Annual State of the Residential Mortgage Market in Canada

Prepared for:

Canadian Association of Accredited Mortgage Professionals

By:

Will Dunning

CAAMP Chief Economist

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1.0 Introduction and Summary

Trends in the housing market are an important driver of the Canadian economy. Housing activity directly drives job creation, in the construction and real estate industries, with further impacts in the myriad of industries that support construction and real estate transactions by providing related goods and services. Moreover, since home equity is a very large repository of wealth in Canada, trends in house prices have great influence on the confidence of consumers and businesses. Thus, the "housing wealth effect" is a very powerful driver of job creation in Canada.

After the recession of 2008 and 2009, and continuing to the present, strength in Canadian housing markets has taken a leading role in the Canadian economy. The leading role of the housing market has relied a great deal on persistently exceptionally-low interest rates.

A key factor for the success of Canadian housing markets has also been the existence of a stable and competitive housing finance system, which has been remarkably successfully at channeling mortgage funds to home buyers (and investors) who are capable of meeting the resultant payment obligations.

This report by the Canadian Association of Accredited Mortgage Professionals ("CAAMP") reviews trends in the housing market and assesses implications for the evolution of mortgage credit in Canada.

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

This report has been prepared for CAAMP 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 are:

- 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 2,000 Canadians. More than one-half (57%) were homeowners with mortgages and the rest were renters, homeowners without mortgages, or others who live with their families and are not responsible for mortgage payments or rents. The survey was conducted by Bond Brand Loyalty (formerly Maritz Research, a national public opinion and market research firm) for CAAMP, during October 2014.

Evolving Approaches

CAAMP has conducted semi-annual consumer surveys since the fall of 2005. The research has core data on the residential mortgage market but the contents have evolved over time, as CAAMP has sought to contribute to better understanding of the residential mortgage market. CAAMP has developed new data, to support better decision-making by consumers, lenders, and policy-makers.

In this edition of the survey:

- A new set of questions explores down payments made by first-time buyers, at present and over time. The findings may be surprising.
- For borrowers with variable rate mortgages, characteristics have been explored in more depth than previously.
- Equity take-out by Canadian home owners remains a significant activity. Characteristics of the activity and the borrowers are explored in more detail.
- Analysis that contrasts resale market trends in Canada versus the US draws conclusions about the impacts of the federal government's mortgage insurance policy changes that took effect in July 2012. While the negative effects have diminished, housing activity in Canada remains much lower than it could be, and this is affecting the broader economy. The negative effects are greatest in the provinces that have the weakest economies.

Mortgage Choices

Mortgage Types and Amortization Periods

For homes that have been purchased recently (during 2014 up to the time of the survey), 84% have mortgages. A further 4% have no mortgage but have a HELOC and 12% have neither a mortgage nor a HELOC.

For homeowners with mortgages, fixed rate mortgages remain most popular. For homes that have been purchased recently (during 2014 up to the time of the survey), and have a mortgage, 76% of the mortgages have fixed interest rates. One-fifth have variable or adjustable rates, and combination mortgages have a 5% share.

For mortgages on homes purchased so far during 2014 to the present, 88% have contracted amortization periods of 25 years or less and 12% have extended amortization periods. Overall, the data indicates that 87% of all mortgages have contracted periods of no more than 25 years.

For homes purchased during 2013 or 2014, the average contracted amortization period is 21.2 years. This group of buyers expects that on average they will repay their mortgages in 17.5 years, which is 3.7 years (or 17%) shorter than the contracted period.

Among borrowers who took out a new mortgage during 2014 up to the time of the survey this fall, 55% obtained the mortgage from a Canadian bank and 30% from a mortgage broker. Other categories accounted for 15% of new mortgages.

Financial Parameters

There are currently about 9.62 million homeowners in Canada, of whom about 5.64 million have mortgages and may also have a Home Equity Line of Credit (or “HELOC”). An estimated 3.98 million homeowners are mortgage-free, although they may have other forms of debt. In total, about 2.15 million Canadian homeowners have HELOCs.

Interest Rates

Looking at interest rates, the CAAMP/Maritz data indicates that:

- The average mortgage interest rate for homeowners’ mortgages is 3.24%, identical to the result seen in the spring survey, and a drop from the average of 3.5% found in the fall 2013 survey.
- For mortgages on homes purchased recently (during 2014 to date), the average rate is 2.89%, a drop from the 3.25% figure last spring. For mortgages renewed recently, the average is 3.12%.
- Looking further, for borrowers who have recently renewed a mortgage, more than three-quarters (78%) saw their interest rate drop and among these borrowers the average rate is now lower (by 0.81 percentage point) than the rates prior to renewal.
- Among about 1.35 million borrowers who have renewed or refinanced mortgages since the start of 2014, about 1.05 million saw their interest rate fall, 175,000 saw increases, and 125,000 had no change. For borrowers who saw their interest rates increase at renewal, the increases were minor for most. It is estimated that fewer than 25,000 of these borrowers had their rates increase by more than 1 percentage point. This is a very small number relative to the 5.64 million Canadian homeowners who have mortgages.
- Mortgage rate discounting remains widespread in Canada. During 2014 to the present, the average actual rate for 5-year fixed rate mortgages (3.06%) has been 1.85 percentage points lower than typical “posted” rates (which have averaged 4.91%).

Impacts of Future Rises in Interest Rates

Low interest rates in Canada have strongly stimulated housing activity, which has contributed to growth of mortgage credit. It is very reasonable to ask – as many have – if consumers will be able to afford their mortgage payments when interest rates “inevitably” rise.

CAAMP has addressed this important question in several forums, including a special research report (“Revisiting the Mortgage Market – The Risk is Minimal”) published in January 2011. That research concluded that Canadian mortgage borrowers and lenders have been prudent and there is very substantial room to absorb higher interest rates. Anyone with an interest in this topic should read that report, which is available at the CAAMP website.

In this fall 2014 edition of the CAAMP report, analysis has been conducted of pending renewals. The current actual mortgage interest rates for those mortgages have been compared to current market interest rates. This analysis focuses on mortgage holders who purchased their home in 2010 or later. Earlier purchasers are considered to be much less vulnerable:

- Most of them have renewed their mortgage at least once. At the time they made their purchase, their mortgage rate was most likely 4% or higher and it is likely that their next renewal will be at a rate lower than they could afford initially.
- They are likely to have seen their incomes rise by at least 10%.
- They now have considerable amounts of housing equity, as a result of repayment of principal plus rises in the values of their homes, and could in theory address a future mortgage payment problem by refinancing or by selling their home.

Therefore, focusing on mortgage holders who purchased during 2010 or later:

- For mortgages that will be renewed in the next half year, the current average rate is 3.5%. Just 60,000 out of 140,000 of the borrowers who will renew during the next six months have current interest rates below 3.5%. Fixed rate mortgages are widely available at 3.0% (or lower) and variable rate mortgages typically at 2.5% to 2.6% (or lower). Mortgage interest rates might rise during this period, but it appears highly likely that rates of 3.5% or lower will be attainable. Therefore, for most of these borrowers, interest rates should be unchanged or fall when their mortgages are renewed.
- Actual impacts of renewals will depend not just on the interest rates, but also on how much budgetary room the borrowers had initially, how much their incomes have grown, and how much additional financial room they have created for themselves by making voluntary additional payments.
- For renewals during the second half-year period (spring 2015 to fall 2015), most borrowers (58%) have current rates of 3.5% or higher and are expected to benefit at renewal.
- In other words, during the coming year, mortgage renewal is likely to be a positive event for the borrowers and therefore for the broader economy.
- For subsequent mortgage renewers, higher percentages have current rates below 3.5% (56% for those renewing during fall 2015 to spring 2016, and 72% for those renewing during spring 2016 to fall 2016). For those who see their payments increase, outcomes will depend on several factors including: how much income growth has occurred, to what extent have they paid more than required and created space to make adjustments to their payments, and how much budgetary space did they have in the first instance? Other survey results, in this and earlier research by CAAMP, have shown that mortgage borrowers have anticipated and prepared for future rate increases.

Home Equity

The CAAMP study asked questions that yielded estimates of homeowners' equity:

- On average, home equity in Canada is equivalent to 74% 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 64%.

- For owners without mortgages but with HELOCs, the equity share is 83%.
- For owners without mortgages or HELOCs, equity is (of course) 100%.
- More than 85% of homeowners in Canada have 25% or more equity in their homes.

Equity Take-Out

About 11% of homeowners took equity out of their home in the past year. The average amount is estimated at $55,000. These results imply that the total amount of equity take-out during the past year has been $63 billion.

The most common uses for the funds from equity take-out are debt consolidation and repayment (estimated at $20.6 billion), followed by $17.4 billion for renovation or home repair, $7.7 billion for investments, $6.6 billion for purchases (including education), and $10.3 billion for “other” purposes.

Sources of Down-Payments by First-time Home Buyers

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 (45% for all first-time buyers and 40% for buyers who purchased their first home during 2010 to 2014). This category of personal savings has been stable since 1990 (at a 40% share). Funds from parents and other family members (in the form of loans and gifts) have been a small part of down-payments, averaging 13% for all first-time buyers. This share was stable until recently, rising to 17% for recent buyers. Loans from financial institutions have been a larger source of down-payments, at a share of 28%, which has been stable over time. Other sources include 9% via withdrawals from RRSPs (including via the Home Buyers Plan), and 4% 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 times.

Consumer Sentiment

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

Consumers generally agree (average score of 6.98) 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 6.95) and low levels of “regret” about their own mortgage choices (average of 3.89) 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” (average score of 7.35) and agreement that mortgages are “good debt” (average of 7.15).

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 (7%) rather than about home ownership in general (less than 1%). 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 70% a place to live and 30% an investment. This allocation is consistent across buyers who purchased during different periods and for 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 growth of mortgage debt.

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 one-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. The body of the report investigates the impacts with two approaches: firstly, contrasting market trends in Canada versus the US and, secondly, using a statistical analysis that dissects the “drivers” of housing activity.

Both of these approaches show that activity has been much lower than it should have been based on economic conditions (in particular, exceptionally low interest rates). Both approaches also indicate that (two years later) the negative impacts have waned, by about one-half, but that the policy still has a significant negative impact.

The cross-province statistical analysis indicates that the negative impacts have been greatest in the slow growth provinces. In the stronger provinces, it is difficult to dissect the economic factors, because at the same time as demand has been deliberately reduced by policy there are also supply-side issues that have limited home buying.

The reduction of resale market activity has negatively affected employment: the direct negative impact is estimated at 29,000 jobs over the past two years; at present, with the waning of the market impact, the direct job cost is estimated at about 19,000. In addition to the direct effects, there is an indirect impact – since sales have been reduced compared to what they might have been, price growth is slower than it might have been, and therefore the “housing wealth effect” is providing less impetus to job creation.

Since the housing market impacts have been greatest in the slow growth provinces, the job creation impacts have been greatest in those provinces.

Mortgage credit growth in Canada has averaged 8.1% per year during the past decade. The growth rate has slowed, and is currently 5.2% year-over-year (as of August). The growth rate is likely to slow gradually during 2015 (to about 4.5% by year end).

By the end of 2015, total outstanding residential mortgage credit is forecast at $1.34 trillion, up from the most recent figure of $1.26 trillion (as of August 2014). By the end of 2016 the figure may be close to $1.4 trillion.

About CAAMP

CAAMP is the national organization representing Canada’s mortgage industry. With 11,500 mortgage professionals, its membership is drawn from every province and from all industry sectors. This diversified membership enables CAAMP to bring together key players with the aim of enhancing professionalism.

Established in 1994, CAAMP has taken a leadership role in Canada’s mortgage lending industry and has set the standard for best practices in the industry.

In 2004, CAAMP established the Accredited Mortgage Professional (“AMP”) designation to enhance educational and ethical standards for Canada's mortgage professionals.

CAAMP’s other primary role is that of consumer advocate. On an ongoing basis CAAMP aims to educate and inform the public about the mortgage industry. Through its extensive membership database, CAAMP provides consumers with access to a cross-country network of the industry’s most respected and ethical professionals.

About the Author

Will Dunning is an economist, and has specialized in the analysis and forecasting of housing markets since 1982. In addition to acting as the Chief Economist for CAAMP 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 provider of customer satisfaction research in North America, and a major supplier of research that helps our 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. CAAMP, 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 CAAMP 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 13.95 million households in Canada[1], including:

- 9.62 million homeowners of whom 5.64 million have mortgages and 3.98 million are mortgage-free.
- Among the 5.64 million owners who have mortgages, an estimated 1.55 million also have Home Equity Lines of Credit (known as "HELOCs") although about 150,000 of them currently owe nothing on the HELOC. Among homeowners without mortgages, about 600,000 have a HELOC, of whom about 50,000 owe nothing at present.
- In total, about 2.15 million homeowners have HELOCs. Of these, about 200,000 have a "nil" balance owing.
- About 3.38 million homeowners have neither mortgages nor HELOCs.
- There are about 4.33 million tenants.

Housing and Mortgaging Activity During 2014

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

- About 425,000 households live in homes that they purchased during 2014 (up to the time of this survey). The average price was just over $400,000, for a total value of $173 billion.
- Of these, about 50,000 did not take any financing; a small number (less than 25,000) did not take a mortgage but did take a HELOC.
- Out of 350,000 to 375,000 buyers who took mortgages, about 25,000 to 50,000 also took a HELOC.
- As of this fall, the total outstanding mortgage principal for these recent buyers is estimated at $113 billion[2].
- Among buyers who purchased during 2014, 46% (almost 200,000) had a mortgage on their previous dwelling. In total, $24 billion in mortgages were discharged or transferred as a result of sales of existing dwellings. The combination of $113 billion in mortgages on purchased homes minus $24 billion on prior dwellings means that home purchases so far in 2014 have resulted in a net credit growth of $89 billion.
- Among the 425,000 households who have purchased homes so far in 2014, 49% (an estimated 210,000) were first-time home buyers.
- About 125,000 Canadian homeowners fully repaid their mortgages during 2014 (up to the date of the fall survey). A further 50,000 to 75,000 expect to fully repay their

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[1] This estimate of total households is based on data from the 2011 Census, updated by this author based on data from Statistics Canada's 2011 National Household Survey, as well as data from Canada Mortgage and Housing Corporation on housing completions and changes in vacancies.

[2] The total amount of HELOCs for these recent buyers is too small to be reliably estimated.

mortgage before the end of 2014. In combination, about 190,000 mortgages will have been fully repaid during the year.

- About 1.35 million homeowners with mortgages renewed or refinanced their mortgages so far during 2014. The combined total principal is $247 billion. About 300,000 of the borrowers who have renewed their mortgages so far in 2014 also have HELOCs, on which they owe a total of $9 billion.

Other findings on mortgaging activity include:

- Just over one million homeowners (11% of all homeowners) took equity out of their homes during the past year, adding about $50 billion to their home mortgages and $13 billion to their HELOCs.
- Based on the various information provided by consumers, it is estimated that regular AMA Mortgage payments resulted in a $61 billion paydown of mortgage principal. In addition, annual mortgage interest costs are estimated at about $31 billion (thus, across all mortgage holders, out of total regular mortgage payments of about $92 billion per year, one-third of the total is for interest and two-thirds of the payments result in reduction of principal).
- In addition, it is estimated later in this section that about 900,000 current mortgage holders made lump sum payments in the past year, totaling $16 billion.
- Furthermore, among the 190,000 to 200,000 Canadians who have repaid (or are expected to repay) their mortgages during 2014, lump sum payments total about $5 billion.
- About 900,000 mortgage holders voluntarily increased their regular payments during the past year, by amounts that equate to more than $3 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 69% of mortgage holders (3.9 million out of 5.64 million) have fixed rate mortgages, 24% (about 1.35 million) have variable and adjustable rate mortgages, and 6% (about 350,000) have “combination” mortgages, in which part of the payment is based on a fixed rate and part is based on a variable rate. In prior editions of this study, variable rate mortgages were slightly more popular with people in the oldest age bracket compared to the younger age groups. In this edition, choices are consistent across the age distribution.

Table 2-1
Percentages of Mortgages by Type,
By Age Group

Mortgage Type	*18-34*	*35-54*	*55 +*	*Total*
Fixed-rate	70%	69%	68%	69%
Variable or adjustable-rate	25%	23%	25%	24%
Combination	5%	7%	7%	6%
All Types	100%	100%	100%	100%

Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author.

As is shown in the first column of the next table, among mortgages for homes that were purchased during 2014 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 73% for repeat buyers. For mortgages that have been renewed this year, the fixed rate share of 79% is even higher. The shift towards fixed rate mortgages this year is no doubt related to the very low levels of interest rates that can now be attained: as is shown later, for mortgages the recent purchases, the average actual interest rate is 2.93% for fixed rate mortgages versus 2.87% for variable/adjustable rate mortgages. The very small cost advantage for variable and adjustable rate mortgages has encouraged recent buyers to opt for the security of a fixed rate mortgage.

Table 2-2
Percentages of Mortgages by Type,
For New Purchase Mortgages and Recent Renewals

Mortgage Type	*Purchase During 2014*	*Renewal or Refinance During 2014*	*All Mortgages (1)*
Fixed-rate	76%	79%	69%
Variable or Adjustable Rate	20%	16%	24%
Combination	5%	5%	6%
All Types	100%	100%	100%

Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; 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 their 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, for example through voluntary payment increases, lump sum payments, and, on the other hand, through equity take-out.

A large majority of residential mortgages in Canada have contracted amortization periods of 25 years or less. The first column of the table below indicates that 87% of mortgages have original contracted periods of no more than 25 years and 13% have original contracted periods exceeding 25 years. For homes that have been purchased recently (during 2013 or 2014), the proportions are quite similar. 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, as of July 2012, the maximum amortization period for insured mortgages is 25 years.

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

Table 2-3 ***Percentages of Mortgages by Length of Original Amortization Period***			
Amortization Period	*All Mortgages*	*Homes Purchased During 2013/14*	*Homes Purchased During 2009/12*
Up to 24 Years	43%	39%	31%
25 Years	44%	47%	41%
26-30 years	9%	12%	20%
More than 30 Years	4%	2%	8%
Total	100%	100%	100%
Average Amortization Period	21.6	21.2	23.8
Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author.			

Actions that Accelerate Repayment

The CAAMP/Maritz 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 about a decade ago are most likely to take one or more of these actions (among those who purchased during 2000 to 2004, 47% took one or more of the actions). Even among the most recent buyers, a significant share (34%) of mortgage holders took one or more of these actions.

Table 2-4 ***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	13%	5%	12%	26%	74%
1990s	16%	12%	6%	32%	68%
2000-2004	25%	17%	11%	47%	53%
2005-2009	19%	18%	6%	40%	60%
2010-2014	12%	17%	5%	34%	66%
All Purchase Periods	16%	16%	7%	38%	62%
Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; 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 one-in-six mortgage holders (16% of 5.64 million or just over 900,000) voluntarily increased their regular payments during the past year. The average amount of increase was about $285 per month, for a total of about $3 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 are contributing to accelerated repayment of mortgages.
- About 16% of mortgage holders (also just over 900,000) made lump sum payments during the past year. The average amount was about $17,500, for combined repayment estimated at $16 billion.
- As is shown in the table above, 7% of mortgage holders (about 400,000) increased the frequency of their payments.
- 38% of mortgage holders (more than 2.0 million out of 5.64 million) took one or more of these three actions.

In addition, the survey asked homeowners without mortgages when they had repaid the mortgage. About 100,000 to 125,000 borrowers have repaid their mortgages so far during 2014. Total lump sum payments made at the time amounted to $5 billion. Adding those who expect to complete pay-off by year end, the total lump sum payments that are made at the time of mortgage retirements will be about $8 billion for 2014.

The survey data indicates that total regular mortgage payments result in about $61 billion in principal repayment (at an annualized rate).

This snapshot portrays activity during a short period of just 12 months. It seems very reasonable to assume that over longer periods similarly substantial percentages of mortgage borrowers will take these actions to shorten their repayment periods.

On the other hand, out of 9.62 million homeowners, almost 11% (just under 1.1 million) took out equity during the past year, through either increasing their mortgage amount (about 700,000 households) or drawing on a HELOC (about 375,000 households). A small number took both actions. Withdrawals via mortgage increases totaled about $50 billion and draws on HELOCs totaled about $13 billion, for a combined total of about $63 billion[3]. Equity take-out averaged about $58,000 per household that took-out equity. Averaged across all 9.62 million home owners, the figure is about $6,500.

These activities, in combination, are shortening amortization periods.

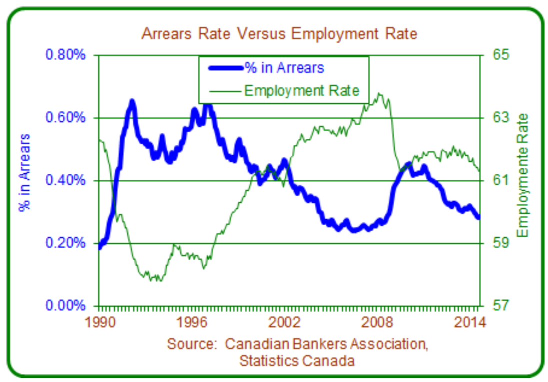
- Among homeowners who purchased during 2013 and 2014, the average expected total amortization period is 17.5 years, which is 3.7 years (or 17%) shorter than their average contracted amortization period of 21.2 years.
- Among those who purchased during 2009 to 2012 (the heyday of extended amortization), 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 one-half of mortgage holders (54%) expect to pay off their mortgages in less than their contracted amortization period.

[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.

Mortgage Arrears

Data on mortgage arrears from the Canadian Bankers Association, which covers 7 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 there was a rise in mortgage arrears during the recession, with a peak at the end of 2009. The subsequent recovery has brought the arrear rate to just 0.29% (about 1 in 350 borrowers).

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 might usually fit 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" (which shows 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%. Most recently, the employment rate has fallen slightly during the past year, but the arrears rate has not been adversely affected[4]. The most recent data point is for August 2014.

Types of Mortgage Representatives Consulted

Mortgage holders were asked which types of mortgage representatives they consulted when obtaining their current mortgages on their primary residence and, secondly, through which type of mortgage representative they obtained their mortgage.

For all current mortgages on homes that were purchased during 2014 up to the time of the survey (shown in the second column of data in the table), 61% were obtained from a bank. Mortgage brokers had a 31% share. Credit unions were the source for 6% of these mortgages, followed by 2% from life insurance or trust companies. Among recent purchasers included in the survey, none reported obtaining their mortgage via an "other" source.

Looking more broadly at all current mortgages (regardless of when the property was purchased, shown in the fourth column of data), 55% were obtained from a bank, 30% from a mortgage broker, 9% from a credit union, 3% from a life insurance or trust company, and 3% from an "other" source.

[4] As is discussed elsewhere (in a footnote on page 35) it is possible that the employment rate has not actually fallen.

The first and third columns of data indicate which types of mortgage professionals were consulted at the time the mortgages were obtained. Since more than one type of professional could be consulted, the percentages sum to more than 100%. Bank representatives were consulted most frequently (by 71% of all current mortgage holders), followed by 45% for mortgage brokers. For properties purchased during 2014 to the present, 76% of mortgage borrowers consulted bank representatives and 47% consulted mortgage brokers.

Table 2-5
Consumers' Use of Mortgage Representatives

Type of Mortgage Representative	*Purchased During 2014*		*All Purchase Periods*	
	Consumer Consulted Mortgage Professional	*Obtained Through Mortgage Professional*	*Consumer Consulted Mortgage Professional*	*Obtained Through Mortgage Professional*
Mortgage Representative from a Canadian Bank	76%	61%	71%	55%
Mortgage Broker	47%	31%	45%	30%
Mortgage Representative from a Credit Union	16%	6%	17%	9%
Mortgage Representative from a Life Insurance or Trust Company	8%	2%	10%	3%
Other	0%	0%	4%	3%
Total	147%	100%	148%	100%

Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author.

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 3.24% as of the fall of 2014, identical to the rate seen in the spring survey, and down from the 3.50% rate that was seen in the fall of 2013.

Very few residential mortgages in Canada have high interest rates. In this survey, only 4% of mortgages have interest rates of 5% or more.

The next table looks at average mortgage interest rates by type of mortgage, for all mortgages and for two subsets: mortgages for homes purchased during 2014 up to the date of the survey and mortgages that were renewed during the same period.

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. However, the spread between fixed and variable rates has narrowed: for mortgages for new purchases that occurred during 2014, (the second line of data) the spread is just 0.06 percentage points.

Table 3-1
Average Mortgage Interest Rates

	Mortgage Type			*All Types*
	Fixed-rate	*Variable or Adjustable Rate*	*Combination*	
All Mortgages	3.36%	2.90%	3.08%	3.24%
Purchases During 2014	2.93%	2.87%	NA (1)	2.89%
Renewals During 2014	3.23%	2.63%	NA (1)	3.12%

Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author.
Note: (1) insufficient data to generate an estimate

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 2014 to the present, more than three-quarters (78%) had a reduction in their interest rate and 13% had an increase. Ten per cent had no change in their interest rate. On average, for all mortgages renewed during that period, the interest rate was reduced by 0.81 percentage point.

Table 3-2 ***Changes in Mortgage Interest Rates for Mortgages Renewed During 2014***			
Change in Interest Rate	*Fixed-rate*	*Variable or Adjustable Rate*	*Total*
% with Rate Decreased	78%	89%	78%
% with Rate Unchanged	7%	11%	10%
% with Rate Increased	15%	0%	13%
% with Rate Increased by 1 Point or More	2%	0%	1%
Total	100%	100%	100%
Average Change in Interest Rate (percentage points)	-0.82	-0.92	-0.81
Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author. Note: estimates are not available for combination type mortgages due to small sample size.			

Combining the various estimates developed in this study, out of 5.64 million homeowners who have mortgages:

- About 1.35 million have renewed their mortgages during 2014 up to the time of the survey.
- About 1.05 million have seen their mortgage rates fall.
- About 125,000 had no change in their interest rate.
- About 175,000 had their rates increase. For almost all of these, the increase was 0.5 percentage points or less.
- Very few of these households (probably less than 25,000) 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

Since the fall of 2008 there have been repeated discussions about that will happen when interest rates “inevitably rise” and mortgage borrowers have to renew at higher interest rates. Some commentators have expected catastrophic results. CAAMP has joined in the discussions, through two pieces of analysis:

- Two editions of a special report “Revisiting the Mortgage Market” that were published by CAAMP in January 2010 and January 2011 performed simulations using very large databases of actual mortgages. The analyses found that the vast majority of the borrowers were positioned to afford payment increases that would result if their interest rate rises to a 5% rate: very small numbers (about 2,000 to 2,500 home buyers who purchased in 2010) might have total debt service ratios (“TDS ratios”) of 45% or more.
- In addition, the semi-annual consumer surveys have shown repeatedly that substantial shares of mortgage borrowers have voluntarily increased their regular

payments and/or made lump sum payments. These payments reduce their potential amortization periods to less than the contracted periods. It means that if interest costs increase to unaffordable levels, the borrowers can often reduce their payments (within the limits imposed by the contracted amortization period).

The "inevitable" rises have still not occurred. Yet, this remains a valid concern, not just for the mortgage market and housing market, but also for the broader economy.

The consumer survey indicates that just over 2 million mortgages will be renewed during the coming two years. Among these mortgages, the current interest rate averages 3.22%. About 950,000 of these mortgages have current interest rates below 3%, and therefore it is quite likely that the borrowers will see increased interest costs at their next renewal. But, not all of them will face hardship: with the passage of time borrowers will have seen income increases; some will have made additional payments in the past so that they have some space 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 during the past five years.

Within this group of homeowners, an estimated 830,000 will renew their mortgages during the coming two years. Their current average mortgage rate is 3.22%. Of these borrowers, 450,000 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%, and with the pace of economic recovery remaining tepid, a 3.5% test threshold appears reasonable. So, for renewals occurring during the coming six months, there might be about 60,000 to 70,000 borrowers who have purchased during the past five years and who might see their interest rates rise at renewal.

Table 3-3
Mortgage Interest Rates for Mortgages with Upcoming Renewals,
For Home Purchases Made During 2010 to 2014

	Time Until Renewal			
	Up to 0.5 year	*0.5 to 1 year*	*1.0 to 1.5 years*	*1.5 to 2 years*
Average Actual Mortgage Interest Rate	3.50	3.39	3.28	3.02
Distribution of Interest Rates				
Below 2%	7%	2%	0%	0%
2.0-2.49%	5%	8%	26%	25%
2.5-2.99%	22%	18%	23%	30%
3.0-3.49%	12%	14%	8%	17%
3.5-3.99%	32%	46%	20%	20%
4.0% or more	22%	11%	24%	8%
Total	100%	100%	100%	100%
Expected Renewals	140,000	310,000	120,000	260,000
With Current Rate Below 3.5%	60,000	130,000	70,000	190,000

Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author.

A further analysis combined several elements from the consumer survey 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 following table. These simulations indicate that relatively small numbers of recent buyers (2010 to 2014) will see their monthly interest costs rise by more than $100 per month (about 60,000 for those renewing during the coming six months and 70,000 for those renewing in the subsequent six months). For those renewing in a year and a half or more from now (shown in the last column), it appears there will be larger numbers with rises of more than $100 per month.

Among those whose interest costs rise at their next renewals, many have made voluntary extra payments and therefore have some flexibility to adjust their payment levels.

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 2010 to,2014

	Time Until Renewal			
	Up to 0.5 year	*0.5 to 1 year*	*1.0 to 1.5 years*	*1.5 to 2 years*
# Renewing	140,000	310,000	120,000	260,000
Average Impact on Monthly Interest Costs	$16	$29	$38	$121
Monthly Cost Fall or Unchanged	70,000	170,000	40,000	90,000
Monthly Cost Rise, Including	70,000	140,000	80,000	170,000
Less than $50	10,000	30,000	10,000	30,000
$51-100	0	40,000	10,000	40,000
$101-200	40,000	30,000	40,000	50,000
More than $200	20,000	40,000	20,000	60,000

Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author.

Mortgage Rate Discounting

The average mortgage interest rate reported here (3.36%) for fixed rate mortgages is well below the typical posted (advertised) rates that have been available during the past year. Since the start of 2014, posted rates for five-year terms have averaged 4.91%[5]. 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 the mortgages have been originated over a prolonged period. This results in a wide range of mortgage rates. In order to produce a meaningful summary of the interest rates, one subset of the study group was selected for further analysis:

- Mortgages that were initiated, renewed, or refinanced since the beginning of 2014.
- With fixed rates, rather than variable rates.

[5] Source: For posted rates, data are obtained from the Bank of Canada, using “Conventional mortgage” rates (estimated as of each Wednesday), up to October 22.

- With 5-year terms.

For this group of mortgage borrowers:

- The average mortgage interest rate is 3.06%. In contrast, the average posted five-year mortgage rate over the same period was 4.91%. Based on this data it appears that Canadians negotiated mortgage rate discounts averaging 1.85 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 3.84%.
- In other words, all of these borrowers received discounts greater than one percentage point versus the average posted mortgage rate.
- The lowest interest rate reported within this group was 2.89%.

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 home equity lines of credit (known as “HELOCs”).

The table below shows the estimates of equity positions for four groups of homeowners. In the current survey, the overall equity position is estimated at 74%. In other words, for every $1,000 in house value in Canada, there is about $260 of debt (mortgage and/or HELOC) and $740 of home owner equity.

This estimate for the fall of 2014 is similar to the 73% rate found in the spring 2014 survey. Both of these estimates are higher than the rates seen in the surveys prior to 2014 (which ranged from 66% to 70%). The surveys have consistently found very high equity ratios in Canada.

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 5.64 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 9.62 million homeowners in Canada, 8.4 million have 25% or more equity. On the other hand, 275,000 (3% of homeowners) have less than 10% equity.

Table 3-5 **Equity Ratios for Canadian Home Owners, as of Fall 2014**					
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%	0%	6%	0%	0%	3%
15-24.99%	0%	16%	5%	0%	7%
25-49.99%	7%	31%	37%	0%	20%
50-74.99%	24%	25%	30%	0%	17%
75-99.9%	59%	17%	23%	0%	15%
100%	10%	0%	0%	100%	36%
Total	100%	100%	100%	100%	100%
Number of Households	600,000	4,090,000	1,550,000	3,380,000	9,620,000
25% or more	100%	73%	90%	100%	87%
Average Equity Ratio	83%	49%	64%	100%	74%
Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; 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 $135,000, but the actual amount owed averages about $57,000. Thus, HELOC holders have, on average, accessed 42% of the available amounts. The survey found that 18% of HELOC holders do not currently owe anything on the HELOC. On the other hand, 9% have fully utilized the available HELOC.

Table 3-6 **Percentages of Available HELOCs Advanced, as of Fall 2014**	
% Advanced	*% of HELOC Holders*
0%	18%
0.1% to 10%	11%
10.1% to 25%	14%
25.1% to 50%	13%
50.1% to 75%	20%
75.1% to 90%	9%
90.1% to 99.9%	6%
100%	9%
Total	100%
Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; 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 (2010 to 2014, which accounts for about 2.5 million out of 9.62 million homeowners in Canada), there is considerable home equity: within that group, 69% have 25% or more equity. On the other hand, among the most recent purchasers, 6% have less than 10% equity.

Table 3-7
Equity Ratios for Canadian Home Owners, as of Fall 2014, by Period of Purchase

Equity as Percentage of Home Value	*Before 1990*	*1990-1999*	*2000-2004*	*2005-2009*	*2010-2014*	*Total*
Negative Equity	0%	0%	0%	1%	1%	1%
0-4.99%	0%	0%	0%	0%	3%	1%
5-9.99%	0%	0%	1%	1%	2%	1%
10-14.99%	0%	0%	0%	1%	9%	3%
15-24.99%	1%	1%	4%	8%	16%	7%
25-49.99%	2%	11%	13%	29%	30%	20%
50-74.99%	7%	11%	22%	26%	14%	17%
75-99.9%	13%	24%	19%	10%	9%	15%
100%	76%	52%	42%	23%	15%	36%
Total	100%	100%	100%	100%	100%	100%
25% or more	98%	98%	96%	88%	69%	87%

Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author.

Equity Take-out

The survey data indicates that 11% of all homeowners (slightly below 1.1 million out of 9.62 million homeowners) took out equity from their homes or increased the amount of the mortgage principal within the past twelve months. The average amount of equity take-out is estimated at about $58,000.

Various findings from the survey can be combined to estimate total equity take-out by Canadian mortgage holders:

- At present there are about 9.62 million homeowners in Canada.
- 11% of them have taken out equity during the past year (about 1.1 million households).
- The average amount taken out was about $58,000.
- Combining these factors, the total amount of equity take-out is calculated as $63 billion during the past year.

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:

- $20.6 billion (33%) of the money would be used for debt consolidation or repayment.
- $17.4 billion (28%) would be used for renovation or home repair.
- $6.6 billion (11%) would be used for purchases (including spending for education).
- $7.7 billion (12%) is for investments.
- $10.3 billion (16%) is for “other” purposes.

Further analysis found that take-out was much less frequent among recent buyers (7%) than among earlier buyers (14% of owners who purchased before 2010 have taken out equity during the past year).

Table 3-8 ***Percentages of Home Owners Taking Out Equity During the Past Year, by Period of Home Purchase***	
Period of Purchase	*% Taking Equity*
Before 1990	7%
1990s	18%
2000-2004	15%
2005-2009	16%
2010-2014	7%
All Periods	11%
Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; 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 to all home owners[6].

Table 3-9 ***Equity Positions for Home Owners Taking Out Equity During the Past Year Versus Those Who Have Not Taken Equity***			
Equity as Percentage of Home Value	*Did Not Take Out Equity*	*Took Equity*	*All Home Owners*
negative equity	1%	1%	1%
0-4.99%	1%	0%	1%
5-9.99%	1%	1%	1%
10-14.99%	3%	1%	3%
15-24.99%	6%	10%	7%
25-49.99%	15%	36%	20%
50-74.99%	14%	26%	17%
75-99.9%	14%	21%	15%
100%	47%	4%	36%
Total	100%	100%	100%
< 10%	3%	2%	3%
25% or more	89%	87%	87%
Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author.			

[6] Home owners who have not taken out equity include a large percentage that have 100% equity. Obviously, this is very rare among those who have taken out equity. But, the data shows that among those who have taken out equity during the past year, 4% now have 100% equity.

Sources of Down-Payments by First-Time Home Buyers

Comments have been made that, in a more expensive housing market, parents are increasingly helping their children with down-payments, via gifts and loans. In this edition of CAAMP's report, a special set of questions explores this topic. 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 might be imagined. All of the Canadians surveyed were asked in what year they purchased their first home (this includes some people who are not currently home owners). The table below summarizes these responses.

Table 3-10 ***When They Bought - First-Time Home Buyers, by Period of Purchase***	
Period	*% of All First-Time Buyers*
Before 1980	22%
1980-1989	21%
1990-1994	10%
1995-1999	7%
2000-2004	11%
2005-2009	14%
2010-2014	15%
Total	100%
Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author.	

Then, they were asked" what percent of the purchase price of your first home did you put as a down-payment?" These responses indicate that down-payment amounts have been quite stable over time, at about 20%.

Table 3-11 ***Average Down-Payment for First-Time Home Buyers, by Period of Purchase***	
Period	*% Down-Payment*
Before 1980	20%
1980-1989	22%
1990-1994	22%
1995-1999	22%
2000-2004	21%
2005-2009	22%
2010-2014	20%
Total	21%
Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author.	

As the final step in this part of the survey, they were asked to indicate the percentage their down-payment that can be attributed to various sources. Results have been grouped according to period of purchase and are summarized in the next table.

Looking at the bottom line, 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 (6%) and loans (7%), for a total of 13%. Loans from financial institutions (28%) have constituted a major source of funds for down-payments. Withdrawals from RRSPs (9%) have been a minor source of funds.

Some interesting changes have happened over time:

- Personal savings as a source has been stable since the 1990s, but was higher previously. 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 over 50% for almost all of the periods (with the exception of 1990-1994). 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 combined share has been quite stable at about 13%. But, the composition of this has changed slightly: this support has shifted slightly away from loans to gifts.
- In the final time period (2010-2014), there was an increase in gifts from family members (to 11%, versus the overall average of 6%), and in the combined total for gifts plus loans from family (to 17% from 13%). But, even at this recently elevated share, we cannot say that this source of funds has become an important driver of home buying.

Table 3-12
Sources of Down-Payments for First-Time Home Buyers, by Period of Purchase

Period of Purchase	*My personal savings or my co-buyer's personal savings*	*Gift from parents or other family members*	*Loan from parents or other family members*	*Loan from a financial institution*	*Loan from my employer*	*Withdrawal from an RRSP (including via the Home Buyers Plan)*	*Other sources*	*Total*
Before 1980	54%	5%	9%	26%	1%	2%	4%	100%
1980-1989	49%	4%	7%	30%	1%	5%	4%	100%
1990-1994	39%	7%	6%	38%	0%	7%	2%	100%
1995-1999	38%	8%	5%	28%	0%	16%	5%	100%
2000-2004	41%	6%	6%	26%	0%	16%	5%	100%
2005-2009	40%	8%	5%	26%	0%	14%	7%	100%
2010-2014	40%	11%	6%	27%	1%	12%	2%	100%
Total	45%	6%	7%	28%	1%	9%	4%	100%

Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author.

4.0 Consumer Sentiment

Attitudes to Topical Questions

Since the fall of 2010, some editions of the CAAMP/Maritz consumer surveys have investigated attitudes on some current issues related to housing markets and mortgages. The respondents were 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. CAAMP has added others that it considers worthy of examination. The next table summarizes responses, showing the average scores. The responses have changed relatively little over time.

- There has been a consistent 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".
- But, while consumers believe other people have been irresponsible, the responses to other questions show that they believe their own behavior has been responsible. Interesting! If we have been responsible as individuals, how is it that *en masse* we have been 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.
- Canadians' confidence about their ability to weather a downturn in the housing market strengthened in the aftermath of the recession, and has been stable during the past year (shown by the average scores for the second question).
- Canadians have strongly agreed with the proposition that real estate is a good long-term investment. Not surprisingly, the degree of agreement is stronger now than it was following the recession.
- The level of confidence about the economy appears to be roughly stable over the last year, at slightly above the neutral mark of 5.5. The survey (during mid-October) occurred at the same time as turmoil was rampant in financial markets, but expectations about the economy do not appear to have been materially affected.
- The proposition "I regret taking on the size of mortgage I did" is asked only for mortgage holders. The average scores for this have been well below the midpoint. There is not a clear trend for these responses over time. But, we can say there has not been a rise in "regret".
- Looking at the current responses in more detail, mortgage holders who have purchased recently (during 2010 to the present) provided a score that was slightly above average (at 4.06, versus the average of 3.89). Within this group, just 4% indicated that they strongly regret the size of mortgage.
- Those who purchased during 2005 to 2009 gave an above-average score (3.98).
- Purchasers from earlier periods gave much lower scores (averages of 3.32 for buyers from 2000 to 2004, 3.09 for buyers from the 1990s). But buyers who purchased prior to 1990 and still have a mortgage gave an above average score, at 4.01: these buyers purchased 25 or more years ago and still have mortgages. It is quite a small group (only 5% of all mortgage holders). Their regret might actually be that – more than 25 years later – they still have mortgages. As has been discussed, most

mortgage borrowers make special efforts to pay off their mortgages in less than the contracted amortization periods and expect to pay-off their mortgages in less than the contracted amortization period.

- The chart to the right presents these results in even more detail, showing the average level of regrets by the actual years of purchase. The data and the trend line (the thin red line) suggests that the level of regret is roughly stable for borrowers who made their purchases during the past decade, at about 4.0 out of 10.
- There is strong agreement that mortgages are "good debt", with the average score at 7.15 this fall. Just 9% gave scores from 1 to 4 and 67% indicated degrees of agreement (scores of 7 to 10).

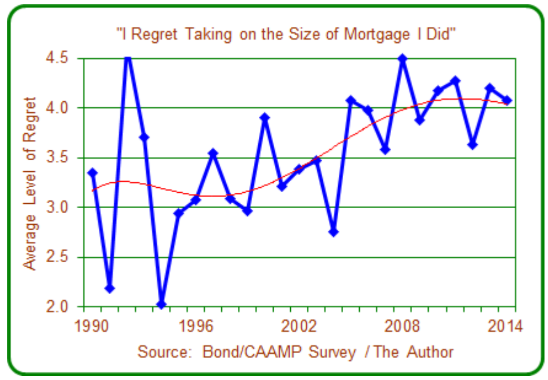


Table 4-1
Summary of Consumer Responses to Topical Question, By Date of Survey
(Average Scores on a Scale of 1-to-10)

	Fall 2010	Fall 2011	Fall 2012	Fall 2013	Spring 2014	Fall 2014
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	7.01	6.98
I/My family would be well-positioned to weather a potential downturn in home prices	6.54	6.72	6.67	6.93	6.98	6.95
Real estate in Canada is a good long-term investment	7.13	7.27	7.26	7.44	7.34	7.35
I am optimistic about the economy in the coming 12 months	N/A	6.02	6.13	6.36	6.31	6.25
I regret taking on the size of mortgage I did	3.86	4.04	3.88	3.82	3.68	3.89
I would classify mortgages as "good debt"	N/A	7.07	7.05	7.20	7.13	7.15
Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2010 to fall 2014; estimates by the author.						

Happiness With Decision to Buy a Home

Starting in the spring of 2014, a new question has asked homeowners whether they are happy with their decision to buy the home. This question found a very high degree of satisfaction with home ownership. Three optional responses were available:

- By far, home owners are happy with the decision to buy their home (91%).
- A tiny minority (less than 1%) indicated that "I regret my decision – I wish I did not choose to own a home".
- In addition, 7% indicated "I regret my decision – I wish I had purchased a different home/property".
- These responses are identical to the results from the spring survey.

An Investment or a Place to Live?

A question that generates lively discussion in the media (and especially in online discussion boards) is: to what extent do people see their homes as investments? Homeowners who purchased during 2003 or later were asked: “how you think of your home from these two perspectives [as a place to live versus as an investment]? These two numbers should add to 100%.” The responses indicate that on average homes are viewed 70% “as a place to live” and 30% “as an investment”. We don’t have a benchmark for what is reasonable but we can use the data to look at variations for different buyers. Dividing the data roughly in thirds (purchase dates of 2003 to 2006, 2007 to 2010, and 2011 to 2014) the allocations are identical, at 70% place to live and 30% investment.

This data has also been sub-divided by age groups: the results appear to be similar across the age groups, as the average percentages for “place to live” are 70% for the 18 to 34 age bracket, 68% for the 35 to 54 group, and 73% for the 55 and over group. In other words, different groups of buyers have similar attitudes about the extent to which they see their homes as investments. This will be interesting to watch over time.

Reasons for Not Owning a Home

The fall 2014 survey asked consumers who are not homeowners for the the reason (or reasons) they do not own a home. A list of seven possible answers (plus an “other” option” was available. More than one response could be given. Responses are summarized in the following 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 one-half among the youngest age group; lack of financial stability and inability to afford home ownership are 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, there is a shorter list of significant reasons, as “renting is a better option for me” is cited by two-thirds. Interestingly, concern about future interest rate rises is quite rare, across all ages.

Table 4-2
Reasons for Not Owning a Home, by Age Group

Summary	18-34	35-54	55 and over	All Ages
Nervous that rates will increase	4%	2%	1%	2%
Lack of financial stability	30%	33%	18%	28%
Waiting for home prices to decrease	27%	18%	4%	17%
Renting is a better option for me	26%	41%	68%	43%
I need more time to save for a down-payment	50%	27%	0%	27%
Living with my parents/family is all I can afford	28%	7%	1%	12%
The idea of owning a home is too stressful	13%	13%	4%	11%
Other	10%	14%	21%	14%
Number of Reasons	1.9	1.6	1.2	1.6

Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author.

Expectations About Home Values

Consumers were also asked for their predictions for changes in the values of homes and condominiums during the next five years. The next table summarizes the responses, in total and by age group.

- More than half (54%) of consumers expect a relatively stable environment (that prices will either be flat or increase slowly). The expectations do vary by age group: older age groups are more likely to expect relative stability than are younger groups.
- On the other hand, while 10% expect that a housing bubble will burst, that expectation is stronger for young groups than for older groups.
- About one-fifth (22%) expect that prices will decline slowly.
- Very few (just 2%) expect rapid growth in valuations.

Table 4-3
Consumers' Predictions About Changes in Valuations for Homes and Condominiums During the Next Five Years, by Age Group

	18 to 24	25 to 34	35 to 44	45 to 54	55 to 64	65+	All Ages
The bubble will burst	14%	13%	11%	12%	8%	7%	10%
Slow decline in valuations	19%	24%	26%	18%	23%	20%	22%
Stable (values will stay the same)	20%	25%	24%	32%	25%	21%	25%
Slow growth in valuations	19%	20%	25%	26%	35%	42%	29%
Rapid growth in valuations	2%	3%	3%	0%	3%	1%	2%
Unsure	25%	15%	11%	12%	6%	9%	11%
Total	100%	100%	100%	100%	100%	100%	100%

Source: survey by Bond Brand Loyalty (formally known as Maritz Research Canada) for CAAMP, fall 2014; analysis by the author.

5.0 Outlook for the Mortgage Market

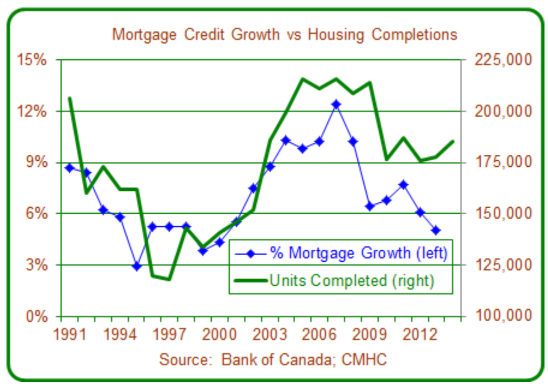
The Housing Market Background

The first page of this section repeats verbatim the text from the spring report – the messages are worth repeating.

During the past two decades, there have been wide variations in the rate of mortgage credit growth in Canada. During the second half of the 1990s, growth was typically about 5% per year. There was a strong peak of growth during 2004 to 2008, when annual growth rates exceeded 10% per year. More, recently, growth has slowed during the post-recession period, and is now at 5% per year.

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 one-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. But, this chart also shows that the relationship may have broken down recently. Not exactly “broken down” – there is another important factor that has caused mortgage credit growth to slow, and that factor (very low interest rates) has become stronger.



- Very low levels of interest rates mean that Canadians are paying less interest and have more money available that they can use to repay their mortgage principals. CAAMP’s surveys have found that Canadians are making significant efforts to repay their mortgages more rapidly than they have to. Therefore, a statistical analysis shows that reductions in interest rates in Canada tend to reduce the rate of mortgage credit growth; conversely, rising interest rates lead to increased mortgage growth. On a statistical basis, each one point change in mortgage interest rates affects the rate of credit growth by about one-half of a point per year.
- 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. Therefore, on a “net” basis, resale activity is less important compared to construction of new dwellings.

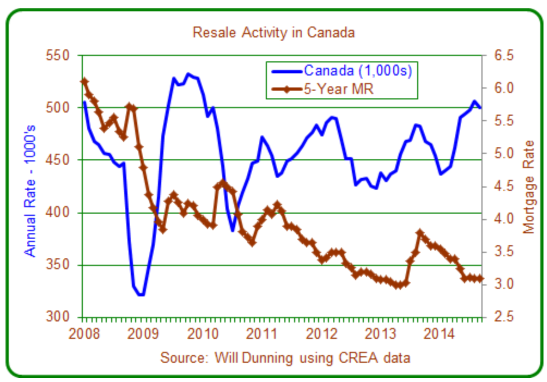
However, resale activity is very important to mortgage demand, in an indirect way. Evolving conditions in the resale market influence how much new housing will be constructed: when there are shortages in the resale market and/or prices are rising, there is a need for more new construction. More new homes will be sold. These sales will lead to increased housing starts and subsequently housing completions will rise.

Previous issues of these semi-annual reports discussed a change in mortgage insurance policies that took effect in July 2012, and its negative impacts in the housing market, which would in turn affect the broader economy. This issue of the CAAMP report continues to explore the evolution of the housing market (including the impacts of mortgage insurance criteria) and the consequences for the mortgage market.

Two key conclusions are:

- The negative impact of that policy change is diminishing, but it continues to hamper housing activity. The broader economy is also weaker than it needs to be.
- Looking at housing indicators from a national perspective masks wide divergences across the country. A few major centres have very hot housing markets, but in many areas of Canada housing markets are weak, which in turn is adding to their economic stresses. For these centres, the continued suppression of housing activity is unnecessary.

Resale Markets

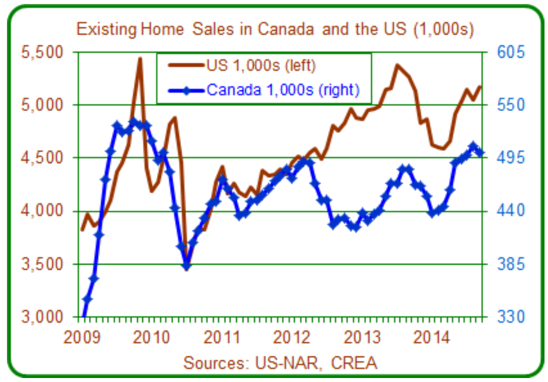


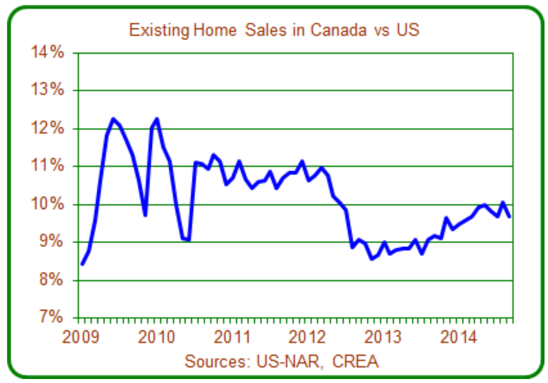
Resale activity has shown wide variations. Most of these swings (with one important exception) can be explained as the results of economic conditions, particularly changes in mortgage interest rates. In this chart, almost all of the large swings in sales activity were associated with movements of interest rates. Notably, the relatively large rise in sales activity at the end of this period is clearly related to a drop in mortgage interest rates to a very low level. The "important exception" noted above is the sharp drop of sales that occurred at mid-2012: there were no economic events that would have caused this drop: interest rates had fallen slightly during early June and then had stabilized and there was no major news from the economy (or indeed out of the geopolitical realm) that might have caused the sales plunge. The event that caused the downturn in the housing market was a government decision, which took effect in July 2012, to eliminate mortgage insurance for mortgages with amortization periods exceeding 25 years (previously amortization periods up to 30 years had been eligible). A 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.

The impacts of this policy change are explored here using two approaches: firstly, a comparison of housing market trends in Canada versus the US; secondly, a statistical analysis of resale market activity across the provinces of Canada.

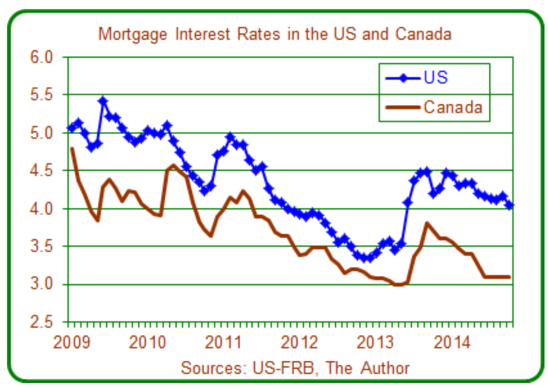
Resale Activity: Canada vs the US

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 on-going 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 two 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 about 10% it is still lower than it ought to be.

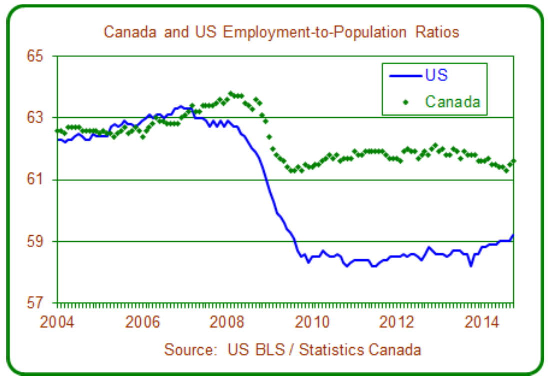




During the past half-decade, key economic drivers of housing activity in Canada have been very similar to those in the US: as this chart illustrates, mortgage interest rates in Canada and the US have moved roughly in parallel (the US rate is for 30 year mortgages; the Canadian rate is for five year mortgages, after typical discounts, as estimated by this author). During 2011 and 2012, these interest rates fell in both countries, which stimulated activity in the US. But, Canada failed to follow the mid-2012 surge, because of the policy change. A small nuance in this data is that at the time interest rates fell slightly more in the US than in Canada. Therefore, the US might have been expected to see a sharper rise than in Canada: nonetheless Canada should have seen a rise in resale market activity. By the end of 2013 and to the present, the gap between the US and Canada rates has increased and is now above-average level, which has contributed to the recovery of the Canadian sales proportion.



A second economic parallel is that during 2011 and 2012 the employment-to-population ratios were rising very gradually in both countries, indicating that employment was growing slightly more rapidly than the population in both cases. This was making a minor contribution to the rising sales trend in the US and should have done the same in Canada.



The upshot of this discussion is that after mid-2012 the ratio of Canadian versus US resale activity might reasonably have fallen fractionally from the 11% rate. The much larger actual drop to 9% has to be explained as the consequence of the policy change.

More recently, as can be seen in the chart above, during the last year the employment rate has slipped in Canada, but continues to rise gradually in the US[7]. This has two implications.

- Firstly, because it takes time for a change in the employment trend to affect housing trends (with the impacts unfolding during a period as long as four years), we might see an evolving weakening of housing demand during the coming two years, unless we see improved job creation in Canada.
- Secondly, housing activity is a major generator of jobs directly (because of the many different industries that are involved in the sales process as well as moving). There is a large indirect impact as well: strong housing activity promotes price growth, and the "wealth effect" encourages spending that creates jobs.
- For these reasons, the slowdown of housing activity since mid-2012 has no doubt contributed to the reduced job creation in Canada.

To conclude: the rise in the sales proportion in Canada to 10% amounts to a half-way recovery. This indicates that the negative effects of the 2012 policy change have waned, but resale market activity in Canada is still being restrained by a non-trivial amount.

A quick estimate of the jobs impact:

- During the two years prior to the policy change, the average pace of resale activity in Canada was 10.77% of the US rate.
- Since the policy change, resale activity in the US was at an average annualized rate of 4.943 million.
- At the 10.77% proportion, the rate in Canada might have averaged 532,364.
- The actual rate in Canada was 457,740.
- The shortfall was 74,624 sales (at an annualized rate), or 14%.

[7] These estimates are generated by a sample survey and therefore they have a "margin of error" (that is, they might be incorrect). In the Canadian data, it appears that the drop of the employment rate earlier this year may have been over-stated and the rises seen in the last two months (September and October) may be, in part, a return towards reality. Moreover, the estimate for August showed a drop that looks suspiciously like a "data artifact", and this might be reversed in the coming months. It is possible that the "true" employment rate in Canada might have been flat during the past year. That said, it appears that at best the employment rate in Canada is no higher than a year ago, while the rate in the US has increased.

- According to a report produced by the Altus Group (for the Canadian Real Estate Association) during 2010 to 2012, sales through the MLS system resulted in an annual average of 176,420 jobs (direct and indirect impacts).
- During that period, sales averaged 453,933. The job impact was equal to 0.3886 jobs per unit sold.
- Applying that factor to the sales shortfall of 74,624, the jobs impact has averaged 29,000 over the past two years.
- At present (for the third quarter of 2014), the calculated sales shortfall is 49,582 and the jobs impact is 19,269.
- These absent jobs were incurred across a wide swath of industries.
- Thus, the slowdown of job creation in Canada is due in part to the deliberate reduction of housing activity.

Resale Activity: the Provinces

Statistical analysis has been used to assess the “drivers” of resale market activity across the provinces. This analysis considered to what extent resale activity was lower than it should have been (based on economic conditions) following the July 2012 federal policy change. The analysis assumes that the negative impacts have gradually faded, and are now about half as strong as they were initially (which is in line with the findings shown in the prior section).

Results of that analysis are shown in the table on the next page.

- The impacts are greatest in the slower growth provinces (Atlantic Canada and Quebec). These results are highly significant statistically, meaning that we should be confident that the policy change reduced activity.
- Estimated impacts are more moderate in Saskatchewan and Ontario. The estimate is barely statistically-significant in Saskatchewan and not statistically significant in Ontario.
- The estimated negative impacts are weakest in Alberta and Manitoba, and these results are not statistically significant, meaning that we cannot say with confidence that the policy had a negative impact.
- The estimated impacts are positive (but very close to zero) in New Brunswick and British Columbia, and with extremely low statistical significance, meaning that these estimates should be ignored.

In the provinces with weak estimated impacts there were other market conditions that affected activity and make it difficult to separate the factors. In particular, in Ontario, British Columbia, and Alberta, there are shortages of development-ready building lots for new homes – this means that lack of supply was preventing demand from getting fully expressed in the marketplace. Therefore, a policy that reduced demand had little or no visible impact – the policy might have reduced the numbers of people who wanted to buy, but it did not affect the numbers who could actually buy: numbers of actual purchases were determined in the supply side of the market rather than by the policy change.

For all of Canada, the combined initial negative impact is estimated at 10%, but because the impacts cannot be reliably estimated for all of the provinces, this figure under-estimates the national impact.

What we can conclude from these estimates is that in the slower growth provinces, where housing supply issues are not confounding the analysis, the negative impacts have been very large. Even if the assumption is correct that impacts have faded, to about half of the initial levels, the policy change continues to repress housing activity in these provinces.

Table 5-1
Estimated Impacts of July 2012 Policy Change on Provincial Resale Activity

Province	*Estimated Initial Impact on Sales (Per Quarter)*	*Average Quarterly Sales in Year Prior to the Policy Change*	*% Impact (initial)*	*T-statistic (1)*	*Statistically Significant?*
Newfoundland and Labrador	-263	1,208	-22%	-4.1	Yes
Prince Edward Island	-123	413	-30%	-4.1	Yes
Nova Scotia	-442	2,722	-16%	-2.5	Yes
New Brunswick	11	1,615	1%	0.1	No
Quebec	-5,526	20,033	-28%	-6.7	Yes
Ontario	-4,603	51,912	-9%	-1.8	No
Manitoba	-53	3,560	-1%	-0.4	No
Saskatchewan	-341	3,548	-10%	-2.1	Yes
Alberta	-583	14,481	-4%	-0.7	No
British Columbia	60	18,396	0%	0.0	No
Canada (weighted impacts)	-11,862	117,887	-10%		

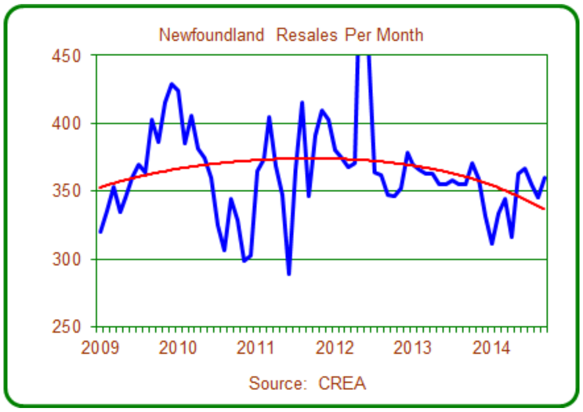
Source: estimates by the Author

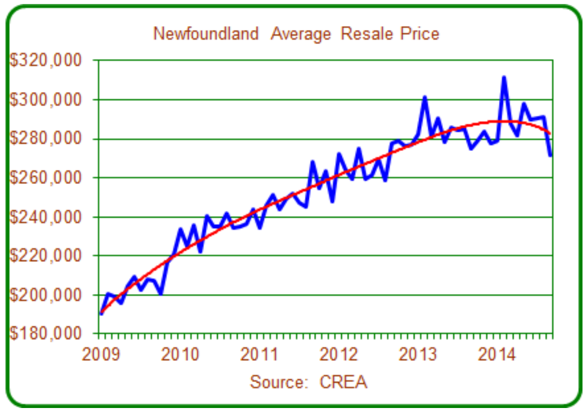
Note: the t-statistic is a measure of statistical significance. A value above 2 (or less than -2) indicates that we can accept the estimate

A Scan Across the Provinces' Resale Markets

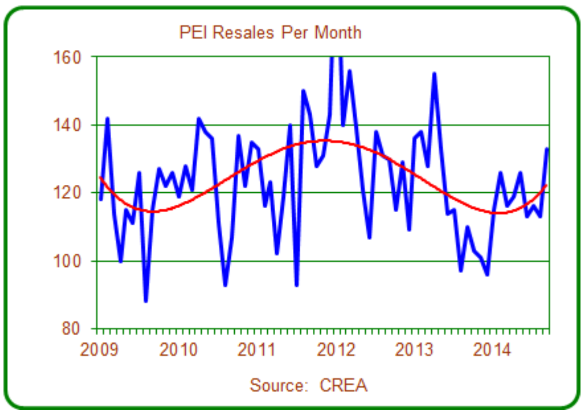
In this section, resale market trends are briefly reviewed for each of the 10 provinces. Charts are shown for sales and average resale prices. Since the data can be volatile from month to month, trend lines have been added. In some cases (which are noted) the mechanically-generated trend lines are not 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.

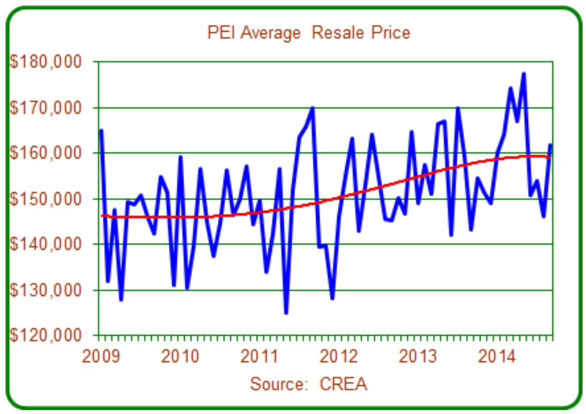
In *Newfoundland and Labrador*, the sales trend remains considerably weaker compared to levels seen prior to the policy change. Price growth has certainly decelerated, and the price trend is currently flat or falling (the mechanically-generated trend line has been highly influenced by the low level of the final data point).



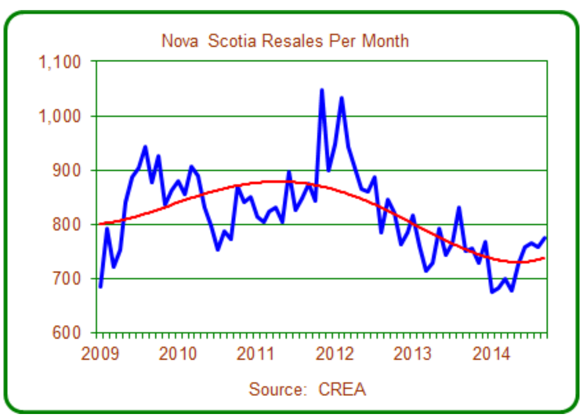


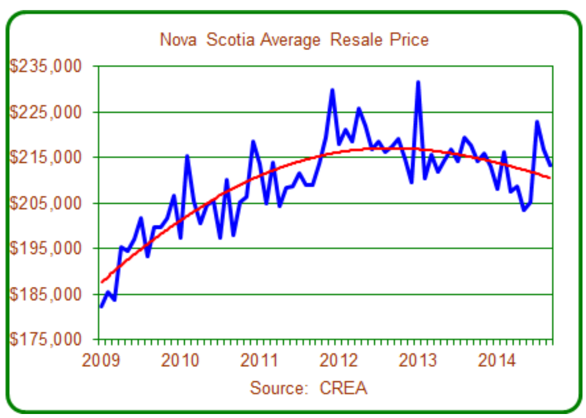
For *Prince Edward Island* the highly volatile data makes it especially difficult to identify trends for both sales and prices. In the sales chart, the conclusion is that sales remain well below the level seen before the policy change. For prices, the trend line suggests that price growth has been sustained at a moderate rate (around 2% per year), although that growth might have ended.



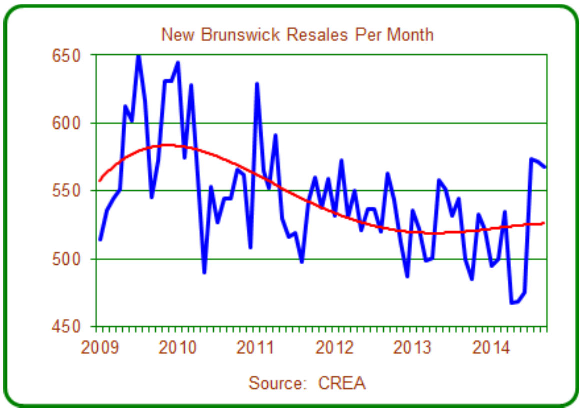


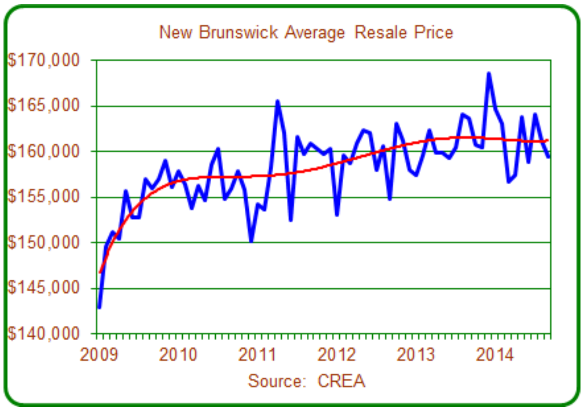
In *Nova Scotia*, the sale trend remains far (about 15%) below the levels seen before the policy change. The price trend suggests quite strongly that the weakened sales are now resulting in price erosion.



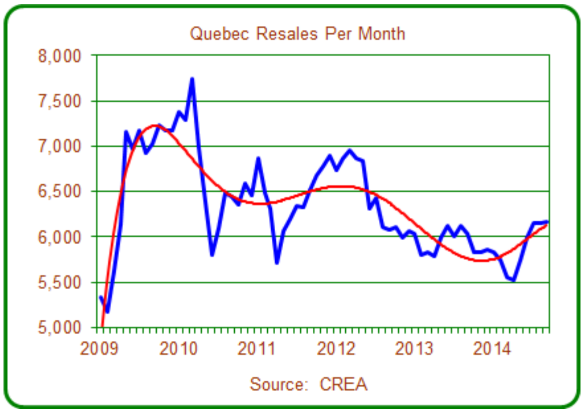


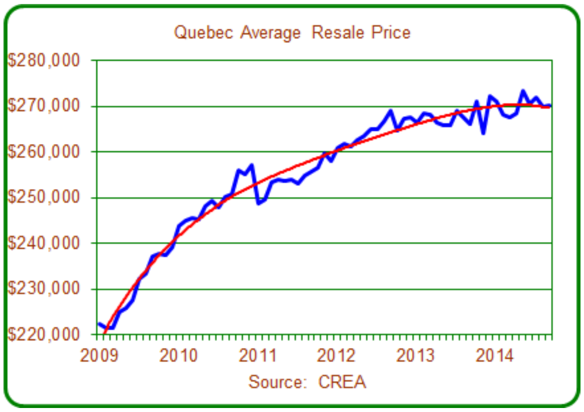
In *New Brunswick*, the sales trend started to weaken during 2011 and the policy change appears to have brought further reductions. The price trend in New Brunswick has been flat for some time.



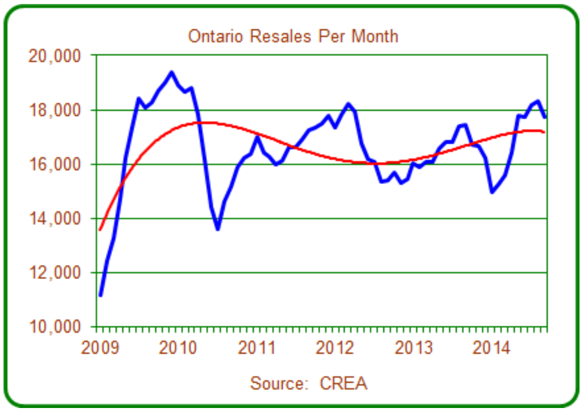


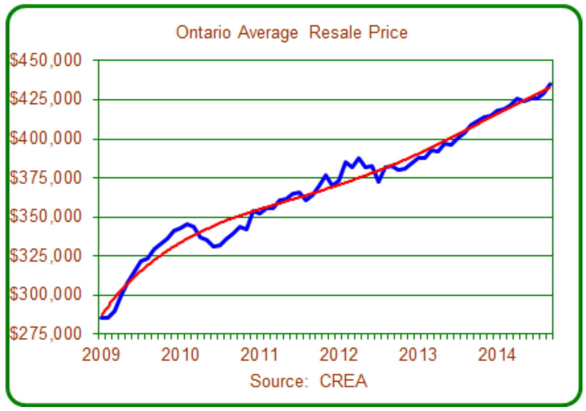
A reliable trend line cannot be fitted to the sales data for *Quebec*. That said, the policy change of 2012 was clearly followed by a significant drop. The recent wave might be raising the sales trend, but activity remains quite low. The price trend shows that weakened demand has led to a sharp slowdown of price growth. The average price in Quebec is now flat at best, and might be slipping.



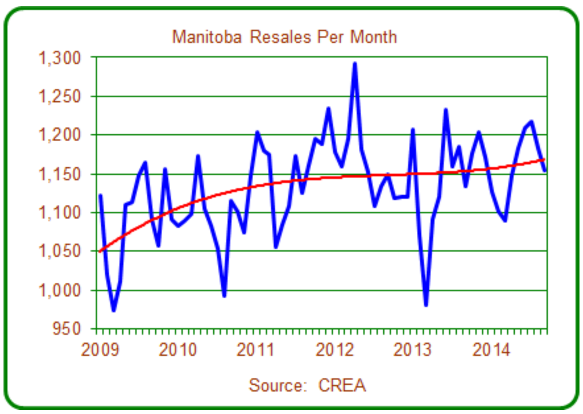


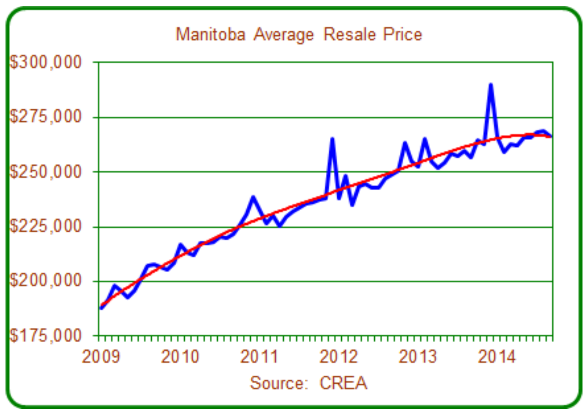
In *Ontario*, as well, a reliable trend line cannot be created. Recent activity (in response to exceptionally low interest rates) appears to be roughly equal to the pre-July 2012 level. Ontario continues to see very rapid growth in its average price, which is due to supply shortages in the new homes construction market in the Toronto-centred region.



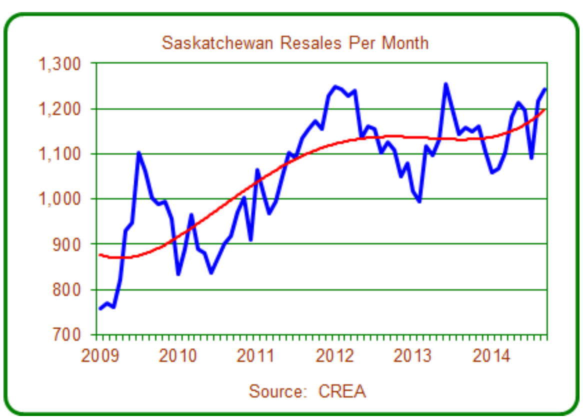


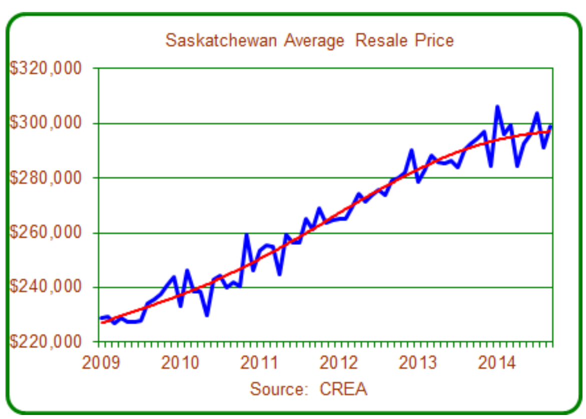
For *Manitoba*, it appears that the policy change had little impact on resale activity. Until recently, Manitoba saw strong price growth (about 5% per year) but there has recently been a sharp slowing for the average price.



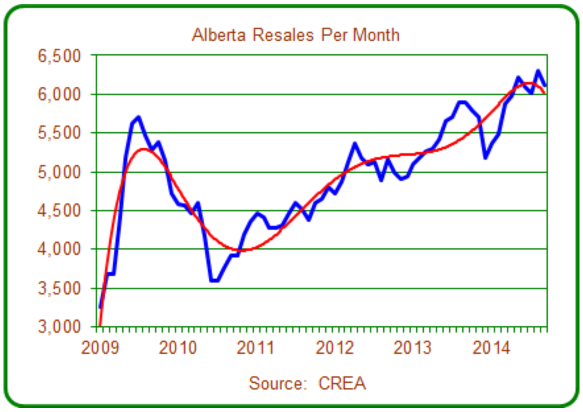


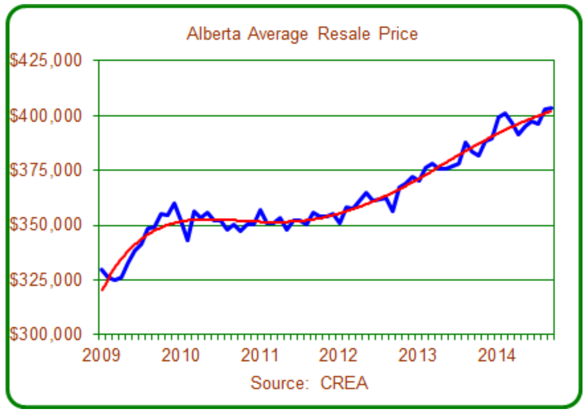
In *Saskatchewan*, a booming resource-based economy was seeing strong growth in housing demand, but this uptrend was interrupted by the policy change. Apart from a recent uptick, the sales trend has been flat (at a high level). Arguably, the sales trend would have strengthened further if not for the policy change. Saskatchewan has seen quite rapid price growth (exceeding 5% per year) but price growth now seems to be slowing.



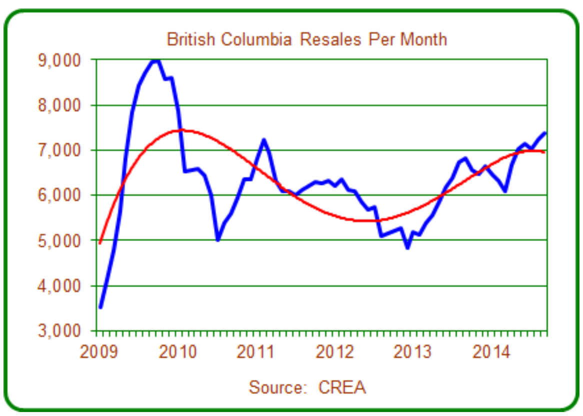


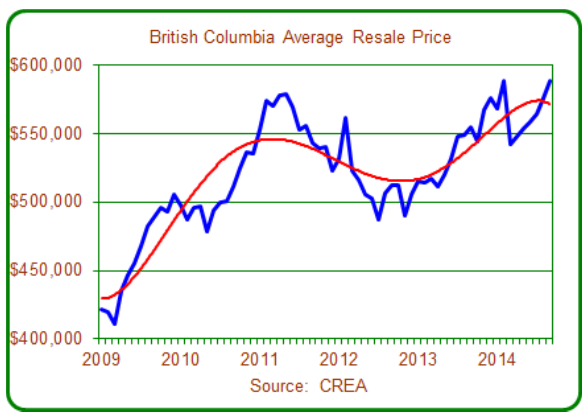
During 2011 and into 2012, *Alberta* finally seemed to have started a real recovery from the aftermath of a housing bubble (which had occurred during 2006 and 2007). The policy change interrupted that recovery trend. More recently, activity appears to be strengthening again, due to a robust economy, and probably because of the waning of the negative impacts of the policy change. Price growth had been muted but is now accelerating (as of the third quarter of 2014, year-over-year price growth is 4.4%).





Housing markets in *British Columbia* were weakening prior to the policy change, due to a swoon in confidence. This makes it difficult to assess the role of the policy change in the further slowing that occurred during the second half of 2012. The recent rise in the sales trend is mostly due to resumption of confidence, and to a continued moderately healthy economy. In a long-term perspective, the recent sales level is not spectacular, being roughly equal to the 10-year average. Price growth in BC has been highly variable. The trend line suggests that price growth is now moderating (following a rebound phase during 2013).

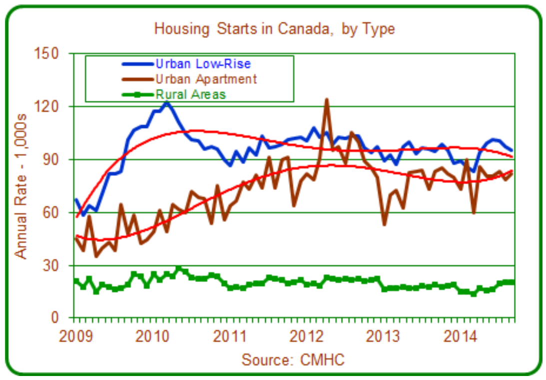




To sum up: prior to the July 2012 policy change, most areas of Canada had balanced housing markets; subsequently, many market areas are weaker than balanced and are at risk of decline. This is due at least in part to the policy change, which continues to constrain housing activity. The policy change was a reaction to conditions that existed in only a few communities. In those communities, over-heated housing markets were due to constrained supply (inadequate supplies of development-ready building lots). In response to the narrowly focused supply issues, steps have been taken to deliberately reduce housing demand in all of Canada. This lack of symmetry between the supply-side issues and a demand-side policy response is inappropriate and may even 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.

New Housing Construction

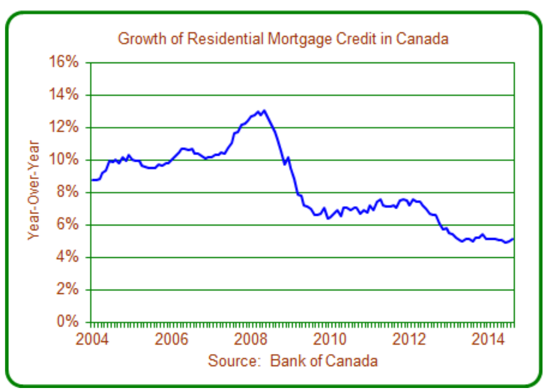
Trends for new housing construction have been surprisingly stable, surprising because housing starts usually show much more variability than the resale market.



Since the policy change of 2012, there has been limited slowing in starts for low-rise dwellings. On the other hand, for apartments the trend appears to be roughly flat. This is a further surprise – at the time, part of the rationale for the change was a desire to reduce condominium apartment activity. The lack of an impact indicates that for substantial numbers of buyers of new condominium apartments, the mortgage insurance rules in Canada are immaterial – many of these buyers are from offshore, and are making large down-payments so that they do not require mortgage insurance. To the limited extent that the policy change reduced new housing construction, the effect was within the low-rise sector, which does not appear to have been the target of the policy. With housing starts little changed, volumes of housing completions will also not change very much during the coming year, with the result that these completions will continue to drive a requirement for expansion of mortgage debt.

Forecast of Mortgage Activity

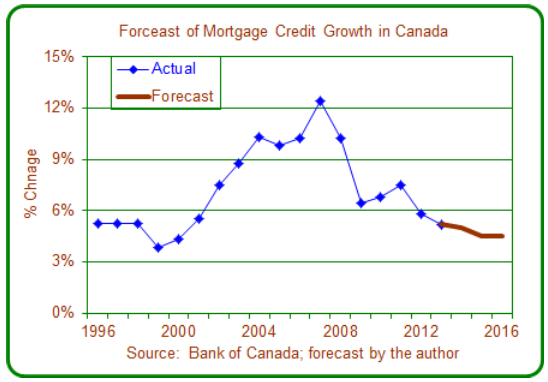
During the past decade, residential mortgage credit in Canada has expanded at an average rate of 8.1% per year. The moderation of housing activity since the recession has resulted in slower growth of mortgage credit. For the past five years, growth has averaged 6.2% per year. The year-over-year growth rate has been stable for almost two years, and is now 5.2% (the most recent data is for August). The volume of outstanding residential mortgage credit in Canada is $1.26 trillion.



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

- Housing completions will fall only slightly during 2015 and 2016.

- 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 2015 and 2016.
- Low interest rates will continue to allow mortgage holders to make extra efforts to repay their mortgages, through lump sum payments and, more importantly, 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 2015, ending the year at about 4.5%. With only very small changes expected in housing market activity, the growth rate is expected to remain close to 4.5% during 2016.

By the end of 2014, total outstanding residential mortgage credit would be in the range of $1.28 trillion. By the end of 2015, the level might be $1.34 trillion and by the end of 2016 the figure may be very close to $1.4 trillion.