

Mortgage Down Payment and Borrower Behaviour

Literature Review and Assessment

THE RESEARCH

There is little knowledge on the sources of borrower down payments. This research aims to help fill that knowledge gap. With a specific focus on high-risk mortgages—those with a high loan-to-value ratio and a higher-than-average risk of default—this research is intended to shed light on how sources of down payment change borrower behaviour.

PROJECT OVERVIEW

The CMHC-funded study, *Mortgage Down Payment and Borrower Behaviour: Literature Review and Assessment*, examined the literature on the relationship between mortgage down payments and borrowers' subsequent credit behaviour in Canada, Australia, Ireland, New Zealand, the U.K. and the U.S.

KEY FINDINGS

- The research found that extensive research exists on the link between the size of a borrower's down payment and later credit performance; there is limited research on the linkages between the type of down payment and subsequent credit behaviour.
- The findings corroborate the view that, while the amount of a borrower's equity plays a role, it is typically a major life event such as job loss, illness or divorce that triggers default.
- The study found evidence supporting the view that borrowers who contribute even a small down payment from their own means pose a notably smaller default risk, compared to those whose initial equity comes from external sources (such as loans, gifts or contribution programs). This affirms the widely held view that, when default imposes a financial cost on borrowers, it creates an incentive for them to avoid it.
- The existing research on down payments and credit behaviour largely reflects the American institutional landscape, partly because of the wide availability of U.S. housing finance data. The review confirms that the lack of publicly available data on Canadian housing finance markets has impeded similar research for Canada.

IMPLICATIONS FOR THE HOUSING INDUSTRY

A key implication of this review is that a better understanding of the role played by down payment source and type in default requires better and publicly available housing finance data.

FURTHER READING

Full report – *Mortgage Down Payment and Borrower Behaviour: Literature Review and Assessment* (https://eppdscrmssa01.blob.core.windows.net/cmhcprodcontainer/sf/project/archive/research_2/mortgage_downpayment_borrower_behaviour.pdf)

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