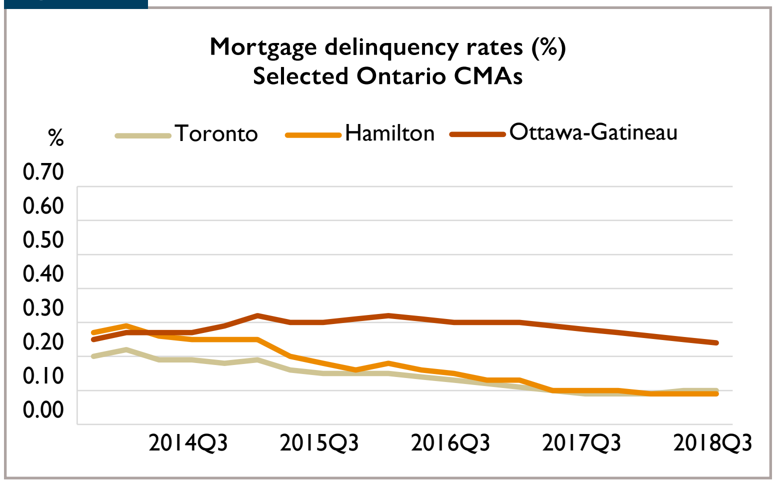
MORTGAGE AND CONSUMER CREDIT TRENDS

Ontario CMA[1]s – Q3 2018

CANADA MORTGAGE AND HOUSING CORPORATION

Date Published: Q1 2019

Figure 1



Source: Equifax and CMHC calculations

Ottawa mortgage delinquency rate – closing gap with larger Ontario centres

- Only 0.1% and .09% of outstanding mortgages in Toronto and Hamilton were delinquent in Q3 2018 respectively – well below the Ontario average. However, both Toronto and Hamilton delinquency rates remained relatively stable compared to Q3 2017.
- Ottawa-Gatineau delinquency rates continued to move lower – narrowing the gap with Toronto and Hamilton in recent years.
- Fiscal stimulus at a federal level boosted job creation particularly in the Ottawa area – pushing unemployment rates well below the Ontario average. Improving labor market conditions enabled Ottawa borrowers to make timelier payments.
- In addition, lower indebtedness among Ottawa residents relative to Toronto and Hamilton consumers, as per debt to income ratios, contributed to a narrowing of the gap in delinquency rates.

Resources

You can find this data – and data for all Census Metropolitan Areas (CMAs) in Canada – at https://www.cmhc-schl.gc.ca/en/Data-and-Research/Data-Tables/mortgage-consumer-credit-trends-cmas.

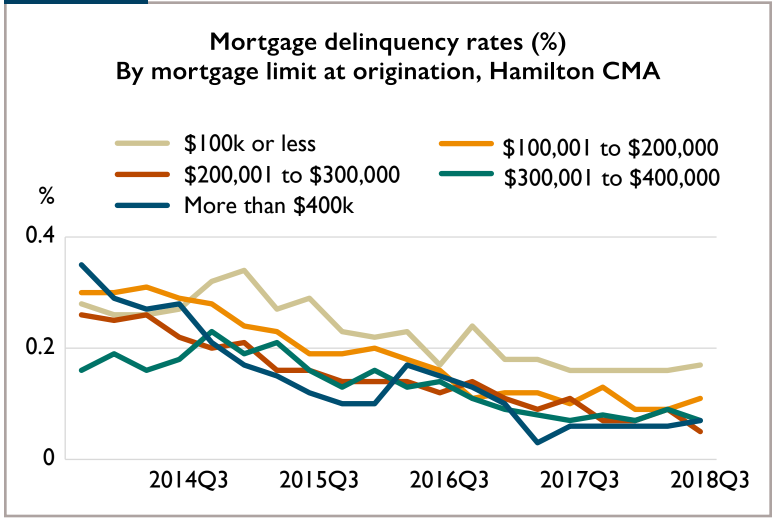
69335_2019_Q01

[1] Census Metropolitan Area (CMA)

Mortgage delinquency rates trend down for lower mortgage limits

- Mortgage delinquency rates remained stable across most mortgage limits compared to Q2 2018.
- Delinquency rates for borrowers holding lower mortgage limits have remained stable in Toronto and Hamilton while trending lower in other Ontario centers since 2017.
- Lower mortgage limits are typically held by first time buyers who earn less income on average. First time borrowers holding variable rate mortgages were far more sensitive to rising interest rates in less affordable markets such as Toronto and Hamilton.

Figure 2

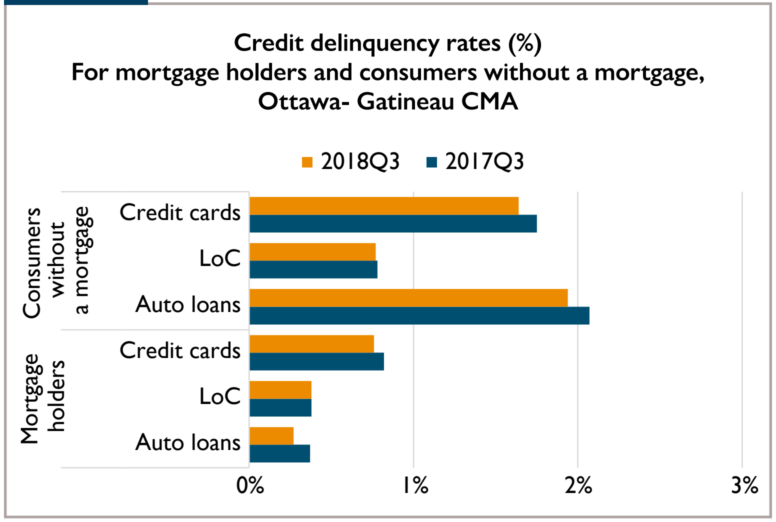


Source: Equifax and CMHC calculations, seasonally adjusted

Delinquency rates move lower for most credit types with the exception of lines of credit

- Delinquency rates for credit cards and auto loans moved lower for most mortgage holders across the province while remaining stable for lines of credit. The qualification requirements for a mortgage, which became even tighter over the past year, include a strong credit score and a history of stable employment and income.
- For non-mortgage holders, delinquency rates on most credit types also declined with the exception of lines of credit which moved higher.
- Lines of credit are usually unsecured and payments are impacted by rising interest rates unlike auto loans where payments are fixed.
- Non mortgage holders who held unsecured lines of credit, were far more sensitive to consecutive hikes in overnight interest rates by the Bank of Canada since the summer of 2017.

Figure 3

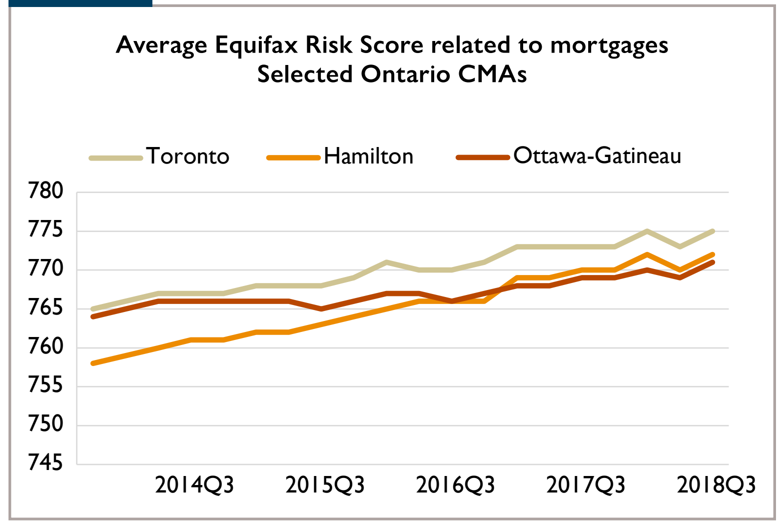


Source: Equifax and CMHC calculations

Average risk score among mortgage holders continues to rise

- Average Ontario credit scores among mortgage holders continues rising while remaining stable for non-mortgage holders compared to Q3 2017.
- Non mortgage holders typically earn modest incomes and were more sensitive to the increase in interest rates which took hold since the summer of 2017.
- In general, an improving Ontario labour market and more stringent credit conditions contributed to rising credit scores among mortgage holders in recent years.

Figure 4

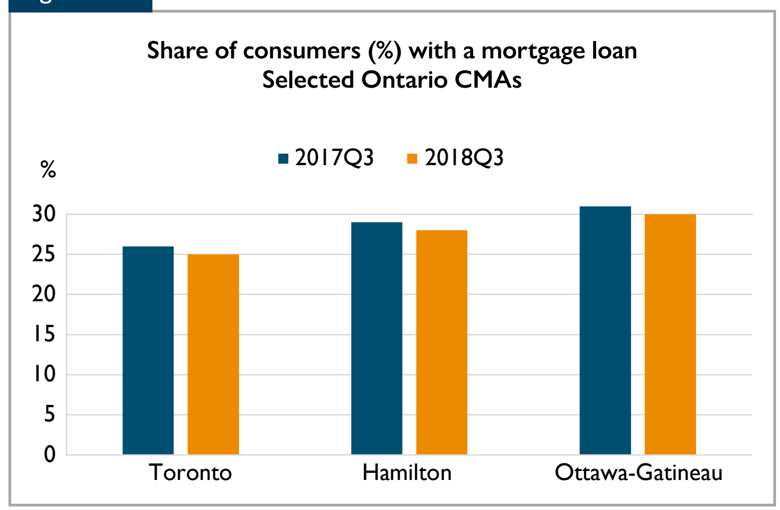


Source: Equifax and CMHC calculations

Share of consumers with a mortgage declined slightly

- The share of consumers with a mortgage loan in major metropolitan areas in Ontario, saw a slight decline compared to Q3 2017.
- Tighter mortgage regulations combined with rising interest rates dampened mortgage credit growth in recent years.

Figure 5

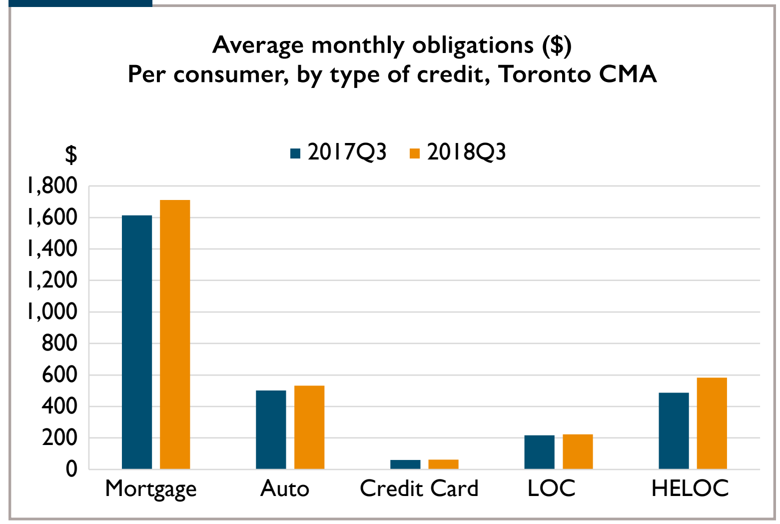


Source: Equifax and CMHC calculations

Average monthly obligations grew sharply for HELOCs

- While monthly obligations grew across most credit types, growth was most pronounced for HELOCs, especially in the pricier Toronto market.
- While HELOC balances grew, rising interest rates contributed most to higher HELOC obligations.
- Meanwhile, monthly obligations for credit cards remained stable across major centres as growth in consumer spending moderated from the same period one year ago.

Figure 6



Source: Equifax and CMHC calculations

INFORMATION DEFINITIONS

Mortgage: A debt instrument, secured by the collateral of specified real estate property, that the borrower is obliged to pay back with a predetermined set of payments (e.g., monthly payments for 25 years). Mortgages are used by individuals to make real estate purchases without paying the entire value of the purchase up front. Over a period of many years, the borrower repays the loan, plus interest, until he/she eventually owns the property outright. Mortgages are also known as "liens against property" or "claims on property." If the borrower stops paying the mortgage, the lender can take legal action to end the mortgage and take possession of the collateral property.

Credit Card: A credit instrument that allows the borrower to make purchases now and pay them off in full or in installments later. Credit cards are issued by financial institutions, typically in exchange for fees. These types of fees include annual fees, cash advance fees and/or late payment fees.

Line of Credit (LOC): A credit instrument extended by financial institutions that allows borrowers to borrow funds up to a certain limit at any time. Interest is calculated and payable by the borrower only when money is actually withdrawn from the limit. Typically, LOCs are not secured by any asset.

Auto Loan: A type of secured loan extended to the borrower to purchase or lease a vehicle. Typically, in Canada, an auto loan has a length of three to seven years, or 36 to 84 months. A longer-term loan typically has a lower monthly payment obligation than a shorter-term loan. However, borrowers can pay off the entire loan before the loan term expires. At the time of maturity, auto loans include the vehicle purchase price, interest, and other service charges. The terms of an auto loan depend on various factors, including the borrower's income and credit history.

Home Equity Line of Credit (HELOC): A line of credit (LOC) secured by a home property offered as collateral against the debt. This usually allows the borrower to have access to a higher limit and a lower interest rate than would be offered by a LOC that is not backed by a real estate asset.

Revolving Loan: Loans that give a maximum limit of credit that can be used and repaid any number of times within a set period of time. Lines of credit (LOCs), home equity lines of credit (HELOCs), and credit cards are examples of revolving loans.

Installment Loan: A loan that a borrower repays over time with a fixed number of scheduled payments. Auto loans and mortgages are installment loans. Other installment loans would include such loans as those for purchasing furniture or renovations.

Write-off: A debt that is under a consolidation order, in repossession or placed for collection.

- Figure 1 – Mortgage delinquency rates

Mortgage in delinquency: A mortgage on which the borrower has failed to make the required payments in due time. Failure to make the required payments gives the lender the right to foreclose the mortgage. However, the borrower may cure the delinquency by paying the outstanding balance to conform to the payment schedule, or arrange a loan restructure with the lender.

In this report, mortgages in delinquency are those for which the borrower is more than 90 days late on their scheduled payments. In a case where partial payments were made, a mortgage is in delinquency when the borrower is late for the equivalent of four or more monthly payments. Finally, mortgages in delinquency also include written-off mortgages and mortgages that are considered bad debts.

Calculation: Mortgage delinquency rate = (number of mortgage trades in delinquency/all mortgage trades).

- Figure 2 – Mortgage delinquency rate by mortgage value at origination

Mortgage origination: Process during which a consumer applies for a new mortgage loan with a lender, and the lender processes the application. During the process, the lender works with a borrower to complete a mortgage transaction that results in a mortgage loan, and then the borrower becomes a mortgage holder.

Technically, this process requires the borrower to submit various types of financial information and documentation to the mortgage lender, including earnings statements, tax returns, any credit payment history, credit card information, deposit account balances, and information on other freehold property with or without an existing mortgage loan. Mortgage lenders use this information to determine the type of loan and the interest rate for which the borrower is eligible.

In the context of Equifax, mortgages are flagged as newly opened if the open date on the mortgage trade account is within the quarter. There is a new open date on the account when:

- a borrower gets a mortgage for the purchase of a property (an actual purchase, not a pre-approval);
- an existing mortgage borrower renews with a new lender; or
- a borrower refinances the same property, with the same or a different lender.

(continued)

Mortgage valuet at origination: the value of the mortgage at the time it was opened (see "mortgage origination" definition).

- Figure 3 – Account delinquency rates by type of credit—mortgage holders and consumers without a mortgage

Account in delinquency: An account for which the borrower is more than 90 days late on their scheduled payments. In a case where partial payments were made, an account is in delinquency when the borrower is late for the equivalent of four or more monthly payments. Finally, accounts in delinquency also include write-offs and accounts that are considered bad debts.

Calculation: Account delinquency rate[1] = (number of accounts in delinquency/ all accounts)

- Figure 4 – Average Equifax Risk Score related to mortgages (based on Equifax Risk Score)

Equifax Risk Score (ERS): A consumer's credit score, which gives the likelihood that the consumer will become seriously delinquent (90+ days past due) within 24 months. The lower the score, the greater the likelihood that the consumer will become severely delinquent in that time frame. This score is not limited to predictions on mortgage repayments, but is for all credit products combined.

Credit score ranges often used are:

- Poor (less than 600);
- Fair (600-659);
- Good (660-699);
- Very Good (700-749);
- Excellent (750+)

[1] This calculation is done for each type of credit.

000 scores are given to consumers for which there isn't sufficient information in the credit report to calculate a score. Usually, a credit history in Canada of 3 to 6 months is needed to begin to generate scores.

ERS is Equifax' proprietary Credit Score. The data represent ERS 2.0

See Equifax's documentation for more information on the ERS.

- Figure 5 – Share of consumers with a mortgage loan

Number of consumers with a mortgage trade on their credit report as a percentage of all credit consumers living within the area.

Caution: Not all financial institutions report to Equifax, but Equifax's coverage has been increasing, as more institutions are beginning to report to the organization. While the trends at the national level are stable after 2014, it is possible that lenders with a strong presence in a specific area affect this share if they were not reporting to Equifax during the entirety of the period. **This variable needs to be interpreted with caution if important shifts are observed.**

Calculation: Share = (number of consumers with a mortgage/total number of consumers)

- Figure 6 – Average monthly obligations per consumer, by type of credit

Monthly obligations are the amounts a consumer must reimburse in order to avoid being considered delinquent on their loans. In the case of installment loans, the amount is equal to the scheduled amount. In the case of revolving loans, the amount is equal to the minimum payment.

Calculation: Average monthly obligation by credit instrument = (sum of monthly scheduled payments/Total number of consumers with a scheduled payment)

DISCLAIMER

This report uses data from the credit rating agency Equifax Canada covering approximately 80 to 85% of the mortgage market. CMHC did not access or receive personal identifiable information on individuals in producing the report. All figures are sourced from Equifax Canada unless otherwise stated. Mortgage information is currently available from Equifax Canada starting in mid-2012 while other credit information is available from 2006. Unless otherwise noted, dollars are not adjusted for inflation.

CMHC HELPS CANADIANS MEET THEIR HOUSING NEEDS.

Canada Mortgage and Housing Corporation (CMHC) has been helping Canadians meet their housing needs for more than 70 years. As Canada's authority on housing, we contribute to the stability of the housing market and financial system, provide support for Canadians in housing need, and offer unbiased housing research and advice to Canadian governments, consumers and the housing industry. Prudent risk management, strong corporate governance and transparency are cornerstones of our operations.

For more information, visit our website at www.cmhc.ca or follow us on Twitter, LinkedIn, Facebook, Instagram and YouTube.

You can also reach us by phone at 1-800-668-2642 or by fax at 1-800-245-9274.
Outside Canada call 613-748-2003 or fax to 613-748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1-800-668-2642.

ALTERNATIVE TEXT AND DATA FOR FIGURES

Figure 1
Mortgage delinquency rates (%)
Selected Ontario CMAs

Date	Toronto	Hamilton	Ottawa-Gatineau
2014Q3	0.20	0.27	0.25
	0.22	0.29	0.27
	0.19	0.26	0.27
	0.19	0.25	0.27
2015Q3	0.18	0.25	0.29
	0.19	0.25	0.32
	0.16	0.20	0.30
	0.15	0.18	0.30
2016Q3	0.15	0.16	0.31
	0.15	0.18	0.32
	0.14	0.16	0.31
	0.13	0.15	0.30
2017Q3	0.12	0.13	0.30
	0.11	0.13	0.30
	0.10	0.10	0.29
	0.09	0.10	0.28
2018Q3	0.09	0.10	0.27
	0.09	0.09	0.26
	0.10	0.09	0.25
	0.1	0.09	0.24

Source: Equifax and CMHC calculations

Figure 2
Mortgage delinquency rates (%) By mortgage limit at origination
Hamilton CMA

Date	$100k or less	$100,001 to $200,000	$200,001 to $300,000	$300,001 to $400,000	More than $400k
2014Q3	0.28	0.3	0.26	0.16	0.35
	0.26	0.3	0.25	0.19	0.29
	0.26	0.31	0.26	0.16	0.27
	0.27	0.29	0.22	0.18	0.28
2015Q3	0.32	0.28	0.2	0.23	0.21
	0.34	0.24	0.21	0.19	0.17
	0.27	0.23	0.16	0.21	0.15
	0.29	0.19	0.16	0.16	0.12
2016Q3	0.23	0.19	0.14	0.13	0.1
	0.22	0.2	0.14	0.16	0.1
	0.23	0.18	0.14	0.13	0.17
	0.17	0.16	0.12	0.14	0.15
2017Q3	0.24	0.11	0.14	0.11	0.13
	0.18	0.12	0.11	0.09	0.1
	0.18	0.12	0.09	0.08	0.03
	0.16	0.1	0.11	0.07	0.06
2018Q3	0.16	0.13	0.07	0.08	0.06
	0.16	0.09	0.07	0.07	0.06
	0.16	0.09	0.09	0.09	0.06
	0.17	0.11	0.05	0.07	0.07

Source: Equifax and CMHC calculations, seasonally adjusted

Figure 3
Ottawa-Gatineau CMA: Credit delinquency rates (%)
For mortgage holders and consumers without a mortgage

	Mortgage holders			Consumers without a mortgage		
Date	Auto loans with mortgage	LoC with mortgage	Credit cards with mortgage	Auto loans with no mortgage	LoC with no mortgage	Credit cards with no mortgage
2017Q3	0.37	0.38	0.82	2.07	0.78	1.75
2018Q3	0.27	0.38	0.76	1.94	0.77	1.64

Source: Equifax and CMHC calculations

Figure 4
Average Equifax Risk Score related to mortgages
Selected Ontario CMAs

Date	Toronto	Hamilton	Ottawa-Gatineau
2014Q3	765	758	764
	766	759	765
	767	760	766
	767	761	766
2015Q3	767	761	766
	768	762	766
	768	762	766
	768	763	765
2016Q3	769	764	766
	771	765	767
	770	766	767
	770	766	766
2017Q3	771	766	767
	773	769	768
	773	769	768
	773	770	769
2018Q3	773	770	769
	775	772	770
	773	770	769
	775	772	771

Source: Equifax and CMHC calculations

Figure 5
Share of consumers (%) with a mortgage loan
Selected Ontario CMAs

Date	Toronto	Hamilton	Ottawa-Gatineau
2017Q3	26	29	31
2018Q3	25	28	30

Source: Equifax and CMHC calculations

Figure 6
Toronto CMA: Average monthly obligations ($)
Per consumer, by type of credit

Date	Mortgage	Auto	Credit Card	LOC	HELOC
2017Q3	1,614	501	61	216	488
2018Q3	1,710	532	62	224	583

Source: Equifax and CMHC calculations