MORTGAGE AND CONSUMER CREDIT TRENDS

British Columbia CMA[1]s – Q3 2018

CANADA MORTGAGE AND HOUSING CORPORATION

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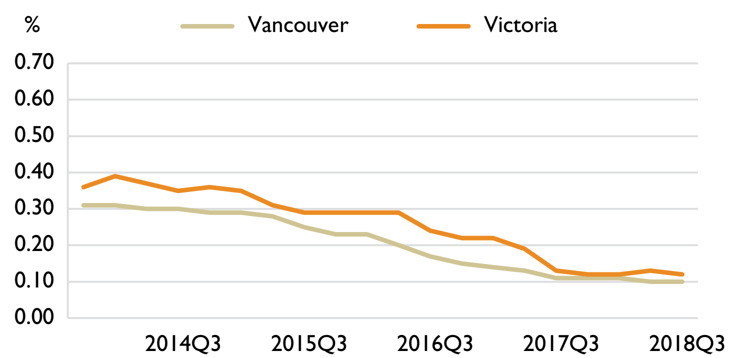
Figure 1

Mortgage delinquency rates (%)
Selected British Columbia CMAs



Source: Equifax and CMHC calculations

Share of delinquent mortgages has remained low and stable over the past four quarters

- Only 0.1% and 0.12% of outstanding mortgages in Vancouver and Victoria, respectively, were delinquent in Q3 2018, down slightly from 0.11% and 0.13% in Q3 2017. Both Vancouver and Victoria's delinquency rates remained below the provincial average of 0.16%.
- Following a steady decline since 2014, the share of mortgages in Vancouver and Victoria that are delinquent has remained relatively stable for the past four quarters. Prior to this stability, declines in delinquency rates since 2014 can be broadly attributed to a number of factors including strong employment gains, rising home values regardless of market segment, low interest rates and strong population growth fueling stronger sales in the housing market.
- However, a pullback in MLS Sales combined with slowing job growth and rising interest rates up to Q3 2018 has contributed to slower growth in credit in the Vancouver CMA, resulting in the flattening of the delinquency rate trend.

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.

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[1] Census Metropolitan Area (CMA)

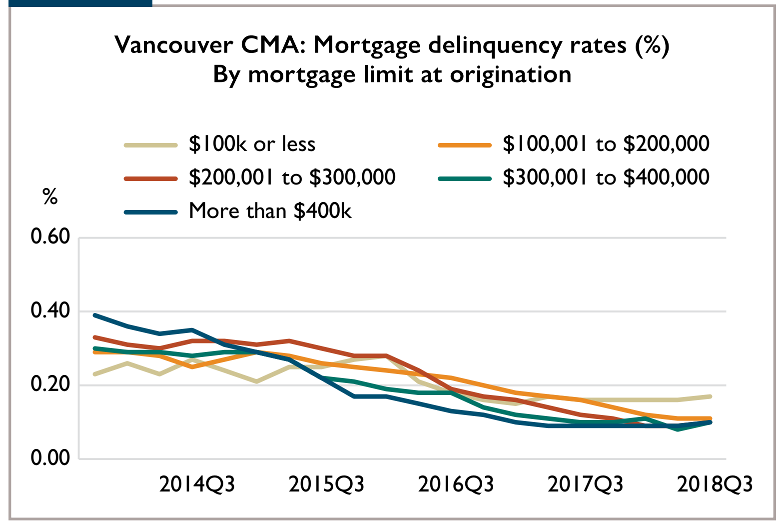
Canada

CMHC SCHL

Steady declining trend of mortgage delinquencies for all mortgage amounts in Vancouver

- The trend in mortgage delinquency rates across all mortgage limits at origination has been flat over the past four quarters after four years of consistently declining delinquencies. This trend is particularly evident for mortgages with higher limits ($400K or more) at origination as this represents approximately 65% of all outstanding mortgages in the Vancouver CMA, 63% of which were mortgages with limits that were higher than $600,000 as of Q3 2018. The delinquency rate amongst mortgage holders with higher limits ($400K or more) was 0.1% as of Q3 2018.
- Comparatively, delinquency rates amongst mortgage holders with smaller limits at origination (up to 200K) were consistently higher in both Vancouver and Victoria. This suggests that smaller sized mortgages are generally held by borrowers with lower incomes and/or less stable employment than borrowers holding larger mortgages.
- Evolution in the delinquency trends by mortgage limit at origination can also be attributed to factors listed in the previous section.

Figure 2

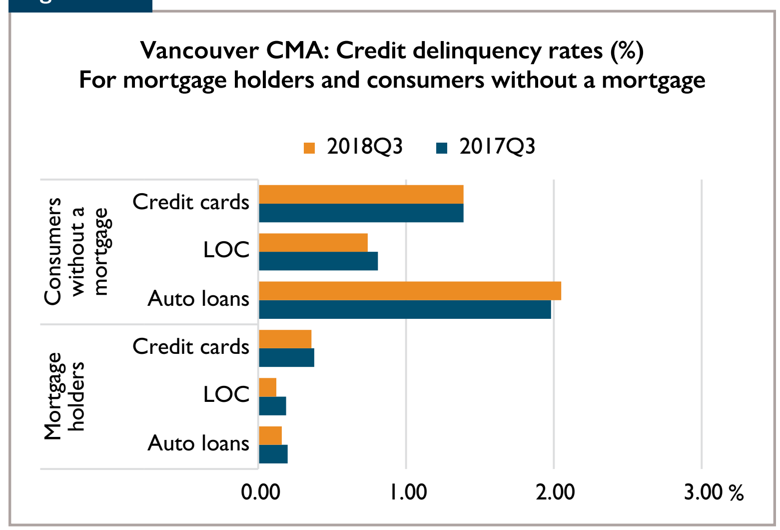


Source: Equifax and CMHC calculations, seasonally adjusted

Delinquency rates amongst mortgage holders were significantly lower than for non-mortgage holders in both the Vancouver and Victoria CMAs

- Delinquency rates amongst mortgage holders for all types of loans declined in the Vancouver CMA in Q3 2018, relative to Q3 2017. Mortgage holders continued to have significantly lower delinquency rates than non-mortgage holders as consumers without a mortgage can be generally attributed to having a greater degree of risk which is reflected by their lower Equifax Risk Scores relative to mortgage holders.
- While delinquency rates for non-mortgage holders declined for Lines of Credit and remained unchanged for Credit Cards in Q3 2018, delinquency rates for Auto Loans increased relative to one year earlier.

Figure 3

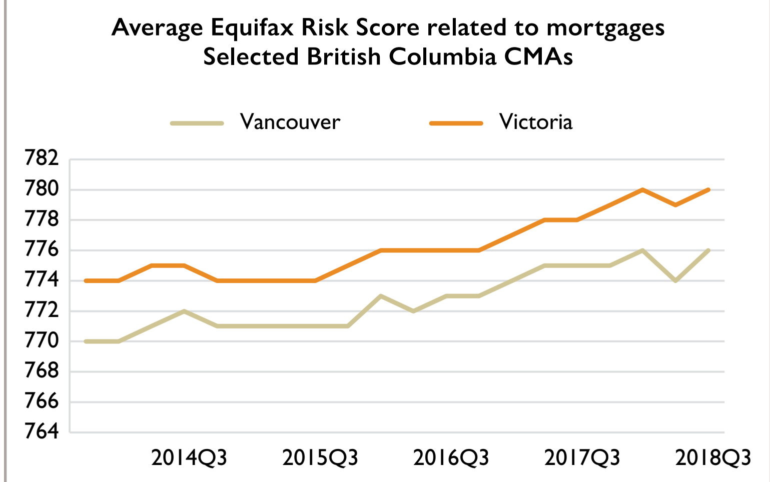


Source: Equifax and CMHC calculations

Declining delinquencies and the factors underlying that trend have generally contributed to improving credit scores

- Vancouver and Victoria's average Equifax Risk Score increased by one and two points, respectively, in the third quarter of 2018 relative to the same period in 2017. The average Equifax Risk Score among mortgage holders in Vancouver was 776, relative to 780 in Victoria in Q3 2018.
- With improvements in employment opportunities, growth in wages and generally improved ability for the average consumer to make payments on their loans since 2014, decreasing delinquencies across credit types have contributed to upward movements in average credit scores.
- Credit scores in the Vancouver and Victoria CMAs exceeded both Provincial and Canadian averages in Q3 2018. This difference has been exacerbated since 2014 following the pullback in certain commodity prices, particularly oil and gas, which dampened job growth in commodity dependent urban centres.

Figure 4

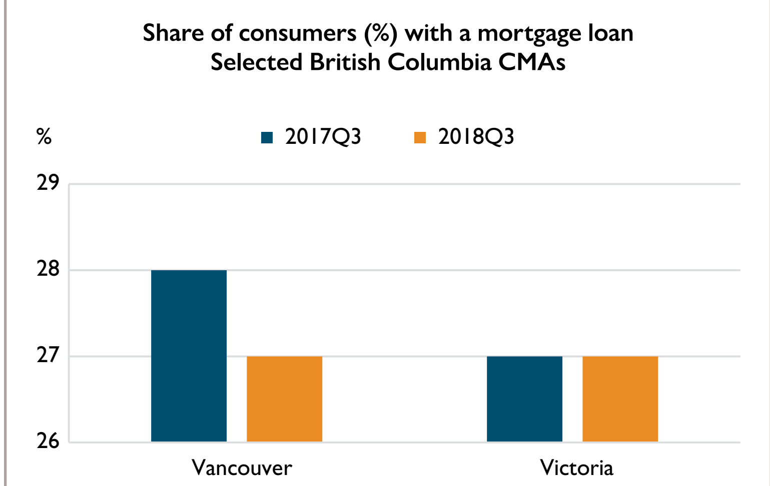


Source: Equifax and CMHC calculations

Share of consumers carrying a mortgage has declined slightly in the Vancouver CMA

- The share of consumers carrying a mortgage in the Vancouver CMA declined to 27% in Q3 2018 compared with 28% in Q3 2017. The share of consumers carrying a mortgage in the Victoria CMA remained unchanged at 27% in Q3 2018 relative to one year earlier.
- The declining share of consumers with a mortgage is consistent with the declining pace of growth of homeownership in the Vancouver CMA, relative to growth in renters, based on Statistics Canada Census data[2].

Figure 5



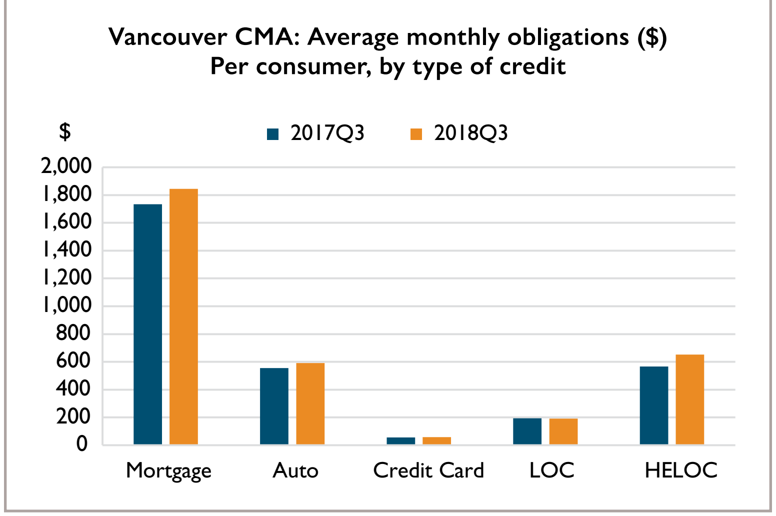
Source: Equifax and CMHC calculations

[2] According to Statistics Canada, between the 2011 and 2016 Census periods, the net number of new renter households as a share of all new households was 59%, relative to 32% between 2006 and 2011.

Monthly credit obligations related to Home Equity Lines of Credit (HELOCs) saw the greatest increase relative to one year earlier

- Average monthly mortgage commitments in the Vancouver CMA grew by 6.3% in Q3 2018 relative to the same quarter in 2017. Increasing average monthly mortgage payments reflect elevated house prices resulting in larger mortgages, as well as rising mortgage rates and their impact on carrying costs.
- Additionally, average monthly commitments related to HELOCs grew by 15% and 14% in Vancouver and Victoria, respectively, between Q3 2017 and Q3 2018.
- Strong increases in monthly HELOC commitments in Vancouver can be attributed to growing average balances amongst mortgage holders as well as rising interest rates. Average HELOC balances have seen strong growth, particularly in the Vancouver CMA, since Q1 2016 as rising home values contributed to homeowners ability to tap into credit tied to the value of their home. Meanwhile in Victoria, average HELOC balances did not see the same rate of growth as Vancouver since 2016. However, some growth in HELOC usage along with rising interest rates in the past four quarters ultimately led to strong growth in average monthly commitments in Victoria.
- As this data considers the entire distribution of mortgage holders captured by Equifax data, variables like average mortgage balances as well as average monthly mortgage payments will generally grow at a slower rate relative to average home prices due to new mortgages representing a relatively small share of all mortgages.

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

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
2014Q3	0.31	0.36	0.60	0.59
	0.31	0.39	0.65	0.61
	0.30	0.37	0.66	0.55
	0.30	0.35	0.61	0.56
2015Q3	0.29	0.36	0.64	0.47
	0.29	0.35	0.57	0.54
	0.28	0.31	0.55	0.51
	0.25	0.29	0.44	0.43
2016Q3	0.23	0.29	0.38	0.38
	0.23	0.29	0.35	0.38
	0.20	0.29	0.30	0.34
	0.17	0.24	0.27	0.35
2017Q3	0.15	0.22	0.23	0.37
	0.14	0.22	0.23	0.33
	0.13	0.19	0.18	0.28
	0.11	0.13	0.17	0.26
2018Q3	0.11	0.12	0.16	0.21
	0.11	0.12	0.14	0.19
	0.10	0.13	0.15	0.21
	0.1	0.12	0.14	0.2

Source: Equifax and CMHC calculations

Figure 2
Vancouver CMA: Mortgage delinquency rate (%) by mortgage limit at origination

Date	Less than $100k	$100k to $200k	$200k to $300k	$300k to $400k	$400k or more
2014Q3	0.23	0.29	0.33	0.30	0.39
	0.26	0.29	0.31	0.29	0.36
	0.23	0.28	0.30	0.29	0.34
	0.27	0.25	0.32	0.28	0.35
2015Q3	0.24	0.27	0.32	0.29	0.31
	0.21	0.29	0.31	0.29	0.29
	0.25	0.28	0.32	0.27	0.27
	0.25	0.26	0.30	0.22	0.22
2016Q3	0.27	0.25	0.28	0.21	0.17
	0.28	0.24	0.28	0.19	0.17
	0.21	0.23	0.24	0.18	0.15
	0.18	0.22	0.19	0.18	0.13
2017Q3	0.16	0.20	0.17	0.14	0.12
	0.15	0.18	0.16	0.12	0.10
	0.17	0.17	0.14	0.11	0.09
	0.16	0.16	0.12	0.10	0.09
2018Q3	0.16	0.14	0.11	0.10	0.09
	0.16	0.12	0.09	0.11	0.09
	0.16	0.11	0.09	0.08	0.09
	0.17	0.11	0.1	0.1	0.1

Source: Equifax and CMHC calculations, seasonally adjusted

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

	Mortgage holders			Consumers without a mortgage		
Date	Auto loans	LOC	Credit cards	Auto loans	LOC	Credit cards
2017Q3	0.20	0.19	0.38	1.98	0.81	1.39
2018Q3	0.16	0.13	0.36	2.05	0.74	1.39

Source: Equifax and CMHC calculations

Figure 4
Average Equifax Risk Score related to mortgages selected British Columbia CMAs

Date	Vancouver	Victoria	Abbotsford-Mission	Kelowna
2014Q3	770	774	761	762
	770	774	761	762
	771	775	763	763
	772	775	763	764
2015Q3	771	774	762	763
	771	774	763	763
	771	774	763	763
	771	774	762	763
2016Q3	771	775	763	763
	773	776	764	765
	772	776	765	765
	773	776	766	765
2017Q3	773	776	767	767
	774	777	769	768
	775	778	769	769
	775	778	770	769
2018Q3	775	779	771	770
	776	780	771	772
	774	779	770	770
	776	780	772	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
2017Q3	28	27	34	29
2018Q3	27	27	34	29

Source: Equifax and CMHC calculations

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

Date	Mortgage	Auto	Credit Card	LOC	HELOC
2017Q3	1,734	555	57	193	566
2018Q3	1,844	592	58	191	652

Source: Equifax and CMHC calculations