MORTGAGE AND CONSUMER CREDIT TRENDS

British Columbia CMA[1]'s – Q1 2018

CANADA MORTGAGE AND HOUSING CORPORATION

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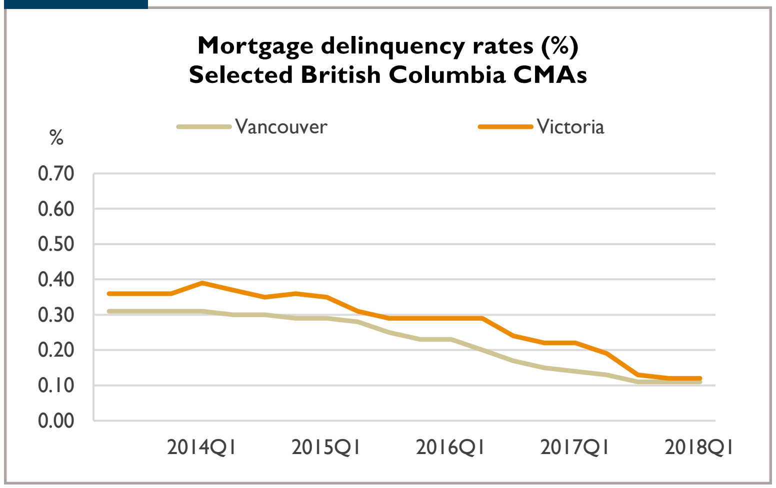
Figure 1



Source: Equifax and CMHC calculations

Share of delinquent mortgages has declined further in the first quarter of 2018

- The share of mortgages in Vancouver and Victoria that are delinquent has been steadily declining. The decrease in delinquency rates can be broadly attributed to: strengthening job markets, rising home values, and a high level of liquidity in the housing market.
- Employment growth in Vancouver and Victoria was particularly strong in 2015 through to 2017, as a result, the unemployment rate fell from 5.9 to 4.7% in Vancouver and 5.8 to 3.9% in Victoria.[2] A strengthening labour market reduces the share of consumers facing unexpected changes in their income that can lead to delinquencies.
- Rapid overall home price increases in 2015, 2016, and continuing for strata units in 2017, have substantially raised existing owners' equity. Elevated sales volumes on shrinking resale inventories reduced days on market, shortening the time an owner could realize their property's equity. Combined, these factors gave mortgage holders a high degree of financial flexibility through their ability to sell or refinance to avoid falling into delinquency when faced with adverse financial situations.

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.



[1] Census Metropolitan Area (CMA)
[2] Statistics Canada. Table 14-10-0096-01 Labour force characteristics by census metropolitan area, annual

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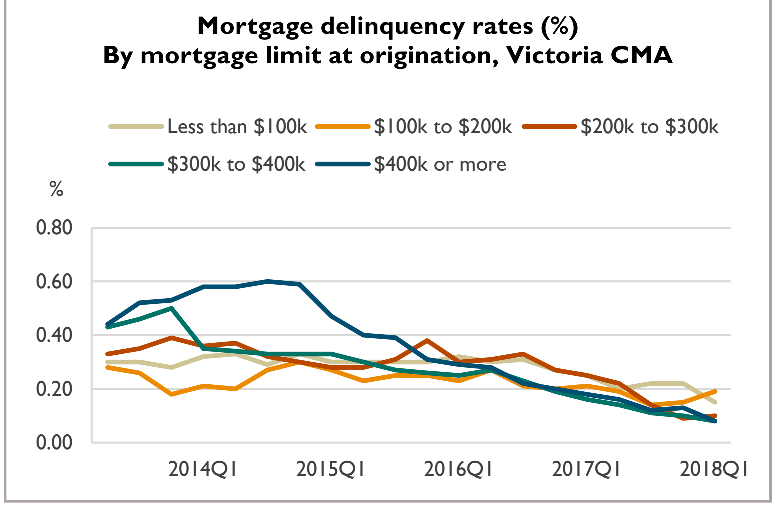
Delinquency rates for larger mortgages have come into line with all mortgages in Victoria

- Delinquency rates for mortgages with higher limits ($400k or more) at origination hit a local high of 0.6% in the third quarter of 2014. Since then, delinquency for these larger mortgages have declined to be in line with smaller mortgages at 0.08% in the first quarter of 2018.
- The decline of delinquency for larger mortgages at origination can be attributed to the factors in the previous section.

Figure 2

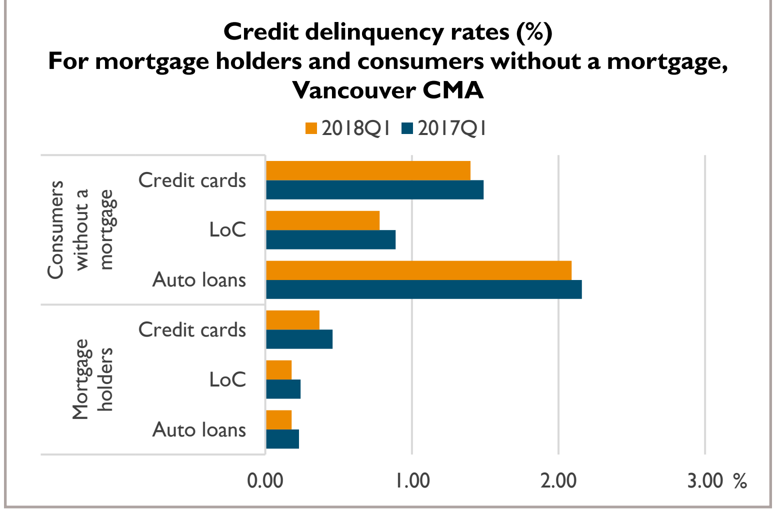


Source: Equifax and CMHC calculations

Delinquency rates declined for all types of loans and were significantly lower for mortgage holders compared to those without a mortgage

- Higher rates of delinquencies for consumers without a mortgage can be generally attributed to their higher risk as represented by their lower Equifax Risk Scores compared to mortgage holders.
- Having a mortgage is highly correlated with other factors that reduce the likelihood of falling into delinquency due to the more stringent process to qualify for a mortgage. Mortgage holders will typically have higher incomes, more stable employment and more assets, among other factors that will help decrease their likelihood to fall into delinquency.

Figure 3

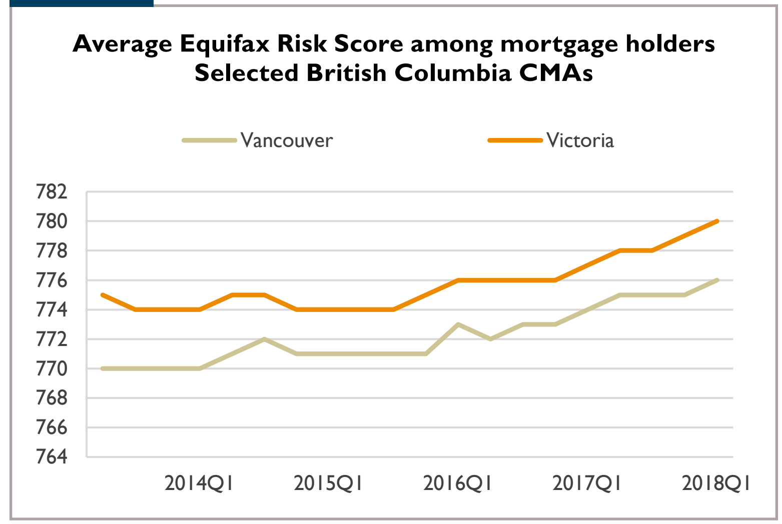


Source: Equifax and CMHC calculations

Falling delinquency has contributed to improving credit scores

- Vancouver and Victoria's average Equifax Risk Score increased by two and three points respectively in the first quarter of 2018 over the same period last year.
- With payment history being an important component that determine consumers' credit scores, decreasing delinquencies across credit types are supporting this change.

Figure 4

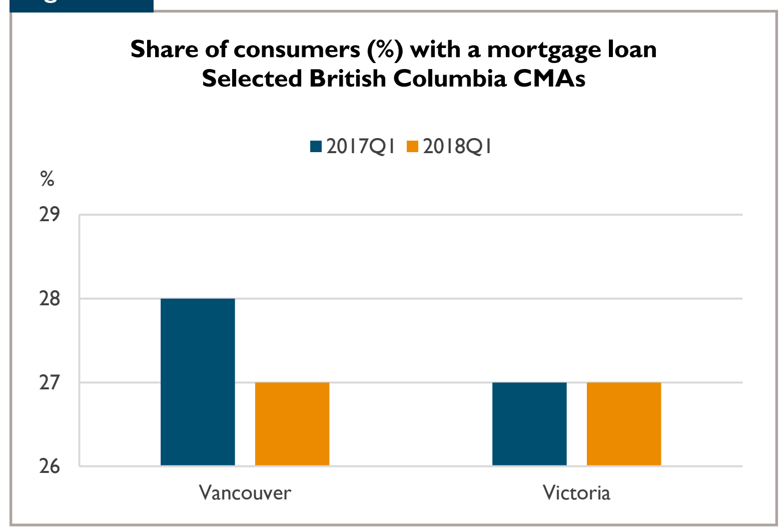


Source: Equifax and CMHC calculations

Share of consumers carrying a mortgage declined slightly in Vancouver

- In the first quarter of 2018 the share of consumers with a mortgage was stable in Victoria.
- The share of consumers with a mortgage in Vancouver declined by one percentage point in the first quarter of 2018 over the same period last year. The declining share of consumers with a mortgage is consistent with declining homeownership in the Vancouver CMA and an aging population.

Figure 5

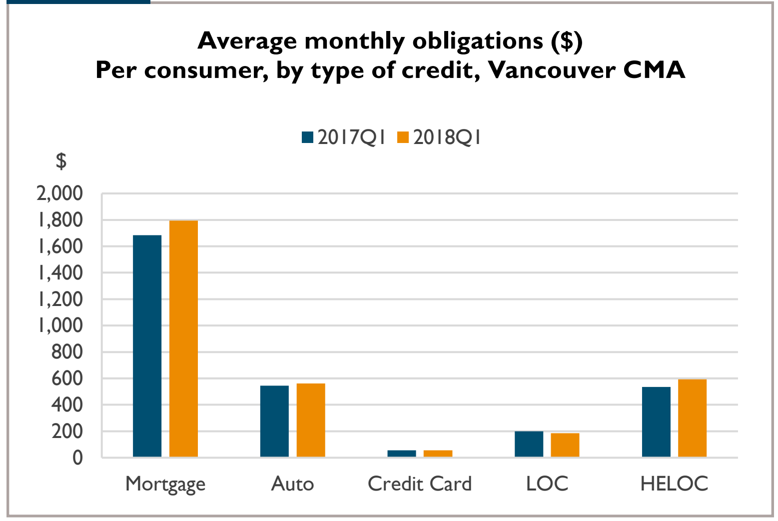


Source: Equifax and CMHC calculations

Credit obligations tied to real estate grew the quickest in the past year in Vancouver

- Average monthly mortgage commitments grew by 6.5% between the first quarters of 2018 and 2017. Rising commitments can be attributed to rising home prices (and consequential larger mortgages) and rising mortgage rates.
- Average mortgage balances will generally grow slower than average home prices due to new mortgages being a relatively small share of all mortgages.
- Increasing HELOC commitments can also be attributed to rising interest rates.

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 credit score among mortgage holders (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.

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ALTERNATIVE TEXT AND DATA FOR FIGURES

Figure 1
Mortgage delinquency rates (%)
Selected British Columbia CMAs

Date	Vancouver	Victoria	Abbotsford-Mission	Kelowna
2013Q1	0.31	0.36	0.63	0.64
	0.31	0.36	0.60	0.58
	0.31	0.36	0.60	0.59
2014Q1	0.31	0.39	0.65	0.61
	0.30	0.37	0.66	0.55
	0.30	0.35	0.61	0.56
	0.29	0.36	0.64	0.47
2015Q1	0.29	0.35	0.57	0.54
	0.28	0.31	0.55	0.51
	0.25	0.29	0.44	0.43
	0.23	0.29	0.38	0.38
2016Q1	0.23	0.29	0.35	0.38
	0.20	0.29	0.30	0.34
	0.17	0.24	0.27	0.35
	0.15	0.22	0.23	0.37
2017Q1	0.14	0.22	0.23	0.33
	0.13	0.19	0.18	0.28
	0.11	0.13	0.17	0.26
	0.11	0.12	0.16	0.21
2018Q1	0.11	0.12	0.14	0.19

Source: Equifax and CMHC calculations

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

Date	Less than \$100k	\$100k to \$200k	\$200k to \$300k	\$300k to \$400k	\$400k or more
2013Q1	0.30	0.28	0.33	0.43	0.44
	0.30	0.26	0.35	0.46	0.52
	0.28	0.18	0.39	0.50	0.53
2014Q1	0.32	0.21	0.36	0.35	0.58
	0.33	0.20	0.37	0.34	0.58
	0.29	0.27	0.32	0.33	0.60
	0.33	0.30	0.30	0.33	0.59
2015Q1	0.30	0.27	0.28	0.33	0.47
	0.30	0.23	0.28	0.30	0.40
	0.30	0.25	0.31	0.27	0.39
	0.30	0.25	0.38	0.26	0.31
2016Q1	0.32	0.23	0.30	0.25	0.29
	0.30	0.27	0.31	0.27	0.28
	0.31	0.21	0.33	0.23	0.22
	0.27	0.20	0.27	0.19	0.20
2017Q1	0.25	0.21	0.25	0.16	0.18
	0.20	0.19	0.22	0.14	0.16
	0.22	0.14	0.14	0.11	0.12
	0.22	0.15	0.09	0.10	0.13
2018Q1	0.15	0.19	0.1	0.08	0.08

Source: Equifax and CMHC calculations

Figure 3
Credit delinquency rates (%)
For mortgage holders and consumers without a mortgage, Vancouver CMA

	Mortgage holders			Consumers without a mortgage		
Date	Auto loans	LoC	Credit cards	Auto loans	LoC	Credit cards
2017Q1	0.23	0.24	0.46	2.16	0.89	1.49
2018Q1	0.18	0.18	0.37	2.09	0.78	1.40

Source: Equifax and CMHC calculations

Figure 4
Average Equifax Risk Score among mortgage holders
Selected British Columbia CMAs

Date	Vancouver	Victoria	Abbotsford-Mission	Kelowna
2013Q1	770	775	761	763
	770	774	761	761
	770	774	761	762
2014Q1	770	774	761	762
	771	775	763	763
	772	775	763	764
	771	774	762	763
2015Q1	771	774	763	763
	771	774	763	763
	771	774	762	763
	771	775	763	763
2016Q1	773	776	764	765
	772	776	765	765
	773	776	766	765
	773	776	767	767
2017Q1	774	777	769	768
	775	778	769	769
	775	778	770	769
	775	779	771	770
2018Q1	776	780	771	772

Source: Equifax and CMHC calculations

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

Date	Vancouver	Victoria	Abbotsford-Mission	Kelowna
2017Q1	28	27	34	29
2018Q1	27	27	34	29

Source: Equifax and CMHC calculations

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

Date	Mortgage	Auto	Credit Card	LOC	HELOC
2017Q1	1684	545	55	199	536
2018Q1	1794	562	55	186	594

Source: Equifax and CMHC calculations