Increased stress among first-time homebuyers in Toronto and Vancouver has little impact on purchasing behaviour

Mortgage Professionals Canada survey reveals measured consumer optimism; questions criteria in the federal mortgage risk assessment stress test

TORONTO (July 11, 2017) – An assessment of how consumer attitudes impact homebuying decisions reveals that Canadians in key regions across the country have measured optimism for the housing market and the economy. A new study by Mortgage Professionals Canada's Chief Economist, Will Dunning finds that exceptions to this measured optimism are seen among new homebuyers (Next Generation) in the Greater Toronto Area (GTA), which are influenced by local market conditions. Next Generation homebuyers in the GTA and Vancouver have the highest stress levels around home purchasing decisions and are least optimistic, while those in Atlantic Canada and Quebec have the lowest levels of stress and are most optimistic. Canadians generally consider mortgages as "good debt" with recent homebuyers most positive.

"Overall, Canadians are feeling optimistic about the housing market and the economy. Economic growth contributes to higher incomes and consumers' ability to make solid down payments and manage household debt," said Paul Taylor, President and CEO of Mortgage Professionals Canada. "Even in the pressured housing markets of Toronto and Vancouver, personal circumstances, rather than a sense of urgency, are influencing purchasing decisions. The significant surge in demand for new homes in Toronto in the early spring was an aberration. Fortunately, it was short lived," said Taylor.

Another key finding of the study is that market pressure is impacting when Next Generation homebuyers plan to purchase. Consumers across the board are more likely to look to their personal circumstances, make compromises on their expectations or delay their home purchases, so they can increase down payments and keep household debt in check.

Looking at overall averages for Toronto and Vancouver, the study found that living in a highly pressured market area has not caused buyers to lose sight of the need to leave room to accommodate future expenses.

Stress Test Not Reducing Household Debt

The federal government introduced the stress test in October 2016 as a way of reducing Canadians' household debt by assessing whether borrowers could afford mortgage payments should interest rates increase very sharply – by two percentage points from current levels. Rather than decreasing debt load, the stress test is driving some consumers to uninsured lending options with sometimes significantly higher interest rates, thereby shifting the debt load of the most vulnerable consumers away from the stability of mortgage insurance.

“We agree with a mortgage stress test but it should be reflective of more realistic future interest rates so Canadians can continue to have access to affordable homeownership,” said Taylor. “Modifying the criterial has a more realistic chance of improving homeownership for consumers.”

The stress test assesses borrowers’ ability to afford payments calculated using the posted interest rate which is 4.64% and is significantly higher than currently available negotiated rates which are as low as or lower than 2.5%. In the Mortgage Professionals Canada survey, 48% of potential buyers expected their down payments to be less than the required 20%, which would make them subject to the stress test and 20% of these potential buyers would be unable to obtain the financing required.

The survey asked consumers who do not meet the stress test eligibility criteria how they would proceed. Most respondents indicated they would either increase their down payment or buy less expensive homes. Respondents would increase their down payments in the following ways:

- 31% would withdraw from RRSPs
- 16% would obtain loans from financial institutions
- 43% would delay their purchase
- 30% would seek help from family (gifts/loans)

Since almost one-half of homebuyers require mortgage insurance, these survey results indicate that a significant number of potential homebuyers in Canada will be negatively affected by the mortgage insurance stress test.

About Mortgage Professionals Canada
Mortgage Professionals Canada is the national mortgage industry association representing 11,500 individuals and 1,000 companies, including mortgage brokerages, lenders, insurers and industry service providers. Our members make up the largest and most respected network of mortgage professionals in the country whose interests we represent to government, regulators, media and consumers. Together with our members, we are dedicated to maintaining a high standard of industry ethics, consumer protection and best practices.

The mortgage broker channel we represent, originates more than 35% of all mortgages in Canada and nearly 55% of mortgages for first-time homebuyers, representing approximately $80 billion dollars in annual economic activity. With this diverse and strong membership, we are uniquely positioned to speak to issues impacting all aspects of the mortgage origination process.

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The Consumers’ Perspectives on Homebuying in Canada report is available for download in full by clicking here.

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