

POSITIVE MORTGAGE NEWS

By William Charlton

December 1, 2008

After several months of 'doom and gloom' headlines in our financial markets, we finally have an authority on the Canadian mortgage market that has brought us some positive news. Recently, the Canadian Association of Accredited Mortgage Professionals (CAAMP) released their *Annual State of the Residential Mortgage Market in Canada*. CAAMP chief economist Will Dunning analyzed and compiled statistics from a comprehensive survey conducted in mid October 2008 by Maritz.

The findings recently published by CAAMP demonstrate a more positive outlook on the overall health of our mortgage market, contrary to the statement released by Merrill Lynch that the Canadian housing market is on the brink of a collapse similar to that of the US housing market.

CAAMP reports that there are 8.9 million homeowners in Canada. Of these homeowners, 3.65 million are mortgage-free with an average of \$280,000 of equity in their homes. The remaining 5.25 million homeowners who hold mortgages enjoy an average of \$136,600 in equity, which equates to about 51.7% of their homes' values. Findings also showed that only 7% of those with mortgages had equity positions of less than 10%, while most (78%) had positions of 25% or more. A majority (81%) of mortgage holders are comfortable with their equity positions, demonstrating strong confidence in Canada's mortgage market.

Following the recent Canadian real estate boom, mortgage credit has expanded by an average of \$82 billion per year, or 11.5% per year, over the last three years. There is over \$880 billion in outstanding residential mortgage credit in Canada and CAAMP predicts that some time in 2010 the volume of outstanding mortgage credit in Canada will surpass \$1 trillion.

In the last twelve months, it was found that roughly 22% of homeowners took out cash from their mortgages (equity take-outs) at an average of \$41,000 per equity take out. Of these homeowners, 56% of respondents said they used this money for debt consolidation and loan repayment, while 30% said funds went towards home repair and renovation.

Interest rates were reported to have decreased on average among home owners who refinanced or renewed their mortgage. The average mortgage interest rate was 5.41%, a reduction from the previous year's average rate of 5.56%. Additionally, the survey found that there has been a definite shift towards variable and adjustable rate mortgages (40% of mortgages negotiated during the past year versus 21% the previous year). The primary factor for choosing variable mortgages and, in turn, enjoying lower interest rates is believed to be the falling prime rate. However, it is important to note that around the same time as this survey was being conducted, many financial institutions discontinued below prime rate mortgages, which may have the effect of reversing these statistics in the coming months. Also, fears of inflationary pressures in 2009 may have mortgage seekers choosing to lock into fixed rate mortgages at rates higher than 5.41%.

Contrary to other global economies, mortgage arrears (mortgages delinquent for 90 days or more) remains very low in Canada at around 0.28%, only slightly higher than in the previous few years where the rate was 0.25%. In Alberta, however, the rate has moved from well below the national average at 0.15% to slightly above the national average at 0.30%. Alberta's 0.30% delinquency rate remains very low, especially considering that in the UK mortgage arrears are reported to be approaching 1.5%, while in the US mortgage arrears are now reportedly between 2-3%.

As often mentioned in my articles, mortgage brokers are very important in finding the right mortgage solution for consumers. A rapid change in lending practices, combined with growing professionalism in the mortgage broker profession, has increased the number of Canadians seeking the help of a broker. Approximately 40% of consumers consulted a broker last year compared to only 28% the year prior. As we continue to feel the effects of the changing financial landscape, the number of mortgage consumers using a mortgage broker is expected to further increase and even become the norm.

While it is important to recognize that many of the findings in the report are trending negatively, it is also prudent to point out that many of the findings indicate a stronger foundation to our mortgage market than other global markets. Although we are not immune to further economic troubles in 2009, Canada's overall ability to weather the financial storm is much stronger than the doom talkers want you to believe. Remember, positive news is also available – you just have to dig a little deeper to find it!

All statistics and findings are from the CAAMP *Annual State of the Residential Mortgage Market in Canada* survey and for more information on CAAMP and their press releases go to www.caamp.org.