at the relationship between house prices and interest rates, and finds that house prices in Canada adjust slowly to the "affordability space" that expands or contracts as interest rates change. The price growth we continue to see is due to the ongoing, gradual adjustment to the drops in interest rates that have occurred during past years. The adjustment is still not complete – based on current interest rates, there is still room for prices to rise[5]. That does not mean that prices will or must rise further, but that there is potential for further price rises as a result of existing "affordability space". Actual price growth will depend on the balance between supply and demand (and on the forces that affect supply and demand). It is well known that the most rapid price growth occurs in communities that have the tightest supply situations (notably the Toronto and Vancouver areas). Lower interest rates

[5] This has been explored in various research, including a March 2014 paper: "How to Dissect a Housing Bubble", which can be found here: http://www.wdunning.com/docs/Bubble-report-2014-03-12.pdf.

have created the potential for prices to rise, but the actual price rises have resulted from local market forces. All of this considered, there is a strong case to be made that Canadians have healthy and productive attitudes about the investment aspect of homeownership.

Reasons for Not Owning a Home

The fall 2015 survey asked consumers who are not homeowners for the reason (or reasons) they do not own a home. A list of seven possible answers (plus an "other" option") were available. More than one response could be given. Responses are summarized in the next table.

- Within the younger age groups, responses vary quite widely, covering a variety of conditions that relate to their personal financial circumstances (needing more time to save a down payment is mentioned by 46% among the youngest age group. Lack of financial stability (39%) is also frequently mentioned. As well, waiting for home prices to drop is another significant reason (although it isn't clear whether these people believe prices will drop or need them to drop before they can afford to buy).
- Within the oldest age group, fewer reasons are given, and lifestyle and preference reasons are cited much more frequently than financial considerations. "Renting is a better option for me" is the most frequent reason given, cited by 48%, followed by "I am comfortable in my current situation" (34%) and "I am not interested in owning a home" (23%).
- Interestingly, concern about future interest rate rises is rare across all ages.

Table 4-5
Reasons for Not Owning a Home, by Age Group

Summary	18-34	35-54	55 +	Grand Total
Nervous that rates will increase	6%	7%	3%	6%
Lack of financial and/or employment stability	39%	31%	19%	30%
Waiting for home prices to decrease	28%	13%	3%	16%
Renting is a better option for me	22%	23%	48%	29%
I need more time to save for a down payment	46%	32%	4%	30%
Living with my parents/family is all I can afford	17%	6%	3%	10%
The idea of owning a home is too stressful	17%	6%	3%	10%
I am not interested in owning a home	4%	7%	23%	10%
I don't believe homeownership is a good investment	5%	4%	1%	4%
I am comfortable in my current situation	27%	23%	34%	28%
Other	6%	7%	13%	8%
Number of Reasons	2.2	1.6	1.5	1.8
Source: Mortgage Professionals Canada; Survey, Fall 2015; Analysis by the author.				

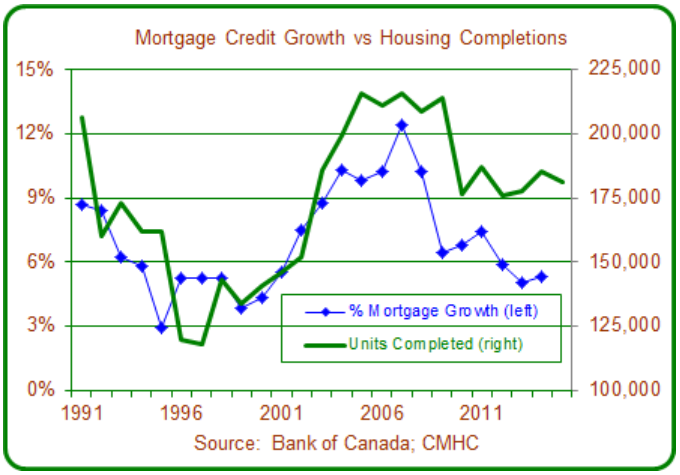
5.0 Outlook for the Mortgage Market

The Housing Market Background

Mortgage credit growth remains rapid in Canada, although it is considerably less robust than prior to the recession when growth exceeded 10% per year. More recently, growth was 5.0% in 2013, 5.3% in 2014, and to date in 2015 (as of September), the growth rate has edged up to 5.9%.

Many factors influence the growth of mortgage credit.

- One factor, which is a long-term, persistent trend, is that Canadians move away from slow growth communities (which have relatively low house prices) into communities with stronger job markets, which also have higher house prices and larger associated mortgage amounts. This factor alone may account for about a quarter of mortgage credit growth in Canada. So long as there are economic disparities across Canada, which cause Canadians to move in search of economic opportunities, this factor will make a sustained contribution to growth of mortgage credit.
- Trends in housing activity – in the resale market and in the new construction arena – also affect mortgage demand.
- Growth of mortgage credit is highly related to completions of new homes, as can be seen in the chart to the right. As new homes and apartments are completed and are ready to be occupied, there are usually new mortgages attached. The rise in the growth rate for 2015 to date is related to a larger number of housing completions (data for the partial year 2015 are not shown in this chart).

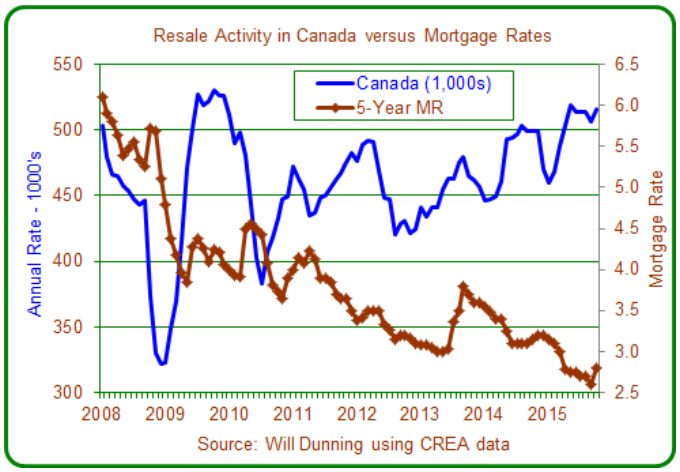


- But, during the second half of the time period shown in the chart, the relationship between housing completions and mortgage credit growth has become less close: credit growth has slowed compared to what we would expect based on housing market activity alone. Clearly, there are other factors involved.
- Statistical analysis shows that levels of interest rates also affect the rate of credit growth. On a statistical basis, each one point change in mortgage interest rates affects the rate of credit growth by about half of a point per year. Recent, very low mortgage interest rates have allowed Canadians to more quickly repay their mortgage principals. As was shown in an earlier section, Canadians are making significant efforts to repay their mortgages more rapidly than is required.

- In fact, even when we take interest rates into account (in conjunction with housing market data), during the past few years mortgage credit growth has been slower than we would expect. The message is that Canadians are highly motivated to repay their mortgages quickly, and this has constrained the growth of mortgage credit.

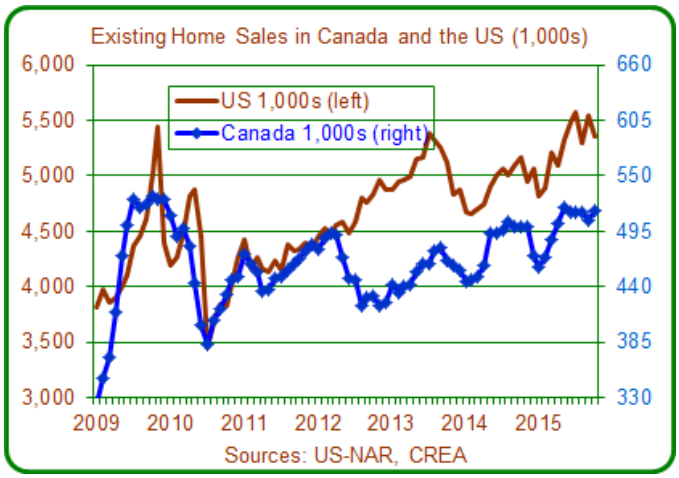
- Trends in the resale housing market (including the rate of price growth and the total dollar value of sales) are also statistically related to mortgage credit growth, but the impacts are less strong. The reason is that when a resale property is purchased and a mortgage is obtained there is often an existing mortgage that will be discharged (or transferred). As such, on a "net" basis, resale activity is less important compared to construction of new dwellings.

Resale Markets



In the short-term, resale activity is highly influenced by movements in mortgage interest rates: in this chart, almost all of the large swings in sales activity were associated with movements of interest rates. Most recently, very strong sales activity (close to the record levels seen prior to the recession) are associated with record low interest rates.

In this data, however, there is one strong exception (which has been discussed extensively in prior editions of this report). There was a large drop in sales in mid-2012 that had nothing to do with interest rates (or any other major economic indicators): the drop was deliberately induced by government policy, which eliminated mortgage insurance for mortgages with amortization periods exceeding 25 years (previously amortization periods up to 30 years had been eligible). The shortening from 30 years to 25 years had the same impact on monthly payments as a one percentage point rise in the interest rate – this knocked thousands of potential buyers out of the housing market.

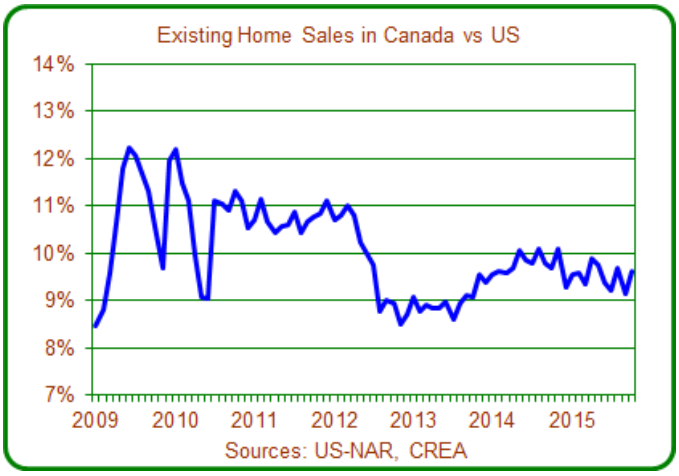


Three years later, the impacts of that policy change have been diminished, but not totally. The large impact of the policy change and its persistence can be illustrated by comparing resale housing market trends in Canada versus the US.

Canada's population is equal to 11% of the US's. The chart to the right contrasts resale market activity in Canada and the US using that 11% factor. It shows that resale activity in the two countries was closely matched on a proportional basis from early 2009

until mid-2012. But, at that time, activity expanded in the US (based on reductions in interest rates combined with ongoing moderate job creation). The same conditions existed in Canada: sales in Canada should have maintained a proportional relationship to the US.

Subsequently, there have been three waves of activity in both Canada and the US, and those waves have occurred roughly in parallel. But, the waves in Canada have been notably lower on a proportional basis. The chart to the right shows the proportions. Prior to the policy change, Canadian activity was about 11% of the US level; after the policy change the proportion was reduced to about 9%. Subsequently the proportion has improved, but at less than 10% it is still lower than it ought to be.



We continue to hear calls for further tightening of mortgage lending, due to arguments about over-heated housing markets. A recent theme is that down payment requirements should be raised (say, to 10% from the current 5%). Some critical points to consider are:

- While house prices in Canada have increased rapidly, there is no evidence that this really constitutes "over-heating". Analysis indicates that house price rises have been influenced by falling interest rates. Calculations of affordability (especially on a "net" interest cost basis) tell us that price growth has not gotten out of line with economic fundamentals.
- As was shown earlier, rising prices have made it increasingly difficult for first-time homebuyers to accumulate down payments. Increasing down payment requirements would, most likely, severely dampen housing demands, from people who are financially well-qualified to make their monthly mortgage payments. Our spring 2015 survey quantified that, by asking recent buyers if they would still have been able to purchase their home if the minimum down payment was 10% rather than 5%. Six per cent of homebuyers (equal to 35,000 buyers per year out of a typical number of 620,000 per year) would have been "definitely not able" to make the purchase and a further 80,000 would have been "probably not able". A 10% down payment requirement would have resulted in a reduction of sales large enough to have tipped many local housing markets into downturns, causing price reductions, which would have caused significant negative consequences for local economies.
- As is discussed below, the Canadian housing market is not over-producing.

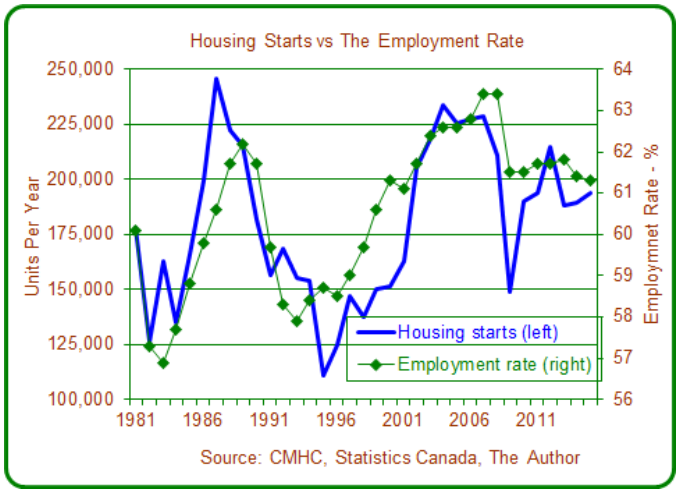
More fundamentally, in terms of economic management, deliberate suppression of housing market activity, when there are no compelling threats that need to be addressed, makes no sense.

- Central banks (including the Bank of Canada) have encouraged low interest rates in order to support ongoing recovery from the recession.

- The housing market is the most interest-sensitive major component of the economy. Low interest rates have supported job creation because they have stimulated housing activity.
- Housing affects the economy through direct means (the jobs that are created in housing construction, housing sales, and related activities) and indirect means (especially the "wealth effect" as rising prices raise consumer confidence, which encourages other activities that generate employment).
- During the post-recession period, another major source of job growth has been investment in energy projects. With that source of growth having been severely hobbled during the past year, deliberately impairing housing activity could very well be catastrophic.

Over-Production? Not Here

We hear comments that Canada has been over-producing housing in relation to demographic requirements (and this is sometimes part of the rationale for proposed policy constraints on housing activity).



Yet, history shows that, most of the time, housing production is nowhere near the estimated demographic requirements.

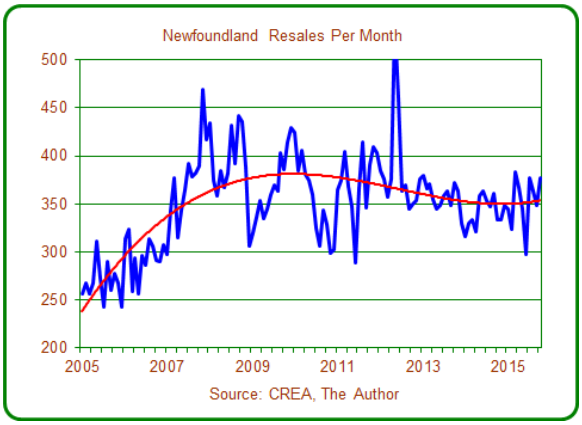
But, there is a close relationship between housing starts and the state of the economy, especially as measured by the employment-to-population ratio (the percentage of adults who have jobs). The chart to the right illustrates that housing starts are closely related to the employment rate and, when the employment rate changes, housing starts adjust with a lag. In recent times, the employment rate has been relatively high in historic levels (although certainly below prior record levels).

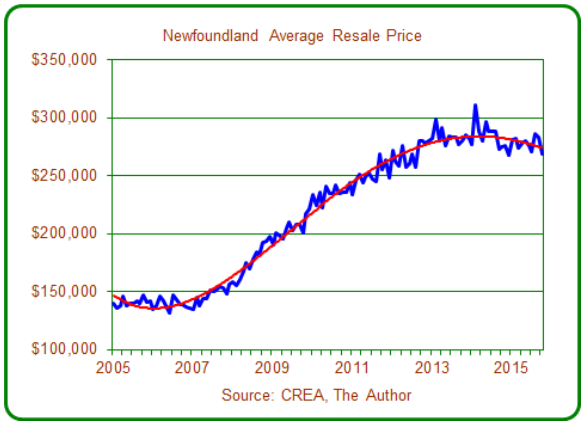
Correspondingly, housing starts have been relatively high in historic terms, but not at record levels. The conclusion to be drawn is that, rather than over-producing, the Canadian housing market is responding appropriately to the conditions that exist. In fact, this chart hints that there may currently be a slight degree of under-production, which would be part of the continuing negative effects of the mortgage insurance policy change that took effect in the summer of 2012. That artificial constraint has, in turn, contributed to weakened job creation during the past two years.

A Scan Across the Provinces' Resale Markets

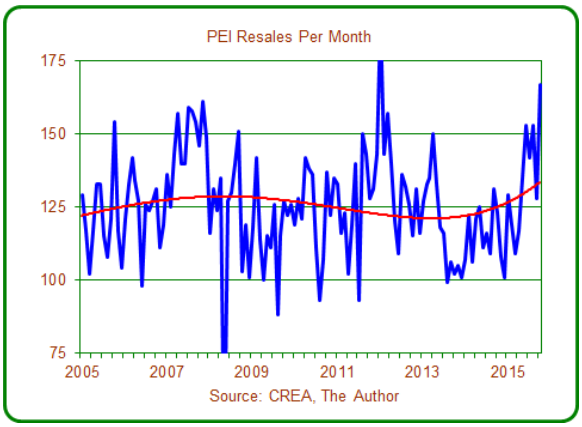
In this section, resale market trends are briefly reviewed for each of the 10 provinces. Charts are shown for sales and average resale prices. Since the data can be volatile from month-to-month, trend lines have been added. In some cases (which are noted), the mechanically-generated trend lines are not especially trustworthy. Looking across these results, while conditions vary across the provinces, it is clear that prior trends were disrupted by the policy change that occurred in July 2012. Subsequent recoveries vary.

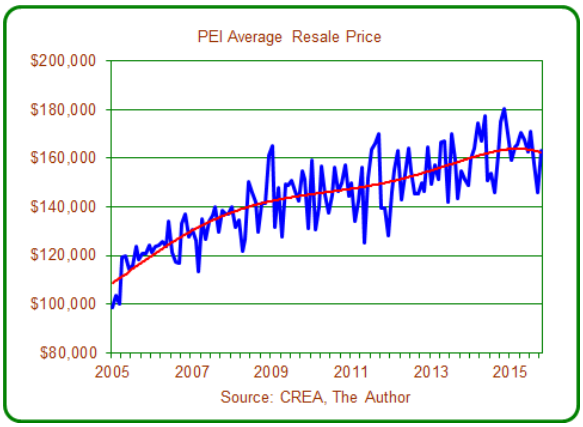
In *Newfoundland and Labrador*, the sales trend has tapered compared to prior years but remains relatively high in historic terms. Correspondingly, price growth has certainly decelerated, and the price trend is currently flat or falling (the mechanically-generated trend line has been highly influenced by the low level of the final data point).



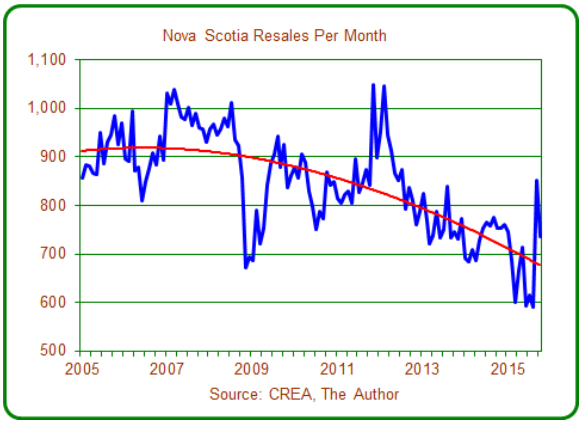


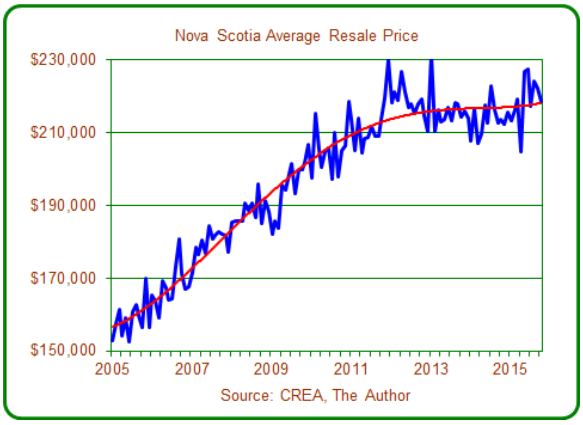
For *Prince Edward Island* the highly volatile data makes it especially difficult to identify trends for both sales and prices. In the sales chart, the conclusion is that the trend is roughly flat, although there has recently been a surge of sales, in response to low interest rates. For prices, the trend line suggests that price growth had been sustained at a moderate rate (around 2% per year), although that growth may have ended this year.



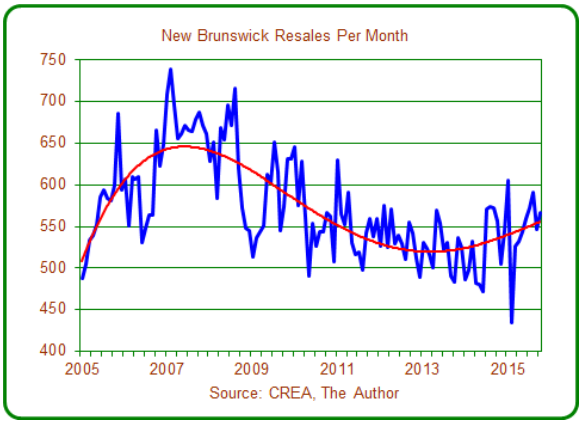


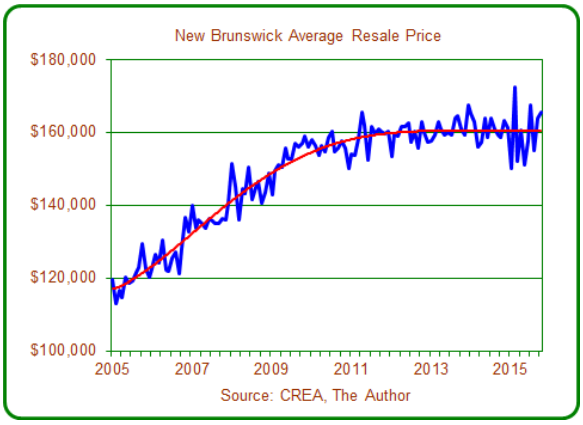
In *Nova Scotia*, the sales trend remains far (almost a quarter) below the pre-recession levels (apart from an unusual rise in the last two months of data). The price trend indicates that, during the past three years, weakened sales have resulted in flat house prices.



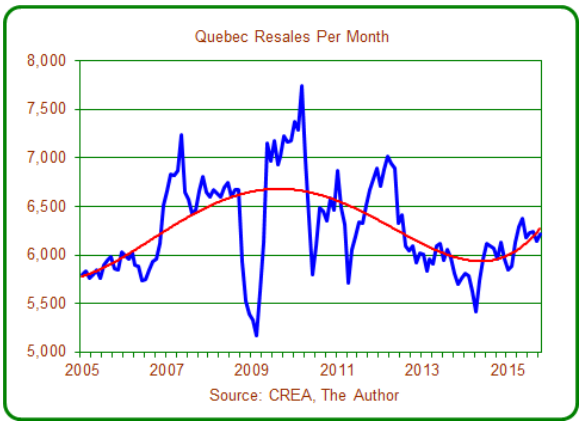


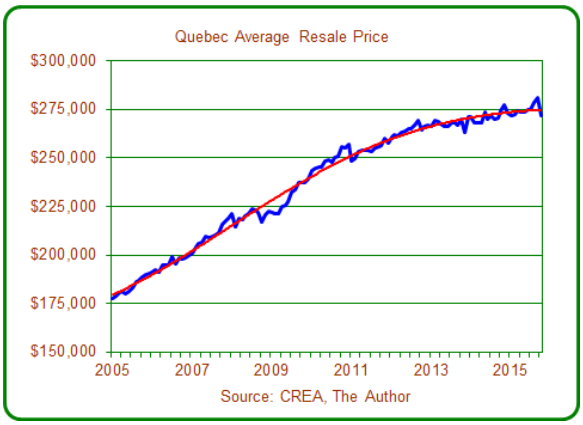
Similarly, in *New Brunswick*, the sales trend remains far below the pre-recession level (although there has been a slight improvement during the past year, in response to low interest rates). The price trend in New Brunswick has been flat for some time.



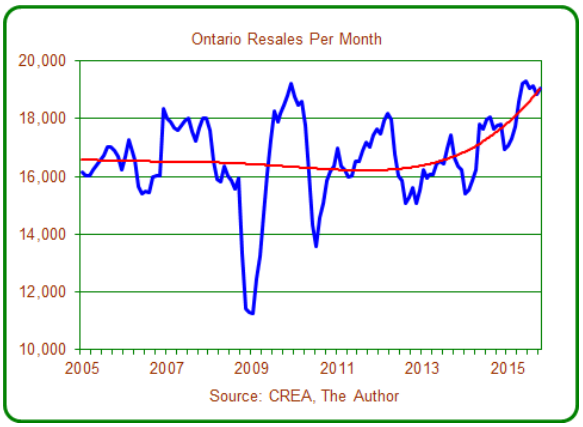


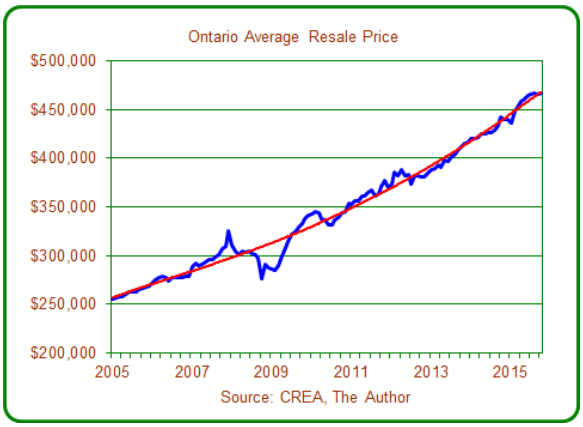
A reliable trend line cannot be fitted to the sales data for *Quebec*. That said, sales are about a tenth lower than they were a half-decade ago, even with the recent response to low interest rates. The price trend shows that weakened demand has led to a sharp slowdown of price growth. The average price in Quebec is now very close to flat.



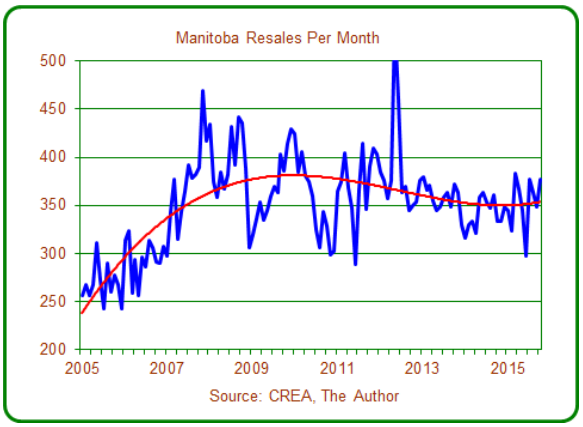


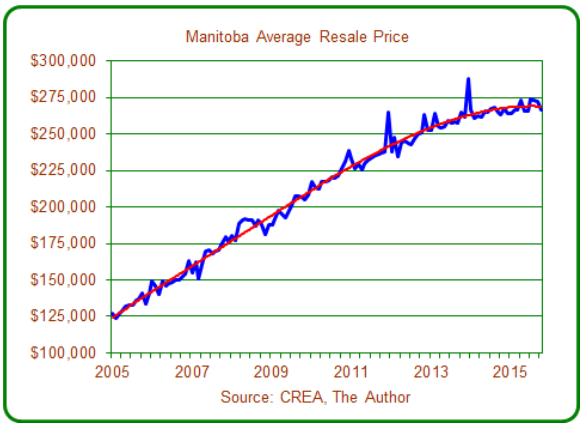
In *Ontario*, as well, a reliable trend line cannot be created. Recent activity (in response to exceptionally low interest rates) appears to be roughly equal to the pre-recession level. Ontario continues to see very rapid growth in its average price, which is largely due to supply shortages in the new homes construction market in the Toronto-centred region.



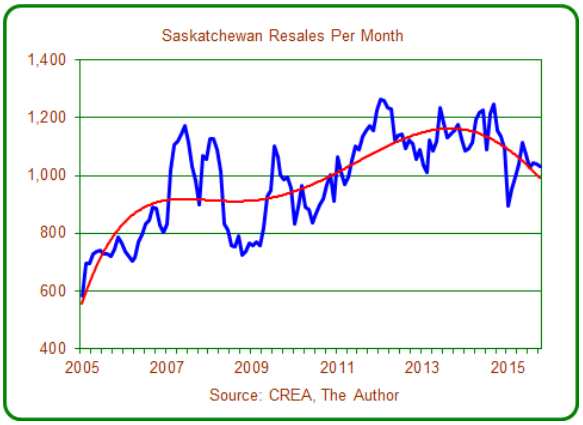


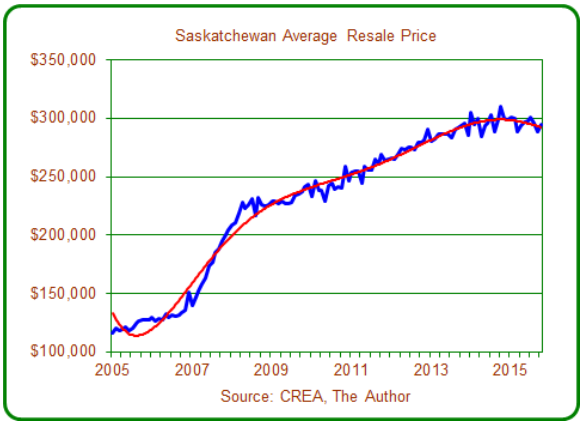
For *Manitoba*, sales levels are slightly lower than a half-decade ago. This slight slowing has been sufficient to end a prolonged period of rapid price growth, and the price trend has been close to flat during the past two years.



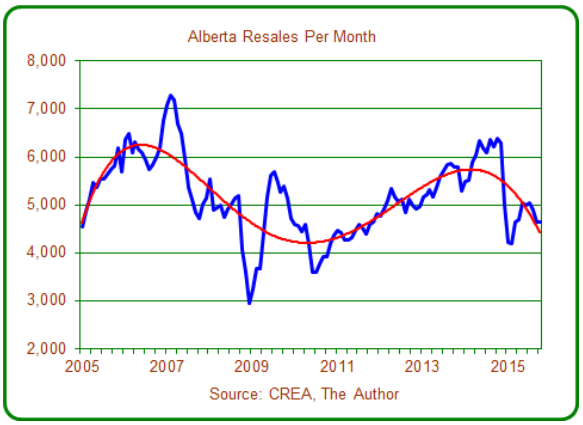


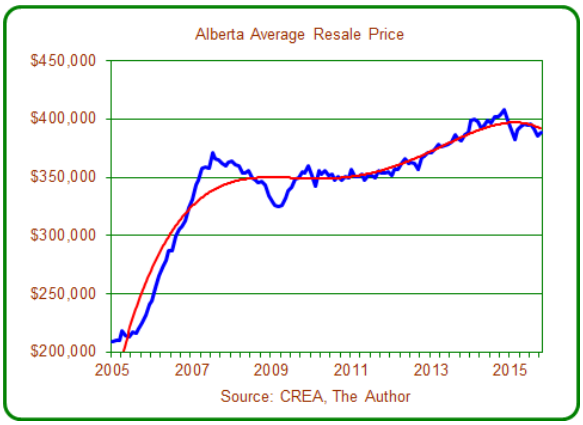
Saskatchewan has seen a rapid turn from great strength. Still, recent activity looks healthy in historic terms. The drop in demand has also resulted in a turning point for the price trend (which had been rising by 5% per year).



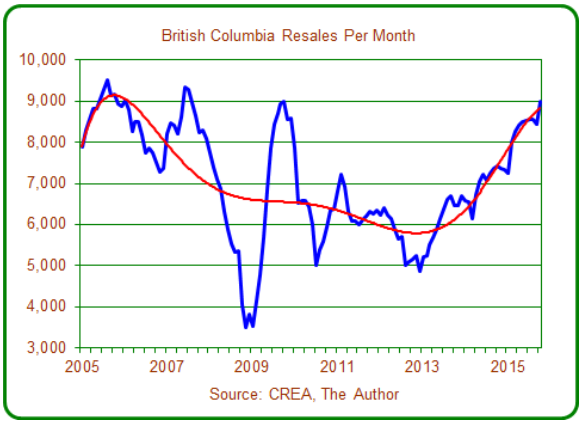


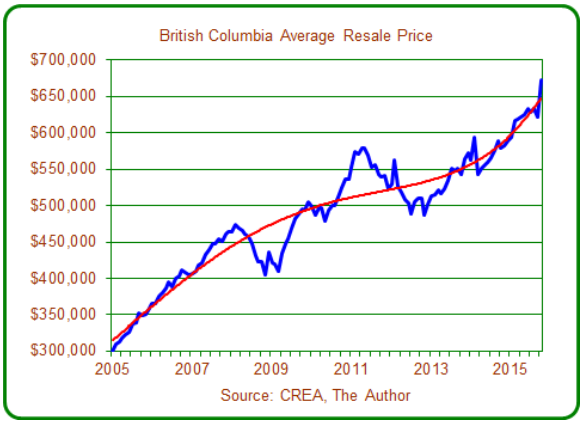
The boom-and-bust *Alberta* housing markets have slowed quite sharply, with the sales trend now at the same level as in a post-bubble period (the bubble occurred during 2005 and 2006). Price growth had been mostly muted during that post-bubble period, and the trend has now turned slightly downwards.





Housing markets trends differ in *British Columbia* compared to other provinces. A weak period during early 2010 to early 2013 has now been replaced by considerable strength. Correspondingly, a period of price weakness has been replaced by rapid price growth.





To sum up: prior to the July 2012 policy change, most areas of Canada had balanced housing markets, with activity slightly lower than during the pre-recession period. The policy change has continued to constrain housing activity, although that constraint is masked by the impacts of very low mortgage interest rates.

At this juncture, price growth is strong in only a few communities, and is due to constrained supply (inadequate supplies of development-ready building lots).

We continue to hear calls for further mortgage lending policy changes to reduce housing activity. Any such changes would not address those few localized supply issues, but they would impact negatively on local housing markets that are generally in balanced conditions. The unwarranted reductions in housing activity across Canada would be dangerous, not just for the housing market, but also for the broader economy. It would be more appropriate to address these supply-side issues with supply-side policies.

The Recent Mortgage Insurance Policy Announcement

On December 11, the federal government announced that down payment requirements for insured mortgages are being changed, effective February 15. For purchase amounts above $500,000, the minimum down payment will be 10% for the portion of the price that exceeds $500,000. For the portion of the price under $500,000, the 5% minimum still applies.

For example, for a purchase of a $550,000 home, a 5% down payment would be $27,500. Under the revised policy, that would be increased by $2,500, to $30,000.

The spring 2015 consumer survey (which was collected for "A Profile of Home Buying in Canada") focused on recent home buyers. That data has allowed for some analysis of the potential impacts of the policy change. Key findings are:

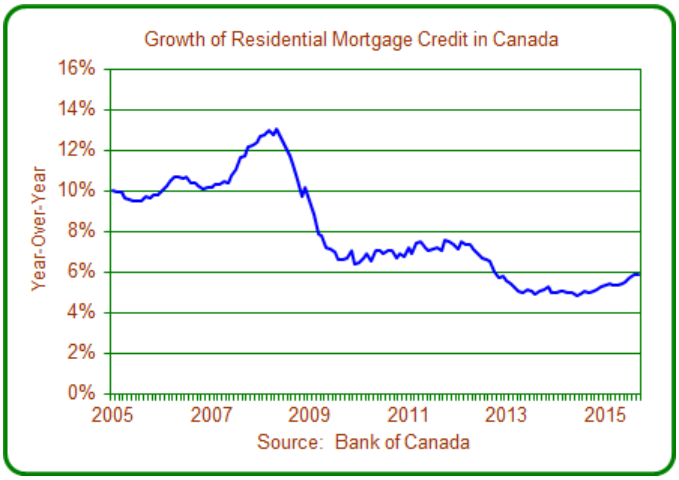
- Out of about 620,000 home sales each year, including both previously existing (resale) and newly constructed homes, about 155,000 are valued at $500,000 or more.
- Of these, 120,000 to 125,000 have mortgages, and 30,000 or more do not require a mortgage.
- Of these, at most 10,000 (less than 2% of annual home buyers) would see increases to their required down payments, and for a large majority of those, the additional down payments would be relatively small.
- Data from a survey sample cannot support a more precise estimation, in terms of the amounts of additional down payments that would be required for this small percentage of home buyers.

The data limitations acknowledged, the survey data hint that among the 10,000 buyers who might need to increase their down payments, most of these will have purchased at prices not much above the $500,000 threshold and therefore for most the additional required amounts will not be very large.

On this basis, Mortgage Professionals Canada expects that this policy change will not have significant adverse effects on the housing market (and by extension there are not associated economic risks).

Forecast of Mortgage Activity

During the past decade, residential mortgage credit in Canada has expanded at an average rate of 7.7% per year. The moderation of housing activity since the recession has resulted in slower growth of mortgage credit. For the past five years, growth has averaged 6.0% per year. Yet, the year-over-year growth rate has increased recently, and is now at 5.9% (as of September) versus 5.0% a year earlier. This uptick is attributable to a surge of resale market activity in response to reductions in mortgage interest rates to new all-time lows. In addition, a surge of housing completions earlier this year generated a need for more financing.



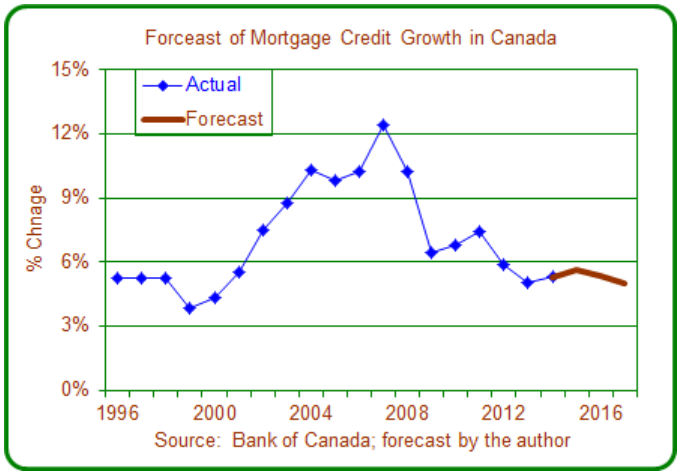
The volume of outstanding residential mortgage credit in Canada is $1.34 trillion.

Key factors suggest that there will be little change in the growth rate in the near-term:

- Housing completions will be flat or fall only slightly during 2016 and 2017.
- Canadians will continue to move away from communities with low-cost housing into communities that offer more job opportunities and commensurately have higher housing costs and larger associated mortgages.
- Resale market activity is widely anticipated to remain close to current levels during 2016 and 2017.
- Low interest rates will continue to allow mortgage holders to make extra efforts to repay their mortgages, through lump sum payments and, more important, to regularly pay more than they are required to (based on their amortization schedules).

Based on these factors, mortgage credit growth is projected to slow gradually during 2016, ending the year at about 5.25%. With only very small changes expected in housing market activity, the growth rate is expected to remain close to 5.0% during 2017.

By the end of 2015, total outstanding residential mortgage credit will be in the range of $1.35 trillion. By the end of 2016, the level may be $1.43 trillion and by the end of 2017 the figure may approach $1.5 trillion.



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