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Annual State of the Residential Mortgage Market in Canada

November 2010

Prepared for:
Canadian Association of
Accredited Mortgage Professionals

By:
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1.0 Introduction and Summary

This is the sixth annual report on the State of the Residential Mortgage Market in Canada. It has been prepared for the Canadian Association of Accredited Mortgage Professionals ("CAAMP") by Will Dunning, Chief Economist of CAAMP. It provides an overview of the evolving state of the residential mortgage market in Canada. Major sections of this report are:

- Introduction and Summary
- Consumers' Expectations About Housing Markets
- Consumer Responses to Topical Questions
- Consumer Choices and Satisfaction
- Dimensions of the Residential Mortgage Market
- Outlook for Residential Mortgage Lending

Data used in this report was obtained from various sources, including an online survey of 2,005 Canadians. More than one-half of the sample (1,174 Canadians) were home owners with mortgages and the remainder were renters, home owners without mortgages, or others who live with their families and are not responsible for mortgage payments or rents. The survey was conducted for CAAMP by Maritz (a national public opinion and market research firm) during October.

Consumers' Expectations About Housing Markets

Consumers were asked several questions concerning their attitudes and expectations about their local housing markets, and provided their answers on a 10-point scale, where 1 is a very negative response and 10 is a very positive response. An average score of 5.5 out of 10 would be neutral

Local Housing Market Conditions

Responses have deteriorated to the question "is now a good time or a bad time to buy a new home in your community?" However, attitudes remain positive overall: the average score this fall was 6.08 out of 10, slightly above the 5.5 threshold for neutrality. In addition, the average score remains above the levels seen in the fall 2006 to spring 2008 surveys, prior to the recession.

As can be seen in the table on the next page, during the past year the greatest deteriorations have been in Saskatchewan and British Columbia. Saskatchewan is the only province where the average score is below the neutral threshold of 5.5, although Manitoba and British Columbia are not far above neutral. The highest ratings were given in Ontario, followed by the Atlantic region and Alberta.

Table 1-1 ***Average Consumers' Ratings by Region for "Is Now a Good Time or a Bad Time to Buy a New Home in Your Community?"***								
Survey Date	*Atlantic*	*Quebec*	*Ontario*	*Manitoba*	*Saskatchewan*	*Alberta*	*British Columbia*	*Canada*
Fall 2010	6.21	5.94	6.37	5.66	4.75	6.15	5.78	6.08
Spring 2010	6.23	6.25	6.57	6.11	5.72	6.15	6.13	6.32
Fall 2009	6.53	6.27	6.82	6.23	6.05	6.64	6.58	6.56
Spring 2009	6.30	5.48	6.96	5.88	5.67	6.93	6.97	6.46
Fall 2008	5.59	5.31	5.84	5.25	5.04	5.66	5.55	5.58
Spring 2008	6.25	5.64	5.90	4.97	3.93	4.75	4.91	5.52
Fall 2007	6.19	5.91	6.02	5.39	5.47	4.31	4.86	5.62
Spring 2007	5.85	3.95	5.85	5.29	6.25	4.05	5.09	5.10
Fall 2006	5.98	5.63	5.92	4.81	6.10	3.20	4.59	5.36
Source: Pollara survey for CIMBL, Fall 2006; Maritz surveys for CAAMP, 2007 to 2010.								

Home Buying Intentions

While there has been a downturn in consumers' attitudes about the state of the housing market in their communities, home buying plans do not appear to have changed. A question that was first asked in the fall of 2008 asked consumers how likely they were to buy a home during the next year, on a 10-point scale. Over the long term, each year about 5% of Canadian households buy homes (including condominiums). In each of the past three surveys, the responses indicated weak expectations about home buying: in the Fall of 2010 3.56 indicated that they were highly to buy (giving responses of 9 or 10 out of 10). The responses suggest that the recent slowdown in home buying activity might persist.

Table 1-2 ***Consumers' Responses by Region for "How Likely Are You to Purchase a New Property in the Next Year?"***								
Survey Date	*Atlantic*	*Quebec*	*Ontario*	*Manitoba*	*Saskatchewan*	*Alberta*	*British Columbia*	*Canada*
Average Score								
Fall 2010	2.71	2.70	3.11	3.01	2.57	2.97	3.06	2.93
Spring 2010	2.63	2.96	2.69	2.77	3.07	3.25	2.95	2.86
Fall 2009	2.48	2.51	2.66	2.64	3.02	2.59	2.81	2.63
Spring 2009	2.92	2.70	2.81	2.71	2.88	3.04	3.15	2.86
Fall 2008	2.64	2.53	2.78	2.28	2.58	3.27	2.90	2.76
% Giving Score of 9 or 10 out of 10								
Fall 2010	4.6%	3.7%	3.2%	5.5%	1.8%	6.4%	1.8%	3.6%
Spring 2010	4.2%	4.2%	2.5%	2.1%	2.1%	4.3%	3.5%	3.4%
Fall 2009	1.3%	3.1%	3.8%	4.3%	4.7%	2.9%	1.7%	3.2%
Spring 2009	7.9%	5.5%	3.7%	5.5%	2.2%	4.5%	3.4%	4.5%
Fall 2008	3.2%	4.3%	4.9%	2.3%	3.4%	6.4%	4.7%	4.6%
Source: Maritz survey for CAAMP, Fall 2008 to Fall 2010.								

Expectations about House Prices

Expectations about house prices have also weakened. When asked "to what extent do you think housing prices in your community will go up or down in the next year?" Canadian consumers gave an average rating of 6.18 out of 10 this fall, above the neutral threshold, indicating that on average expectations are for moderate increases in values.

- Current expectations for house price increases are highest in Quebec, but are close to the average in most other provinces.
- The lowest expectations are in Alberta, where the average score of 5.78 is just slightly above neutral.
- Current expectations for house price increases are broadly similar to those reported prior to the start of the recession (in the four surveys from Fall 2006 to Spring 2008).

Table 1-3
Average Consumers' Ratings by Region for "To What Extent Do You Think Housing Prices in Your Community Will Go Up or Down in the Next Year?"

Survey Date	*Atlantic*	*Quebec*	*Ontario*	*Manitoba*	*Saskatchewan*	*Alberta*	*British Columbia*	*Canada*
Fall 2010	6.07	6.68	6.07	6.03	6.17	5.78	5.90	6.18
Spring 2010	6.24	6.51	6.51	6.45	6.46	6.46	6.38	6.46
Fall 2009	6.08	6.14	6.30	6.22	6.19	6.24	6.44	6.25
Spring 2009	5.34	5.34	5.15	5.49	5.86	5.27	5.09	5.27
Fall 2008	5.63	5.56	5.11	5.33	5.35	5.00	4.77	5.21
Spring 2008	6.26	6.22	5.96	6.64	6.98	5.47	6.35	6.10
Fall 2007	5.85	5.80	6.12	6.11	6.17	5.47	6.26	5.97
Spring 2007	5.96	6.28	6.22	5.86	6.61	6.70	6.42	6.29
Fall 2006	6.04	6.08	6.00	6.45	6.54	6.65	5.85	6.10
Source: Pollara survey for CIMBL, Fall 2006; Maritz surveys for CAAMP, 2007 to 2010.								

Consumer Responses to Topical Questions

In the Fall 2010 edition of the CAAMP survey, consumers' opinions were sought on several issues, related to housing and mortgages, that have taken on high profiles in the media. The consumers were asked to what extent they agree with various statements, on a 10-point scale: a response of 10 indicates that they agree completely with the statement and a response of 1 indicates they disagree completely. Average scores of 5.5 would indicate neutral opinions.

The table below summarizes the responses. Results are presented in substantially more detail in the body of the report (starting at Page 15).

For all of the questions, responses varied widely, and it is challenging to generalize about consumers' attitudes. Highlights include:

- The statement that found the highest degree of agreement (an average rating of 7.87 out of 10) is that "as a whole, Canadians have too much debt". Almost one-half (43%) gave ratings of 9 or 10, showing very strong agreement with this statement.

This, coincidentally or not, is one of the highest profile issues, as it has been asserted repeatedly by senior government officials.

- There is also substantial agreement (average rating of 6.88 out of 10) that "low interest rates have meant that a lot of Canadians became homeowners over the past few years who should probably not be homeowners".
- However, different perspectives were found with two other questions.
- There is a widespread opinion that "real estate in Canada is a good long-term investment".
- Furthermore, in a statement that was only put to mortgage holders, few agreed (the average score of 3.86 was well below neutral) that "I regret taking on the size of mortgage I did", and just 5% agreed strongly with the statement.
- It is interesting that while a large share of Canadians believe that other people have taken on too much debt or have bought homes for which they are unprepared, when responses about their own situations are aggregated, most appear to believe that they have been responsible. These contrasting sets of responses might be inconsistent. Meanwhile, data on mortgage arrears indicates that there are very few Canadians who are not meeting their mortgage obligations, and estimates developed in this report indicate that a vast majority of Canadian mortgage borrowers are well-positioned to deal with potential increases of mortgage rates.
- The statement "the recent economic slowdown has impacted my real estate plans", received responses well below neutral. But, each year only a minority of Canadians will buy or sell a home: the fact that a 12% strongly agreed with the statement (giving answers of 9 or 10 out of 10) suggests that there will be continued negative consequences for housing markets and for mortgage demand.

Table 1-4
Consumer Responses to Topical Questions

Topic	*Average Response (10=Completely Agree)*
Canada's housing market is in a "bubble"	6.00
Canada's superior banking system will shelter us from significant downturns like the one experienced by the United States	5.92
As a whole, Canadians have too much debt	7.87
Low interest rates have meant that a lot of Canadians became home owners over the past few years who should probably not be home owners	6.88
I/My family would be well-positioned to weather a potential downturn in home prices	6.52
Real estate in Canada is a good long-term investment	7.13
The recent economic slowdown has impacted my real estate plans (e.g. moving, purchasing a first or second property, etc.)	4.64
I regret taking on the size of mortgage I did	3.86
Source: Maritz survey for CAAMP, Fall 2010.	

Consumer Choices and Satisfaction

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

- 15% indicate they are completely satisfied with the terms of their mortgages (giving a rating of 10 out of 10) and a further 55% are satisfied (ratings of 7 to 9 out of 10). Combining these results, 70% are satisfied to some degree.

- 22% give a neutral satisfaction rate (5 or 6 out of 10).
- Just 8% are dissatisfied to some degree (1 to 4 out of 10).
- On average, the satisfaction rate is 7.3 out of 10.

Satisfaction with mortgage experiences was very similar, and the average rating was fractionally higher, at 7.5 out of 10. There are some variations across different groups.

About one-third (31%) of home owners with mortgages had some form of mortgaging activity during the past 12 months: taking out a new mortgage (6%), or renewing or refinancing an existing mortgage (24%). The remainder (69%) did not have any mortgaging activity during the year.

Among those who renewed or refinanced an existing mortgage during the past 12 months, 17% changed lenders and 83% remained with the same lender.

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

- Among home owners who have mortgages, the average amount of equity is about $146,000, representing 50% of the average value of their homes ($291,000).
- For owners without mortgages equity is equal to the average home value ($335,000).
- The total value of owner-occupied housing in Canada is estimated at $2.91 trillion. Mortgages on these homes total $820 billion, leaving $2.08 trillion in home owners' equity. This equity is equal to 72% of the total value of the housing.

About one-in-five (18%) of mortgage borrowers took equity out of their home in the past year, unchanged from a year ago. The average amount is estimated at $46,000. These results imply that the total amount of equity take-out during the past year has been $46 billion. The most common use for the funds from equity take-out is home renovations, which accounted for about $15 billion of the equity take-out. Debt consolidation and repayment account for $13.5 billion of the total take-out. This part of the total equity take-out would result in corresponding reductions for other forms of consumer debt.

The study asked mortgage borrowers about their mortgage term: 66% of mortgage borrowers reported having a term of four to five years. Just 8% have terms of more than 5 years, and the remaining borrowers (26%) have terms of less than 5 years.

Concerning types of mortgages, fixed rate mortgages remain most popular (66%). A significant minority (29%) are variable and adjustable rate mortgages. Just 4% of mortgages are a combination of fixed and variable rates. The split between fixed rate and variable rate mortgages has been quite stable over time. This is surprising, since there have been significant changes in the relative rates for these types of mortgages. During the past two years, rates for variable rate mortgages have been considerably lower, yet there has not been a major shift in type selection. The implication is that choice of mortgage types is influenced more by individuals' assessments of risks, rather than based on cost differences.

With regard to mortgage amortization periods, 22% of mortgages in Canada have amortization periods of more than 25 years. , The share is quite high (42%) among home owners who have, during the past year, taken out a new mortgage on a newly purchased home or condominium.

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

- The average mortgage interest rate for home owners' mortgages is 4.22%, a drop from 4.55% a year earlier.
- For borrowers who have renewed or refinanced a mortgage during the past year, their current average interest rate is lower (by 1.09 percentage points) than the rates prior to renewal. Among borrowers who renewed, a large majority (72%) saw reductions, a smaller proportion (17%) saw their rates rise, and 11% had no change. While some borrowers saw their interest rates increase at renewal, the increases were minor for most. About 75,000 borrowers had their rates increase by more than 1 percentage point. This amounts to less than 2% of the 5.65 million Canadian home owners who have mortgages.
- The survey also sheds light on the extent of mortgage rate discounting in Canada. Borrowers who have taken five year, fixed rate mortgages during the past year have an average mortgage interest rate of 4.23%. Typical advertised rates averaged 5.65% over the same period – these borrowers have negotiated discounts that average 1.42 percentage points below typical advertised rates.

Given concerns being expressed about consumers' abilities to cope with potential rises in interest rates, this issue of CAAMP's "Annual State of the Residential Mortgage Market" asked mortgage holders to indicate "the amount at which, if your monthly mortgage payment increased this much, you would be concerned with your ability to make your payments". The average amount of room is $1,056 per month on top of their current costs. Combining other data from the survey, it appears that a vast majority of mortgage holders have considerable capacity to afford rises in mortgage interest rates. There is a sizable minority (about 350,000 out of 5.65 million, or about 6%) who would be challenged by rate rises of less than 1%, and a further 225,000 (5%) have thresholds in the range of 1.00% to 1.49%. However, most of these have fixed rate mortgages: by the time their mortgages are due for renewal, time will have increased their financial capacity and reduced the amount of mortgage debt being financed. There are about 100,000 borrowers who are susceptible to short term moves of interest rates, which is a quite small share (less than 2%) of the 5.65 million mortgage holders in Canada.

Mortgage holders report that, on average, they obtained 1.96 quotes when they obtained their current mortgages. Only 10% of borrowers obtained four or more quotes.

Among borrowers who have taken out a new mortgage during the past year, 39% obtained the mortgage from a bank, 40% from a mortgage broker, and 21% from other sources.

Dimensions of the Residential Mortgage Market

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

- As of August 2010, there was $1.01 trillion in outstanding residential mortgage credit in Canada.

- Growth of residential mortgage credit has slowed in the aftermath of the recession, which negatively affected home buying. However, the growth rate during the past year ($71 billion, or 7.6%) remains quite strong.
- Another perspective on growth of the mortgage market is in the volume of new approvals, which includes not just new mortgages, but also transfers between lenders as well as refinances of existing mortgages. In 2009, the volume of approvals ($244 billion) set an all-time record.

Chartered banks account for almost one-half (49%) of residential mortgage credit, although the share has fallen from 56% two years ago. Among the other categories of lenders are NHA mortgage-backed securities (30%, up sharply from 22% two years ago), credit unions and caisses populaires (12%) and five other categories that account for 8% in combination (trust and mortgage loan companies, life insurance companies, pension funds, non-depositary credit intermediaries and other financial institutions, and special purpose corporations).

The rate of mortgage arrears in Canada increased during the recession but has recently eased slightly, to 0.42%. The improving employment situation in Canada should lead to further reductions in the arrears rate.

Outlook for Residential Mortgage Lending

The recession brought reduced home buying activity and construction of new homes, resulting in slower growth of the mortgage market. Home-buying activity and housing construction are now slowing. Looking forward, demand for mortgages will be reduced compared to prior to the recession, but in historic terms will be strong.

Housing market activity has been very volatile during the past two years. At this time, it appears that we have reached the end of a sequence of temporary factors that distorted the housing market. It appears likely that activity during 2011 will be similar to very recent levels. These levels are strong enough to support stable housing values.

Consequently, the volume of residential mortgage credit outstanding is forecast to continue expanding, but at slower rates. Growth is forecast at about 7% during 2010, 6.5% in 2011, and close to 6% for 2012.

Mortgage approvals (which includes not just new mortgages but also transfers between lenders as well as refinances of existing mortgages) is forecast at $235 billion for 2010 (the second highest ever), followed by $203 billion for 2011 and $211 in 2012.

About CAAMP

CAAMP is the national organization representing Canada's mortgage industry. With over 12,000 mortgage professionals representing over 1,700 companies, its membership is drawn from every province and from all industry sectors. This diversified membership enables CAAMP to bring together key players with the aim of enhancing professionalism.

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

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

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

About the Author

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

About Maritz

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

Disclaimer

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

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

2.0 Consumers' Expectations About Housing Markets

Data used in this section was obtained via an online survey conducted during October, 2009 by Maritz (a national public opinion and market research firm) on behalf of CAAMP. This is referred to below as the "CAAMP/Maritz" study[1]. The survey included 2,005 Canadians. In this survey, 1,174 of the sample were home owners with mortgages and the remaining 831 were tenants and home owners without mortgages.

Since the fall of 2006 the survey has included questions on opinions and expectations about local housing markets, and about the outlook for mortgage interest rates. The questions asked consumers to give their responses on a 10 point scale, where a score of 1 would be very negative, 10 would be very positive, and scores of 5 or 6 would be neutral.

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

For all of Canada, 34% of respondents gave neutral ratings (scores of 5 or 6) to this question. The share that gave positive responses (7 to 10) was 45%, roughly double the 21% that gave negative ratings (scores of 1 to 4). The average rating given was 6.08, indicating that on average attitudes are slightly positive about the current state of local housing markets.

Table 2-1
Consumers' Ratings for "Is Now a Good Time or a Bad Time to Buy a New Home in Your Community?"

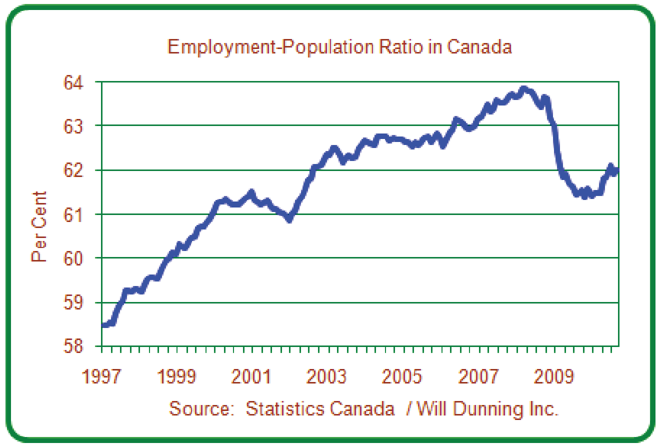
Rating	*% Giving Rating*	
	Fall 2009	*Fall 2010*
1 (Very Bad Time)	4%	4%
2	2%	3%
3	4%	5%
4	6%	9%
5	13%	17%
6	16%	17%
7	18%	18%
8	19%	16%
9	8%	5%
10 (Very Good Time)	11%	6%
Total	100%	100%
Average Rating	6.56	6.08

Source: Maritz survey for CAAMP, Fall 2009 and 2010.

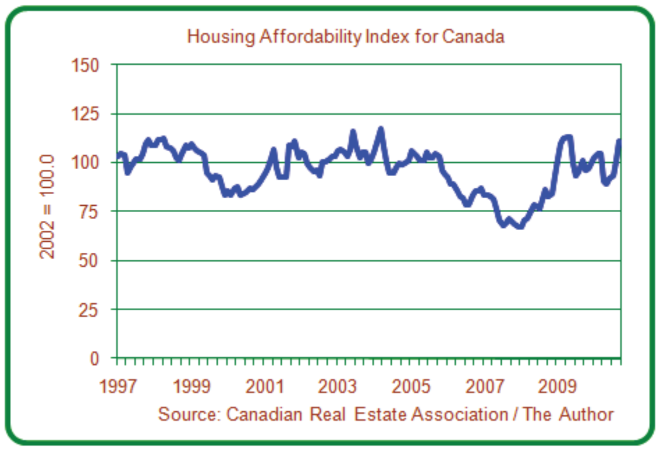
The Fall 2010 average rating of 6.08 out of 10 is considerably lower than the 6.56 recorded a year ago. However, the year ago result was the highest seen in the nine times that this question has been asked. It occurred as the economy was emerging from a sharp (but relatively short) recession, reflected a rebound of consumer confidence, and resulted in a strong surge of housing sales. The current result is consistent with a more balanced situation, where neither buyers nor sellers have an advantage in the market.

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

Consumers' responses to this question reflect their perceptions of economic conditions in their communities as well as their personal circumstances. The Canadian economy is weaker than it was before the recession. As is illustrated in the chart to the right, the percentage of adults in Canada who are employed has recovered somewhat, but is still well below the record levels seen before the recession. This has undoubtedly tended to reduce housing demand.



But, on the other hand, housing affordability is a strongly positive factor: while house prices have increased considerably during the past decade, interest rates are at or close to record lows (depending on mortgage types and terms), and wages are rising. Very favourable housing affordability has largely offset the lingering consequences of the recession, and has supported balanced housing markets in much of the country.



Looking at the different regions of the country, attitudes vary widely:

- The current average ratings exceed 6.0 in Ontario, Atlantic Canada, and Alberta, indicating positive attitudes.
- On the other hand, an average rating of 4.75 indicates negative attitudes in Saskatchewan.
- Ratings are slightly above the neutral threshold of 5.5 in British Columbia, Manitoba, and Quebec.

The history of responses is summarized in the next table. Noteworthy results include:

- While the current average rating is lower than a year ago, attitudes are more favourable than prior to the recession.
- Some provinces show more volatility than others. Saskatchewan, in particular has shown very wide swings in sentiment. Alberta and British Columbia have also varied widely over time, which is related to sharp swings in the housing market cycles in these two provinces.
- On the other hand, the provinces east of Saskatchewan - and Atlantic Canada in particular - have seen more stability in attitudes to housing markets.

Table 2-2 Average Consumers' Ratings by Region for "Is Now a Good Time or a Bad Time to Buy a New Home in Your Community?"								
Survey Date	*Atlantic*	*Quebec*	*Ontario*	*Manitoba*	*Saskatchewan*	*Alberta*	*British Columbia*	*Canada*
Fall 2010	6.21	5.94	6.37	5.66	4.75	6.15	5.78	6.08
Spring 2010	6.23	6.25	6.57	6.11	5.72	6.15	6.13	6.32
Fall 2009	6.53	6.27	6.82	6.23	6.05	6.64	6.58	6.56
Spring 2009	6.30	5.48	6.96	5.88	5.67	6.93	6.97	6.46
Fall 2008	5.59	5.31	5.84	5.25	5.04	5.66	5.55	5.58
Spring 2008	6.25	5.64	5.90	4.97	3.93	4.75	4.91	5.52
Fall 2007	6.19	5.91	6.02	5.39	5.47	4.31	4.86	5.62
Spring 2007	5.85	3.95	5.85	5.29	6.25	4.05	5.09	5.10
Fall 2006	5.98	5.63	5.92	4.81	6.10	3.20	4.59	5.36
Source: Pollara survey for CIMBL, Fall 2006; Maritz surveys for CAAMP, 2007 to 2010.								

Expectations About Property Purchase

A new question that was first asked in the Fall 2008 survey asked Canadians how likely they are to purchase a new property in the next year. This could include a primary residence, second residence, or an investment property. As is shown in the following table, few Canadians expect to buy new properties in the near future. Only 3.6% are highly likely to purchase (giving scores of 9 or 10 out of 10). On the 10-point scale, the average rating was 2.93. However, these results are not surprising: housing market data suggests that over the long-term about 5% of Canadian households purchase homes per year[2]. These responses suggest that the recent moderate levels of buying activity may persist for a while.

Table 2-3 Consumers' Ratings for their Likelihood of Purchasing a Property in the Next Year	
Rating	*% Giving Rating*
1 (Definitely Not Purchase)	48%
2	12%
3	8%
4	6%
5	8%
6	6%
7	4%
8	3%
9	1%
10 (Definitely Purchase)	2%
Total	100%
Source: Maritz survey for CAAMP, Fall 2010.	

[2] This year, about 650,000 new and resale homes will be bought by Canada's 13.5 million households.

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

Most Canadians expect to see further rises for house prices in the coming year. The current average rating of 6.18 out of 10 indicates that, on average, consumers expect house prices to increase slightly.

Table 2-4 ***Consumers' Ratings for "To What Extent Do You Think Housing Prices in Your Community Will Go Up or Down in the Next Year?"***	
Rating	*% Giving Rating*
1 (Go Down Dramatically)	1%
2	1%
3	3%
4	8%
5	14%
6	33%
7	22%
8	11%
9	4%
10 (Go Up Dramatically)	3%
Total	100%
Source: Maritz survey for CAAMP, Fall 2010.	

In the Fall 2010 survey, average ratings are similar across much of the country, with a very large exception for Quebec (where expectations are quite bullish). Expectations are below average in Alberta and British Columbia (but still slightly above the neutral threshold, which indicates expectations that prices will be stable or rise slightly). Just six months ago, expectations about prices were at the highest level seen in this survey. Since then, activity has slowed and prices have softened. The current average score of 6.18 is similar to the pre-recession results. Over the nine times this question has been asked, the largest swings in sentiment have been in Alberta and British Columbia. This time, these two provinces have swung from optimism to average scores that are just slightly above neutral.

Table 2-5 ***Average Consumers' Ratings by Region for "To What Extent Do You Think Housing Prices in Your Community Will Go Up or Down in the Next Year?"***								
Survey Date	*Atlantic*	*Quebec*	*Ontario*	*Manitoba*	*Saskatchewan*	*Alberta*	*British Columbia*	*Canada*
Fall 2010	6.07	6.68	6.07	6.03	6.17	5.78	5.90	6.18
Spring 2010	6.24	6.51	6.51	6.45	6.46	6.46	6.38	6.46
Fall 2009	6.08	6.14	6.30	6.22	6.19	6.24	6.44	6.25
Spring 2009	5.34	5.34	5.15	5.49	5.86	5.27	5.09	5.27
Fall 2008	5.63	5.56	5.11	5.33	5.35	5.00	4.77	5.21
Spring 2008	6.26	6.22	5.96	6.64	6.98	5.47	6.35	6.10
Fall 2007	5.85	5.80	6.12	6.11	6.17	5.47	6.26	5.97
Spring 2007	5.96	6.28	6.22	5.86	6.61	6.70	6.42	6.29
Fall 2006	6.04	6.08	6.00	6.45	6.54	6.65	5.85	6.10
Source: Pollara survey for CIMBL, Fall 2006; Maritz surveys for CAAMP, 2007 to 2010.								

3.0 Consumer Responses to Topical Questions

In this edition of the annual review, consumer attitudes were sought on some current issues related to housing markets and mortgages. The respondents were 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. As elsewhere in this report, average responses of 5.5 out of 10 would indicate neutrality.

The propositions provide brief statements about current issues, some of which have been widely discussed in the media. CAAMP has added others with lower profiles that it considers worthy of examination. To minimize the risk that the ordering of the propositions might affect responses, they were presented in randomized order.

On most of the questions, answers were widely distributed across the 1-to-10 range, and this author is often unable to find consensus of opinion.

However, there are a few exceptions, where attitudes are clustered. And, the author finds it very interesting that for the four questions for which there is the greatest amount of polarization, the responses might be inconsistent.

- In particular, Canadians largely agree with the proposition that “As a whole, Canadians have too much debt”.
- On the other hand, among Canadians who have mortgages, few agree that they “regret taking on the size of mortgage I did”.
- These answers portray opinions that other people have taken on too much debt, but as individuals most are comfortable with the debts that they have taken on. It does appear that at a macro level, Canadians have taken on too much debt, but at a micro (individuals) level, the evidence is less clear. CAAMP’s previous research on mortgage indebtedness has found that Canadians – both borrowers and lenders – have been prudent with regard to mortgages (see the January 2010 report “Revisiting the Canadian Mortgage Market – Risk is Small and Contained”). It might be that the fearful opinions about overall debt have been influenced by statements in the media, moreso than by the actual behaviour of Canadians.

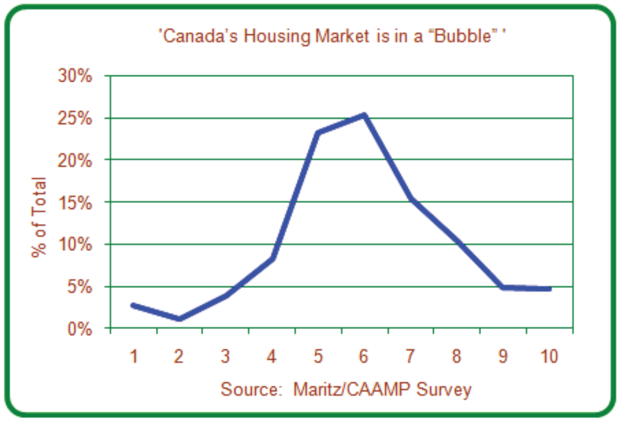
A second pair of contrasting results is also interesting:

- A high percentage of Canadians agree with the proposition 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, even more of us agree that “Real estate in Canada is a good long-term investment”.
- Again, the author sees some inconsistency, and wonders whether statements in the media have influenced many Canadians to believe that other people (“but not me”) have been irresponsible.

Now, to the results.

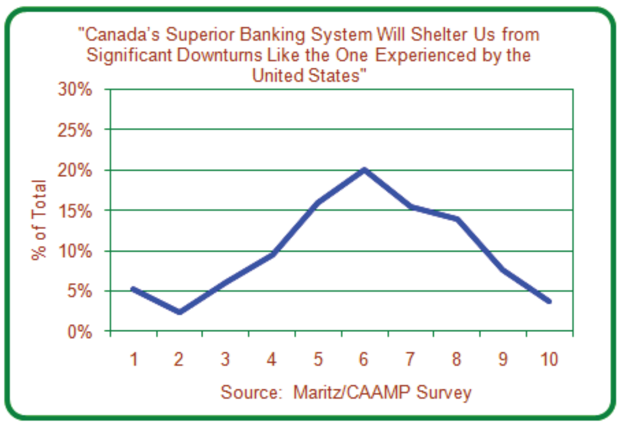
'Canada's Housing Market is in a "Bubble"'

On this proposition, opinions were overall close to neutral (average score of 6.00 out of 10). Furthermore, as can be seen in the chart, most responses were neutral (49% gave neutral ratings of 5 or 6), and few consumers indicated either strong agreement or disagreement. On this issue, there has been a wide range of opinions expressed by "experts", and the neutrality of consumer responses is not surprising. On this question, opinions don't vary much across the country.



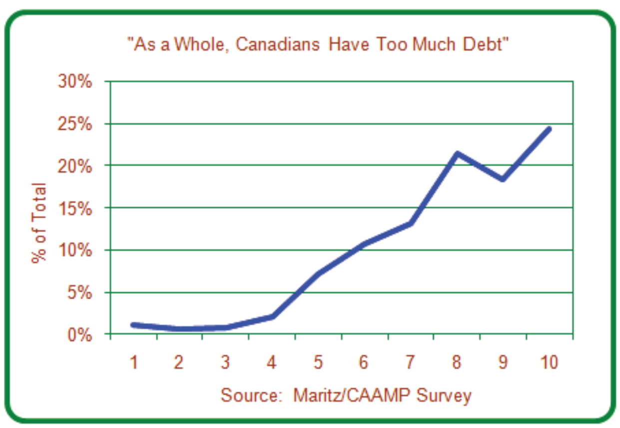
"Canada's Superior Banking System Will Shelter Us from Significant Downturns Like the One Experienced by the United States"

Opinions are slightly above neutral on this question (average response of 5.92 out of 10), with a small share of consumers showing extreme levels of agreement, and even less with strong disagreement. Detailed data indicates that older Canadians are more likely to agree to this proposition than are younger age groups.



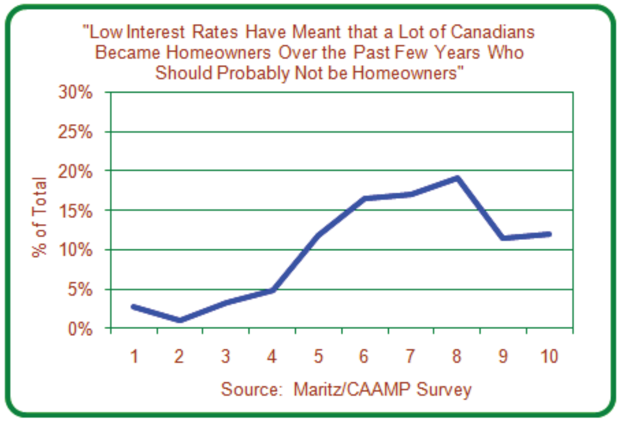
"As a Whole, Canadians Have Too Much Debt"

There was a very high level of agreement with this proposition (average response of 7.87 out of 10). As is discussed above, this topic has received a great deal of attention recently. The argument has been asserted repeatedly by senior government officials and other commentators. The repeated messaging has influenced opinions.



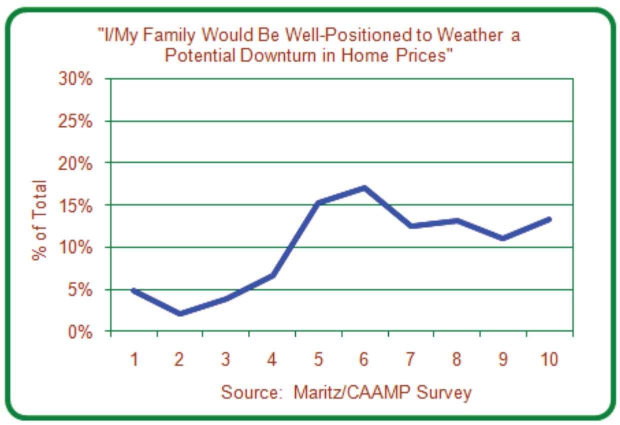
"Low Interest Rates Have Meant that a Lot of Canadians Became Homeowners Over the Past Few Years Who Should Probably Not be Homeowners"

This issue has not received a lot of attention for Canada, but it is well known that it has been a major contributor to the mess in the US. It is also related to the tightening of Canadian mortgage insurance criteria (on two occasions). Direct evidence for this proposition is lacking in Canada (CAAMP's research shows highly responsible behaviour by borrowers and lenders), but the proposition has traction with Canadians (average response of 6.88 out of 10).



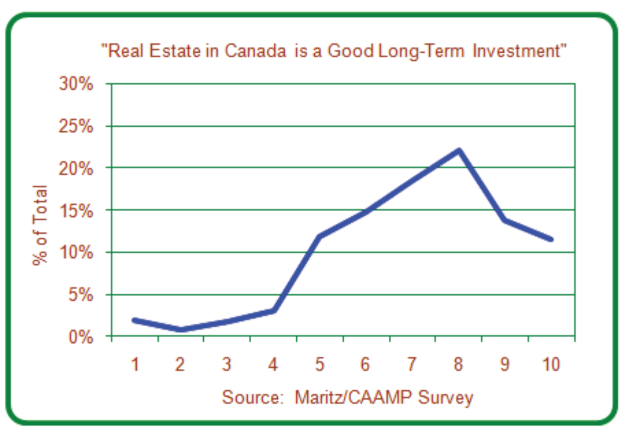
"I/My Family Would Be Well-Positioned to Weather a Potential Downturn in Home Prices"

Many different questions might have been asked about Canadians' abilities to deal with adverse economic events. Since the level of house prices and related risks has become a topic of conversation, we chose this question. While we would like to see a higher level of positive responses, the very small number of low responses suggests limited risks, and the average response of 6.52 is encouraging. For the most susceptible group (home owners with mortgages) the average response is very close to average, at 6.54.

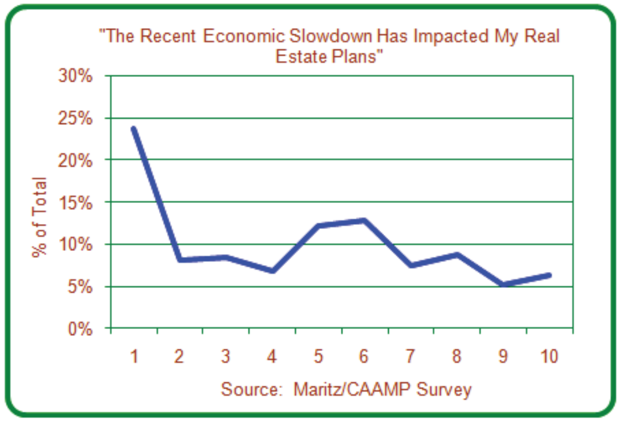


"Real Estate in Canada is a Good Long-Term Investment"

This proposition received a high degree of agreement (average response of 7.13 out of 10), with very little strong dissent. The strongest positive responses were from older age groups (55 and over, with averages of about 7.5). Even for younger ages, average responses were quite positive, with the average close to 7.0. Regionally, the strongest positive responses are in British Columbia, Quebec, and Ontario.

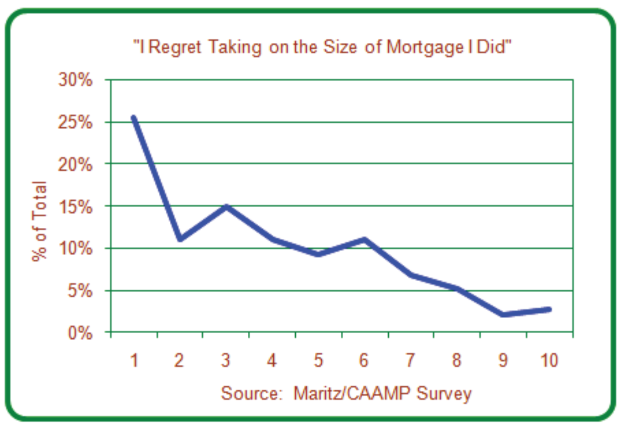


"The Recent Economic Slowdown Has Impacted My Real Estate Plans (e.g. Moving, Purchasing a First or Second Property, etc.)"



Responses are on average well below neutral (average of 4.64 out of 10), and few Canadians agree strongly with the proposition. However, few Canadians will take these actions in a year. It is possible that the small number who indicate significant impacts represent a continuing, substantial drag on housing markets across Canada. It is also possible that these responses mean housing activity is being deferred, and there might be a catch-up phase later. The highest average responses are seen in the provinces that were worst hit by the recession (British Columbia, Alberta, and Ontario).

"I Regret Taking on the Size of Mortgage I Did"



This proposition was put only to home owners who have mortgages. The results (average response of 3.86 out of 10, with very few strong agreements and large percentages who disagree strongly) suggest that the vast majority of mortgage holders are comfortable with their mortgages.

For this question, an additional tabulation looked at variations, depending on the length of time since the mortgage was originated. This data shows that there are more regrets for the most recent mortgages, but even for this subset there were few strong regrets.

Table 3-1
Consumers' Responses to "I Regret Taking on the Size of Mortgage I Did", By Time Since Mortgage Originated

Response (out of 10)	*Less than 6 months*	*6 to 12 months*	*1 to 2 years*	*3 to 5 years*	*6 to 10 years*	*10 to 20 years*	*More than 20 years*	*Don't know*	*All*
1-4	54%	51%	59%	62%	69%	71%	66%	23%	63%
5-6	19%	30%	23%	16%	19%	18%	19%	57%	20%
7-10	26%	18%	18%	21%	12%	10%	15%	21%	17%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%
9-10	8%	0%	8%	5%	4%	3%	8%	3%	5%
Average	4.57	4.33	4.15	3.99	3.44	3.33	3.67	5.13	3.86

Source: Maritz survey for CAAMP, Fall 2010.

4.0 Consumer Choices and Satisfaction

This section uses data from the consumer survey to highlight consumer choices in the mortgage market, including term selection, renewal activity, equity take-out, and research and shopping behaviour. It also provides data on amounts of home owners' equity, actual mortgage interest rates, and on consumers' satisfaction with their mortgages and the experience of obtaining their current mortgage. In this section, results are based on a sub-sample of 1,174 households who own a home or condominium and have a mortgage.

Satisfaction with Mortgages and Mortgage Experiences

The CAAMP/Maritz survey found high levels of satisfaction with mortgage terms. Respondents were asked to rate their satisfaction on a 10 point scale, where 1 means completely dissatisfied and 10 means completely satisfied. On average, satisfaction with the terms of mortgages was rated at 7.3 out of 10. Ratings from the current survey are:

- 70% were either completely satisfied or satisfied (scores of 7 to 10).
- This includes 15% of respondents who indicated that they were completely satisfied (they provided a rating of 10) with the terms of their mortgages.
- A further 55% Indicated that they were satisfied (a rating of 7, 8, or 9).
- 22% gave neutral ratings (5 or 6).
- Just 8% indicated they were somewhat dissatisfied (rating of 2, 3, or 4).
- Only 1% indicated complete dissatisfaction (rating of 1).

A further question asked mortgage consumers to what extent they are satisfied with their mortgage experience, including not only the rate and terms, but also the service received from the mortgage professional and/or the lender. Responses were similar to those concerning the terms of mortgages. The average rating was 7.5 out of 10.

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

Table 4-1
Average Satisfaction Ratings for Mortgages by Age Group

Age Group	*With Terms of Mortgage*	*With Mortgage Experience*
18-24	6.8	6.7
25-34	7.1	7.2
35-44	7.3	7.7
45-54	7.2	7.3
55-64	7.9	8.0
65 and Over	7.8	8.8
All Ages	7.3	7.5

Source: Maritz survey for CAAMP, Fall 2010.

Further examination found that satisfaction with mortgages is higher for holders of fixed rate mortgages (7.7 out of 10) and mortgages that combine fixed and variable rate (7.8 out of 10), while those with variable rate mortgages gave a lower average rating of 7.2 out of 10. This is a reversal from prior surveys. Holders of variable rate mortgages have received increases in their rates in recent months, which no doubt explains their lower reported satisfaction. (However, as will be shown below, interest rates for variable and adjustable rate mortgages remain lower than rates for fixed rate mortgages.)

Satisfaction with mortgage terms is low for those who are currently considering doing an early refinance of their mortgage (average score of 6.6 out of 10) or who considered early refinance but decided not to (6.8 out of 10). Satisfaction is higher for those who have done an early refinance in the past year (7.3) or who have not considered refinancing early (7.6).

Mortgage Activity During the Past 12 Months

In the CAAMP/Maritz study, 31% of home owners with mortgages had some mortgage activity during the preceding 12 months, which could include:

- Taking out a new mortgage on a newly purchased home/condominium (5% - about 300,000 households out of about 5.65 million Canadian households with mortgages).
- Taking out a new mortgage on a home/condominium that they already owned (1% - about 50,000 households).
- Renewing the current mortgage because it came up for renewal (16% - about 900,000 households).
- Renewing the current mortgage early, before the term was finished (8% - about 475,000 households).

While many households have renewed early in the past year, 11% (about 650,000 mortgage holders) are currently considering an early renewal. A further 13% (about 700,000 mortgage holders) considered refinancing early, but decided not to.

Mortgage Mobility

Consumers who have renewed or refinanced a mortgage were asked if they remained with the same lender or switched to a different lender. Among those who renewed during the past 12 months a very large majority of borrowers stayed with the same lender (83%) and only 17% changed lenders. However, the share who switched has increased compared to a year ago, when it was 12%.

Mortgage Terms

The CAAMP/Maritz study examined lengths of mortgage terms. This measures the length of the mortgage terms at the time of contracting – the actual remaining term will be shorter, depending on when the mortgage was contracted. The data indicates that, in total, 74% of mortgages have terms exceeding four years. The most common term is 5 years (66% of mortgages). A further 8% of mortgages have terms exceeding 5 years.

On the other hand, 26% of mortgages have shorter terms, including 6% with terms of 1 year or less and 20% with terms from one year to less than four years. In this edition of the survey, term selection shows minor variation across the different age groups: there is a slight tendency for younger adults to choose mid-length terms (1 to 3 years) than the older age groups, and older age groups are slightly more likely to take longer terms.

Table 4-2
Percentages of Mortgages by Length of Term, By Age Group

Length of Mortgage Term	*Age Group*			
	18-34	*35-54*	*55 +*	*All Ages*
1 year or less	5%	7%	6%	6%
1-2 years	11%	4%	5%	7%
2-3 years	10%	8%	2%	7%
3-4 years	6%	6%	5%	6%
4-5 years	66%	65%	69%	66%
5-10 years	3%	9%	10%	7%
More than 10 years	0%	0%	2%	1%
Total	100%	100%	100%	100%

Source: Maritz survey for CAAMP, Fall 2009.

The next table looks at terms chosen by Canadians who have financed or refinanced their mortgage during the preceding 12 months, in contrast with those who have not made financing changes during the past year (in other words, with those who made choices more than one year ago). In the 2010 survey, consumers who have been active during the past year were considerably more likely to choose a short term. During the past year, the spread between one year and five year mortgage rates (based on typical posted rates as published by the Bank of Canada) averaged about 2.1 percentage points. A year earlier, the spread was 1.40 percentage points; two years earlier the spread was just 0.20 points. The increased spread in the past two years has encouraged a shift to shorter terms.

Table 4-3
Percentages of Mortgages by Length of Term By Activity During Last 12 Months

Length of Mortgage Term	*Financed or Refinanced During Past 12 Months*	*Did Not Finance or Refinance During the Past 12 Months*	*Total*
1 year or less	10%	4%	10%
1-2 years	12%	5%	12%
2-3 years	12%	5%	12%
3-4 years	5%	6%	5%
4-5 years	57%	71%	57%
5-10 years	4%	8%	4%
More than 10 years	0%	1%	0%
Total	100%	100%	100%

Source: Maritz survey for CAAMP, Fall 2009.

Fixed Rate Versus Variable Rate Mortgages

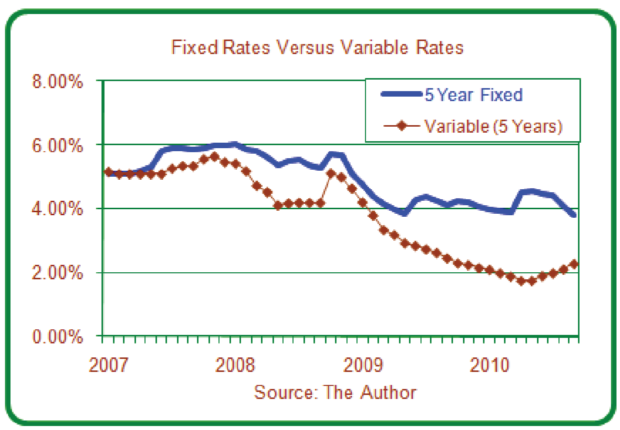
The CAAMP/Maritz study found that 66% of mortgage holders have fixed rate mortgages, 29% have variable and adjustable rate mortgages, and 4% have "combination" mortgages, in which part of the payment is based on a fixed rate and part is based on a variable rate.

Fixed rate mortgages are slightly more common for the youngest age groups, and older age groups are more likely to choose variable rate mortgages. Combination mortgages are chosen by small minorities within each age group.

Table 4-4
Percentages of Mortgages by Type,
By Age Group

Mortgage Type	*18-34*	*35-54*	*55 +*	*Total*
Fixed-rate	69%	64%	67%	66%
Variable or adjustable-rate	27%	32%	30%	29%
Combination	4%	4%	3%	4%
All Types	100%	100%	100%	100%
Source: Maritz survey for CAAMP, Fall 2009.				

These results are very similar to the estimates developed from the 2008 and 2009 surveys. Moreover, a more detailed review of this year's data found that for mortgages that have been financed or renewed during the past 12 months, the choices are similar (64% fixed rate, 31% adjustable/variable rate, and 4% combination mortgages).



During the past two years (in the aftermath of the "credit crunch"), interest rates for variable rate mortgages and fixed rate mortgages have moved quite differently. (The chart to the right shows the author's estimates of "typical discounted" mortgage rates.) We can think of the difference between variable rates and fixed rates as the price of insurance that mortgage costs won't increase in the next five years. The cost of that "insurance" has been much greater in the past two years than it was in the prior two years. In that light, the relative stability of choices of mortgage types is initially quite surprising – we might expect that the increased spread between the two types of mortgages would lead to shifting preferences (away from fixed rate mortgages, towards variable rate mortgages). This stability of choices suggests that consumers are not giving much weight to relative costs of the two types of mortgages. Rather, the stability of these choices may have much more to do with consumers' assessments of risks, and perhaps even more with in-grained attitudes to risk (albeit attitudes that may shift over their life-cycles).

Interestingly, changes in spreads (by length of mortgage term) seem to have a substantial effect on lengths of terms, as was shown earlier. But, changes for fixed versus variable rate mortgages do not appear to affect choices of mortgage type.

Mortgage Amortization Periods

Mortgage holders were asked "At the date that you first took out the mortgage on the property, what was the amortization length of the mortgage?" This question is of considerable interest, since longer amortization periods (greater than 25 years) are a relatively new phenomenon in Canada, having become available only about 4 years ago, and two years ago the federal government ceased guaranteeing new mortgages with amortization periods greater than 35 years (there is still – in theory – availability of longer amortization period for mortgages without mortgage insurance).

A small (but growing) minority of mortgage consumers (22%) have amortization periods of more than 25 years – a year ago, the share was lower at 18% and two years ago it was 16%. Most mortgages (78%) have amortization periods of up to 25 years.

The table below provides more detail, showing amortization periods for various categories of mortgaging activity. Among those who have taken out a mortgage on a home that they have just purchased, about 42% opted for an amortization period longer than 25 years; a year ago that share was 47%.

Table 4-5
Percentages of Mortgages by Length of Original Amortization Period, By Activity During Last 12 Months

Amortization Period	*New Mortgage on a New Purchase*	*New Mortgage on a Home Already Owned*	*Renewal*	*Not Active*	*Total*
Up to 25 Years	58%	100%	86%	77%	78%
More Than 25 Years	42%	0%	14%	23%	22%
Including…					
30 years	12%	0%	6%	8%	8%
35 years	30%	0%	5%	8%	8%
40 years	0%	0%	3%	8%	6%
Total	100%	100%	100%	100%	100%

Source: Maritz survey for CAAMP, Fall 2010.

A new question this year asked mortgage holders "The age by which you plan to have fully paid off your mortgage". We sometimes hear opinions that changes in the housing market and or mortgage choices may result in people carrying mortgages into older ages, for example that higher house prices or extended amortization periods might result in longer repayment periods.

The responses indicate that for borrowers with extended amortization periods (original period of more than 25 years) the average expected age for repayment (53) is older than those with amortization periods of 25 years or less (47 years). Even so, for most of the population with extended amortization periods, the repayment horizons leave them well short of retirement.

Retirement Expectations

Related to the discussion above, we might wonder if recent trends in housing markets and mortgage choices might force later retirements. To address this issue, CAAMP's fall 2010 study asked consumers "At what age do you plan to retire?" Analysis of the responses found only minor variations.

- Among home owners with mortgages, for those with extended amortization periods (more than 25 years) the average expected age for retirement is statistically about the same (61.9 years) as the 61.5 years average for owners with amortization periods of 25 years or less.
- Looking at when mortgages were originated, for those originated in the past five years the average is about 61 years, similar to the average expectations of earlier periods (for 6 to 10 years the average is 62 years, for those 11 or more years ago, the average is 63 years).

This data on expectations, of course, does not prove that actual retirement ages (and in the prior section, ages for repayment of mortgages) will be unaffected by recent trends in housing and mortgage markets. But, it does suggest that consumers' evaluations of their life-cycle options have not been materially altered.

Interest Rates

The CAAMP/Maritz study collected data on mortgage interest rates for current mortgage holders. The average mortgage interest rate is 4.22% as of October 2009, down from 4.55% a year ago.

For those who have financed or renewed a mortgage during the past 12 months, the average mortgage rate is 3.75. By type of mortgage, the average rates (for mortgages financed or renewed during the past year) are: fixed rate mortgages - 4.17%; variable or adjustable rate mortgages – 3.03%, and combination type mortgages – 3.97%.

The survey also asked those who have renewed a mortgage during the past 12 months what the interest rate was prior to renewal, and those rates have been compared to the mortgage borrowers' current rates. This analysis found that the interest rates increased for 17% of these borrowers, but were unchanged for 11%, and rates actually fell for 72% of these borrowers. On average, among borrowers who renewed a mortgage, the interest rate fell by 1.09 percentage points. Furthermore, among those who renewed mortgages, just 5% had their interest rate increase by 1 percentage point or more.

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

- Out of about 5.65 million home owners who have mortgages,

- About 1.4 million have renewed their mortgages during the past 12 months.
- One million have seen their mortgage rates fall and 150,000 had no change in their interest rate.
- About 250,000 had their rates increase. About 75,000 of these households have seen increases of 1 percentage point or more, and about 175,000 had increases of not more than 1 point. For many of these households, the increases in monthly mortgage payments may be significant, but in the big picture of the Canadian housing market, in which there are about 9.4 million home-owning households, these numbers are not very large.

Ability to Afford Interest Rate Increases

Given that interest rates in Canada have been at very low levels for a prolonged period, concerns have been expressed that many home owners may be unable to afford their payments when rates inevitably rise.

CAAMP has previously investigated this very important question, particularly in a January 2010 report ("Revisiting the Canadian Mortgage Market – Risk is Small and Contained"). That study used a large dataset of actual mortgage transactions to simulate the impacts on borrowers if mortgage rates were to rise to 5.25%.

- At the time, this assumption implied a quite large rise in interest rates. Today, that assumption has become even less likely: for 5-year fixed rate mortgages, typical rates after lender discounts are in the range of 3.75%, rates for variable rate mortgages are typically 2.25% to 3.0%.
- Current forecasts from Canada's five largest banks are that as of the end of 2011 interest rates will be just under one percentage point higher than at present, for both short terms (based on the Bank of Canada Overnight Rate) and long terms (based on five year Government of Canada bonds).
- These forecasts imply that at the end of 2011, mortgage interest rates might be 3.25% to 4.0% for variable rate mortgages and 4.75% for five year fixed rate mortgages.
- Even with the strong assumption employed last January, the research concluded that the vast majority of borrowers had the capacity to afford the potential cost increases; calculations based on current expectations would show even smaller risks.

This issue of CAAMP's "Annual State of the Residential Mortgage Market" further explores the issue. It confirms, again, that a vast majority of Canadians have substantial capacities to afford higher interest rates. The survey asked mortgage holders to indicate "the amount at which, if your monthly mortgage payment increased this much, you would be concerned with your ability to make your payments". The responses indicate:

- The average amount of room is $1,056 per month on top of their current costs.
- Just 2% indicated that they have no room (the affordable increase is $0).
- A further 2% indicated their room is $1 to $99.
- 5% indicated that their room is $100 to $199.
- 6% reported room in the range of $200 to $299.
- This leaves 84% whose capacity is $300 per month or more.

- Even for those who originated the mortgage within the past year, the distribution of answers is essentially the same.

Other data from the survey was used to calculate the rises in interest rates that could be tolerated. The next table applies those estimates to the 5.65 million mortgage holders in Canada. Once again, the estimates suggest that a vast majority of mortgage holders have considerable capacity to afford rises in mortgage interest rates. There is a sizable minority (about 350,000 out of 5.65 million, or about 6%) who would be challenged by rate rises of less than 1%, and a further 225,000 (5%) have thresholds in the range of 1.00% to 1.49%.

For most of the mortgage borrowers who are potentially at-risk, time will be a mitigating factor to some degree: most of them have fixed rate mortgages. Among the 350,000 borrowers with thresholds of less than 1 percentage point, about 250,000 have fixed rate mortgages with a term longer than four years. By the time their mortgages come due for renewal, they will have seen some income growth and the amount of mortgage principal will have been reduced, and the future impact of interest rate increases will be less than it might be today. This leaves about 100,000 borrowers who are susceptible to short term moves of interest rates, which is a quite small share (less than 2%) of the 5.65 million mortgage holders in Canada.

Table 4-6
Estimated Numbers of Mortgage Holders by Thresholds for Unaffordable Rises in Mortgage Rates

Unaffordable Interest Rate Rise	*Fixed-rate Mortgage*	*Variable or Adjustable-rate Mortgage*	*Combination Mortgage*	*Total*
< 0.25%	125,000	25,000	0	150,000
0.25%-0.49%	25,000	0	0	25,000
0.5%-0.74%	25,000	25,000	0	50,000
0.75%-0.99%	100,000	25,000	0	125,000
1.0%-1.49%	225,000	50,000	0	275,000
1.5%-1.99%	150,000	50,000	25,000	250,000
2% or More	3,075,000	1,475,000	200,000	4,775,000
Total	3,750,000	1,675,000	225,000	5,650,000

Source: Maritz survey for CAAMP, Fall 2010.

Note Totals may not add due to rounding

Mortgage Rate Discounting

The average mortgage interest rate reported here (4.22%, for all current mortgages) is well below the typical posted (advertised) rates that have been available during the past year. During the past year, posted rates five year terms have averaged 5.65%. The lower actual rates confirm that there is a substantial amount of discounting in the mortgage market. This section uses the survey data to generate an estimate of the extent of discounting.

In order to produce a meaningful summary of the interest rates, one subset of the study group was selected for further analysis: mortgages that were initiated, renewed, or refinanced during the past 12 months, with fixed rates, rather than variable rates, with 5-year terms.

For this group of mortgage borrowers, the average mortgage interest rate is 4.23%. In contrast, over the preceding 12-month period, the average advertised 5-year mortgage rate was 5.65%[3]. Based on this data it appears that Canadians are negotiating mortgage rate discounts averaging 1.42 percentage points (for 5-year terms).

Housing Equity

The consumer survey asks questions intended to estimate the total amount of home owners' equity in Canada. The following table summarizes the results. Based on the consumers' responses, for those home owners with mortgages, the average amount of outstanding principal is about $145,000. For those home owners with mortgages, the owners' estimates of the current values of their homes average about $291,000. Therefore, home owners with mortgages have an average of $146,000 in equity, and their home equity equates to about 50% of the homes' values. There are about 5.65 million Canadian home owners with mortgages.

For home owners without mortgages, the average home value is about $335,000. There are about 3.75 million Canadian home owners without mortgages. Across the roughly 9.4 million home owners in Canada, the total value of homes is estimated at $2.91 trillion. The total outstanding mortgage principal on these homes is estimated at $820 billion[4]. This means that Canadian home owners have about $2.08 trillion in home equity, which amounts to 72% of the total value of their homes[5].

Table 4-7
Calculation of Home Owner Equity in Canada, as of October 2010

	Average Per Household	*Total $ Billions*	*Number of Households*
Mortgage Principal Outstanding	$145,000	$820	5.65 million
Home Value for…			
Mortgage Holders	$291,000	$1,650	5.65 million
Non-Mortgage Holders	$335,000	$1,260	3.75 million
All Home Owners	$309,000	$2,910	9.40 million
Equity for Mortgage Holders	$146,000	$830	
Equity for All Home Owners	$222,000	$2,080	
% Equity for Mortgage Holders	50%		
% Equity for All Owners	72%		

Source: Maritz survey for CAAMP, Fall 2010.
Note: Figures may not add due to rounding.

[3] Source: Bank of Canada. The average is calculated using "Chartered Bank Administered Interest Rates: Conventional Mortgage - 5 Year (as at Wednesday)", using data for the 52 weeks ending October 20, 2010.
[4] This total of $820 billion is less than the total amount of residential credit outstanding (reported by the Bank of Canada as about $1.008 trillion as of August 2009) as the estimate developed here does not include rental dwellings, investment properties, or vacant units.
[5] This estimate is similar to estimates from Statistics Canada's Survey of Financial Survey, which indicates a home equity rate of 74.1% in 2005.

Among Canadian home owners who have mortgages on their homes, most have considerable amounts of equity. The following table shows that only 11% of them have equity positions of less than 10% - this includes an estimated 2% with negative equity. A further 9% have equity positions in the range from 10% to 19.9%. More than three-quarters (80%) have 20% or more equity. Since these estimates are based on a sample survey, there is a range of uncertainty around these (and all other estimates) - the estimate that 2% of Canadian mortgage holders have negative equity shouldn't be seen as a precise estimate, but rather as an indication that there are few Canadians in this situation (there may be 100,000 to 150,000 Canadians with negative equity). While this is an uncomfortable situation for those involved, it is not a widespread issue. The survey asked mortgage holders to what extent they are comfortable with their equity positions. Just 5% indicated that they are "very uncomfortable" with their equity positions and a further 15% indicated they are "somewhat uneasy". The vast majority (80%) indicated that they are somewhat or very comfortable with their equity positions.

Table 4-8
Equity Positions of Current Mortgage Holders

Equity as Percentage of Home Value	*% of Mortgage Holders*
Negative	2%
0-4.9%	3%
5%-9.9%	6%
10%-19.9%	9%
20% and over	80%
Total	100%

Source: Maritz survey for CAAMP, Fall 2010.

Equity Take-out

The survey data indicates that 18% of mortgage holders took out equity from their homes or increased the amount of the mortgage principal within the past twelve months. The average amount of equity take-out is estimated at $46,000. Various findings from the survey can be combined to generate an estimate of the total amount of equity take-out by Canadian home owners:

- At present there are about 5.65 million home owners with mortgages in Canada.
- 18% of home owners with mortgages have taken out equity during the past year.
- The average amount taken out was about $46,000.
- Combining these factors, the total amount of equity take-out is calculated as $46 billion. This is a recovery from the $41 billion estimated for the prior year, and is similar to the $46 billion that was estimated in the Fall of 2008.

Those who took out equity were asked what they used the money for. Some people indicated more than one purpose. Therefore, the following responses add to more than 100% - on average, 1.3 purposes were given:

- 45% indicated that the money would be used for debt consolidation or repayment.
- 43% gave renovation or home repair as the purpose.
- 19% mentioned making purchases or education as the purpose.
- 16% mentioned investments.

- 10% mentioned “other” purposes.

From the responses, it is estimated that 30% of the take-out (or about $13.5 billion) was for debt reconsolidation and repayment. Therefore, while the amount of outstanding mortgage debt would have increased by this amount, totals for other types of debt would be correspondingly reduced. About $15 billion was taken out for renovations, $6 billion for education and other spending, $7.5 billion for investments, and $4 billion for other purposes.

Voluntary Additional Payments

The survey data indicates that 35% of mortgage holders (almost 2 million out of 5.65 million mortgage holders) have made additional payments on their mortgages during the past year. This includes 16% who increased their monthly payments (about 925,000), 12% who made lump sum payments (650,000), and 7% who did both (375,000).

Research and Shopping Behaviour

Homeowners with mortgages were asked “when you took out the mortgage that you currently have on your residence, which of the following mortgage professionals did you consult with?” They were able to name more than one type, with the result that the total adds to more than 100%. On average, 1.56 responses were given. The table below shows the percentages of borrowers who consulted with each of the major categories of mortgage professionals.

Table 4-9
Types of Mortgage Professionals Consulted
When Obtaining Current Mortgage

Type of Organization	*Total*
Representative from a Bank	70%
Mortgage Broker	40%
Representative From A Credit Union	22%
Representative from a Life Insurance/Trust Company	15%
Other	8%
Source: Maritz survey for CAAMP, Fall 2010.	

In addition, the consumers were asked through which type of professional they ultimately obtained their mortgage. The table below shows the results for all mortgage borrowers (in the right hand column of the table), and for three subtotals of borrowers: those who took out new mortgages, those who renewed or refinanced mortgages, and those who had no mortgaging activity in the past 12 months. Among all mortgage holders, 55% obtained their mortgage from a bank. Mortgage brokers were the second most important source overall, accounting for one-quarter of all mortgages. For new mortgages[6], 39% were obtained from banks, 40% from mortgage brokers and about

[6] Includes mortgages on newly purchased home as well as new mortgages taken out on properties already owned by the borrower. For the subset of mortgages on newly-purchased properties, the broker share was 45% and the bank share was 42%.

one-fifth (21%) of new mortgages were obtained from other types of mortgage organizations (including credit unions and life insurance companies).

Table 4-10 ***Types of Mortgage Professionals Through Which Current Mortgage was Obtained, By Type of Mortgage Activity in Past 12 Months***				
Type of Organization	*Took Out New Mortgage*	*Renewed/ Refinanced Mortgage*	*No Activity*	*Total*
Representative from a Bank	39%	57%	56%	55%
Mortgage Broker	40%	23%	25%	25%
Representative From A Credit Union	10%	12%	10%	11%
Representative from a Life Insurance/Trust Company	6%	2%	3%	3%
Other	5%	6%	6%	6%
Total	100%	100%	100%	100%
Source: Maritz survey for CAAMP, Fall 2010.				

When obtaining their mortgages, Canadians received an average of 1.96 mortgage quotes. As can be seen in the table, most borrowers received just a few quotes.

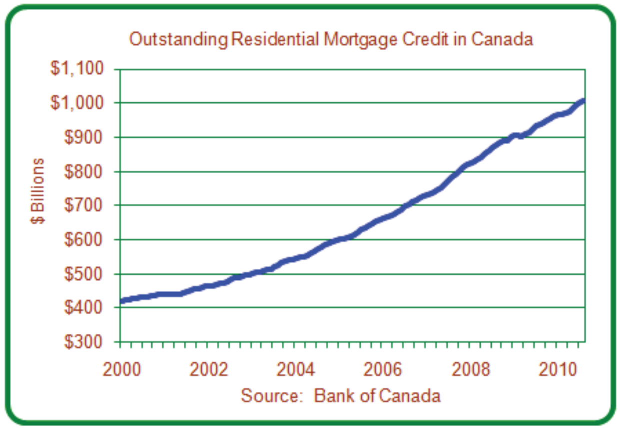
Table 4-11 ***Number of Quotes Received When Obtaining a Mortgage***	
Number of Quotes Received	*% Receiving*
0	6%
1	42%
2	24%
3	18%
4	4%
More than 4	6%
Total	100%
Source: Maritz survey for CAAMP, Fall 2010.	

5.0 Dimensions of the Residential Mortgage Market

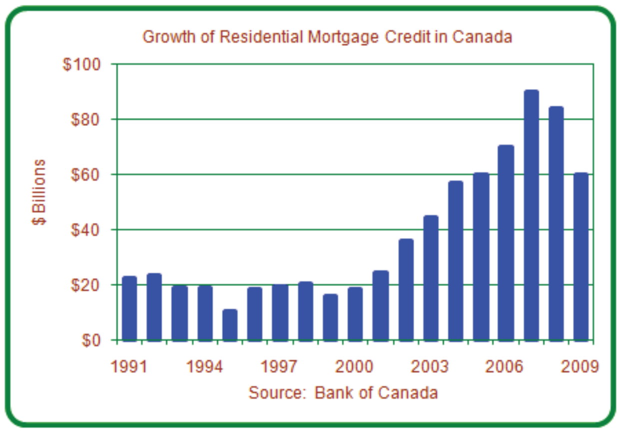
This section provides various data on mortgages and other forms of credit to provide perspectives on growth rates, and also on the size of the mortgage market in Canada.

The Volume of Credit Outstanding

The volume of residential mortgage credit in Canada has now passed $1 trillion ($1.008 trillion as of August 2010). Over the past 15 years, the volume of outstanding residential mortgages has expanded by 194%, or a growth rate of 7.5% per year. Growth was especially rapid during 2004 to 2008, exceeding 10% per year, but has eased to 7.6% ($71 billion) in the most recent 12 month period.

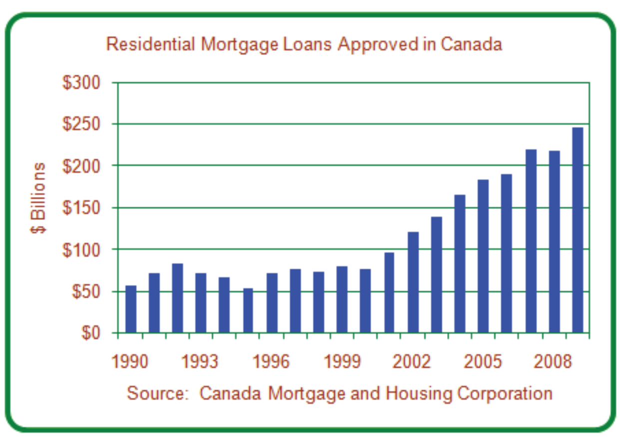


During 1991 to 2000, mortgage credit in Canada grew slowly, by an average of $18 billion per year. Then, the amount of growth increased each year 2000 to 2007. As is discussed in a later section, this acceleration was due to expanding housing activity and rising housing values. More recently, the growth rate slowed in 2008 and 2009, due to the recession. As of August 2010, year-over-year growth has been increasing and reached $71 billion – still a very large amount.



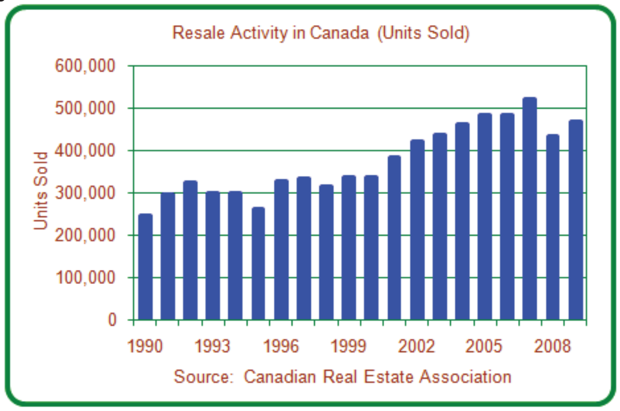
Annual Approvals

Another perspective on the mortgage market looks at the volume of new approvals. This includes new mortgages plus mortgages that are transferred from one lender to another and mortgages that are refinanced. The volumes of annual approvals are larger than was shown earlier for the growth rate of total credit. For example, the data on approvals shows total approvals of $244 billion for 2009, while the data on total credit showed growth of about $60 billion.

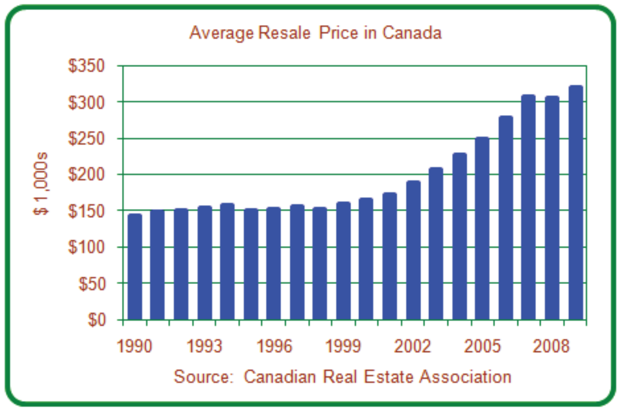


Behind the Growth of Mortgage Activity

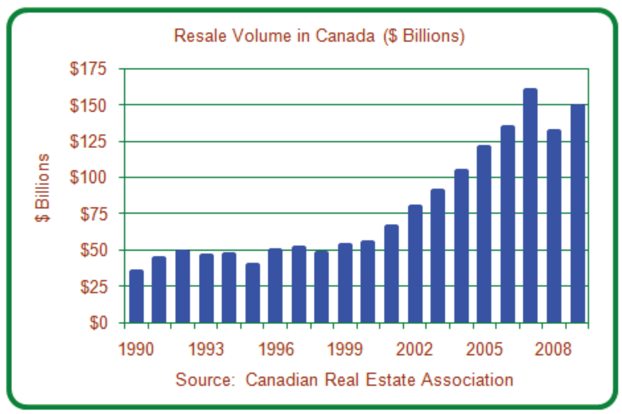
The expansion of mortgage activity during the past decade was largely due to expanding housing market activity. Sales of existing homes were relatively flat during 1996 to 2000. Activity started to expand in 2001. By 2007, sales were 60% higher than the 1996-2000 average. The recession brought a significant drop in 2008; the recovery during 2009 left total sales for the year below prior records, but the total of 465,000 units was still quite robust.



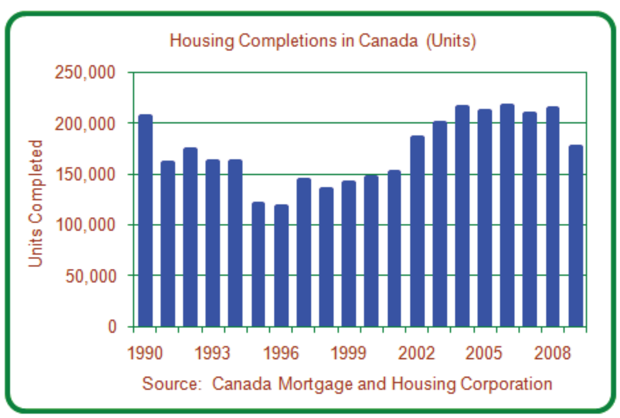
Similarly, the average resale house price was relatively flat during the 1990s, but began to increase around the end of the decade. Price growth paused during 2008, but the recovery of 2009 pushed values to a new record high. In 2009, the average price (about $320,000) was more than double the figure seen 10 years earlier.



Combining data on sales and prices, the total dollar value of sales was flat until 2001, when it began to expand very rapidly. The value of sales almost tripled (rising by 292%) in the seven years from 2000 to 2007. The rising value of sales caused a rapidly rising need for mortgage financing. Over that period, residential mortgage credit expanded at a rate of 9.4% per year. The dollar volume of sales in 2009 was the second highest figure of all time.



Completions of newly-built homes also result in requirements for mortgage financing. Completions rose gradually during 1996 to 2001, and increased sharply during 2002 to 2004. During 2004 to 2008, completions exceeded 200,000 units per year. Completions fell during 2009, as the lagged consequence of reduced housing starts during the recession.



Another factor that influences the volume of mortgage lending is refinancing (increasing the amount of a mortgage to take advantage of home equity). Calculations shown earlier in this report indicate that equity take-out has amounted to $46 billion dollars during the past year. This equity take-out accounts for about two-thirds of the growth in total mortgage credit outstanding ($71 billion) over the past year (to August).

Mortgage Lending by Category of Lender

Residential mortgage financing is provided by a wide variety of lending institutions, ranging from the large chartered banks to credit unions and caisses populaires, insurance companies, pension funds, and lenders who bundle the mortgages and resell them to investors as mortgage-backed securities. As is shown in the following table, the chartered banks account for almost one-half (49%) of outstanding residential mortgage credit. Mortgage-backed securities account for 30%, while credit unions/caisses populaires account for more than 10%. The remaining categories (in total) account for about 8%.

The table shows the most recent data (for August 2010) as well data for the same month a year ago. This data indicates that there has been relatively shifting during the past year. However, the year ago report showed that at that time there had been considerable shifting into Mortgage Backed Securities, in response to the credit crunch.

Table 5-1
Residential Mortgage Credit, by Category of Lender, August 2009 and 2010

Type of Lender	*August 2009*		*August 2010*		*Growth in $ Billions*	*Growth %*	*Change in Market Share (pct points)*
	$ Billions	*Market Share %*	*$ Billions*	*Market Share %*			
Chartered Banks	$455.8	48.6%	$496.1	49.2%	$40.3	8.8%	0.6%
Trust and Mortgage Loan Companies	$10.4	1.1%	$11.1	1.1%	$0.7	6.9%	0.0%
Credit Unions and Caisses Populaires	$118.1	12.6%	$124.8	12.4%	$6.7	5.7%	-0.2%
Life Insurance Companies	$15.3	1.6%	$14.3	1.4%	-$0.9	-6.1%	-0.2%
Pension Funds	$15.6	1.7%	$15.2	1.5%	-$0.4	-2.5%	-0.2%
Non-depositary Credit Intermediaries and Other Financial Institutions	$28.3	3.0%	$28.2	2.8%	-$0.2	-0.6%	-0.2%
NHA Mortgage-Backed Securities	$277.7	29.6%	$305.5	30.3%	$27.8	10.0%	0.7%
Special Purpose Corporations (Securitization)	$16.0	1.7%	$12.9	1.3%	-$3.0	-19.0%	-0.4%
Total	$937.5	100.0%	$1,008.5	100.0%	$71.0	7.6%	
Source: Bank of Canada, Weekly Financial Statistics, October 22, 2010							

Mortgage Approvals by Province

Canada Mortgage and Housing Corporation collects data on mortgage approvals by province. The table below summarizes the data on approvals in 2009, along with the provinces' (and territories') shares of approvals, plus the growth rates from 2008 to 2009. The data show that for all of Canada, mortgage approvals expanded by 13% in 2009, to $244 billion. The most rapid growth was seen in British Columbia, followed by

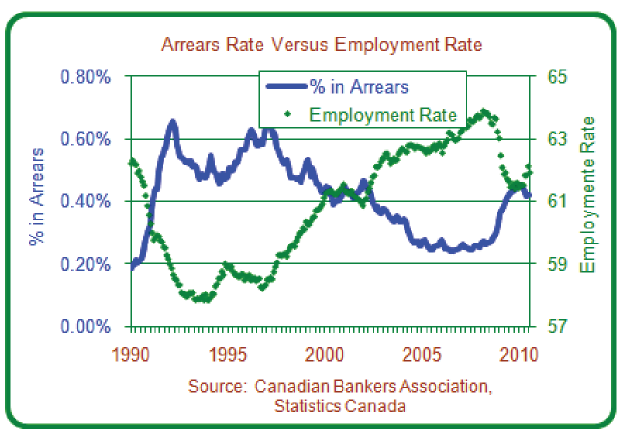
Newfoundland and Labrador and Ontario. CMHC cautions that the data for Quebec may be under-stated.

Table 5-2 *Approvals of Residential Mortgages by Province, 2009, Millions of Dollars (1)*					
Province	*New Housing*	*Existing Housing*	*Total*	*% of Canada*	*Growth 2008-2009*
Newfoundland and Labrador	$453	$2,690	$3,143	1.3%	19%
Prince Edward Island	$63	$458	$521	0.2%	4%
Nova Scotia	$651	$4,891	$5,542	2.3%	4%
New Brunswick	$422	$3,192	$3,614	1.5%	10%
Quebec (2)	$4,661	$31,842	$36,503	14.9%	12%
Ontario	$10,588	$90,528	$101,116	41.4%	13%
Manitoba	$626	$5,111	$5,737	2.3%	6%
Saskatchewan	$786	$4,966	$5,752	2.4%	12%
Alberta	$6,855	$30,403	$37,258	15.2%	7%
British Columbia	$5,930	$38,772	$44,702	18.3%	22%
The Territories	$54	$490	$544	0.2%	9%
Total	$31,090	$213,341	$244,432	100.0%	13%
Source: Canada Mortgage and Housing Corporation, Canadian Housing Statistics, 2008 and 2009					
Note: (1) Mortgage approval data are gross and may not fully capture lending activities of credit unions, caisses populaires, other small institutions and privately-insured loans in some areas.					
(2) Quebec data is understated due to low response rate to the surveys in that province.					

Mortgage Arrears

Data from the Canadian Bankers Association – covering 7 major banks – shows that there has been a rise in mortgage arrears during the recession. Prior to the recession (during mid-2004 to mid-2008), the arrears rate was very low, with less than 0.30% of mortgages in arrears (for three months or more). The arrears rate increased rapidly during the winter of 2008/09, and more gradually during the balance of 2009. While the increase is indicative of increased financial difficulties, it remains lower than was seen during most of the 1990s (when the average arrears rate was 0.50%). The most recent data (0.42% as of July 2010) indicates that the arrears rate has fallen slightly.

In the Canadian context, most mortgage defaults are due to reduced ability to pay, including especially 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 a category of reduced ability to pay).



The chart to the right illustrates the importance of changes in the employment situation. It contrasts the arrears rates with the Canadian “employment rate” (not to be confused with the unemployment rate – this data shows the percentage of adults who are employed). The data shows very clearly that changes – up or down – in the employment rate are followed several months later by changes in the arrears rate (in the opposite direction). The job losses that occurred during the recent recession can be considered the primary cause of the rise in mortgage arrears, as a sharp drop in the employment rate was followed several months later by a rise in the arrears rate.

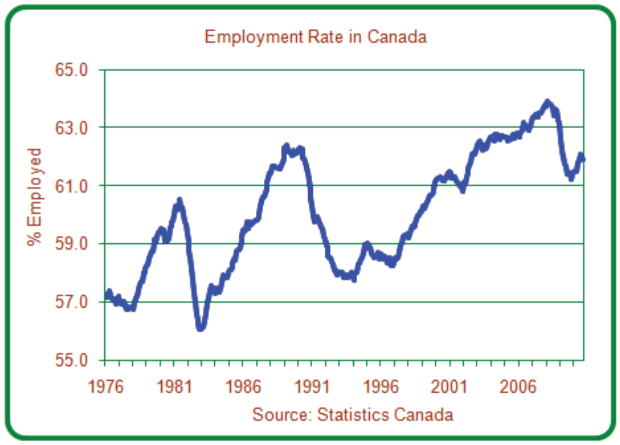
More recently, a recovery of the employment rate has contributed to an improving arrears situation. The future path for arrears will be highly influenced by economic trends, and particularly by the rate of job creation.

6.0 Outlook for Residential Mortgage Lending

Housing Markets

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

Many indicators are available for characterizing the economic situation. In terms of drivers of housing markets and mortgage demand, employment is the most powerful. This analyst finds that a useful indicator is the percentage of the (adult) population that is employed (or the "employment rate"). The data shows that prior to the recession of 2008/2009, the Canadian economy was as strong as it has ever been, with the employment rate at record levels. This certainly goes a long way to explaining the record levels of housing activity, rapid growth of housing values, and strong mortgage demand.



Moreover, according to this indicator, the recession was less severe than the two prior recessions and was relatively short-lived: this time the employment rate fell by about 2.5 percentage points. In the two prior recessions the drops were about twice as large. This downturn had a short duration in Canada – about nine months.

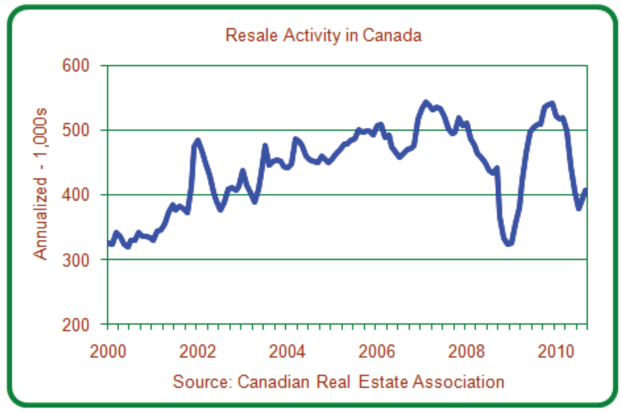
The employment rate has now started to increase, which means that employment is growing more rapidly than the population, which is a very encouraging event. Moreover, while the employment rate remains below the pre-recession level, it is quite high in historic terms.

In addition, interest rates are at very low levels – at all-time lows for fixed rate mortgages, and only slightly above all-time lows variable rate mortgages.

This combination of a recovering, relatively healthy job situation plus very low interest rates has allowed housing markets and mortgage demand to recover quite robustly from the recession.

In fact, the housing market recovery was stronger than we might have expected. A series of temporary factors bolstered the housing market:

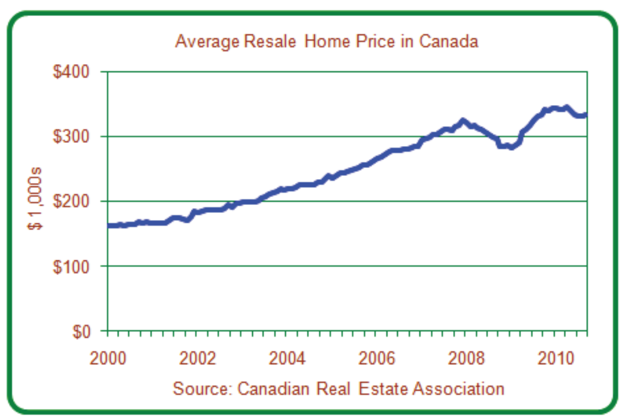
- Firstly, during the recession, people who were in position to buy put off decisions. As confidence returned, housing markets strengthened during the summer of 2009. The initial strong rebound of sales can be seen as payback for sales that didn't happen during the recession.
- Late in 2009, signs of economic recovery led to expectations that interest rates would rise. This caused some buyers to accelerate decisions. This began a process of borrowing sales from the future.



- In the winter of 2010, the federal government announced that mortgage insurance criteria would be tightened in April. This further contributed to the acceleration of sales and the market's borrowing from the future.
- After the new mortgage insurance criteria came into effect, housing sales slowed very rapidly.
- The summer of 2010 saw a period of period of (negative) payback for the borrowed sales.
- The most recent data shows a stable level of sales. Tantalizingly, the final data point (September) shows a rise. Might this mean that the temporary factors have ended, the period of payback is over, and sales will find a level consistent with the current economic environment?

Price trends in housing markets across Canada were also affected by the sequence of temporary factors:

- The collapse of sales during the recession resulted in price reductions.
- The strong rebound of sales during the initial recovery resulted in a rapid recovery of prices. Prices eventually surged to record levels in many communities.
- The ending of the sales surge during the spring resulted in some correction: there had been excessive price growth during a period of excessive sales.



- Most recently, commensurate with a stabilization of demand, prices appear to have stabilized.

Housing markets can be affected by an "investment motive". This includes buying of homes for investment purposes, but it also includes buying by owner-occupants where the primary motivator for the purchase is the expectation of making a capital gain, rather than the real housing needs of the buyer. Estimates by this author suggest that there has been a very strong investment motive in the United States. At the peak of the US housing market in 2006, perhaps 20% of sales were driven by the investment motive. This created a self-reinforcing upward cycle – that is, a bubble. When that bubble burst there was inevitably a reverse of the investment motive – call it a "panic motive" – where buying was deterred by fears of future losses of values. The author estimates that at present in the US sales are 40% lower than they would otherwise be (based on job market conditions and affordability).

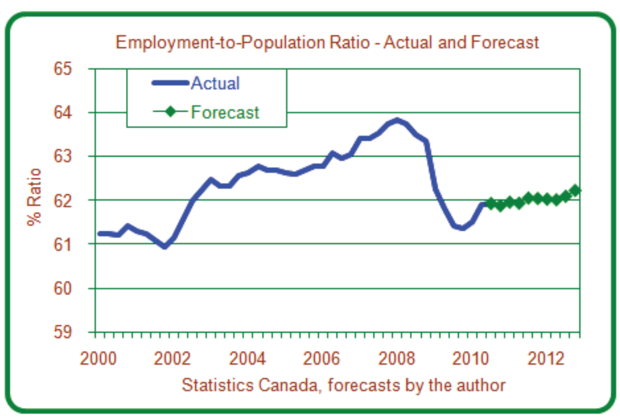
In Canada it appears that the investment motive is largely absent. In most provinces, housing demand is driven by job creation and affordability: movements in house prices have little effect on activity. However, British Columbia is an exception to this. Market data also suggests that there have been weak investment motives in Ontario and Alberta. Because of investment motives, and because of the severity of the recession, these three provinces have seen the most volatile housing markets in recent times.

Over time, the most important driver of housing markets is job creation. However, housing activity responds only slowly to changes in the job situation: it takes time for people to convert a job change into a housing action. Typically, job growth today will affect housing activity over the next one to four years. Therefore, the housing outlook for 2011 has much more to do with job creation that has already occurred than with future job growth: lingering impacts of the recession, and the gradual recovery that was seen up to mid-2010, will tend to limit housing activity for 2011. Recent stronger job creation, and any growth seen in the near future, will have implications for 2012 (and beyond).

Forecasts for employment for 2011, issued by Canada's five largest banks, portray two different outlooks:

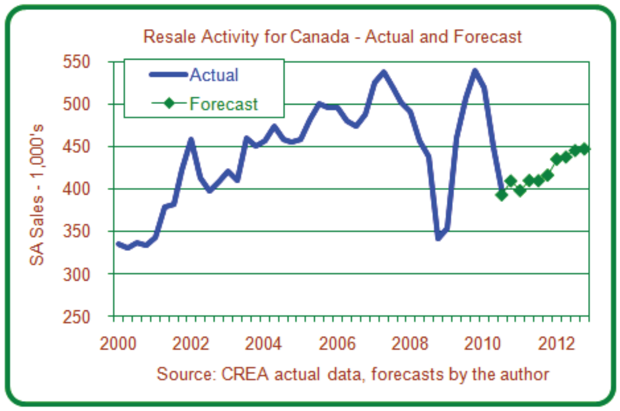
- Three banks expect job growth at about 1.3%. This would be slightly less than the growth rate for the population (about 1.4%) and therefore would represent a muted recovery.
- Two of the forecasts are relatively optimistic, with expected job growth at just over 2%.

This author also forecasts employment, and expects a growth rate of 1.7% (roughly the midpoint of the banks' forecasts). This would result in a small rise in the employment rate (the share of adults who are employed). However, the employment rate would remain well below the pre-recession peaks.

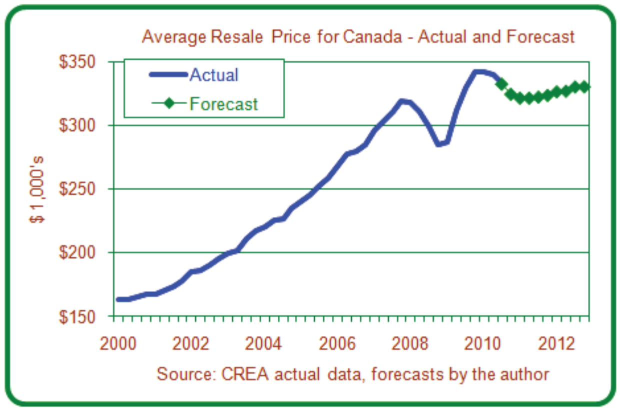


As an aside: the data on employment is generated by a sample survey (albeit with a very large sample). Like all sample surveys, it has a margin of error. It appears to the author that recent data might have overstated the rate of job creation. If so, then during the coming months reversal of the "sampling errors" could cause job creation estimates to be under-estimates. It is quite likely that the real rate of job growth will slow, but the published data might overstate the extent of slowing.

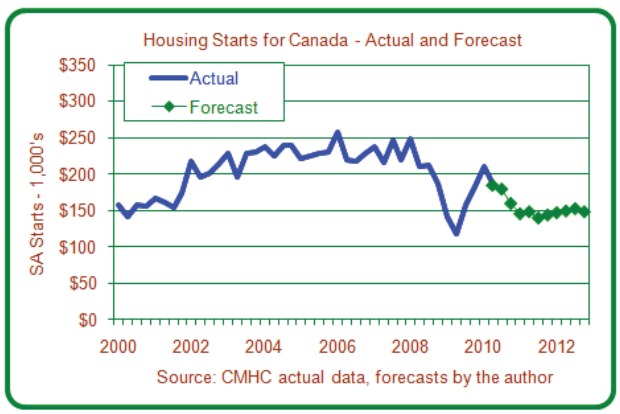
Based on recent trends for employment and expectations, resale activity is likely to be relatively stable for some time, at levels considerably lower than we have seen during the past half decade (but still healthy relative to earlier periods). Sales would total about 410,000 units in 2012. Based on the evolving recovery, improvement is expected for 2012 (about 440,000 units).



The forecasts suggest that the stabilization of sales at a moderate level will soon result in relatively stable prices. Looking into 2011 and 2012, there is a likelihood that prices will rise at about the same rate as overall inflation – indicative of a "balanced market". For 2011, the average resale house price is forecast to be 3.9% lower than in 2010. This calculated reduction reflects a drop that has already occurred.



In the new homes arena, housing starts tend to be more volatile than resale activity. Housing starts fell very sharply during the winter of 2008/2009, and then were slower to recover than the resale market: because of the marketing and production process for new homes, starts activity lags behind resales. Similarly, in recent times the slowdown of housing starts has been delayed. The forecast is that housing starts will slow considerably in the near future and then change little during 2011 and 2012. Housing starts would total about 145,000 to 150,000 units in 2011, far below the 200,000-plus figures seen during 2002 to 2008.



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

Forecasts of Mortgage Lending Activity

The forecasts for the resale and new homes markets suggest that residential mortgage credit will expand relatively rapidly during 2011 and 2012.

Taking the forecasts of housing market activity, it is projected that the amount of outstanding residential mortgage credit will increase by about 7% this year, to a year end total of $1.028 trillion. Growth rates would slow sequentially, with year end forecasts of $1.09 trillion at the end of 2011 and $1.15 trillion at the end of 2012. These growth rates would be a slowdown compared to 2004 to 2008, when growth averaged 10.7% per year.

The volume of new mortgage approvals has also been forecast.

- During 2009 there were $244 billion in mortgage approvals for new and resale homes (this total includes new mortgages, as well as transfers between lenders and refinancing of existing mortgages).
- Approval activity in 2010 is forecast to fall only slightly to $235 billion.
- For 2011, approvals are forecast at $203 billion and for 2011 the forecast is $211 billion. While the volume of approvals is projected to contract, these forecast levels of activity exceed any years prior to 2007, indicating that mortgage lenders will continue to be very busy during 2011 and 2012.

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

Table 6-1
Forecast Summary - Canada

Year	*Employment Growth (%)*	*Resale Activity (1,000s of Units)*	*Resale Volume ($ Billions)*	*Housing Starts (1,000s of Units)*	*Mortgage Credit Outstanding ($ Billions)*	*Mortgage Approvals ($ Billions)*
2000	2.5%	334	$55	152	$439	$75
2001	1.2%	381	$66	163	$463	$95
2002	2.4%	419	$79	205	$499	$120
2003	2.4%	434	$90	218	$543	$138
2004	1.8%	460	$104	233	$600	$164
2005	1.4%	484	$121	225	$659	$182
2006	1.9%	483	$134	227	$729	$189
2007	2.3%	521	$160	228	$819	$219
2008	1.5%	432	$132	211	$903	$216
2009	-1.6%	465	$149	149	$962	$244
2010 (F)	1.6%	443	$148	181	$1,028	$235
2011 (F)	1.7%	409	$132	147	$1,094	$203
2012 (F)	1.6%	442	$145	152	$1,158	$211

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

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ANNUAL STATE OF THE RESIDENTIAL MORTGAGE MARKET IN CANADA
November 2010

Significant Statistics

- 35% of all mortgage holders have either increased their payments or made a lump sum payment on their mortgage in the last 12 months
- Vast majority of Canadians have ability to afford higher mortgage payments. 84% said they could handle monthly increases of $300 or more in their monthly payments
- 90% of Canadian homeowners have at least 10% equity in their homes, 81% have over 20% equity
- 70% of Canadians are satisfied with their mortgage terms
- Despite low Bank of Canada interest rates reflected in low variable rate mortgages, a majority (66%) of Canadians still have a five year fixed mortgage, 29% have variable mortgages and 4% a combination
- Overall, 22% of mortgages have an amortization of greater than 25 years compared to 18% last year
- Overall home equity is 72%. For homeowners with mortgages, equity level averages 50%
- Mortgage rates continue to drop. Average mortgage rate is 4.22% versus 4.55% last year. For those who took out a mortgage in the last year, the average rate was 3.75%, 72% of those renewing saw a decrease in their mortgage rate
- Overall, mortgage brokers account for 25% of all mortgages, for new mortgages in the past year this number rises to 40%
- As of August 2010, there was over $1 trillion in outstanding residential mortgage credit in Canada
- Mortgage arrears rate remains stable at 0.42%, lower than for most of the 1990s

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