Canadian consumer awareness and interest in longer-term mortgages

Executive Summary

Prepared for the Financial Consumer Agency of Canada and the Bank of Canada

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This public opinion research report presents the results of focus groups and an online survey conducted by Ipsos Public Affairs. on behalf of the Financial Consumer Agency of Canada and the Bank of Canada. The research study was conducted with over 5,000 Canadians between May and June 2019.

Cette publication est aussi disponible en français sous le titre : Les connaissances et intérêts des consommateurs canadiens en ce qui a trait aux prêts hypothécaires à long terme

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M. Colledge

Mike Colledge
President
Ipsos Public Affairs

INTRODUCTION

The Financial Consumer Agency of Canada (FCAC) is an agency of the Government of Canada that ensures federally regulated financial entities comply with consumer protection measures, promotes financial education, and raises consumers' awareness of their rights and responsibilities. It was established in 2001 by the federal government to strengthen oversight of consumer issues and expand consumer education in the financial sector. FCAC provides information and resources to consumers, merchants, and the industry and is focused on strengthening financial literacy in Canada.

The Bank of Canada is the nation's central bank. Its principal role is to promote the economic and financial welfare of Canada. This is done primarily through conducting monetary policy to keep inflation low and stable. Another important core function is to promote safe, sound and efficient financial systems in Canada and internationally. The Bank also designs, issues and distributes Canada's bank notes and acts as the "fiscal agent" for the Government of Canada, managing its public debt program and foreign exchange reserves.

Mortgage loans with terms longer than 5 years (longer-term mortgages) are available to Canadian consumers. However, take-up rates are very low compared to mortgages with term lengths of 5 years or less (shorter-term mortgages). Just 2% of all mortgages issued in 2018 were fixed-rate loans with a term longer than five years. Given that interest rates have been at historically low levels for an extended period of time, borrowers may be exposed to financial risks should interest rates rise. For example, some borrowers could be at risk of experiencing additional financial stresses due to the rising cost of servicing a mortgage at a higher interest rate (interest rate risk). Other borrowers may be at risk of not being able to obtain a new mortgage to finance the remaining principal at the time of renewal (rollover risk). This current research seeks to understand the level of consumer awareness about available mortgage options as well as to understand the factors associated with consumer mortgage choices.

BACKGROUND AND OBJECTIVES

Ipsos was commissioned by the Financial Consumer Agency of Canada (FCAC) in collaboration with the Bank of Canada (BoC) to conduct research to provide a baseline on Canadian consumers' level of awareness and interest in longer-term mortgages. The research also sought to explore consumers' rationale, behavioural biases and other factors that motivate decisions to obtain, or not, a longer-term mortgage.

The research was conducted in two phases. Phase 1 involved qualitative research designed to help initiate the study and discover the depth and breadth of awareness, misconceptions and opportunities related to mortgage decision-making. The results of Phase 1 are provided under separate cover. Building upon the learning gained from the qualitative phase, Phase 2 involved a quantitative survey to validate and further refine the learnings from the qualitative study.

The quantitative study leveraged previous research to help build an understanding of factors that may impact borrowers' decision to choose longer-term mortgages. Results from an omnibus survey conducted by the Privy Council Office in September 2018 suggest that demand side factors may in part explain the lack of take-up of such mortgages. For example, more than half of the Canadian adult population may not know that longer-term mortgages are available. This lack of awareness is greatest among Canadians with lower levels of education and those with lower levels of income.

The research conducted in September 2018 found that motivating factors to taking up a longer-term mortgage include:

- opportunity to set interest rate for a longer period;
- belief that interest rates will rise in the coming years.

Additionally, the research found there are factors that may lead borrowers to avoid choosing longer-term mortgages, such as:

- unwillingness to commit for a longer term (e.g., employment insecurity, possible need to move houses in a few years, possible changes in family situation, etc.);
- perception that interest rates are significantly higher for longer-term mortgages.

Very few participants mentioned prepayment penalties as their motivating factors for taking up or avoiding longer-term mortgage. None of the participants mentioned that the penalty calculation using the interest rate differential (IRD) is not applicable after 5 years.

The relatively short survey produced interesting and important first-round results, although certain questions that are relevant from a policy perspective remain unanswered. For example, are consumers aware of their prepayment right and associated costs on various products? Does consumer attitude towards longer-term mortgages vary with their financial well-being (e.g., indebtedness)? How much will the relative price of a longer-term mortgage need to decline to generate a greater interest?

The current research set out to address these questions.

METHODOLOGY

The quantitative phase was conducted via an online survey. The survey was conducted in English and French between June 18 and June 30, 2019. Respondents to the survey were drawn from Ipsos' panel sample sources making it a non-probability sample. Online panels are considered non-probability samples because respondents have been pre-recruited to participate in research, and therefore, respondents are not randomly selected from the broad universe of Canadian population. Due to the non-probabilistic nature of the research, a known sampling limitation is that the results cannot be extrapolated to the rest of the Canadian population. However, online panel surveys like the one conducted, are commonly used in the public opinion and market research industry and provide useful insights on the preferences of the Canadian population as the samples are designed to be representative of the population, regionally, demographically and socio-economically. Moreover, the large sample size on which the current survey is based (greater than n=2,500 per sample) ensures the insights are highly reliable. For these reasons, "consumers" and "respondents" are used interchangeably when discussing results throughout the report.

Sampling

The survey was conducted with two separate samples. Sample 1, which is referred to as the **target audience**, included those Canadians who currently own a home with a mortgage, or those likely to purchase a home with a mortgage in the next 5 years. This group has a greater propensity to have previous experience making borrowing decisions, or to do so in the future, than the general population.

Sample 2 represents the **general population**, which will naturally include some overlap with the type of individuals represented in Sample 1: a sub-set of homeowners with a mortgage or those likely to purchase a home in the future. However, the two samples were mutually exclusive; no respondent falls into both samples.

A total of n=5036 Canadians age 18 and older were surveyed -- split roughly 50% between the target audience (n=2511) and 50% general population (n=2525). The target audience quotas were set by region (based on the 10 provinces, those living in the territories were excluded) based on the 2016 Census and were achieved, thus no weighting was applied.[1] Gender and age were not weighted because the sample was not intended to be representative of the general population and demographic composition figures for this audience are not available.

Figure 1: Target Audience Sample Composition

	Unweighted Sample Size	Sample Proportions
Canada	**2,511**	**100%**
British Columbia	334	13%
Alberta	288	11%
Manitoba/Saskatchewan	171	7%
Ontario	941	38%
Quebec	604	24%
Atlantic Canada	173	7%
Gender		
Male	1156	46%
Female	1350	54%
Other/Prefer not to say	5	<1%
Age		
18-24	97	4%
25-34	607	24%
35-44	485	19%
45-54	430	17%
55-64	472	19%
65+	420	17%

The general population data were weighted by region, age, gender and household income to ensure that the survey sample's composition reflects that of the adult population according to 2016 Census data. Household income targets were calculated at an individual level. The percentages represent the number of individuals in Canada aged 18 or older, who are part of a household with the respective household income. Additionally, the decision was made to offer respondents a "prefer to not say" option when reporting household income. In total 9% of the sample took this option. Given that household income was a weighting variable, the target percentages were re-based to reflect the allowance of this 9% to remain in the data – the data was not imputed or re-assigned to other income categories.

[1] Statistical weighting is used to correct biases in the data caused by certain demographic or other groups being over or under represented in the sample relative to the percentage they represented in the Canadian population or target audience. In this case, there were no biases, and therefore statistical weighting was unnecessary.

Figure 2: General Population Sample Composition

	Unweighted Sample Size	Sample Proportions	Weighted Sample Size	Sample Proportions
Canada	**2,525**	**100%**	**2,525**	**100%**
Region				
British Columbia	336	13%	283	14%
Alberta	280	11%	343	11%
Prairies (SK/MB)	165	7%	165	7%
Ontario	968	38%	970	38%
Quebec	610	24%	593	24%
Atlantic Canada	166	7%	172	7%
Gender				
Male	1,204	48%	1237	49%
Female	1,302	52%	1237	49%
Other/Prefer not to say	19	<1%	50	1%
Age				
18-24	179	7%	286	11%
25-34	482	19%	425	17%
35-44	446	18%	412	16%
45-54	416	17%	461	18%
55-64	492	19%	450	18%
65+	510	20%	492	20%
Net household income				
<$20,000	227	9%	138	6%
$20,000 -<$40,000	392	16%	282	11%
$40,000-<$60,000	478	19%	332	13%
$60,000-<$80,000	380	15%	320	13%
$80,000-<$100,000	338	13%	276	11%
$100,000-<$150,000	346	14%	680	27%
$150,000+	138	5%	270	11%
Prefer not to say	226	9%	227	9%

Since both the target audience and general population samples were based on those who initially self-selected for participation in the panel, no formal margin of error has been calculated. However, throughout the report, descriptive statistics have been reported and tests of significance have been conducted to establish the extent of the relationship among variables. The survey instrument was an average of 14.2 minutes in length and the median length was 10 minutes. It included a series of closed-ended and open-ended questions and explored the following:

- awareness of mortgage terminology;
- awareness and knowledge of longer-term mortgages;
- level of interest in longer-term mortgages absent specific interest rate considerations;
- likelihood of considering a longer-term mortgage given specific interest rate scenarios;
- attitudes towards factors found to influence appetite in longer-term mortgages (based on the findings of the Phase 1 qualitative and 2018 Privy Council Office omnibus survey);

- the influence of providing additional information about mortgage options and features that respondents may not have known before entering the survey on the probability of considering a longer-term mortgage.

Conjoint exercise on mortgage choices

The survey also employed a conjoint exercise designed to estimate the likelihood of a consumer choosing a longer-term mortgage over a shorter-term mortgage with a fixed or variable interest rate. Conjoint analysis is a statistical technique to determine what combination of a limited number of attributes is most influential on respondents' choice or decision making. In this circumstance, the attributes under evaluation were variable vs. fixed terms; the length of the term (e.g., 5 years vs. 10 years); and the interest rate at which each option is offered. While all scenarios were evaluated, the primary goal was to understand the attributes that are most influential in choosing a 10-year fixed mortgage.

The exercise required respondents to assume a scenario where they need to borrow $300,000 (initial principal amount) and were asked to assume the following conditions:

- The loan needs to be paid off within 25 years. So, you need to re-negotiate a new contract in 5 years (if you choose the 5-year variable or fixed rate mortgage), or in 10 years (if you choose the 10-year fixed rate mortgage);
- You know that you qualify for any of the mortgages presented in the scenarios.

Each respondent was shown 4 screens, each showing a different set of choices (4 choice sets in total per respondent). Each choice set contained 3 options: a 5-year variable, 5-year fixed and 10-year fixed terms with various interest rates. The respondent was required to choose one of the options – none and don't know options were not permitted. The design of choice sets was built using interest rate levels ranging from 4.00% to 6.75% with the following conditions:

- The 5-year variable term was always offered at a 4.00% interest rate;
- The 5-year fixed term interest rate could not be lower than variable rate (4.00%);
- The 10-year fixed term interest rate was at least 0.25% higher than the 5-year fixed term.

The results of the conjoint analysis measure the percentage of respondents that will choose the 10-year fixed interest rate option over a 5-year fixed interest rate or 5-year variable interest rate option when offered at specific interest rates. Although respondents answered only four scenarios, the scenarios were designed and rotated such that the probability of choosing the 10-year interest rate option can be modelled based on interest rate differentials covered in the survey, as well as those not covered in the survey if they are within the bounds of minimum and maximum interest rate levels.

Controlling for disclosure of information

In order to understand the potential impact of providing respondents with more information about variable and fixed rate options that could influence their decision-making on which option to choose, within each sample group, target audience and general population, respondents were randomly assigned into one of three sub-groups:

- Group 1 respondents were provided with no additional information about each option – this was referred to as the **no disclosure** group or control group;
- Group 2 respondents were provided with limited additional information – this was referred to as the **partial disclosure** group; and,

- Group 3 respondents were provided with more information – as the **full disclosure** group.

The partial and full disclosure information provided to respondents is shown in the table below.

Figure 3: Disclosure Information

<table>
<tr><th colspan="2"></th><th>5-year variable</th><th>5-year fixed rate</th><th>10-year fixed rate</th></tr>
<tr><td colspan="2">[Group 2 & Group 3] Can the interest rate change during the term?</td><td>Yes - But you can switch to a fixed rate at any time without paying a penalty</td><td>No</td><td>No</td></tr>
<tr><td colspan="2">[Group 2 & Group 3] Will my payment amount change during the term?</td><td>No</td><td>No</td><td>No</td></tr>
<tr><td colspan="2">[Group 2, Group 3] Can I know how much will be left to pay on my house at the end of the term?</td><td>No - If the interest rate goes up, a larger portion of your payment will go towards paying the interest.</td><td>Yes</td><td>Yes</td></tr>
<tr><td colspan="2">[Group 3] Can I break my mortgage contract?</td><td>Yes – with a penalty fee</td><td>Yes – with a penalty fee</td><td>Yes – with a penalty fee</td></tr>
<tr><td rowspan="2">[Group 3] Approximate penalty fee if I break the mortgage contract after 3 years (e.g. sell the home).</td><td>If interest rates go up by 1%</td><td>$3,600</td><td>$4,000</td><td>$4,400</td></tr>
<tr><td>If interest rates go down by 1%</td><td>$3,600</td><td>$6,000</td><td>$21,000</td></tr>
<tr><td colspan="2">[Group 3] Approximate penalty if I break the mortgage contract after 5 years.
<u>Note:</u> The penalty calculation changes after 5 years have passed.</td><td>n/a</td><td>n/a</td><td>$4,400</td></tr>
</table>

NOTES TO READERS

- The terms “target audience” and “homeowners and likely homeowners” are used interchangeably throughout the report to denote the target audience.
- All results in the report are expressed as a percentage, unless otherwise noted.
- Throughout the report, percentages may not always add to 100% due to rounding or if respondents were permitted to give more than one response.
- Due to rounding, some percentages in the report may not match those presented in the tabulated data (available under separate cover).
- When reporting sub-group variations, only differences that are significant at the 95% confidence level, indicative of a pattern and pertaining to a sub-group sample size of more than n=30 are discussed.
- Throughout the report arrows can be seen, which indicate statistically significant differences between the target audience and the general population:
- A green up arrow indicates a significantly larger percentage within the designated population. ▲
- A red down arrow indicates a significantly lower percentage within the designated population. ▼
- Appended to the report is a copy of the questionnaire.

KEY FINDINGS

Low level of awareness of mortgage terminology

Many consumers do not have a good understanding of mortgage-related terminology – half of consumers are confused about what "mortgage term" means – providing incorrect or vague descriptions or indicating they simply do not know (51% of the general population, 42% of the target audience). The "amortization period" is even more commonly misunderstood with most respondents offering a description that is incorrect. Correct understanding of this terminology is higher among the target audience than the general population, but still represents less than half of consumers. Only 26% of the target audience and 18% of the general population sample provide correct answers for both phrases.

More than half of consumers are not aware of longer-term mortgages

Less than half of consumers (40% general population, 37% target audience) claim to be aware that longer-term mortgages are available in Canada. Only one-quarter believe fixed mortgage terms of 10 years are available in Canada. This is consistent across the target and general populations. However, as noted above, many consumers do not have a correct understanding of mortgage terminology. Therefore, the true level of awareness of longer-term mortgages in Canada is likely significantly lower. The survey found that only 7% of the target audience and 6% of the general population have a correct understanding of the relevant terminology (a correct understanding of both "mortgage term" and "amortization period") and indicate that 10-year fixed terms are available in Canada. In total, only 10% of the target audience and 7% among the general population have a correct understanding of terminology of both term and amortization and believe any terms greater than 5 years are available in Canada. Notably, among consumers generally (including those with incorrect or vague understanding of mortgage terminology), more consumers believe that 10-year fixed mortgages are not available compared to those who indicate being unsure or don't know. Consistent with previous research conducted on the topic, awareness is lower among consumers with less education.

Lack of information or misinformation are barriers to choosing longer-term mortgages

In many cases, consumers' misunderstanding of mortgage terms and the differences between shorter and longer-term mortgages creates a barrier to their openness to considering longer-term mortgages. For example, a large minority of consumers (43% of the target audience and 40% of the general population) believe that "the longer the mortgage term the more expensive it is to break the mortgage contract," This is correct if the respondent is thinking about the cost of breaking a contract during the first 5 years, but not the later 5 years which is an important feature of a 10-year fixed mortgage. Further, among both the target and general population, almost three quarters (70% respectively) stated they do not know whether the rules regarding penalty fees change after 5 years in longer-term mortgages, indicating a low knowledge base and a high degree of uncertainty among Canadians on the features of longer-term mortgages. This misinformation about the costs of breaking a longer-term mortgage and lack of knowledge of how penalty fees work become even more relevant to the nearly half of consumers (44% of the target audience and 42% of the general population) who say they would be "afraid of missing out on a potential decrease in interest rates if [they] locked into a mortgage longer than 5 years." It is possible that with a better understanding of the changes in mortgage penalties after 5 years consumers would be more open to considering longer-term mortgages. In fact, the survey found that those who are aware that the rules around longer-term mortgage penalties change after 5 years are significantly more likely to consider a longer-term mortgage.

Many consumers lean toward fixed terms, thus the potential pool of interest in longer-terms is reasonably large

The survey found that consumers are more than twice as likely to say they would lean toward a fixed interest mortgage than a variable interest mortgage (46% vs 19% respectively among the target audience and 42% vs. 16% respectively among the general population). Interestingly, these responses do not vary based upon whether the respondents feel that their life stage makes them more suited to a shorter or longer-term mortgage.

A reasonably large percentage of consumers (29% of the target audience and 41% of the general population) indicated that the next time they need to renew [their] mortgage / if they were to purchase a home and finance it with a mortgage, a mortgage term longer than 5 years would suit them. This is given their life plans and circumstances and applies in the absence of being provided an interest rate to consider. Even among those consumers who have a correct understanding of mortgage terminology ("mortgage term" and "amortization period"), as many as 16% of the target audience and 31% of the general population say a mortgage term longer than 5 years would suit their life plans. If we consider this question a proxy for preference, then there is a reasonably large pool of consumers who (again absent an interest rate comparison) would lean toward longer-term mortgages.

However, relatively few consumers are certain to explore longer-terms when the time comes

One in ten consumers (11% target audience and 14% general population) indicate that they would *almost certainly* consider a longer-term mortgage the next time they need to renew their mortgage or when they buy a home. Likelihood is significantly lower among homeowners with a mortgage (6%) compared to others (21%). More consumers indicate being *likely* to consider (not *almost certain*) a longer-term mortgage (15% among the target audience and 18% among the general population).

Life plans are a critical part of likelihood to consider a longer-term mortgage (absent interest rate comparisons)

There is a correlation between life plans and an appetite in longer-term mortgages. Sixty percent of the general population that indicates that a mortgage term of more than 5 years is suited to their life plans (e.g., expected time to own the home, etc.) are *almost certain* or *likely* to consider a longer-term mortgage compared to only 12% of those who do not believe their life stage suits a term longer than 5 years.

Consumers are most sensitive to interest rate differentials greater than 0.75%

A conjoint exercise was conducted to supplement consumers' stated likelihood of choosing a longer-term mortgage. The exercise asked consumers to make a choice between 3 options: 5-year variable, 5-year fixed and 10-year fixed mortgage offered at various interest rate levels. This exercise was intended to validate the qualitative finding that consumers are primarily open to considering a longer-term mortgage if the interest rate differential between the 5-year fixed option and 10-year fixed option is 1% or less. The results are generally consistent with this finding. However, the survey found a significant drop off in probability to choose a 10-year fixed term at a lower interest rate differential compared to a 5-year fixed: 0.75% or greater, rather than a 1.0% differential. In the choice exercise, the probability of choosing the 10-year fixed option dropped significantly when the differential interest rate was 0.75% higher than the 5-year fixed.

Share of preference in choosing the 10-year fixed mortgage is highest in the following scenario: 4.00% for 5-year variable, 4.00% for 5-year fixed and 4.25% for 10-year fixed – 17% among non-mortgage holders and 9% among current mortgage holders (it was consistently found in the choice exercise that non-mortgage holders are more open to considering a 10-year fixed term than mortgage holders). Share of preference falls to only 8% among non-mortgage holders and 3% among mortgage holders in a steep interest rate scenario (4.00% for 5-year variable, 5.50% for 5-year fixed and 6.50% for 10-year fixed).

Household income, financial stress, interest rate risk aversion, consistency of payments and less stress and 'hassle' with renewing are all factors that contribute to decision-making

In addition to the size of interest rate differential between mortgage options, the research found household income, financial stress[2] and risk aversion[3] influence consideration of a longer-term mortgage. Other secondary factors were found to influence this choice as well. These include: the perception that there is greater consistency of mortgage payments with fixed terms, interest rate risk (feeling more comfortable having interest rate fixed for as long as possible to avoid the risk of increasing), and the appeal of avoiding the hassle of renewing.

A partial least squares regression analysis of the probabilities of choosing a 10-year fixed mortgage over a 5-year fixed or 5-year variable reveals that both low income and higher income individuals could choose the 10-year mortgage, but for different reasons. More specifically:

- Financially stressed consumers who place more weight on minimizing the risk of interest rates rising;
- Higher income consumers who are willing to tolerate the risk of losing out on a potential financial benefit from choosing a shorter-term mortgage if interest rates decline over time.

Financially stressed consumers tend to have lower household income and believe there is greater consistency of mortgage payments with fixed terms (compared to variable interest rate terms). They also have greater concerns about interest rates rising (feeling more comfortable having interest rate fixed for as long as possible to avoid the risk of increasing), and the appeal of avoiding the hassle of renewing. Consumers under medium and high financial stress skew younger, more strongly toward women than men, and those who do not yet own a home yet would like to own one.

By virtue of being concerned about the risk of rising interest rates, these consumers appear to be most aligned with the benefit of longer-term mortgages such that borrowers are less frequently exposed to the risk that the interest rate will increase significantly upon renewal. However, there is no evidence that the motivations are this clean cut. Being assured of the consistency of payments for budgeting purposes and avoiding the hassle and 'stress' of renewing are attitudes that are also found among consumers that place greater importance on guaranteed interest rate stability.

In contrast, higher income consumers who are willing to tolerate more risk appear to be less concerned about potentially making a wrong decision by locking themselves into a 10-year fixed mortgage – potential cost of this "error" should interest rates go down is not something that they would pay attention to now. These consumers may not care much if they can "win" some money if interest rates decline. Their approach to a 10-year fixed mortgage might be characterized as "shoot-and-forget" – meaning they are making a choice because they believe negative consequences will be small/not a cause of major concern. Taking into

[2] A variable defined as financial stress was computed based on the average score on two survey questions: D2. With your current monthly household income, can you pay for all of your monthly expenses? (select one) Yes, and I have more than 200$ left to spend, Yes, and I have less than 200$ left to spend, No, but 200$ more would cover all my expenses, No, and I would need more than 200$ to cover all my expenses, Don't know, Prefer not to say. D3. If tomorrow, you had to meet an unexpected expense that is equivalent to a month's income, how much of it would you be able to cover from money you have readily available either in cash or in an account? (select one) All of it, Some of it, None of it, Don't know.

[3] Risk aversion question is provided in the Appendix. For the analysis we included this variable in two ways to see if there was any difference in how much relationship there is between risk aversion and share of preference. The result was that both versions performed similarly. The first approach was to leave the variable as it was originally. We note that there are some responses that might be considered inconsistent (e.g. selecting Job B and D, but not A, C or E). To manage this the second approach was to recode the variable from a multiple select to a single select. The single selection applied reflects the greatest risk option the respondent selected.

consideration the relatively low mortgage amount being simulated in the hypothetical exercise for some respondents (for example compared to housing prices in Toronto and Vancouver), this perspective could be inflated.

Figure 4: Patterns of Factors Associated with Choice of 10-Year Fixed Term

Lower income, higher financial stress	Higher income, lower financial stress
Interest Rate Risk Avoidance & Avoiding Hassle of Renewing	*"Shoot and Forget"*
Higher risk aversion	Medium risk aversion
Lower education level	Higher education level
Lower household income	Higher household income
Higher financial stress	Lower financial stress
Life plan is suited to a term greater than 5 years	Life plan is suited to a term of 10 years or longer
Less likely to have a mortgage now (e.g. renters)	More likely to have a mortgage
Feel more comfortable having interest rate fixed for as long as possible to avoid the risk of increasing	Not afraid of missing out on a potential decreased in interest rates if locked into a term longer than 5 years
Place importance on consistency of mortgage payments over the term	No strong opinion on the consistency of mortgage payments
Find avoiding the hassle of having to renew their mortgage often appealing	Would NOT feel anxious to be locked into a term longer than 5 years

Simply providing additional mortgage information may not be enough support for decision-making – it will be necessary to conduct research specifically on the efficacy of information to ensure it is delivered in a manner that addresses misinformation and current attitudes

The research explored the extent to which providing additional information to consumers influences their probability of choosing 10-year fixed terms (see Figure 3). Among the target audience and general population, the survey found no significant difference, regardless of what information was provided. This suggests that consumers are more likely to default to their predisposed views or understanding and/or place significant weight on the interest rate differential, when making choices rather than consider information that may positively or negatively influence their choice of a 10-year fixed term.

QUESTIONNAIRE

The Financial Consumer Agency of Canada is conducting this survey on Mortgages. Ipsos has been hired to administer the survey. The survey takes about 15 minutes to complete and is voluntary and completely confidential. Your answers will remain anonymous. To view our privacy policy, click here.

ID	Audience	Question	Answers
S1	All	Do you own or rent your home? (select one)	Own
			Rent
			Other
ASK S2 ONLY IF S1 =OWN			
S2	Homeowners	Do you currently have a mortgage on your home? (select one)	Yes
			No
IF YES: DEFINE AS TARGET 1. ASK S3 IF S1 = RENT OR OTHER OTHERWISE SKIP TO S5			
S3	Non-homeowners	Within the next 5 years, how likely are you to buy a home that you will finance with a mortgage? (select one)	Almost certainly
			Likely
			Possible
			Unlikely
			Very unlikely
S5	All	Please select your gender. (select one)	Male
			Female
			Other
			Prefer not to say
S6	All	Province	Alberta
			British Columbia
			Manitoba
			New Brunswick
			Newfoundland and Labrador
			Nova Scotia
			Ontario
			Prince Edward Island
			Quebec
			Saskatchewan
S7	All	FSA (first 3 characters of your postal code)	[text]
Q1	All	If you were looking to get a mortgage or renew an existing mortgage, where would you get your information? (select all that apply)	Online
			Friend/family member
			My bank/ financial institution
			Financial Advisor
			Mortgage broker
			Government

ID	Audience	Question	Answers
			Other (specify) [text box]
IF ONLINE ASK Q2 OTHERWISE SKIP TO Q3			
Q2	Looking for mortgage info online	Which websites would you go to? (select all that apply)	Search engine (Google, Bing…)
			Financial Institution's website
			Discussion forum
			Mortgage broker's website
			Government website
			Other (specify) [text box]
ASK Q3 IF S2=1, OTHERWISE SKIP TO Q7			
Q3	Target 1	Does your existing mortgage on your home have a fixed interest rate or variable interest rate? (select one)	Fixed
			Variable
			A combination of fixed and variable
			Not sure
Q7	All	What does the phrase **mortgage term** mean?	[text box]
			Don't know
Q11	All	What does the phrase **amortization** period mean?	[text box]
			Don't know
INFO SCREEN. SHOW THE FOLLOWING ON SCREEN AFTER ANSWERING Q11. SHOW TO ALL RESPONDENTS The amortization period is the total length of time it takes to pay off a home in full. The mortgage term is the length of time a mortgage contract will be in effect. This includes everything the mortgage contract outlines, including the interest rate.			
ASK Q12 IF S2=1, OTHERWISE SKIP TO Q8			
Q12	Target 1	What is the remaining **amortization period** on your current mortgage? In other words, how many years will it take you to pay off your home in full? (select one)	Less than 5 years
			Between 5-9 years
			Between 10-14 years
			Between 15-19 years
			Between 20-24 years
			25 years or more
			Don't know
INFO SCREEN. SHOW THE FOLLOWING ON SCREEN AFTER THEY ANSWER Q8. SHOW TO ALL RESPONDENTS Most lenders offer terms up to 10 years.			
Q8	All	As far as you know which of the following mortgage terms are available in Canada for mortgages with a fixed interest rate? (select all that apply)	Less than 1 year
			1 year
			2 years
			3 years
			4 years
			5 years

ID	Audience	Question	Answers
			6 years
			7 years
			8 years
			9 years
			10 years
			More than 10 years
			Don't know
ASK Q9 IF S2=1, OTHERWISE SKIP TO Q10			
Q9	Target 1	What is the total mortgage term on your current mortgage? By this we mean, the total length of your contract. Your contract includes the interest rate and the details of the financing for your home. (select one)	Less than 1 year
			1 year
			2 years
			3 years
			4 years
			5 years
			6 years
			7 years
			8 years
			9 years
			10 years
Q10	All	[IF TARGET 1 (S1 =1) PIPE IN – The next time you need to renew your mortgage] [ALL OTHERS – If you were to purchase a home and finance it with a mortgage] what mortgage terms would ideally suit you best, given your life plans and circumstances? Please assume the same interest rate would apply to any mortgage term. (select all that apply)	Less than 1 year
			1 year
			2 years
			3 years
			4 years
			5 years
			6 years
			7 years
			8 years
			9 years
			10 years
			More than 10 years
			Don't know
Q13	All	Please answer True or False based on your knowledge. If you don't know select don't know. Do not guess. For mortgage terms longer than 5 years, the rules regarding penalty fees change after 5 years.	True
			False
			Don't know

ID	Audience	Question	Answers
Q14	All	[IF TARGET 1 (S1 =1) PIPE IN – The next time you need to renew your mortgage] [ALL OTHERS – If you were to purchase a home with a mortgage loan] would you lean toward looking at options for a mortgage with a variable interest rate or a fixed interest rate? (select one)	Variable interest rate - Definitely Variable interest rate – Probably Fixed interest rate – Probably Fixed interest rate - Definitely Depends on the interest rate at the time Don’t know
Q15	All	[IF TARGET 1(S1 =1) PIPE IN – The next time you need to renew your mortgage] [ALL OTHERS – If you were to purchase a home that you finance with a mortgage] how likely are you to consider a mortgage term longer than 5 years?	5- Strongly agree 4 3 2 1-Strongly disagree Don’t know
RANDOMIZE ORDER OF Q16 STATEMENTS			
Q16.1	All	I think interest rates will be higher in 5 years than they are today.	5- Strongly agree 4 3 2 1-Strongly disagree Don’t know
Q16.2	All	I would be more comfortable having my interest rate fixed for as long as possible to avoid the risk of it increasing.	5- Strongly agree 4 3 2 1-Strongly disagree Don’t know
Q16.3	All	It important to me that my mortgage payments are consistent over the term and do not change.	5- Strongly agree 4 3 2 1-Strongly disagree Don’t know 1-Strongly disagree Don’t know
Q16.4	Target 1	I am knowledgeable about mortgages.	5- Strongly agree 4 3 2 1-Strongly disagree

ID	Audience	Question	Answers
			Don't know
Q16.5	All	The major banks encourage mortgages with terms of 5 years or less.	5- Strongly agree
			4
			3
			2
			1-Strongly disagree
			Don't know
Q16.6	All	The longer the mortgage terms the harder it is to qualify.	5- Strongly agree
			4
			3
			2
			1-Strongly disagree
			Don't know
Q16.7	All	The longer the mortgage term the more expensive it is to break the mortgage contract.	5- Strongly agree
			4
			3
			2
			1-Strongly disagree
			Don't know
Q16.8	All	I'd be afraid of missing out on a potential decrease in interest rates if I locked into a mortgage longer than 5 years.	5- Strongly agree
			4
			3
			2
			1-Strongly disagree
			Don't know
Q16.9	All	Avoiding the hassle of having to renew my mortgage often is appealing to me.	5- Strongly agree
			4
			3
			2
			1-Strongly disagree
			Don't know
Q16.10	All	I have a hard time imagining what life will be like in 10 years.	5- Strongly agree
			4
			3
			2
			1-Strongly disagree
			Don't know
Q16.11	All	I would feel anxious to be locked into a mortgage term longer than 5 years, even if I had the flexibility to break the mortgage contract if I wanted to.	5- Strongly agree
			4
			3
			2

ID	Audience	Question	Answers
			1-Strongly disagree
			Don't know
Q16.12	All	I know I would regret it if I didn't go with a variable rate mortgage or shorter fixed mortgage because it gives me more flexibility.	5- Strongly agree
			4
			3
			2
			1-Strongly disagree
			Don't know
Q17	Scenarios		

On the next few screens you will see mortgage scenarios. For each scenario please select the option you would be most likely to pick.
Assume that:

- You need to borrow $300,000 (the initial principal amount).
- The loan needs to be paid off within 25 years. So, you need to re-negotiate a new contract in 5 years (if you choose the 5-year variable or fixed rate mortgage), or in 10 years (if you choose the 10-year fixed rate mortgage).
- You know that you qualify for any of the mortgages presented in the scenarios.

Here is some additional information that can help you make the best decision based on your situation:

[Group 2 and 3]
Note: The information has been simplified for the purpose of this exercise

		5-Year Variable	5-Year Fixed Rate	10-Year Fixed Rate
[Group 2, Group 3] Can the interest rate change during the term?		Yes - But you can switch to a fixed rate at any time without paying a penalty.	No	No
[Group 2, Group 3] Will my payment amount change during the term?		No	No	No
[Group 2, Group 3] Can I know how much will be left to pay on my house at the end of the term?		No - If the interest rate goes up, a larger portion of your payment will go towards paying the interest.	Yes	Yes
[Group 3] Can I break my mortgage contract?		Yes – with a penalty fee	Yes – with a penalty fee	Yes – with a penalty fee
[Group 3] Approximate penalty fee if I break the mortgage contract after 3 years (e.g. sell the home).	If interest rates go up by 1%	$3,600	$4,000	$4,400
	If interest rates go down by 1%	$3,600	$6,000	$21,000
[Group 3] Approximate penalty if I break the mortgage contract after 5 years. **Note:** The penalty calculation changes after 5 years have passed.		n/a	n/a	$4,400

ID	Audience	Question	Answers

Which of the following options would you select?

Matrix to be programmed.

	OPTION 1	OPTION 2	OPTION 3
Screen 1 (version A)	5-year variable: 4.00% ($1,578/month)	5-year fixed: 4.50% ($1,660/month)	10-year fixed 5.00% ($1,745/month)
Screen 2 (version A)	5-year variable: 4.00% ($1,578/month)	5-year fixed: 5.50% ($1,831/month)	10-year fixed 6.75% ($2,055/month)
Screen 3 (version A)	5-year variable: 4.00% ($1,578/month)	5-year fixed: 5.00% ($1,745/month)	10-year fixed 5.25% ($1,788/month)
Screen 4 (version A)	5-year variable: 4.00% ($1,578/month)	5-year fixed: 4.00% ($1,578/month)	10-year fixed 4.75% ($1,702/month)
Screen 1 (version B)	5-year variable: 4.00% ($1,578/month)	5-year fixed: 5.00% ($1,745/month)	10-year fixed 5.50% ($1,831/month)
Screen 2 (version B)	5-year variable: 4.00% ($1,578/month)	5-year fixed: 4.50% ($1,660/month)	10-year fixed 5.25% ($1,788/month)
Screen 3 (version B)	5-year variable: 4.00% ($1,578/month)	5-year fixed: 4.00% ($1,578/month)	10-year fixed 5.25% ($1,788/month)
Screen 4 (version B)	5-year variable: 4.00% ($1,578/month)	5-year fixed: 5.50% ($1,831/month)	10-year fixed 5.75% ($1,875/month)
Screen 1 (version C)	5-year variable: 4.00% ($1,578/month)	5-year fixed: 4.00% ($1,578/month)	10-year fixed 5.25% ($1,788/month)
Screen 2 (version C)	5-year variable: 4.00% ($1,578/month)	5-year fixed: 4.50% ($1,660/month)	10-year fixed 5.00% ($1,745/month)
Screen 3 (version C)	5-year variable: 4.00% ($1,578/month)	5-year fixed: 5.50% ($1,831/month)	10-year fixed 5.75% ($1,875/month)
Screen 4 (version C)	5-year variable: 4.00% ($1,578/month)	5-year fixed: 5.00% ($1,745/month)	10-year fixed 5.75% ($1,875/month)

ID	Audience	Question	Answers
Q18	All	Please suppose that you currently make $50,000 a year. Next month you are re-locating and your company is offering 5 jobs to employees like you. Your new salary will start on your first day and remain the same until you retire. Please tell us which of these job(s) you will definitely consider. (select all that apply)	Job A pays $50,000 a year until you retire.
			Job B has a chance of doubling your yearly income to $100,000; but it is equally likely that you will make 10% less ($45,000).
			Job C has a chance of doubling your yearly income to $100,000; but it is equally likely that you will make 20% less ($40,000).
			Job D has a chance of doubling your yearly income to $100,000; but it is equally likely that you will make 33% less ($33,333).
			Job E has a chance of doubling your yearly income to $100,000; but it is equally likely that you will make 50% less ($25,000).
D1	All	How long do you plan to stay in the home you own/ rent? (select one)	1 year
			2 years
			3 years
			4 years
			5 years
			6-10 years
			More than 10 years
D2	All	With your current monthly household income, can you pay for all of your monthly expenses? (select one)	Yes, and I have more than $200 left to spend
			Yes, and I have less than $200 left to spend
			No, but $200 more would cover all my expenses
			No, and I would need more than $200 to cover all my expenses
			Don't know
			Prefer not to say
D3	All		All of it

ID	Audience	Question	Answers
		If tomorrow, you had to meet an unexpected expense that is equivalent to a month's income, how much of it would you be able to cover from money you have readily available either in cash or in an account? (select one)	Some of it
			None of it
			Don't know
D4	All	If you were to face an unexpected expense that is equivalent to a month's income, how would you cover the costs? (select one)	Credit card
			Loan or line of credit
			Emergency savings
			Friends or family
			Other [text box]
			Don't know
ASK D5 IF (S2=1) TARGET ,1 OTHERWISE SKIP TO D7			
D5	Target 1	What was the original value of the mortgage loan on your home? That is, when you first bought your current home, how much money did you need to borrow? (select one)	Under $100,000
			$100,000 to under $150,000
			$150,000 to under $200,000
			$200,000 to under $250,000
			$250,000 to under $300,000
			$300,000 to under $400,000
			$400,000 to under $500,000
			$500,000 to under $600,000
			$600,000 to under $750,000
			$750,000 +
ASK D6 IF (S2=1) TARGET 1 OTHERWISE SKIP TO D7			
D6	Target 1	And what is the approximate amount of money you have left on your mortgage? (select one)	Under $50,000
			$50,000 to under $100,000
			$100,000 to under $150,000
			$150,000 to under $200,000
			$200,000 to under $250,000
			$250,000 to under $300,000
			$300,000 to under $400,000
			$400,000 to under $500,000
			$500,000 to under $600,000
			$600,000 +
			Don't know
D7	All	What is the highest level of education that you have completed? (select one)	Grade 8 or less
			Some high school
			High school diploma or equivalent

ID	Audience	Question	Answers
			Registered Apprenticeship or other trades certificate or diploma
			College, CEGEP or other non-university certificate or diploma
			University certificate of diploma below bachelor's level
			Bachelor's degree
			Post graduate degree above bachelor's level
			Prefer not to answer
D8	All	Which of the following categories best describes your total household income? That is, the total income of all persons in your household combined, before taxes. (select one)	Under $20,000
			$20,000 to just under $40,000
			$40,000 to just under $60,000
			$60,000 to just under $80,000
			$80,000 to just under $100,000
			$100,000 to just under $150,000
			$150,000 and above
			Prefer not to answer
D10	All	Number of adult household members (including yourself)	1 2 3 4 5+
D11	All	Number of children (under 18) in household	0 1 2 3 4 5+

Thank you for your time.