Canadian Association of Accredited Mortgage Professionals

Fall 2009 Canadian Mortgage Industry Snapshot

Key Findings Report

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Maritz Research Canada

Maritz Research Canada

Maritz Research Canada provides consultative services based on primary marketing research to many of Canada's top companies and organizations. This report has been prepared for the Canadian Association of Accredited Mortgage Professionals (CAAMP) based on results from an online survey conducted with 2,000 Canadians in October, 2009, and an online survey conducted with 1,397 people working in the Canadian mortgage industry in October, 2009.

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Perceptions of the Canadian Real Estate Market

Most Canadians say now is a good time to buy real estate, with both housing prices and interest rates expected to increase in the next year

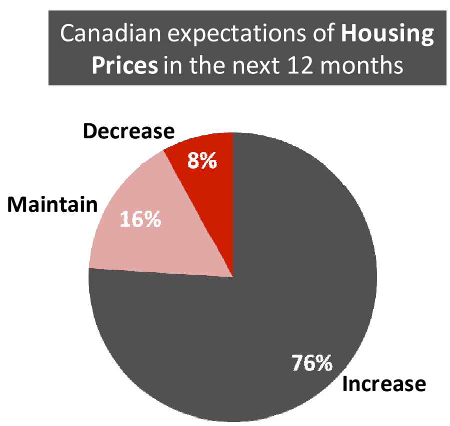
Recent research conducted by Maritz Research Canada and the Canadian Association of Accredited Mortgage Professionals (CAAMP) reveals that Canadians have a restrained, but meaningful confidence in our country's real estate market. Seventy-one percent of Canadians agree now is a good time to buy real estate, including 19% who strongly agree. The strength of Canada's real estate market through the recent recession appears to have bolstered consumer confidence in the real estate market to levels higher than even in pre-recession times, as these numbers represent a significant increase from 2007 (and 2008), when just over one-half held the same opinion. "Having just been through a time when most sectors of the economy have had key weaknesses exposed, the real estate market's strength through these difficult times has really showed Canadians that our housing market is based on sound fundamentals, and has underlined the strength of Canadian real estate as an investment", says Rob Daniel, Managing Director, Maritz Research Canada.

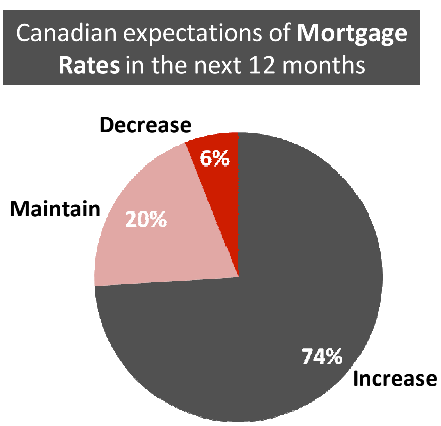
Many clients will require hand-holding and encouragement from their mortgage professionals as they navigate the home-buying process

While this high confidence is no doubt good news for the mortgage industry, the average Canadian remains far less optimistic than those within the mortgage industry. In fact, the 19% of Canadians who strongly agree now is a good time to buy real estate pales in comparison to the 60% of mortgage industry insiders who feel equally as strong. "Mortgage professionals should realize that while many of their clients will be optimistic about the real estate market, most are still somewhat nervous about the economy, and may require some hand-holding and encouragement through the home-buying process" says Daniel.

The high level of market confidence is no-doubt a result of Canadians' expectations of both rising home prices and rising interest rates. Seventy-six percent expect home prices to rise, and 74% expect interest rates to rise over the next year. While the vast majority expect these increases to be modest in nature, these expectations nonetheless form a base for the belief that now is a good time to buy real estate.

While consumer confidence in real estate is high, purchase intent is slightly lower in late 2009 at the same time in 2008. 3.2% of Canadians say they are very likely to purchase property in the next year, down from 4.6% at the same time one year ago. While Canadians recognize the strength of the market, it is likely that the recession has left many in poorer financial health, and therefore less able to purchase real estate.





Homeowners' Equity

Canadian homeowners continue to have a substantially greater equity position in their houses than their American counterparts

74%

The average Canadian homeowner's equity position in their home, compared with 43% in the United States

Our survey asked homeowners for both their remaining mortgage principal (if applicable) as well as the current market value of their home, and our results show Canadians have significant equity in their homes, much more than their American counterparts.

Among the two-thirds of Canadian homeowners with mortgage debt, the average person or family owns just over one-half of their home (52%). Including the one-third of homeowners who own their homes outright, we calculate that the average Canadian homeowner holds an equity stake in their home of 74%[1]. This compares very favourably to the United States*, where the average homeowner holds an equity position in their home of just 43%[2].

This high equity position of the average Canadian homeowner, coupled with the fact that just one-in-ten owe more than 90% of the value of their home, helps to explain why Canada's housing market has been able to weather recent economic turmoil significantly better than the American housing market.

Interestingly, while the average equity position in Canada has increased over the past year, comfort levels have decreased among those with mortgage debt. Three-quarters remain comfortable with their loan/value ratio, however the proportion saying they are very comfortable has dropped from 38% one year ago to 31% today. This decreased comfort may be attributable to the uncertainty many Canadians have felt regarding the real-estate market and the economy as a whole over the past year.

With a younger clientele, it is no surprise that Broker clients hold substantially less equity in their homes, on average, than Bank and Credit Union clients. Because of this, Broker clients are also significantly less comfortable than Bank or Credit Union clients with their debt/value position (34% of Bank and Credit Union clients very comfortable, compared with 22% of Broker clients).

1. Source: Will Dunning Inc.
2. Source: Federal Reserve. "Balance Sheet of Households and Nonprofit Organizations" September, 2009. <http://www.federalreserve.gov/releases/z1/Current/z1r-5.pdf>

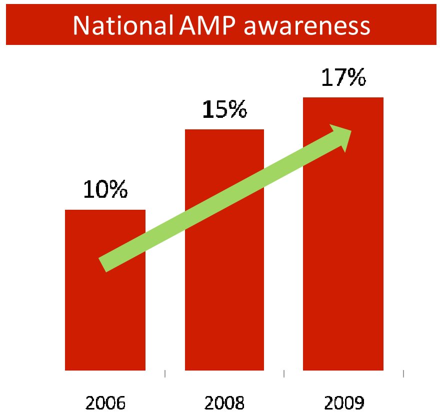
* Canadian numbers are based on self-reported mortgage principal and home value. US numbers are based on Federal Reserve estimates

AMP Awareness and Importance

AMP awareness has increased by 70% since 2006, and is much higher than industry estimates

When we asked those in the mortgage industry to estimate what proportion of Canadians are aware of the Accredited Mortgage Professional (AMP) designation, two-thirds estimated 10% or fewer. Three years ago they would have been correct, however our survey shows that 17% of Canadians are aware of AMP, a 70% growth in awareness from 10% just three years ago.

Further, the mortgage industry also underestimated the importance Canadians place in doing business with a certified professional. The industry estimated that just 46% would say it is important to do business with an AMP, when in actuality eight-in-ten Canadians aware of the designation say it is important for them to deal with an AMP. Further, most of those not aware of AMP also strongly agree it is important for them to deal with a certified professional.



More and more Canadians are looking to AMPs as trusted allies

AMP awareness comes from a variety of sources, most prominently Mortgage Brokers and Lenders (31%). Recall of AMP television advertising has increased from 2008 (23% of those aware of AMP, up from 12%), while radio ad recollection dropped from 11% to 7%.

"Canadians need reassurance that the person they're dealing with on the biggest financial transaction of their life is held to a standard", says CAAMP President and CEO Jim Murphy, AMP. "More and more, they are looking at the AMP designation to provide them with that reassurance."

The Mortgage Broker Channel in Canada

The Mortgage Broker channel continues to show strength, brokering 23% of all mortgage activity over the past year, including 32% of originations. The Broker channel is particularly strong in Western Canada (34% of all activity in Alberta, 27% in British Columbia). The strongest regions for Big Five Banks are Atlantic Canada (56%) and Ontario (51%), while Credit Unions/Caisses Populaires show comparative strength in both Quebec (19%) and the Prairies (25%).

While the Big Five Banks are the top originators among nearly all groups of Canadians analyzed, the Broker channel appears to be making inroads in certain key segments. First, young Canadians are much more likely to consult with and deal with Brokers than their older counterparts; Brokers represent 28% of mortgage activity among 18-34 year olds, 24% among 35-54 year olds, and just 17% among those 55+. In addition, Females are more likely than Males to deal with Mortgage Brokers (26% vs. 20%). "In the past, the first or only place a person would go when looking for a mortgage was to their local bank, however more and more Canadians are now seeking out the services of Mortgage Brokers to help them navigate the biggest purchase of their lives", mentions Daniel.

Over the past year, Broker share of originations (32%) is more than twice as high as its share of renewals and renegotiations (14%). This represents a weakness for the Broker channel, especially considering the average Canadian who renewed or renegotiated through a Broker saw their interest rate reduced by an average of 125 points, compared with 114 among those who dealt directly with a Bank or Credit Union. "The Broker channel has done a good job marketing the effectiveness of its service for originations, but Canadians are defaulting to their lender or Banks when it comes time to renegotiate. Brokers need to let their customers know that their services are very useful – and financially beneficial – during the renegotiation process as well", recommends Daniel.

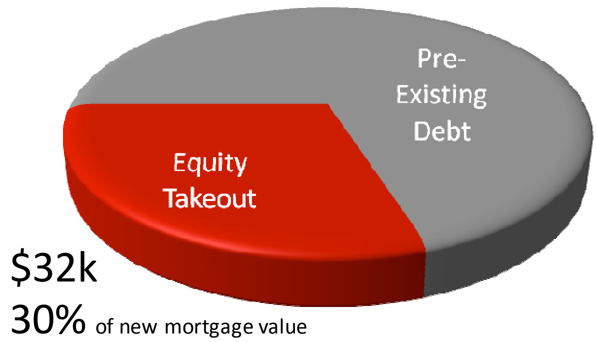
Equity Takeout

Equity takeouts down in 2009, significantly lower than industry estimates

Fewer mortgage-holders took equity out of their homes over the past year, and the average equity takeout fell by just over $2,000. Mortgage industry insiders estimated 37% of Canadians took equity from their homes in the past year, more than double the actual rate of 18% reported by mortgage-holders. Equity takeout is down slightly in 2009 from 22% in 2008. While the average equity takeout of $32,259 represents roughly 30% of the new value of affected mortgages, those taking equity out of their homes for the most part maintain healthy equity/value ratios; even after equity takeout, eight-in-ten maintain an equity position in their homes of greater than 20%.

Debt consolidation remains the top use of equity takeout funds (52%), while 40% of those who took equity from their homes did so for renovations. Of those, one-third say the Home Renovation Tax Credit (HRTC) influenced their decision. In 2009, the proportion who took equity from their home in order to invest elsewhere more than doubled (16%, up from 7% in 2008).

Post-Equity Takeout Mortgage Composition



Recent Mortgage Activity

Low rates have changed the mortgage landscape in 2009

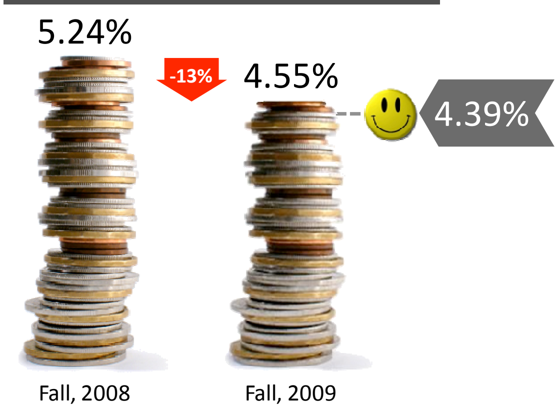
31

Percent of Canadian mortgage-holders with sub-4% mortgage interest rate, up from 6% one year ago

Historically-low interest rates have caused a number of rather dramatic changes in the mortgage market over the past year. Canadians have taken advantage of these low rates in droves in 2009, as the proportion with sub-4% rates has increased by more than five times since this time last year (31%, up from 6% in 2008). Fully one-half of mortgage-holders have rates below 5%, up from 35% one year ago. In fact, over the past year the average interest rate has dropped nearly seventy basis points, from 5.24% to 4.55%. Interestingly, despite this dramatic drop the average mortgage rate still does not qualify by most as being a 'good rate'; on average, 4.39% is the highest rate Canadians would describe as being a 'good rate'.

While the average mortgage interest rate has fallen nearly seventy basis points over the past year, satisfaction with mortgage terms has decreased over the same period; just 19% are completely satisfied in 2009, compared with 26% in 2008. This decreased average rating is being largely driven by decreased satisfaction among those who have not obtained or renegotiated their mortgage in the past year; many are stuck with higher-than-market fixed rates, and as a result are less satisfied.

Average Canadian Mortgage Interest Rate



Fixed-rate mortgages dominate the Canadian mortgage landscape, a trend that has been even more pronounced over the past year. Perhaps due to a feeling that interest rates are headed for increases in the near future, 71% of mortgages taken out over the past year have been fixed-rate, an increase from 67% over the previous four years. Variable rate mortgages accounted for 24% of mortgages taken out in the past year, while 5% have a combination of fixed and variable rates. Variable rate mortgages are most common among Bank mortgages (29%), mortgage-holders 55 years of age or more (36%), Quebecers (35%), and Males (32%).

Falling interest rates have created a feeling among many that their rates are higher than what they could negotiate today. One-third of mortgage-holders feel this way, however that number rises to 40% among those who obtained their mortgage more than one year ago. Looking at these results by mortgage professional reveals that clients of Mortgage Brokers are least confident in their interest rates, with 42% saying they could do better today (compared with 32% among the Banks' clients).

Low interest rates have also created a flurry of interest in early renegotiation, with 45% saying they have either renegotiated early or have considered doing so. To-date, fifteen percent of mortgage-holders say they refinanced in the past year before their mortgage came up for renewal, while another 16% are considering doing so (14% considered early renegotiation, but decided against it). "Mortgage professionals need to keep in mind that just because a client hasn't asked them about renegotiation doesn't mean they aren't thinking about it", says Daniel. "Our research shows that almost half of mortgage holders have considered renegotiating early in the past year. This represents either a big opportunity or a big threat for mortgage professionals, and shows that perhaps now more than ever it is important to keep a line of communication open with clients even in the early or middle stages of their terms. Those who do keep communicating with their client base will be poised to take advantage of early renegotiations."

Keeping lines of communication open with clients even after a deal closes is especially important these days, with so many contemplating early renegotiation

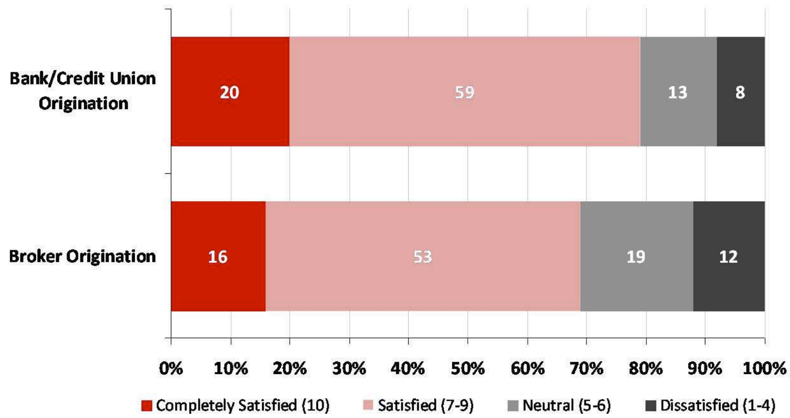
On average, a Canadian renewing their mortgage in the past year was able to obtain an interest rate 120 basis points lower than their previous rate. Those renewing with a Mortgage Broker obtained the largest average point reduction (125 points, compared with 114 among those renewing with a Bank).

When renegotiating their mortgage, Canadians appear more loyal to their lender than to their mortgage professional; 82% who renewed or renegotiated in the past year did so with the same lender, while just 65% renewed or renegotiated with the same mortgage professional.

Mortgage Customer Experience, Satisfaction, Loyalty

Overall customer satisfaction high

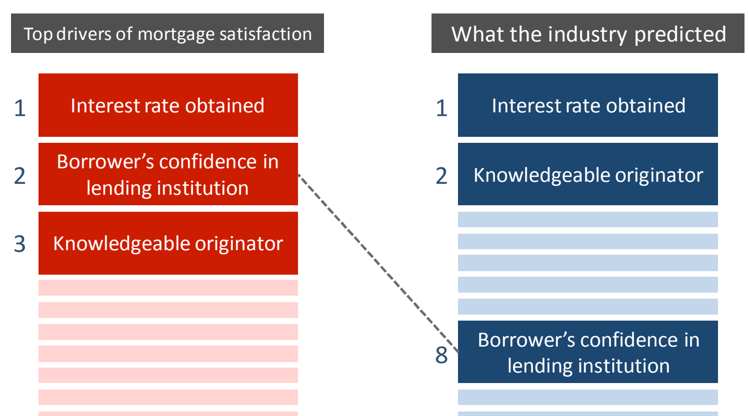
The majority of Canadian mortgage-holders are satisfied with their overall experience with their mortgage. While satisfaction is slightly higher among those originating with a Bank or Credit Union, at least seven-in-ten are satisfied regardless of originator.



Driving Customer Satisfaction – rate is not everything

While it is no secret that interest rate is a key decision-influencer for Canadians when shopping for mortgages, rates are just one of many factors influencing Canadians' satisfaction with their mortgage experience. We asked those in the mortgage industry what they believed were the top drivers of customer satisfaction, and when we compared those results with the true drivers of satisfaction* we see that while the industry hit the nail on the head in many respects, there is one key gap in fully understanding what drives satisfaction.

The mortgage industry correctly predicted *interest rate* would be the top driver, and also correctly predicted that having a *mortgage originator knowledgeable answering questions* would be key. However, the industry greatly underestimated the impact of a borrower having *confidence in the lending institution*. The industry predicted this would be the third-least influential factor out of ten, however results show this is the number two factor. Put simply, customers who are more confident in their lender tend to also be more satisfied overall with their mortgage experience.



"Canadians watch and read American news, and are well-aware of the problems many American financial institutions have experienced over the past year and a half. Perhaps now more than ever, mortgage borrowers take comfort in knowing they are dealing with a reputable, trustworthy lender" says Daniel.

* Drivers of satisfaction are reported using a derived importance calculation. That is, people are not asked outright which factors are most influential, rather their answers are analyzed to determine which factors determine overall satisfaction.

Further evidence that mortgage originators underestimate the importance customers place in lenders, 57% believed the average mortgage-holder would deal with a lender they were not comfortable with in order to get the best deal. In reality, just 25% say they would do so. In fact, Canadians appear slightly more willing to deal with a mortgage professional they were uncomfortable with than a lender they were uncomfortable with, if it meant getting the best deal.

For mortgage originators, this does not mean customers will only deal with a Big Five Bank they are familiar with, however it does mean that taking the time to educate clients could go a long way. Just 12% of mortgage-holders say their opinions of lenders are not influenced by their mortgage originator. "It's not always as simple as telling a client that a particular lender will give the best rate. Particularly when you are proposing a lender who is less-known to the public, taking a few minutes to educate your clients about the lender could really be a deal-saver" says Daniel. "And our results show that instilling customer confidence in the lender will result in more satisfied clients, which means more repeat business and referrals".

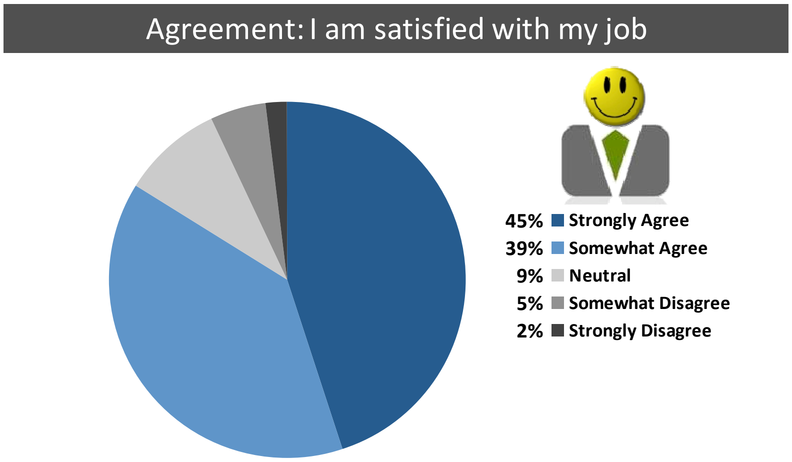
Interest Rate Expectations

Previously we showed that despite a drastic reduction in the average Canadian mortgage interest rate over the past year, most Canadians expect even lower rates. This gap between customer expectations and reality is perhaps most troublesome for the Broker channel, where actual rates are falling further behind customer expectations. Our results show that Broker clients expect lower rates than Bank clients, even though on average rates through Broker originations are slightly higher than others (4.65% vs. 4.49%). This shows that Banks are doing a much better job than Brokers in setting proper expectations among their clients of what is a reasonable and realistic interest rate. The larger the gap between expectations and delivery, the less satisfied a client will be. For mortgage originators, this means making sure clients understand what type of rate they should expect given their individual situation.

	Bank Clients	Broker Clients
Current Rate	4.49	4.65
Highest Rate Considered 'Good'	4.43	4.28

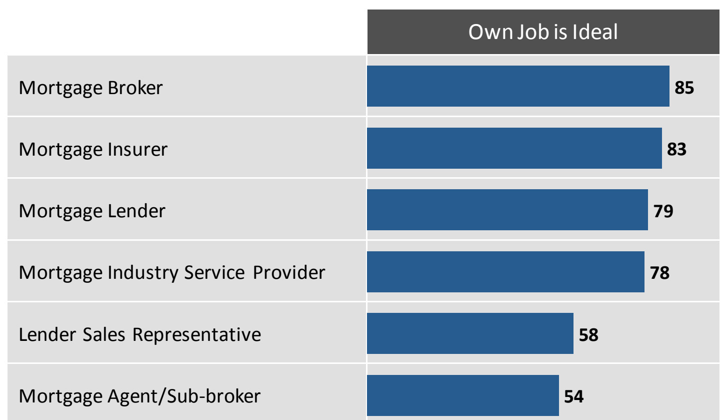
Employment in the Mortgage Industry

Most working in Canada's mortgage industry are highly satisfied and contented



Those working in the mortgage industry are generally satisfied with their job, with just 7% indicating some level of dissatisfaction. Job satisfaction is highest in the Prairies (94%) and Quebec (91%), and is lowest in Ontario (80%). Regardless of the specific sector within the mortgage industry, the vast majority are satisfied; job satisfaction is 88% at Banks and Credit Unions, 87% with Lenders, 83% with Brokerages, and 82% with other employers in the industry.

High satisfaction, however, does not necessarily equal contentedness. Even those who are highly satisfied with their job may strive to bigger things in their future. We asked insiders what their ideal job would be in the mortgage industry, and results show that many have higher aspirations than their current position. In particular, many Lender Sales Representatives and Mortgage Agents/Sub-Brokers say a job other than theirs is ideal; most of these people say their ideal job is in the same company, but is higher up the food chain. Mortgage Agents/Sub-Brokers would like to become Brokers, while Lender Sales Representatives have similar upward career aspirations.



Further evidence employees are satisfied working in the mortgage industry lies in the fact that two-thirds of those we spoke with say they have had at least 2 employers in the industry. Those in the competitive Ontario and BC markets are most likely to job-hop within the industry, with roughly one-in-ten saying they have had 5 or more employers in the industry (12% in BC, 9% in Ontario).

What drives employment satisfaction?

Income is often a large factor when considering a career or a job, but our survey tells us that other factors are far more important in determining employment satisfaction. In fact, compensation is just the seventh-most influential factor affecting satisfaction. So what factors are the strongest influencers? Those in the mortgage industry said the following have the greatest impact on their job satisfaction: *my job is fulfilling*, *I am satisfied with the challenge my job provides me, my job is fun*, and *my work gives me a strong feeling of personal accomplishment*.

By employer, we do see a few meaningful differences in driving employee satisfaction. *The feeling of personal accomplishment* and *the feeling of being empowered enough to do my job* are particularly important for those employed with a Bank or Credit Union, while *my job is fun* is much more important to those employed in Mortgage Brokerages than it is to those with Banks or Credit Unions.

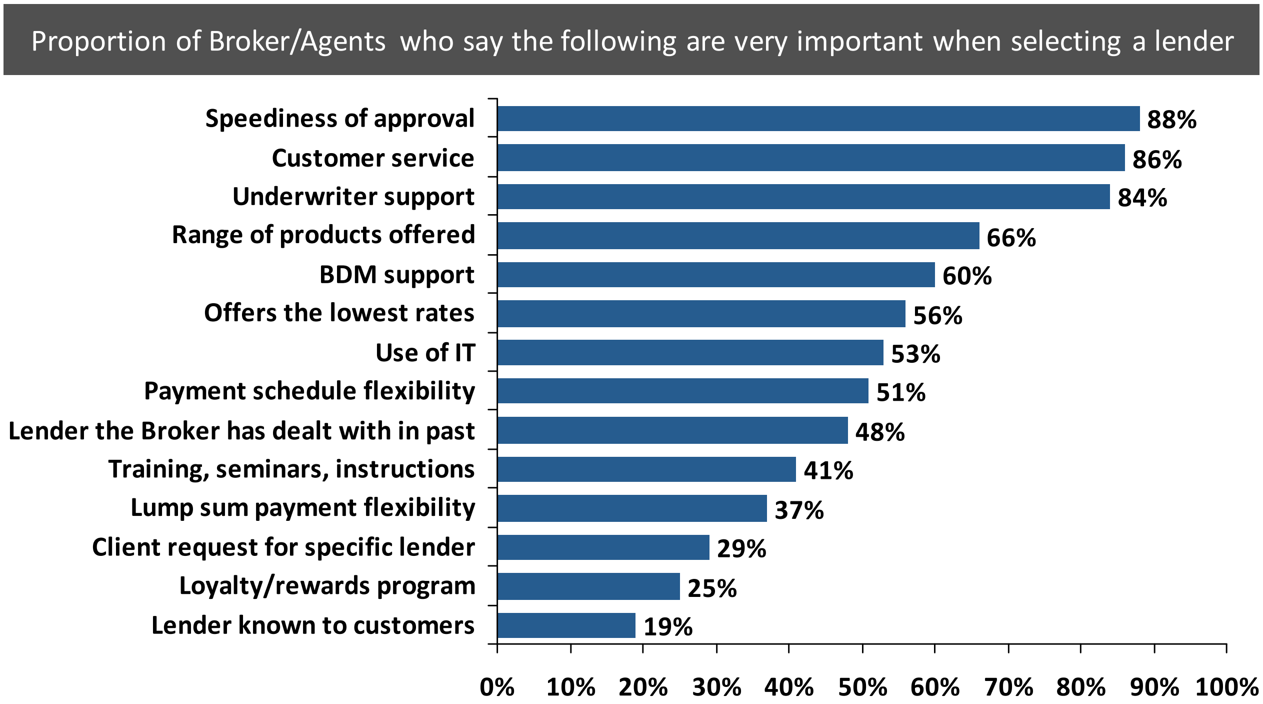
Drivers of employment satisfaction

Attribute	TOTAL	Bank/Credit Union	Mortgage Brokerage
Fulfilling	19	19	20
Challenge	12	13	12
Fun	11	6	12
Strong feeling of personal accomplishment	9	15	8
Stability	9	2	10
Empowered enough to do my job well	6	10	6
Compensation Structure	6	6	6
Recognized for my good work	6	5	5
Employer arms me with needed tools	5	4	4
Offerings give me a leg up on the competition	4	3	5
Employer cares about personal well-being	4	7	3
Brand and products help me to be competitive	3	3	3
Reasonable Workload	3	5	3
Work/Life Balance	3	2	2

Brokers Choosing Lenders

Speedy approval is the most sought-after quality in a lender

When asked to rate the importance of factors when selecting a lender, *speediness of approval*, *customer service*, and *underwriter support* are shown to be the most important factors for Brokers.



Choosing a lender that is known to customers is rated the least important factor for Brokers when selecting a lender. While it may not necessarily be important to choose a lender who was previously known to customers, we have seen in this report that it is very important to educate clients about the lenders they are considering dealing with for the such an important purchase decision. *Comfort with lender* is the second-most influential factor affecting customer satisfaction with their mortgage experience.

Rob Daniel points out that "for Brokers and lenders, particularly lenders who are less well-known to the public, one potential way to turn this into a positive is by providing materials for Brokers to distribute to borrowers that outlines the positive aspects of the lender, including its history and its products. Providing this material to customers, and also having a discussion with them about the lender could go a long way in making clients more comfortable, and therefore more satisfied and more loyal."

About the Authors

Kyle Davies is a Senior Research Manager for Maritz Research Canada. He has over 6 years experience conducting marketing-research based consulting for some of Canada's leading organizations, including the financial services sector. His work often focuses on helping clients to gain a better understanding of customer sentiment, and how to use that knowledge to create happier and more loyal customers. He can be reached at kyle.davies@maritz.com.

Rob Daniel is Managing Director, Maritz Research Canada. Rob is an experienced market researcher and a valued consultant for Canadian clients. Rob has provided marketing analytics and associated consulting for some of Canada's most senior business, government and association leaders. Rob has published several articles on consumer opinions and behaviours and his marketing research findings and associated insights are often quoted by popular Canadian media and industry publications, including the Mortgage Journal. Rob can be reached at rob.daniel@maritz.com.

Maritz Research Canada

Maritz Research Canada provides consultative services based on primary marketing research to many of Canada's top companies and organizations. Maritz Research is a Gold Seal Member of Canada's Marketing Research and Intelligence Association (MRIA), and is the world's 12th-largest marketing research company.

CAAMP – Canadian Association of Accredited Mortgage Professionals

CAAMP is the national organization representing Canada's mortgage industry. With over 12,000 mortgage professionals representing over 1,600 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.