Ipsos Public Affairs

Financial Consumer Agency of Canada

BANK OF CANADA
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Financial Consumer Agency of Canada [FCAC]

Bank of Canada [BoC]

Longer-Term Mortgages

October 2019

GAME CHANGERS

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INTRODUCTION

Introduction

BACKGROUND

- The Financial Consumer Agency of Canada (FCAC) provides timely and objective information and tools to help consumers understand and shop for a variety of financial products and services.
- The FCAC, in collaboration with the Bank of Canada (BoC), has commissioned Ipsos to conduct qualitative and quantitative research on Canadian consumers' level of awareness and appetite in longer-term mortgages (mortgages with a term longer than 5 years).
- This qualitative research was intended to understand factors that lead borrowers to choose longer-term mortgages and factors that lead borrowers to avoid choosing longer-term mortgages.
- The quantitative research is provided under a separate cover and involved a quantitative survey to validate and further refine the qualitative learnings.

OBJECTIVES

- The objectives of this research are to initiate the study on consumers' awareness and appetite for longer-term mortgages and discover the depth and breadth of awareness, misconceptions and opportunities related to mortgage decision-making.

Methodology

- **In May 2019, 10 in-person focus groups were conducted. 2 sessions were held in each of the following cities.**
- **Group composition was as follows:**

DATE	LOCATION	GROUP COMPOSITION
May 7, 2019	Toronto, Ontario	General population age 25+; 50% current homeowners/prospective homeowners
May 8, 2019	Brockville, Ontario	General population age 25+; 50% current homeowners/prospective homeowners
May 9, 2019	Montreal, Quebec	General population age 25+; 50% current homeowners/prospective homeowners (French)
May 13, 2019	Vancouver, British Columbia	General population age 25+; 50% current homeowners/prospective homeowners
May 15, 2019	Charlottetown, Prince Edward Island	General population age 25+; 50% current homeowners/prospective homeowners

KEY FINDINGS

Key Findings

- **The focus groups were separated into 5 areas of assessment.**

PART 1. KNOWLEDGE TESTING

- Most participants expressed a level of **confusion** when presented with mortgage-related terminology, especially term vs. amortization.
- Even after being given definitions, some participants still used term and amortization interchangeably.

PART 2. INFORMATION SOURCES

- Participants indicated that the Government of Canada **is not** top of mind when looking for mortgage-related information.

PART 3. BENEFITS AND DRAWBACKS OF LONGER-TERM MORTGAGES

- Some of the most commonly **perceived** benefits and drawbacks include:

Perceived Benefits

- ✓ Peace of mind, less hassle
- ✓ Budgeting is easier
- ✗ More time to pay off the mortgage

Perceived Drawbacks

- ✓ Higher interest rate
- ✓ Life can change significantly
- ✓ Less flexibility
- ✗ It takes longer to pay off

- Items with a red x indicate areas where participants are misinformed.

Key Findings... *continued*

- **The focus groups were separated into 5 areas of assessment.**

PART 4. INFORMED DECISION MAKING

- Many participants said they **didn't have enough information** to make an informed decision regarding mortgage options available to them.
- Many participants indicated that **they didn't know what to ask for** or where to get information they can trust.

PART 5. MORTGAGE PENALTIES

- **Awareness is low** regarding prepayment penalties, when they apply and how they are calculated.
- Many participants believed that the longer the mortgage term, the higher the penalty, which is not always the case.

DETAILED FINDINGS

The focus group sessions were divided into 5 areas of assessment:

- **Part 1: Knowledge Testing**
- **Part 2: Information Sources**
- **Part 3: Benefits and Drawbacks of Longer-Term Mortgages**
- **Part 4: Informed Decision Making**
- **Part 5: Mortgage Penalties**

GAME CHANGERS Ipsos

Part 1:

KNOWLEDGE TESTING

Do consumers understand mortgage-related terminology?

Do consumers understand mortgage-related terminology?

- **Consumers don't have a clear understanding of mortgage-related terminology.**

Terminology	Interest Rate Types	Contract Features	Urban Centers
Across all sessions, there was relative confusion regarding terminology, primarily as it related to the concepts of mortgage term and amortization.	Conversely, most participants were able to easily point out the difference between variable and fixed interest rates.	Some participants expressed confusion related to the various contractual obligations associated with variable and fixed rate mortgages (fluctuation in interest rates, ability to lock-in, mortgage penalties, etc.).	Participants in larger urban centers (Toronto, Vancouver and to a somewhat lesser extent Montreal) tended to express more confidence in their knowledge levels. This was likely due to heightened real estate activity in these markets.

Participants’ Feedback

- **Participants were asked to provide definitions for mortgage-related terminology.**
  - Many participants were able to correctly define fixed and variable interest rates.
  - Very few participants were able to correctly define term and amortization. The definitions for term were often vague and incomplete.

“FIXED” INTEREST RATE

✓ “Interest rate is constant and remains the same over the term of the mortgage.”

✓ “The same interest rate locked in for the set term.”

“AMORTIZATION”

× “No clue.”

× “I think of something losing value.”

✓ “The amount of time until property will be paid off.”

“VARIABLE” INTEREST RATE

✓ “Interest rate fluctuates meaning you can pay off principal quicker if rates are lower.”

× “A rate that can be adjusted by the amount of money paid off.”

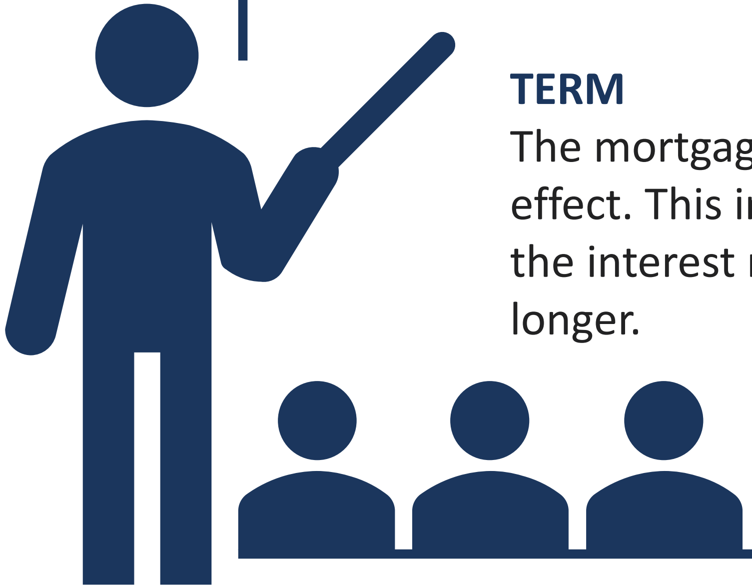
“TERM”

- “Means the amount of time the mortgage can be.”
- “The length of time for a mortgage.”
- “The time you're paying. Your term.”

- Items with a **red x** indicate areas where participants are incorrect. Items with a checkmark ✓ are correct and those with a bullet • are vague.
- Verbatim quotes were provided by participants and represent their point of view.

Do consumers understand mortgage-related terminology?

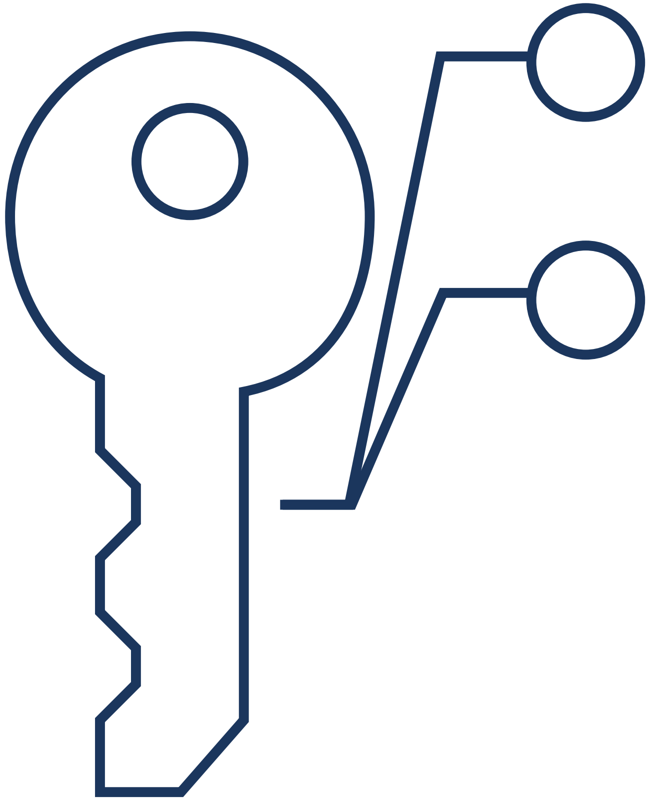
- **Upon completion of this initial conversation, participants were provided with the following definitions as reference materials to inform subsequent group discussion and ensure all had the same frame of reference going forward.**
- **Working definitions provided to participants by FCAC:**



AMORTIZATION
The amortization period is the length of time it takes to pay off a mortgage in full. Amortization can range from just a few months to 25 years or longer.

TERM
The mortgage term is the length of time your mortgage contract will be in effect. This includes everything your mortgage contract outlines, including the interest rate. Terms can range from just a few months to five years or longer.

Key Findings



Most participants expressed a level of confusion when presented with mortgage-related terminology, especially term vs. amortization.

Even after being given definitions, some participants still used term and amortization interchangeably.

Part 2

INFORMATION SOURCES

Where do consumers find mortgage-related information?

Where do consumers find mortgage-related information?

- **The internet, financial institutions and family and friends were the most popular answers provided by participants.**
- **When participants were asked if they would look to government resources for mortgage-related information, many participants stated they didn't think of it and/or didn't know the government had this type of information.**

Internet	Family and Friends	Financial Institutions	Financial Media	Government (after the moderator's prompt)
(Google search, financial institution's website, mortgage calculator)		(Financial advisor, real estate broker/mortgage broker/ credit counselor at the financial institution)	(Global and Mail Report on Business, Financial Post and National Post)	(Bank of Canada, Canada Mortgage and Housing Corporation and other government websites)




Participants' Feedback—Reasons participants choose their preferred source

- **Participants were asked to explain why they choose their preferred source rather than others.**

- "My family."
- "Because they know what they're doing."

- "I really just like Globe and Mail Report on Business. [It] is probably the main [source, along with the] Financial Post and National Post. I trust those media outlets, I trust Globe and Mail, I trust National Post, I trust what used to be BNN, you know, etc."

- "And I've done my research, so places like CDIC or the banks have pretty good explanations of it, too. Reliable sources."

- "Well, newspapers and some websites, so like the banks, their own [website]. I know obviously they're marketing towards me and they're marketing might be a little skewed, but I take what's on their site with a grain of salt, of course."

- "Lawyers and realtors. We recognize and trust them."
- "Because I see them as knowledgeable."

- "Mortgage broker."
- "They shop around for your best rate."

- Verbatim quotes were provided by participants and represent their point of view.

Key Finding

Participants indicated that the internet, financial institutions as well as family and friends are top of mind when looking for mortgage-related information.

Part 3

BENEFITS AND DRAWBACKS OF LONGER-TERM MORTGAGES

What motivates borrowers to choose or avoid longer-term mortgages?

What motivates borrowers to choose or avoid longer-term mortgages?

- **Mortgages were separated into 2 categories based on the length of the term: longer-term and shorter-term mortgages. These categories are meant to help simplify discussions. These are not common in the industry and therefore, required a definition.**
- **Working definitions provided to participants by FCAC:**

SHORTER-TERM MORTGAGE
5 years or less

LONGER-TERM MORTGAGE
More than 5 years

Shorter-Term vs. Longer-Term Mortgages

- **Participants were asked to discuss the benefits and drawbacks of shorter-term vs. longer-term mortgages.**

- “Stabilité, pas de surprise.”

- “An advantage of it (shorter term mortgage) would be if something’s changing in your personal life, if you're in a temporary position, just at the beginning of your career and haven’t made it all the way up to where you are in pay scale, in five years you can renegotiate and maybe get a lower rate in five years when you're making more money.”

- “Some other things that people perhaps don’t realize because most people want to go long, or go 5 or 10 years, sometimes if you do shorter you can actually pay it off faster.”

- “I think for a long-term, if you have something that’s fixed then you don’t really have to worry about it, you can almost plan better because you know what your payment’s going to be on a monthly or weekly basis.”

- Verbatim quotes were provided by participants and represent their point of view.

Major differences/advantages and drawbacks between shorter-term and longer-term mortgages

- **Below is a list of advantages and drawbacks provided by the participants.**
- **Items with a red x indicate areas where participants are misinformed.**

	PERCEIVED ADVANTAGES	PERCEIVED DRAWBACKS
SHORTER-TERM MORTGAGE	• Lower interest rates • Flexibility (more choices/less commitment/the opportunity to negotiate a lower interest rate) • Fluctuations in interest rates could lead to a lower interest rate	• Fluctuations in interest rates could lead to a higher interest rate • More paperwork • Less secure and stable ✘ Less time to pay back the mortgage
LONGER-TERM MORTGAGE	• No fluctuations in interest rates • Peace of mind • Less hassle • Predictability and stability ✘ More time to pay back the mortgage	• Requires a financial commitment • Higher interest rate • Less flexible • It's harder to qualify ✘ Higher mortgage penalties

Longer-Term Mortgages – Scenario 1

SCENARIO 1	**You Are Shopping For A Mortgage –** ***In this case you have two options:***	
	OPTION 1	**OPTION 2**
	5-year fixed rate mortgage at an **interest rate of 5.24%**	**10-year fixed** rate mortgage at an **interest rate of 6.60%**
What factors influence your decision to go one way or the other?	**Participants responses typically include:** • Anticipation of an economic recession • Opportunity to negotiate a lower interest rate • Current financial obligations/Difficulty in obtaining longer-term mortgages • Unexpected changes in life • Flexibility	**Participants responses typically include:** × More time to pay back the mortgage • Easier to plan and make a budget • Less paperwork • Certainty and stability • Fluctuations in interest rates
What makes you say that?	• "Based on current conditions, I feel that we may be entering into a recession in which case I would opt for 5.24% because likely the rate will decline." • I hope interest rates will go down by the next renewal."	• "I would take a higher rate fixed at 10 years. I would not have to follow any rates. All my paperwork would be done." • "Safe bet, same payment for 10 years, no changes."

- Verbatim quotes were provided by participants and represent their point of view.

Longer-Term Mortgages – Scenario 2

SCENARIO 2	**You Are Shopping For A Mortgage – *In this case you have two options:***	
	OPTION 1	**OPTION 2**
	5-year fixed rate mortgage at an **interest rate of 5.24%**	**7-year fixed** rate mortgage at an **interest rate of 5.68%**
What factors influence your decision to go one way or the other?	**Participants responses typically include:** • Difference in interest rates • Current economy outlook × Able to pay off the mortgage faster • Flexibility to shop around	**Participants responses typically include:** • Certainty • Less hassle • Not much difference in interest rate
What makes you say that?	× "Less penalty to get out of a 5-year, more opportunities to shop around." × "5-years to help pay it off quicker." • "Lower payment, renewal at singing based on reduced principal."	• "Minimal interest difference so you get almost same rate for a longer period, more peace of mind." • "Not enough of a variation in interest rates to go through extra hassle."

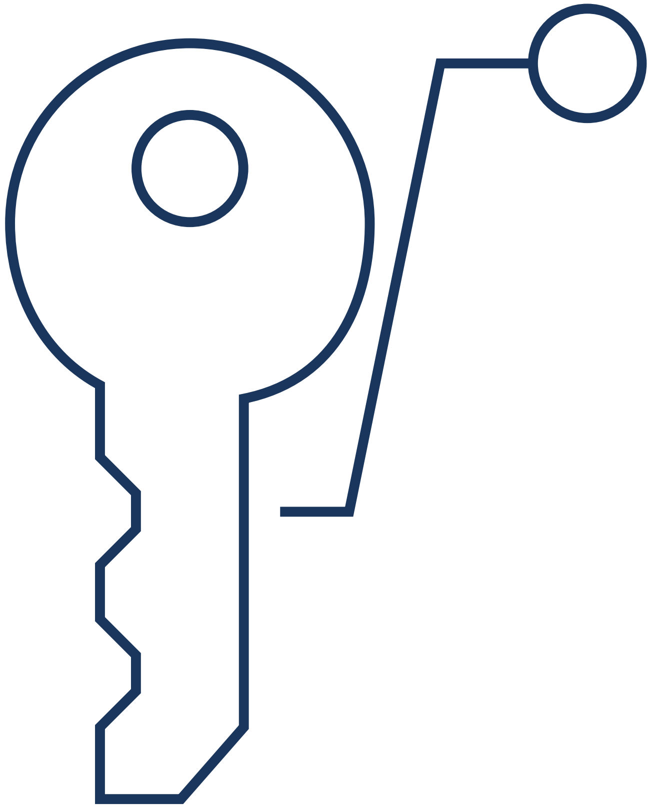
- Verbatim quotes were provided by participants and represent their point of view.

Longer-Term Mortgages – Scenario 3

SCENARIO 3	**You Are Shopping For A Mortgage –** ***In this case you have two options:***	
	OPTION 1	**OPTION 2**
	5-year variable rate mortgage at **interest rate of 4.1%**	**5-year fixed rate** mortgage at an **interest rate of 5.24%**
What factors influence your decision to go one way or the other?	**Participants responses typically include:** • Interest rates have been stable • Lower interest rate • Flexibility	**Participants responses typically include:** • A sense of security with fixed rate mortgage • Predictability on payment • No fluctuations in interest rates
What makes you say that?	• "I don't think it would go up by 1.25% or more in 5 years." • "You can lock it in any time. Rates have been stable for years." • "Lower rate and more prepayment options."	• "Variable swing both ways. Unpredictable – could be a higher rate." • "Security and predictability on my payment rather than option 1." • "Variable rates scare me, who knows what will happen!"

- Verbatim quotes were provided by participants and represent their point of view.

Key Findings



- Some of the most commonly perceived benefits and drawbacks include:

Perceived Benefits

- ✓ Peace of mind, less hassle
- ✓ Budgeting is easier
- ✗ More time to pay off the mortgage

Perceived Drawbacks

- ✓ Higher interest rate
- ✓ Life can change significantly
- ✓ Less flexibility
- ✗ It takes longer to pay off

Items with a red x indicate areas where participants are misinformed

Part 4

INFORMED DECISION MAKING

Do consumers have enough information to make an informed decision?

Do consumers have enough information to make an informed decision?

- **Many participants felt they did not have sufficient information/knowledge in order to decide on the best mortgage term for their needs.**
- **Participants responses and reactions were varied:**
  - Upon further reflection a number of participants felt they had not been paying as much attention to this issue as they should have.
  - They expect transparency and honesty from their broker/financial institutions when helping them with mortgage options. Some question their broker/financial institution's willingness to provide simplified mortgage-related definitions. Consequently they see a role for government in providing simplified mortgage related terminology that can be easily understood by all.
  - Others, particularly those in small centers, felt that they still did not have sufficient information to make an informed decision regarding mortgage options available to them.
  - Participants expressed a desire for more simplified and plain language terminology associated with mortgages.

Do consumers have enough information to make an informed decision?

- **Participants were asked to provide information on their decision-making process.**

What are the key things you need to keep in mind when deciding?

- "The interest rates, I guess, and knowing the difference between the fixed and the variable."

- "Do your homework. There's these terminologies – and they're very vague. I read contracts every day, and when I read a mortgage contract I always say what does that mean?"

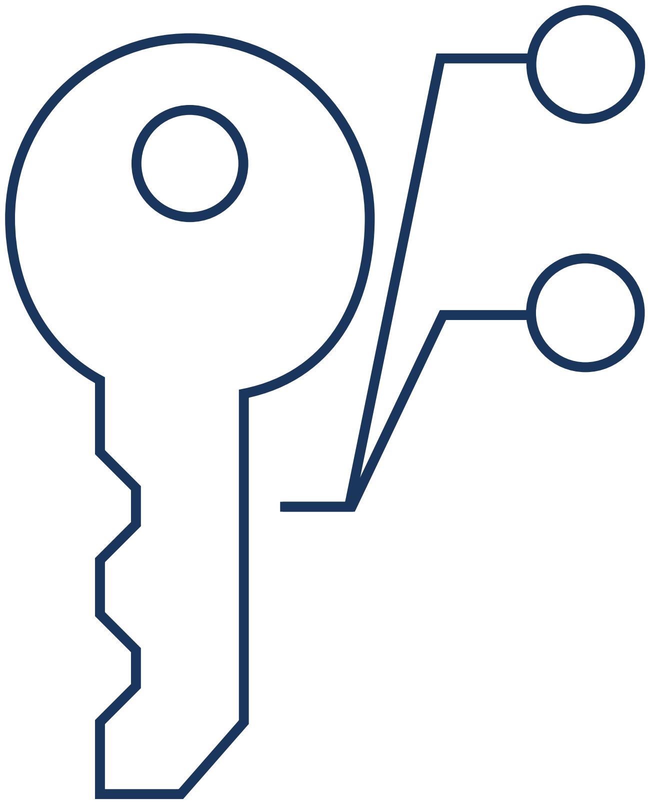
What specifically should financial institutions be telling you/sharing with you to help make an informed decision?

- "Well I wouldn't expect them to be doing me a favour, so I know they're trying to make dough off me and I'm trying to get a better rate. I would look for a third party, but what I expect from the bank? I expect complete honesty."

- "[Information that is] more user friendly... makes it easier for you to make informed decisions when you have information you can digest and understand."

- Verbatim quotes were provided by participants and represent their point of view.

Key Findings



Many participants said they didn't have enough information to make an informed decision regarding mortgage options available to them.

Many participants indicated that they didn't know what to ask for or where to get information they can trust.

Part 5

MORTGAGE PENALTIES

What do consumers know about mortgage penalties?

What do consumers know about mortgage penalties?

- **Those who state that they are familiar with mortgage penalties typically define them in these terms.**

- "Let's say I was locked into a mortgage at 6%, but things for the last year have been down to 2%. If I want to get out of that and renegotiate for another 5-year term, they're going to charge me a fee. There's going to be a penalty. I'm breaking the contract and doing another, they're going to charge me."

- "And the other penalty would be, depends on what your financial situation is, you get laid off or you're not working, you can't make a mortgage payment for 6 months, there's going to be a penalty."

- "The amount you have to pay to get out of your mortgage before the end of its term."

- "Oui c'est comme si je cassais mon contrat de 5 ans, ils ne sont pas contents, pénalité de 3 mois."

- Verbatim quotes were provided by participants and represent their point of view.

What do consumers know about mortgage penalties?

- **Working definitions provided to participants by FCAC:**

A PREPAYMENT PENALTY IS A FEE THAT YOUR LENDER MAY CHARGE IF:

- You make more than the allowed additional payments toward your mortgage
- You break your mortgage contract

Your lender may call the prepayment penalty a prepayment charge or breakage cost.

Prepayment penalties can cost thousands of dollars. It's important to know when they apply and how your lender calculates them.

Mortgage penalties - Scenario 1

Participants were provided with the following scenario:

I've purchased a home as part of this purchase I applied for and have been approved for a 10-year mortgage. My wife and I then decide we want to purchase a bigger home.

What options would participants have under this scenario?

Participants responses typically include:

- Refinancing and renegotiate the contract
- Transfer the mortgage to the new property/portability
- Renegotiate a separate mortgage for the additional amount
- Pay mortgage penalties and end the contract
- Sell the mortgage with the house/the purchaser will take over the mortgage

- "If I'm right, I think you can take your mortgage from one bank to another, and upon getting your business your bank [may] cover the cost of the penalties at the other bank."
- "If you put in a clause about portability, then you can port it over."
- "You could basically sell your house and use the proceeds and buy it in a certain period of time."

- Verbatim quotes were provided by participants and represent their point of view.

Mortgage penalties - Scenario 2

Participants were provided with the following scenario:

We were looking to downsize and simply wanted to sell our home before the end of the term in order to become renters.

Want to sell home before end of term…

… in order to downsize and become renters

What options would participants have under this scenario?

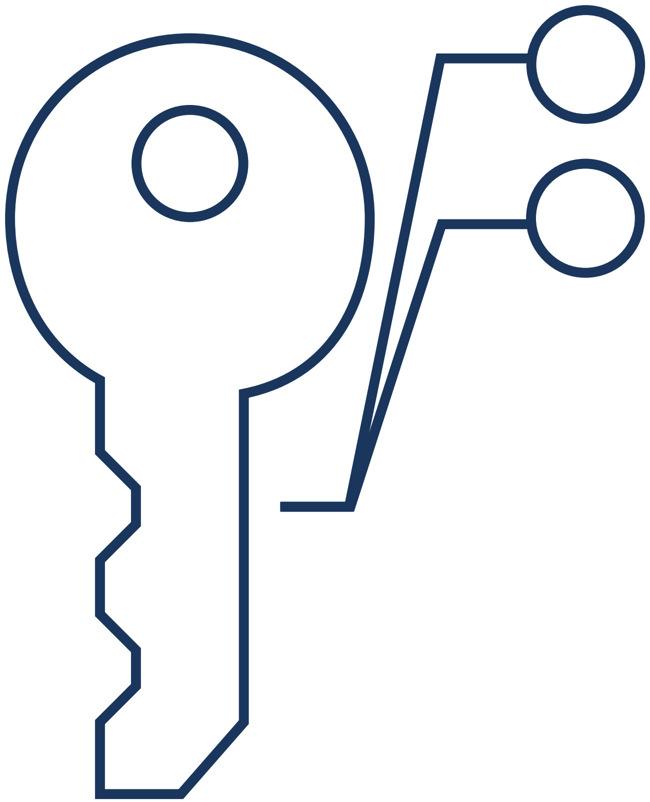
Participants responses typically included:

- Sell the property and pay off the mortgage
- Pay the penalties
- Transfer the mortgage to the purchaser
- Hold off on selling the property and wait until the end of term
- Continue to hold the mortgage on the property

- "Rent your place out and rent it—until that mortgage is finished, you can always do that and get them to pay that mortgage off."
- "You would sell it and then pay the penalty to get out."
- "I've always known there was a penalty but I never really knew the details, and it hasn't… didn't really impact my little tiny mortgage decisions so I didn't look into the details."

- Verbatim quotes were provided by participants and represent their point of view.

Key Findings



- Awareness is low regarding prepayment penalties, when they apply and how they are calculated.
- Many participants believed that the longer the mortgage term, the higher the penalty, which is not always the case.

CONCLUSION

Conclusion

- **Key factors affect consumers' awareness and appetite in longer-term mortgages.**

AWARENESS

- Consumers' lack of understanding of mortgage-related terminology is a barrier to their awareness of longer-term mortgages.
- Consumers are interested in mortgage-related information from an objective third party.

APPETITE

- Those who are less knowledgeable and confident are more likely to consider the benefits of a longer-term commitment (particularly if the interest rate differential is 1% or less) with the primary driver being that they want to minimize hassle and have predictability.
- Those more self-assured and confident in their financial acumen tend to gravitate to shorter terms and variable rate mortgages that offer lower interest rates. They speak of monitoring trends/ being in control and are more likely to be focused on saving through increased contributions to the principal and paying off their debt as soon as possible. They also tend to point to their own track record of securing lower interest rates (successfully) over the last several years.
- A number of participants seem to have mental block related to considering terms longer than 5 years. They typically state that they don't think that far ahead, lots can change in 5 years, life happens (kids, job, health etc.).

ABOUT IPSOS

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GAME CHANGERS

At Ipsos we are passionately curious about people, markets, brands and society. We deliver information and analysis that makes our complex world easier and faster to navigate and inspires our clients to make smarter decisions.

We believe that our work is important. Security, simplicity, speed and substance applies to everything we do.

Through specialisation, we offer our clients a unique depth of knowledge and expertise. Learning from different experiences gives us perspective and inspires us to boldly call things into question, to be creative.

By nurturing a culture of collaboration and curiosity, we attract the highest calibre of people who have the ability and desire to influence and shape the future.

“GAME CHANGERS” – our tagline – summarises our ambition.