Canadian consumer awareness and interest in longer-term mortgages

Final Report

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

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President
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INTRODUCTION

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

		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

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

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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.

DETAILED FINDINGS

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DETAILED FINDINGS

AWARENESS AND KNOWLEDGE

This section details the level of awareness and knowledge of longer-term mortgages among both the target audience and the general population.

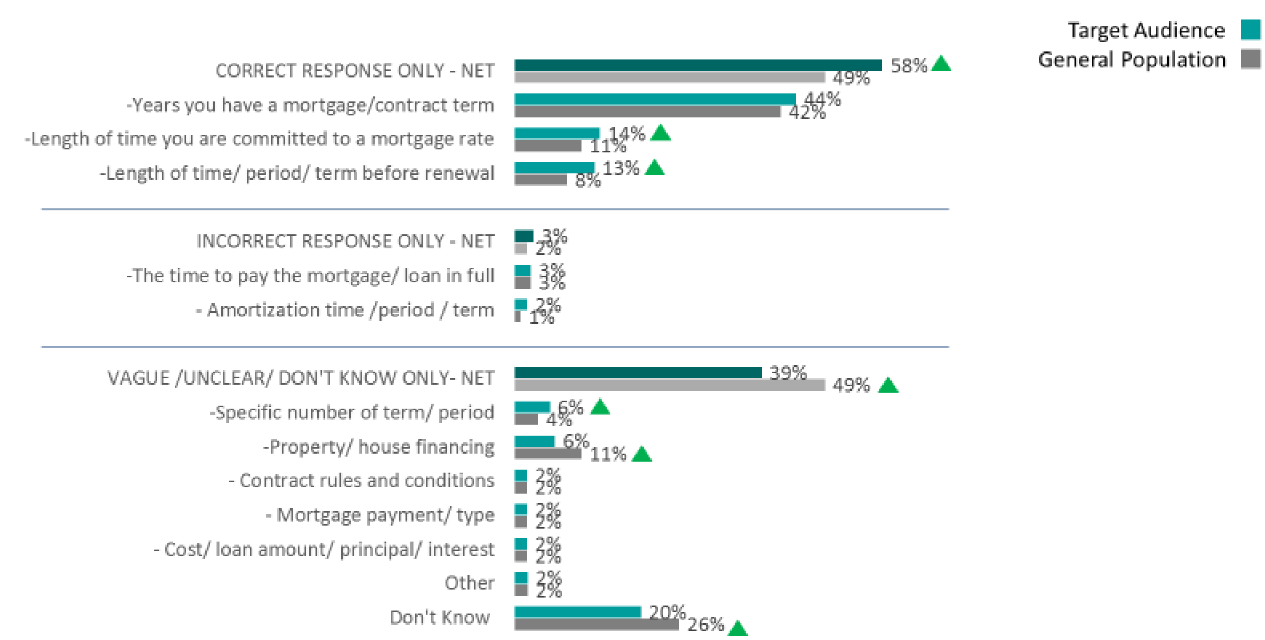
Understanding of mortgage terminology

In order to assess the baseline knowledge of both the target audience and the general population, survey respondents were asked to provide their understanding of the phrases "mortgage term" and "amortization period" by answering open-ended questions asking them what they believe these phrases mean.

Understanding of the phrase "mortgage term"

The responses indicate that there is a significant lack of knowledge about mortgage terms among both the general population and the target audience. Only half of the general population (49%) provided a strictly correct description of the phrase mortgage term. Correct answers included: "years you have a mortgage/contract term," "the length of time you are committed to a mortgage rate," or "the length of time before renewal." The target audience was only slightly more knowledgeable with 58% offering a strictly correct answer. Notably, very few respondents offered strictly incorrect responses (3% of target audience and 2% of general population) – a much larger share of respondents (49% among the general population and 40% among the target audience) either provided a mix of correct and incorrect answers, chose "do not know" or most commonly, offered what would be characterized as a vague response – such as "specific number/term" or "property/house financing". Additionally, 20% of the target audience state that they don't know what the phrase "mortgage term" means, demonstrating that there is potential for discrepancies between the understanding of what a mortgage term is, what respondents believe is available in Canada, and their knowledge of what their own mortgage term is.

Figure 5: Understanding of the Phrase Mortgage Term



Q7. What does the phrase mortgage term mean? Base: All respondents - Target audience (n=2511); General population (n=2525)

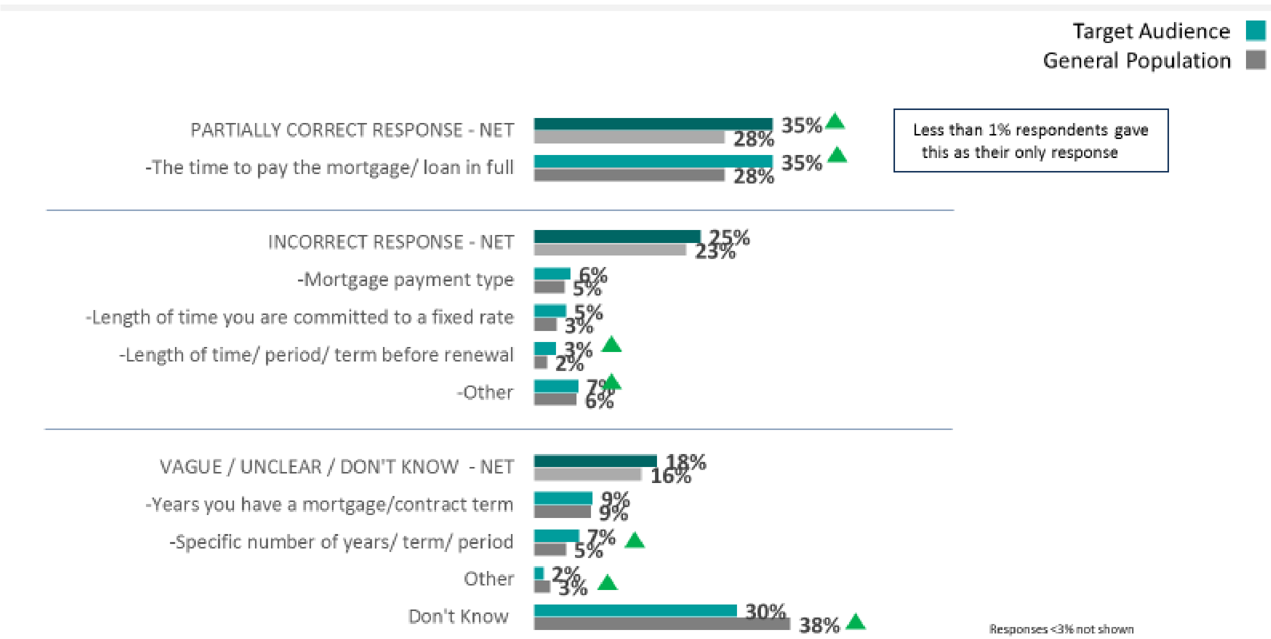
Within both the target and general populations, consumers with higher levels of education (e.g., university degree) (high 50s – 60 percentage) and higher household income ($100,000 or greater) (mid 50s- 60% range) are more likely to have a correct understanding of mortgage term. Amid the target audience, awareness is higher among those with a fixed term mortgage (63%), lower financial stress (64%), and among men compared to women (60% vs 56%).

Understanding of the phrase "amortization period"

Understanding of amortization among both the target audience and general population is considerably weaker than the understanding of mortgage term. In fact, less than 1% of respondents gave a strictly correct response by saying only that it means "the time to pay the mortgage in full." While approximately a third (35%) of the target audience and 28% of the general population correctly defined *amortization period* as "the time to pay off a mortgage or loan in full," these respondents also indicated something that would be characterized as incorrect or vague. Thus, these individuals might be considered partially correct.

Nearly as many respondents offered responses that would be characterized as strictly incorrect. One quarter of the target audience (25%) and 23% of the general population provided incorrect responses ranging from "mortgage payment type" (6%) to "the length of time you are committed to a fixed rate" (5%), indicating confusion between the meaning of mortgage term and amortization period. Importantly, three in ten (30%) in the target audience and almost four in ten (38%) in the general population do not know what the phrase "amortization period" means.

Figure 6: Understanding of the Phrase Amortization Period



Q11. What does the phrase amortization period mean?
Base: All respondents - Target audience (n=2511); General population (n=2525)

The above evidence indicates an important finding: that there is not a strong understanding of what a mortgage term or an amortization period is among Canadians. Indeed, there is some confusion between the two within both the target audience and the general population. This is important context as uptake of a longer-term mortgage may be predicated on a misunderstanding of mortgage term and amortization period.

To mitigate any bias or misunderstanding within the survey, the following definitions were provided to respondents following their responses to these unaided awareness questions:

"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."
"The amortization period is the total length of time it takes to pay off a home in full."

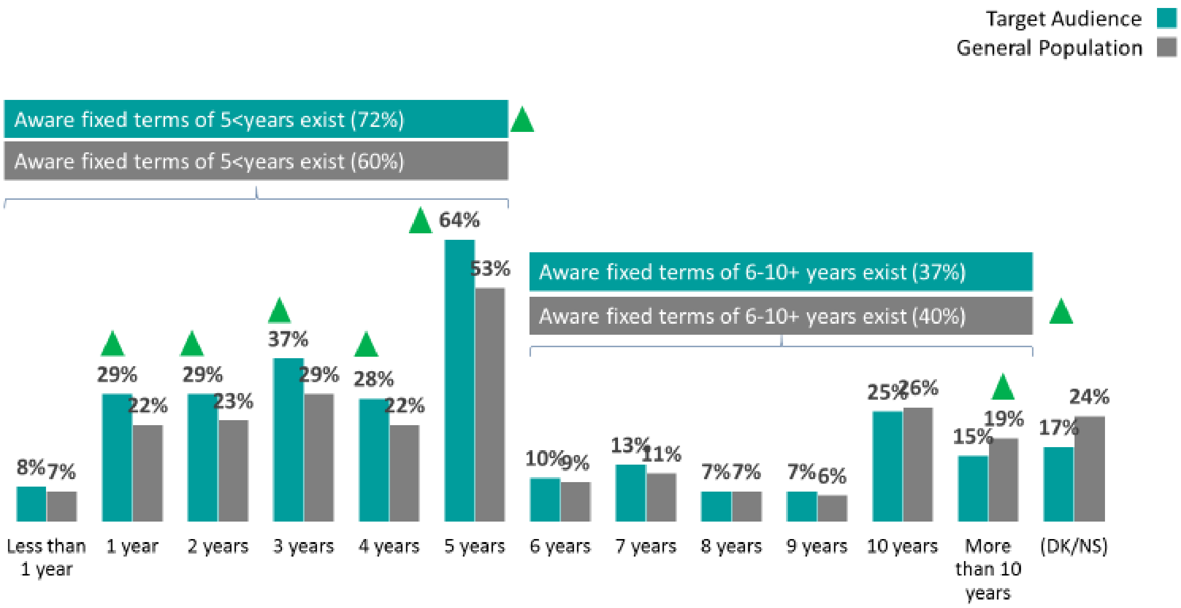
Awareness of availability of longer-term mortgage terms

Only four in ten of the target audience indicate that mortgage terms of greater than 5 years are available in Canada (37%). 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 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.

Canadians are most familiar with 5-year mortgage terms. When asked to indicate the various mortgage terms they believe are available in Canada, more than half (64%) of the target audience answered that they are aware of a 5-year mortgage term. Mortgage terms less than 5 years had much lower recognition with a third of respondents being aware of 4-year terms (28%), 3-year terms (37%), 2-year terms (29%) and 1-year term (29%). Knowledge is even less strong for mortgage terms more than 5 years. Only one in ten respondents are aware of a 6-year (10%), 7-year (13%), 8-year (7%), or 9-year (7%) mortgage. There is a greater recognition of the 10-year mortgage (25%) and mortgage terms greater than 10 years (15%). However, awareness is still low with 75% indicating either a 10-year mortgage term is not available (58%) or they don't know if it is available (17%).

General population awareness of terms longer than 5 years is generally consistent with the target audience (40% vs. 37%), while awareness of 5-year mortgage terms is lower than the general population (53% vs. 64%). Between a quarter and a third of the general population are aware of the 4-year (22%), 3-year (29%), 2-year (23%) and 1-year (22%) mortgage terms. Awareness of the 10-year mortgage fixed term is 26% among the general population and 19% claim to know mortgage terms of longer than 10 years are available.

Figure 7: Aware longer-term fixed mortgage terms are available

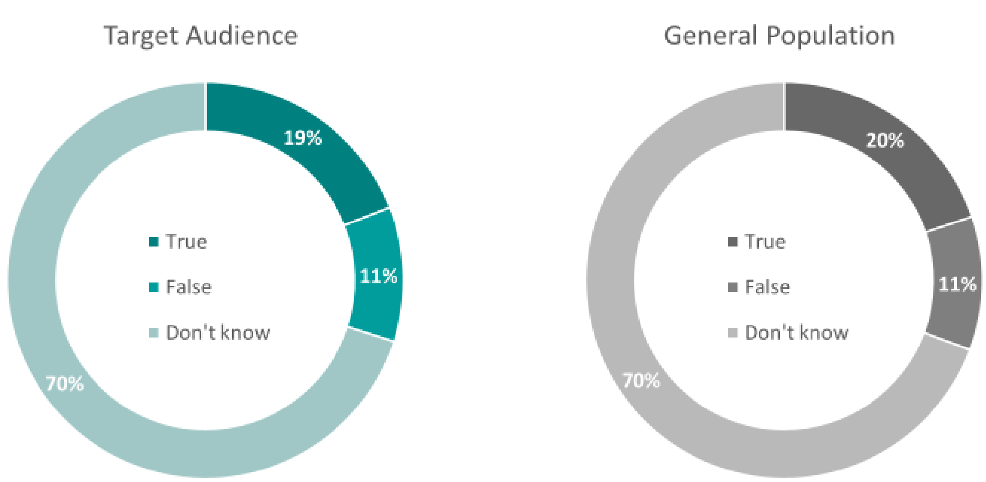


Q8. As far as you know which of following mortgage terms are available in Canada for mortgages with a fixed interest rate?
Base: All respondents - Target audience (n=2511); General population (n=2525)

Awareness that pre-payment penalties on longer-term mortgages change after the 5th year

Knowledge of penalties for mortgage terms longer than 5 years is low, with only two in ten in the target audience and the general population respectively answering correctly that the rules regarding penalty fees change after 5 years. Among both the target and general population, 70% 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 longer-term mortgages.

Figure 8: Knowledge of Penalties on Longer-term Mortgages



Q13. 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.
Base: All respondents - Target audience (n=2511); General population (n=2525)

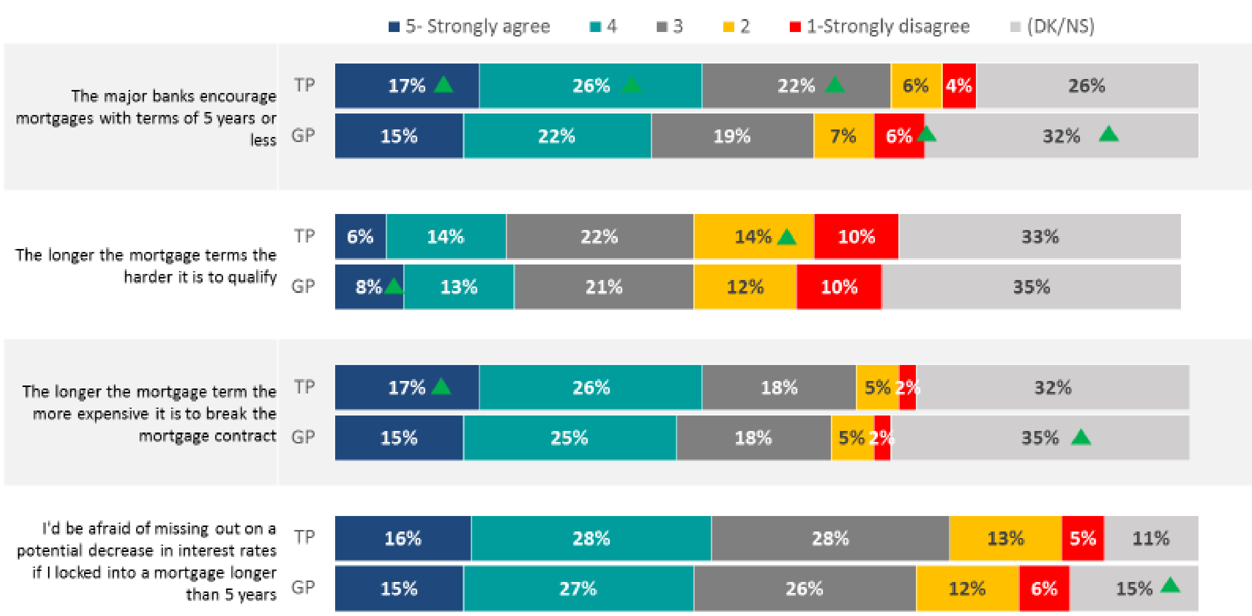
When asked more directly about mortgage penalties, a large minority of consumers believe that "the longer the mortgage term the more expensive it is to break the mortgage contract." A total of 43% of the target audience *agreed* with this statement, with only 7% *disagreeing*. Within the general population, 39% *agreed* that longer mortgage terms are more expensive to break, while, like the target audience, 7% *disagreed*. In both the target and general population, a third of respondents stated that they did not know (32% target audience, 35% general population). This becomes important to decision-making given that the penalty to break a longer-term mortgage after 5 years is in fact often consistent with breaking at a 5-year term.

Knowledge that can affect predisposition to mortgage terms

A closer examination of consumers' understanding of mortgage terms provides further confirmation that consumers know little about the details of longer-term mortgages and many misunderstand several details. This could create a barrier to their openness to considering longer-term mortgages.

Among the target audience, almost half (44%) *agreed* that they would be "afraid of missing out on a potential decrease in interest rates if [they] locked into a mortgage longer than 5 years," while 18% *disagreed*. Among the general population 41% *agreed* that they feared missing out on rate decreases, while, in the target audience, 17% *disagreed*.

Figure 9: Knowledge of Mortgage Terms



Q16. Based on your current understanding of mortgages, do you agree or disagree with the following?
Base: All respondents - Target audience (n=2511); General population (n=2525)

Nearly half of the target audience (42%) *agrees* (rating of 4 or 5) that "the major banks encourage mortgages with terms of 5 years or less", while a quarter (26%) state that they don't know. Similarly, 36% of the general population *agree* that the major banks encourage mortgages with terms of 5 years or less while 13% *disagree* and a third (32%) do not know.

Notably, two in ten (21%) in the target audience *agree* that “the longer the mortgage terms the harder it is to qualify.” While only slightly more consumers, one-quarter of the target audience (24%), *disagrees* with this statement, 33% are unsure. Similarly, two in ten (21%) in the general population *agree* that longer mortgage terms are harder to qualify for, while 22% *disagree*. As in the target audience, a third of respondents are unsure.

Differences among sub-groups

There are notable differences within the population pertaining to these knowledge related measures. For example, homeowners with a mortgage are more likely to agree that the major banks encourage mortgages with terms of 5 years or less (45% vs. 36% in the general population and 30% among those likely to purchase a home in the next 5 years). Younger consumers (under age 45 in both the target and general population) are more likely to agree that the longer the mortgage terms the harder it is to qualify (26% vs 16% 45 years+). For both measures as well as others, men are more likely to agree than women (47% vs 38% women on perception of banks and 25% vs. 17% women on qualification).

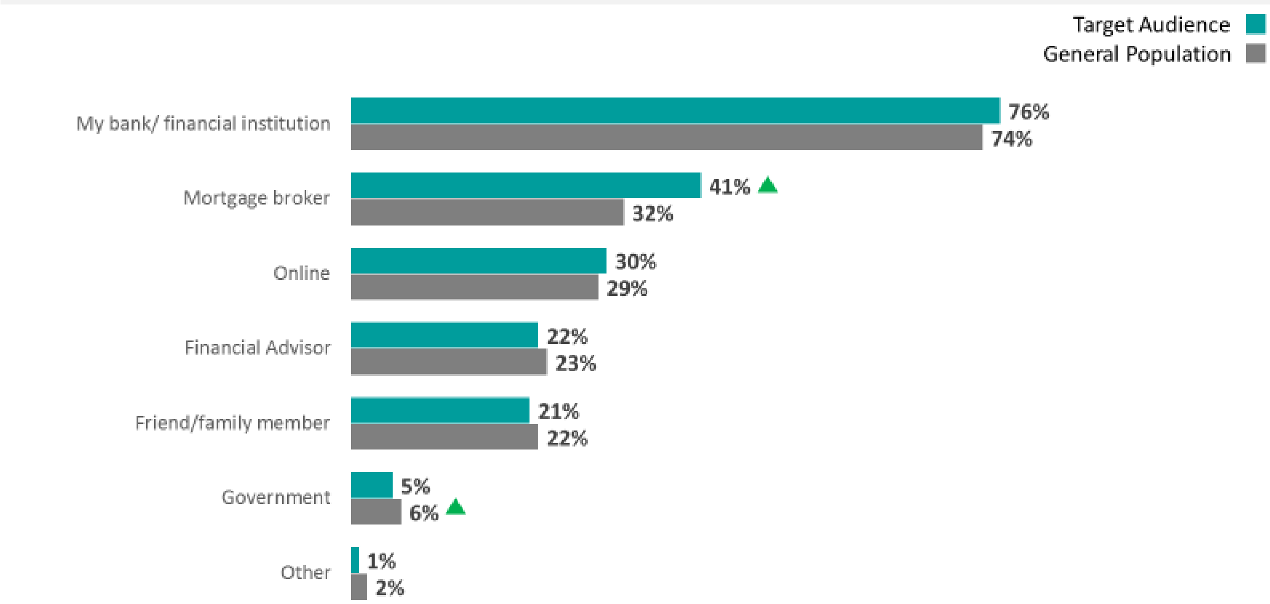
SOURCES OF MORTGAGE INFORMATION

This section details common sources of mortgage information used by both the target audience and the general population. Understanding where consumers look for information will be useful when determining how best to reach consumers with education about longer-term mortgages and related relevant information about borrowing decisions.

Obtaining mortgage information

All respondents were asked where they would obtain information about getting a new mortgage or renewing an existing mortgage. More than three quarters of the target audience (76%) say they would seek information from their bank or financial institution. This was followed by just under half (41%) who say they would ask a mortgage broker, and a third (30%) who would search online. Among the general population, three quarters (74%) would look for information from their bank or financial institution and a third would inquire with their mortgage broker (32%) or online (29%).

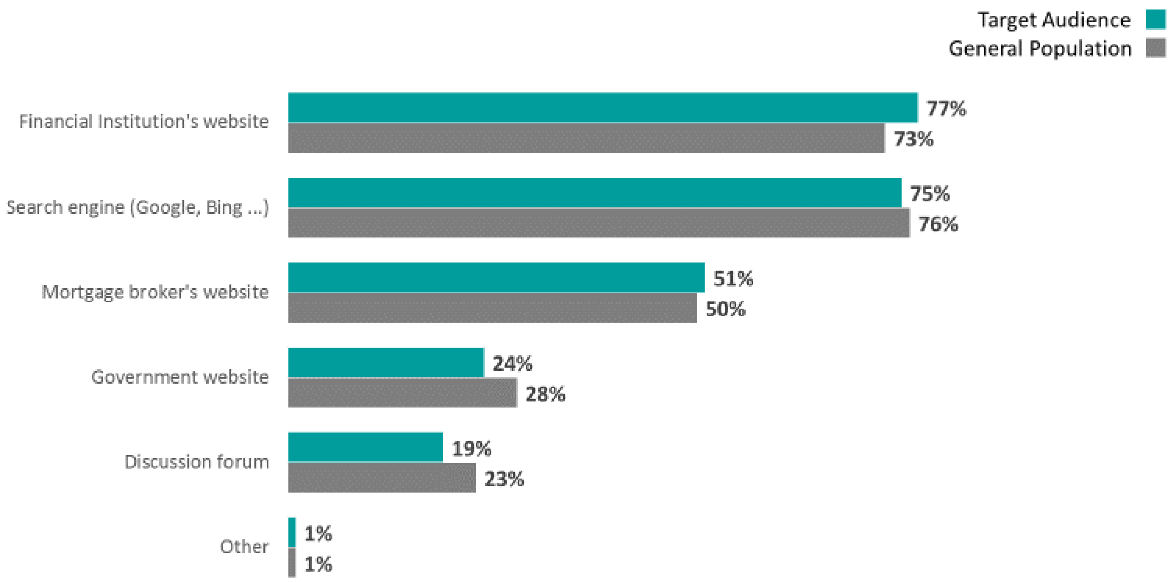
Figure 10: Obtaining Mortgage Information



Q1. If you were looking to get a mortgage or renew an existing mortgage, where would you get your information?
Base: All respondents - Target audience (n=2511); General population (n=2525)

Those who said that they would seek information online were asked where online they would look for information. Within the target audience more than three quarters (77%) would look through their financial institution's website, while three quarters of the target audience (75%) would look through a search engine like Google or Bing. Approximately half (51%) would look at their mortgage broker's website. Among the general population, approximately three quarters (76%) would utilize a search engine while 73% prefer to go through their financial institution's website. Consistent with the target audience, half of the general population (50%) would get information from their mortgage broker's website.

Figure 11: Obtaining Mortgage Information Online



Q2. Which websites would you go to? Base: Looking for mortgage info online – Target audience (n=756); General population (n=713)

Differences among sub-groups

There are notable differences within the population groups pertaining to the way consumers seek out information. When asked how they would get information pertaining to mortgages, members of the target audience aged 55+ are more likely to contact their bank or financial institution (83% vs. 76% 45-54, 72% 35-44, 68% 18-34) while younger target respondents (aged 18-34) are significantly more likely to seek information from a financial advisor (33% vs. 23% 35-44, 18% 45-54, 15% 55+), friend or family member (34% vs. 22% 35-54, 19% 45-54, 11% 55+), or through the government (9% vs. 5% 35-54, 2% 45-54, 2% 55+). Within the target audience, men are significantly more likely to seek information online (33% vs. 28% women), while women are significantly more likely to consult a friend or family member (23% vs. 19% men).

Within the general population, Canadians aged 55+ are significantly more likely to consult a bank or financial institution for information (85% vs. 75% 45-54, 70% 35-54, 63% 18-34). Younger respondents (18-34) in the general population are more likely to seek information from a friend or family member (37% vs. 25% 35-44, 17% 45-54, 11% 55+) while respondents under the age of 44 are significantly more likely to consult a financial advisor (30% 18-34, 25% 35-44 vs. 19% 45-54, 18% 55+). Men in the general population are more likely to look online for mortgage information (33% vs. 24% women), while women are more likely to speak with a financial advisor (26% vs. 20% men), or a friend or family member (24% vs. 19% men).

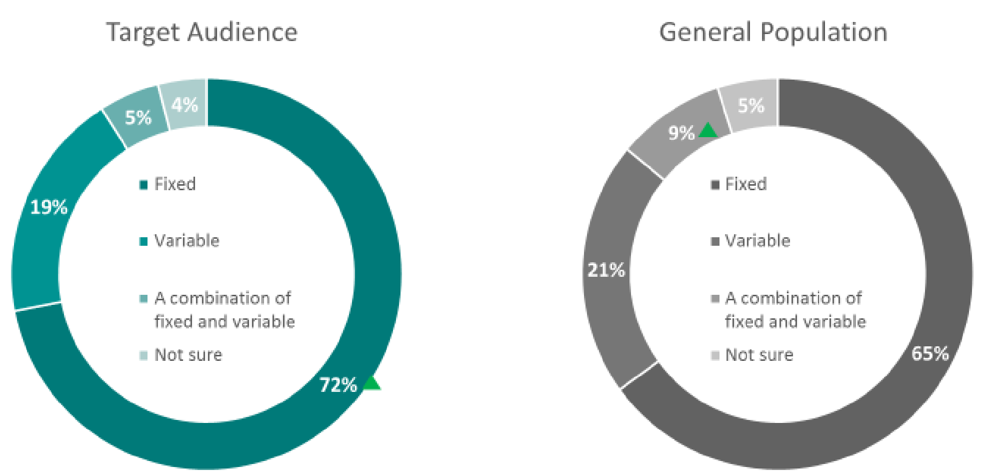
FINANCIAL PROFILE

This section details the financial profile of respondents, including their current mortgage type and term, their remaining loan and amortization, and the amount of financial stress they are under. This information was captured in the survey primarily for understanding the extent to which these attributes impact mortgage term choices.

Current uptake of terms with fixed vs. variable interest rates

Among those who currently have mortgages in the target audience, almost three quarters (72%) report having a fixed interest rate mortgage while two in ten (19%) hold a variable interest rate mortgage. A much smaller proportion (5%) holds a combination fixed and variable interest rates. These proportions are similar among the general population of homeowners as more than six in ten (65%) hold a fixed interest rate mortgage while two in ten (21%) hold a variable interest rate mortgage. Approximately one in ten (9%) respondents in the general population claim to hold a combination of fixed and variable interest rate mortgage.

Figure 12: Uptake of Fixed vs. Variable Interest Rate Mortgages



Q3. Does your existing mortgage on your home have a fixed interest rate or variable interest rate?
Base: Mortgage holders - Target 1 - Target audience (n=2088); General population (n=892)

Differences among sub-groups

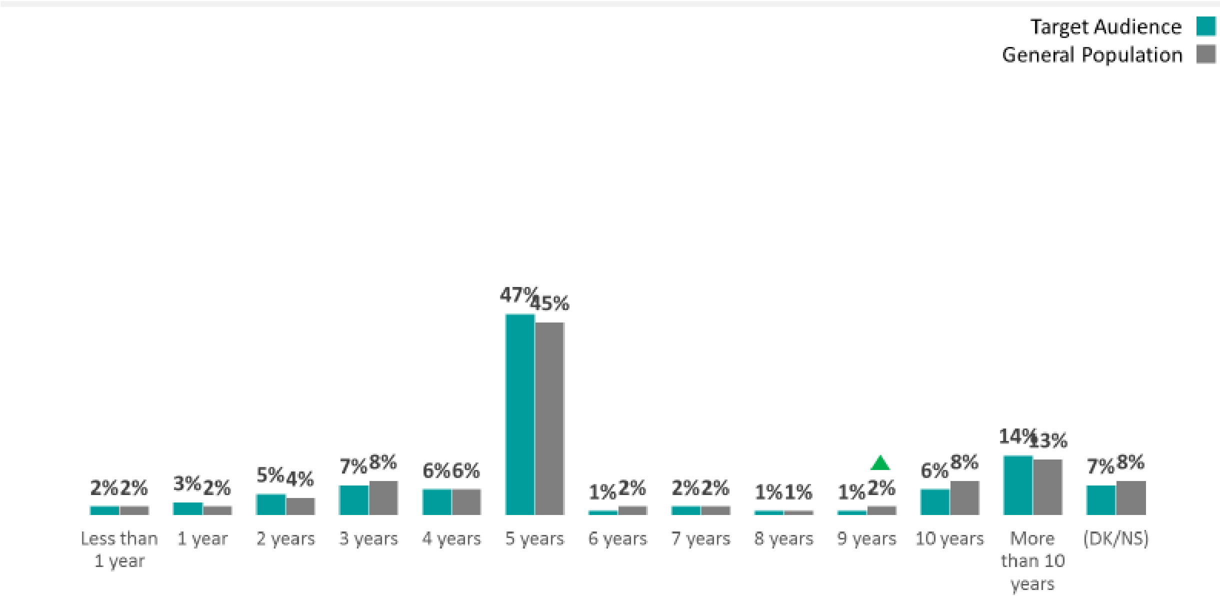
Within the target audience, older respondents (aged 55+) are significantly more likely to have a fixed interest rate mortgage (76% vs. 71% 35-44, 68% 45-54, 68% 18-34) while younger respondents (aged 18-34) are significantly more likely to have a combination of fixed and variable (8% vs. 6% 45-54, 4% 35-44, 4% 55+). Respondents within the target audience who live in the hot housing markets of Vancouver and Toronto are more likely to have a variable interest rate mortgage (29% vs. 17% other locations). Within the general population, older respondents (aged 55+) are significantly more likely to have a fixed interest rate mortgage (74% vs.63% 45-54, 59% 35-54).

Current mortgage term and amortization

Among mortgage holders in the target audience, half (47%) currently hold a 5-year mortgage. Just over one in ten (14%) currently hold a mortgage term of more than 10 years while 22% of homeowners in the target audience have 4 years or less on their current mortgage. Among the general population, less than half (45%) hold a 5-year mortgage. One in ten (13%) currently have a mortgage term of more than 10 years, while a cumulative 21% have 4 years or less on their mortgage.

It is significant to note that the respondents who answered they currently hold a mortgage term of more than 10 years (14%) is much higher than the data previously collected (outside of this report) which indicates a number closer to 2%[4]. This discrepancy can be traced back to the lack of understanding of what amortization and mortgage term means. As noted, 43% of the target audience provided a vague or incorrect answer when asked to define the meaning of mortgage term, while half (51%) of the general population defined mortgage term incorrectly or with a vague response. Furthermore, when asked to define an amortization period, 25% of the target audience defined it incorrectly, with 35% of the target audience providing a definition that while partially correct, was clouded by responses that were vague, indicating the high degree of confusion of the difference between mortgage term and amortization period. Additionally, 20% of the target audience state that they don't know what the phrase "mortgage term" means, demonstrating that there is potential for discrepancies between the understanding of what a mortgage term is, what respondents believe is available in Canada, and their knowledge of what their own mortgage term is.

Figure 13: Current Mortgage Term



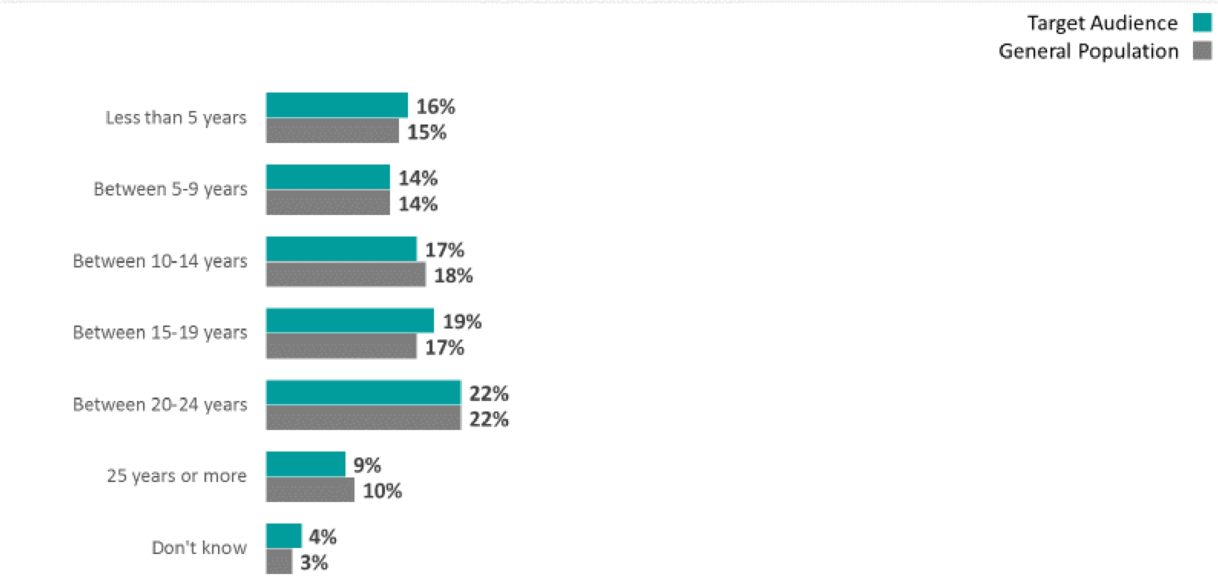
Info screen before question: Most lenders offer [mortgage] terms up to 10 years. Q9. What is the total mortgage term on your current mortgage? By this we mean, the total length of your contract. Your contract includes the interest rate and the details of the financing for your home. Base: Target audience (n=2088); General population (n=892)

When asked about their remaining amortization period, the target audience was most likely to say that it will take between 15-19 years or between 20-24 years to pay off their home in full (22% and 19% respectively).

[4] The 2% figure is a flow measure, whereas the proportion obtained from the survey is a stock measure. Since longer term mortgages come up for renewal less often, their stock-based proportion should be higher than flow-based proportion.

Nearly as many quote 10-14 years to pay off their home (17%). The results are very similar among homeowners in the general population.

Figure 14: Remaining Amortization

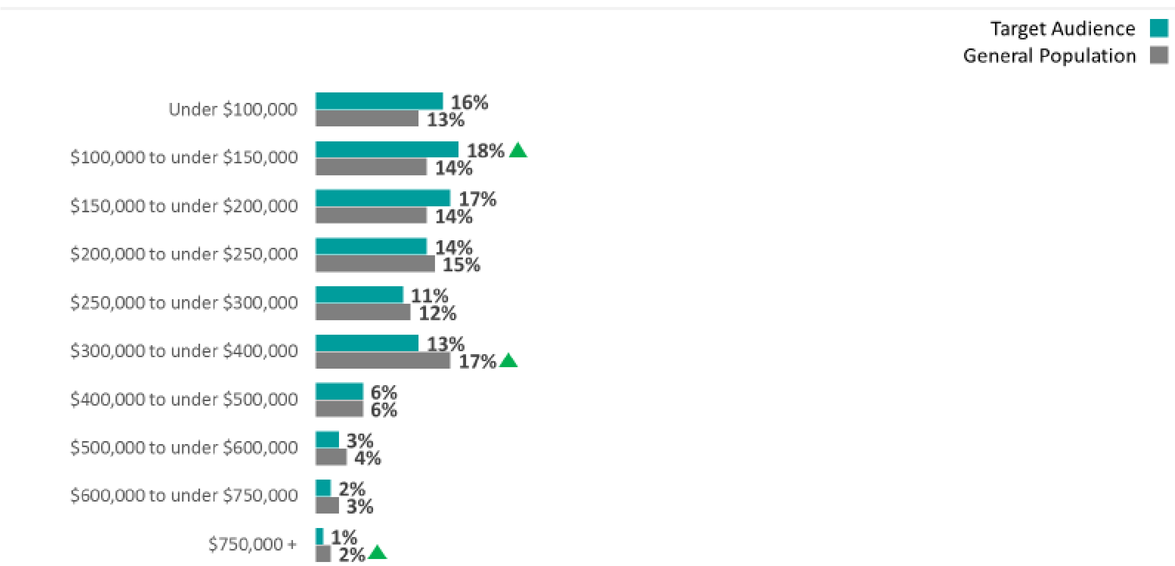


Q12. What is the remaining amortization period on your current mortgage? In other words, how many years will it take you to pay off your home in full? Base: Have a mortgage - Target audience (n=2088); General population (n=892)

Original mortgage loan and amount remaining

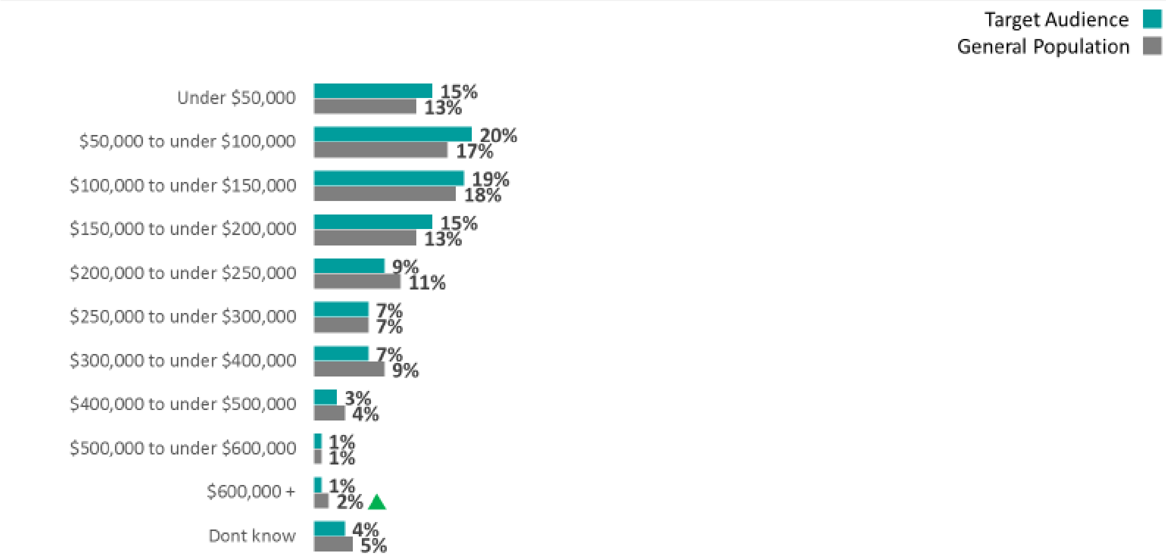
Within the target audience, two in ten homeowners (18%) stated that their original mortgage value was between $100,000 to under $150,000 or $150,000 to $200,000 (17%). A smaller portion (12%) had an original mortgage value of $400,000 or more. When asked what their remaining mortgage loan is, two in ten in the target audience said there was $50,000 to under $100,000 remaining on their loan (20%) or $100,000 to under $150,000 remaining on their loan (19%).

Figure 15: Original Mortgage Value



D5. 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? Base: Have a mortgage - Target audience (n=2088); General population (n=892)

Figure 16: Remaining Mortgage



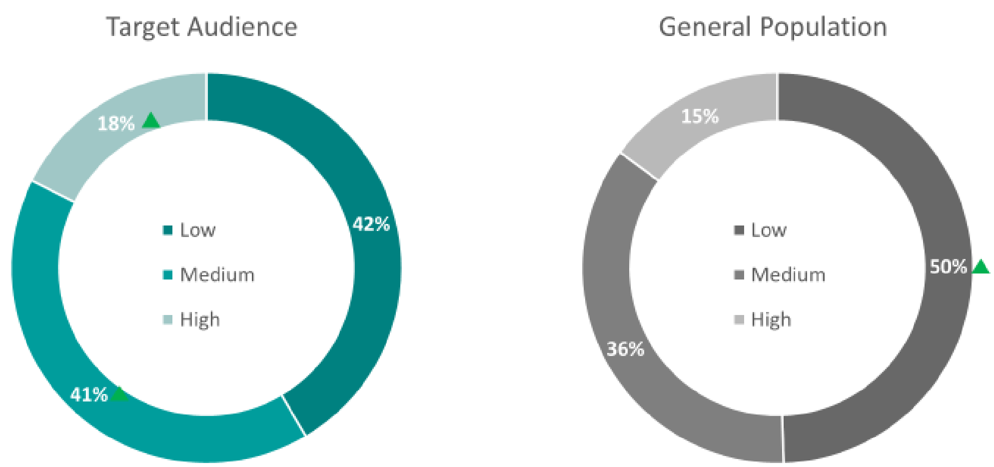
D6. And what is the approximate amount of money you have left on your mortgage? Base: Have a mortgage - Target audience (n=2088); General population (n=892)

Financial stress as a variable

In order to better understand the financial stress that Canadians are under, and how these stressors impact their mortgage decision-making, including their choice of mortgage terms, a financial stress variable was created. The variable was constructed as an aggregate of two variables: one that measures the extent to which respondents are currently able to cover all their monthly household expenses, and another measuring their ability to cover an unexpected expense equal to a month's income. The mean or average of the respondent's rating across the variables (don't know responses excluded) was then split into three categories representing: low financial stress, medium financial stress, high financial stress.

Within the target audience, there is an even divide as 42% of respondents qualify as "low financial stress" while 41% of respondents are "medium financial stress." The remaining 18% of respondents qualify as "high financial stress." Contrastingly, half (50%) of the general population falls under the "low financial stress" heading, followed by 36% of the general population who are "medium financial stress." The remaining 15% of the general population are "high financial stress" individuals.

Figure 17: Financial Stress



Financial Stress Variable. Base: Those who responded to D2 and D3 Target audience (n=2216), General population (n=2085).

Differences among sub-groups

There are significant differences within each group that correlate to their level of financial stress. Within the target audience, homeowners and likely homeowners under age 45 are significantly more likely to have medium and high financial stress, and women are more likely than men to experience financial stress. Respondents who are *likely* to purchase a home with a mortgage (23% vs. 17% current homeowners with mortgages) are significantly more likely to be under high financial stress.

Figure 18: Financial Stress in the Target audience by Demography

	18-34	35-44	45-54	55+	Men	Women	Current Homeowners	Likely to Purchase Home with Mortgage
	A	B	C	D	E	F	G	H
Low Financial Stress	36%	39%	37%	50% ABC	49% F	35%	42%	37%
Medium Financial Stress	46% BD	38%	45% D	36%	37%	45% E	41%	40%
High Financial Stress	19% D	22% D	18% D	14%	14%	21% E	17%	23% G

Financial Stress Variable. Base: Those who responded to D2 and D3 Target audience (n=2216)
Subscript letters reflect which sub-groups the shown percentage is statistically significantly higher than.

Additionally, the type of mortgage correlates to financial stress. Respondents in the target audience who have a fixed or variable mortgage were significantly more likely to have low financial stress than those who have a combination fixed/variable (42% fixed, 47% variable vs. 31% combination). Furthermore, those in the target audience who have a combination fixed/variable mortgage were more likely to have medium financial stress (49% combination vs. 41% fixed, 38% variable).

The demographic trends among the general population are the same as that noted for the target audience (younger, women, those who want to buy a home). Household income is also a predictably strong indication of financial stress with those making $100,000 and above more likely to be low financial stress (62% vs. 50% $60,000 to <$100,000, 35% $20,000 to <$60,000, 14% <$20,000) and those making less than $20,000 more likely to be under high financial stress (52% vs 22% $20,000 to <$60,000, 13% $60,000 to <$100,000, 8% $100,000 and above).

Figure 19: Financial Stress in the General Population by Demography/Household Income

	18-34	35-44	45-54	55+	Men	Women	Under $20,000	$20,000 to just under $60,000	$60,000 to just under $100,000	$100,000 and above
	A	B	C	D	E	F	G	H	I	J
Low Financial Stress	35%	49%	46%	62% ABC	53% F	46%	14%	35%	50%	62% GHI
Medium Financial Stress	47% BCD	36%	37%	27%	36%	35%	34%	42%	37%	31%
High Financial Stress	19%	16%	17%	11%	11%	19% E	52% HIJ	22%	13%	8%

Financial Stress Variable Base: Those who responded to D2 and D3, General population (n=2085).
Subscript letters reflect which sub-groups the shown percentage is statistically significantly higher than.

RISK AVERSION

A survey question was used to assess a respondent's propensity to take risks[5]. This question asked the respondent whether they would take the risk of losing a portion of their income, if there was an equal chance of doubling their income. The question was structured so that the probability of doubling your income or losing a portion of your income remained constant, and the amount of income you could lose increased. Therefore, respondents who were more willing to take the chance of losing a greater portion of their income were deemed risk takers, while those who selected a constant and fixed wage were deemed risk averse. Respondents were asked to indicate all the options they would definitely consider (multi-select).

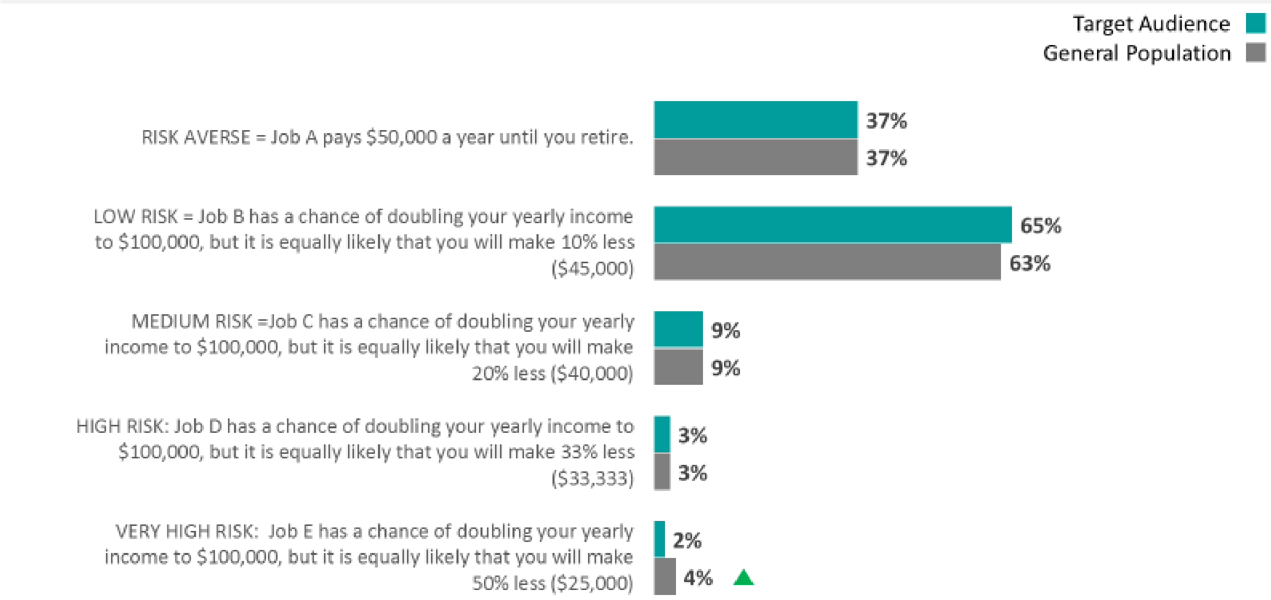
Estimate of risk taking/aversion among Canadian consumers

Among the target audience, four in ten (37%) indicate that the risk averse job description would definitely be a consideration, selecting that they would choose a constant wage with no chance to increase their income, but also no risk of losing income. A majority of homeowners and likely homeowners (65%) indicate they would definitely consider the low risk job description, as they would take the chance to double their income, while risking a small amount (10%) of their yearly income. Only one in ten (13%) in the target audience displayed propensity to risk their income (risking 20% or more) for the chance to double their income. Please note: the totals will not add to 100% because respondents were able to indicate if they would definitely consider more than one job description.

Results were similar among the general population with four in ten (37%) being risk averse and six in ten (63%) being low risk. The general population is significantly more likely than the target audience to take large risks (the chance to double their income, or lose 50% of their income), however, both groups have a very small percentage of their population willing to take this large risk (4% general population vs. 2% target audience).

[5] The question was inspired by, but modified, an income gambling question from Miles S Kimball, Claudia R Sahm & Matthew D Shapiro (2008) Imputing Risk Tolerance From Survey Responses, Journal of the American Statistical Association, 103:483,1028-1038, DOI: 10.1198/016214508000000139

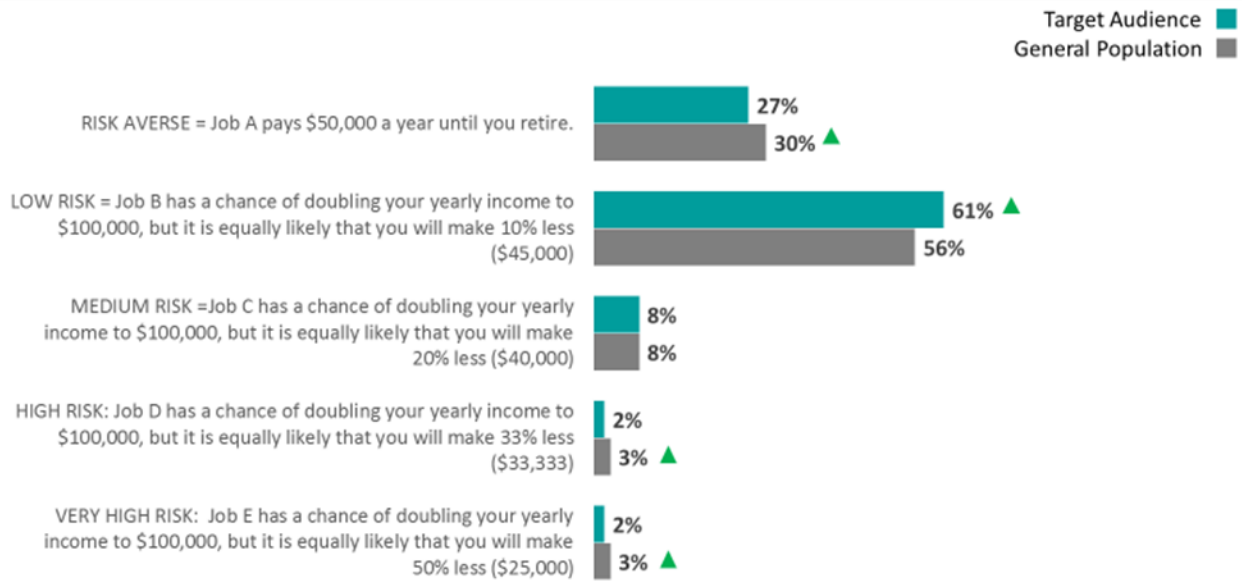
Figure 20: Estimate of Risk Aversion



Q18. 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. Base: All respondents - Target audience (n=2511); General population (n=2525)

In reviewing the multi-select responses to this question, some potential inconsistencies were observed (e.g. selecting Job B and D, but not A, C or E). To manage any potential impact this may have on the use of the variable in advanced analysis examining the impact of risk aversion on mortgage choice, a new variable was created that recoded the variable from a multiple select to a single select. The single selection applied reflects the greatest risk option the respondent selected. Both the original multi-select and single select versions were used in analysis. The result was that both versions performed similarly.

Figure 21: Risk Aversion (% representing riskiest option chosen)



The percentages shown represent the greatest risk option the respondent chose.

Q18. 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. Respondents are allocated to their highest risk option selected. Base: All respondents - Target audience (n=2511); General population (n=2525)

Differences among sub-groups

There are demographic differences within the population pertaining to risk aversion as measured in the survey. Perhaps not surprisingly, lower income consumers show more aversion to risk-taking than those with higher incomes (52% of the general population with household income under $20,000 demonstrate the lowest risk – taking Job A among their choices, 47% of those with household incomes between $20,000-<$60,000 vs. 33% or fewer among those with household incomes of $60,000 or higher). The pattern is similar when looking at education levels – lower educated consumers lean toward strong risk aversion. While there is no significant difference between men and women when it comes to highest level of risk (Jobs E), at each of the lower risk levels, men demonstrate more openness to risk than women. For example, 42% of women chose Job A among their choices vs. 32% of men). There were some slight differences by age, but not a consistent pattern.

ATTITUDES TOWARD LONGER-TERM MORTGAGES

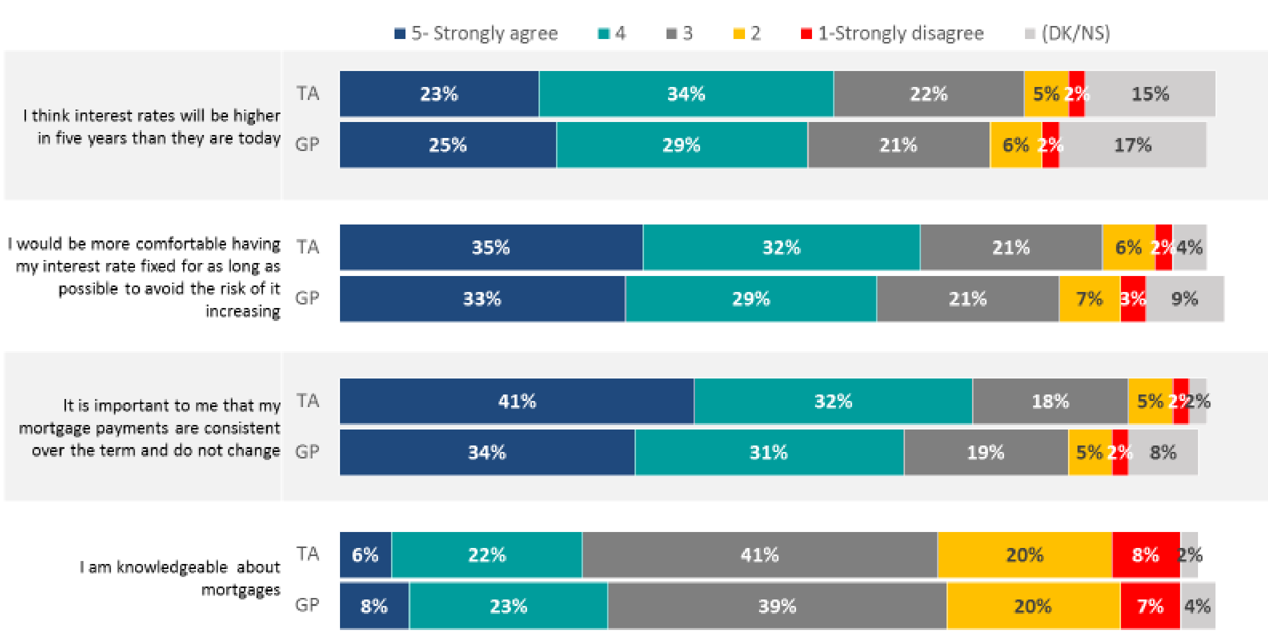
This section investigates the attitudes and opinions Canadians have towards the future of interest rates and comfort with factors related to longer-term mortgages.

Thoughts on the future of interest rates

When asked about the future of interest rates, more than half (57%) of the target audience stated that they *agree* (responded 4, 5) that interest rates will be higher in 5 years than they are today. More than two thirds (67%) *agree* that they would be more comfortable having a fixed interest rate for as long as possible to avoid risks of increases. Among the general population agreement was similarly strong with half (54%) stating they believe interest rates will increase and 61% stating that they would prefer a longer fixed rate.

When considering the consistency of mortgage payments three quarters of the target audience (73%) *agree* that it was "important [to them] that [their] mortgage payments are consistent over the term and do not change". Two thirds (66%) of the general population agreed with this same statement. Despite being sure of their mortgage term preferences and predictions, only a quarter (28%) of the target audience state that they are knowledgeable about mortgages, while a third (30%) of the general audience agree that they are knowledgeable.

Figure 22: Attitudes Toward Factors Relevant to Longer-term Mortgages



Q16. Based on your current understanding of mortgages, do you agree or disagree with the following? Base: All respondents - Target audience (n=2511); General population (n=2525)

Differences among sub-groups

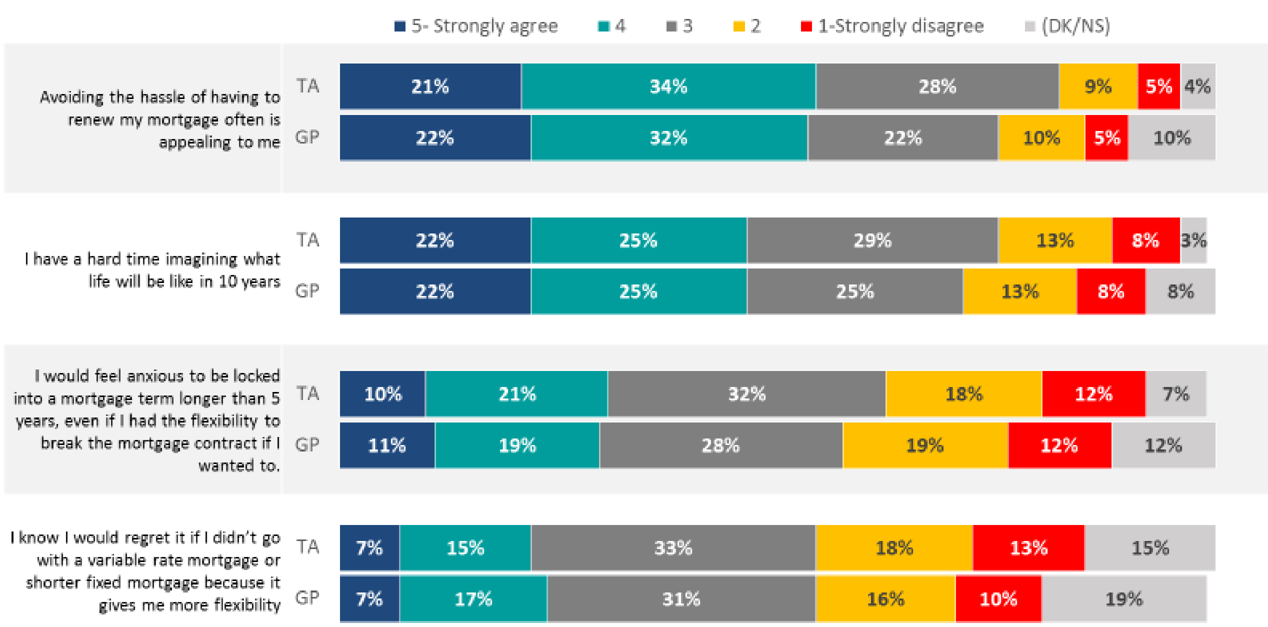
There are significant demographic differences that influence attitudes towards the future of interest rates. Within the target audience, younger respondents (18-44) are significantly more likely to *agree* that interest rates will be higher in 5 years (62% 35-44, 60% 18-34 vs. 52% 55+) while older respondents (55+) are significantly more likely to *agree* they would feel more comfortable having their interest rates fixed for as long as possible to avoid the risk of it increasing (72% 55+ vs. 64% 35-44, 64% 45-54, 64% 18-34). Male homeowners or likely homeowners are more likely to *agree* that interest rates will be higher in 5 years (61% vs. 53% women), and that they are knowledgeable about mortgages (36% vs. 21% women) while they are more likely to *disagree* that they would be more comfortable having a fixed interest rate for as long as possible (10% vs. 8% women) and that it is important to them that their mortgage payments are consistent over the term (9% vs. 6% women).

Among the general population, older respondents (45+) are more likely to agree that they would be comfortable having their interest rate fixed for as long as possible (69% 55+, 64% 45-54 vs. 54% 35-44, 53% 18-34). Women in the general population are significantly more likely to feel comfortable if their interest rate were fixed for as long as possible (64% vs. 59% men), and to *agree* that it is important that their mortgage payment stay consistent over time (68% vs. 63% men) while they are more likely to *disagree* that they are knowledgeable about mortgages (35% vs. 20% men).

Mortgage preferences and personal mortgage attitudes

Looking towards the future brought varying degrees of certainty for Canadians. Half of the target audience (55%) and the general population (54%) *agree* that "avoiding the hassle of having to renew [their] mortgage often is appealing". However, half of the target audience and the general population (47% respectively) *agree* that they have a "hard time imagining what life will be like in 10 years." Consensus is much more divided on longer-term mortgages as three in ten (31%) homeowners and likely homeowners *agree* that they would feel anxious to be locked into a mortgage term longer than 5 years, even with the flexibility to break the contract, while 30% disagree.

Figure 23: Attitudes Toward Factors Relevant to Longer-term Mortgages (continued)



Q16. Based on your current understanding of mortgages, do you agree or disagree with the following?
Base: All respondents - Target audience (n=2511); General population (n=2525)

Similarly, 30% of the general population agree that they would feel anxious being locked into a longer-term mortgage, while 31% *disagree*. Further division is indicated as 22% of the target audience *agrees* that they would regret it if they didn't go with a variable rate mortgage or a shorter fixed mortgage, as they give more flexibility, however a third of the target audience disagrees with this same statement. Among the general population, a quarter (24%), believe they would regret not choosing a variable rate or shorter fixed mortgage, while a quarter (26%) *disagree*.

Differences among sub-groups

There are demographic differences within the population pertaining to their attitudes and opinions. Within the target audience, younger respondents (18-34) are more likely to *agree* that they would feel anxious being locked into a mortgage term longer than 5 years (36% vs. 29% 45-54, 28% 55+) and that they would regret it if they didn't go with a variable mortgage, or a shorter fixed mortgage, as those options provide flexibility (25% vs. 19% 45-54, 19% 55+). Older respondents (aged 55+) are significantly more likely to state that avoiding the hassle of having to renew a mortgage is appealing (58% vs. 53% 18-34, 51% 45-54). Financial stress is also a contributing factor, as those under high financial stress are more likely to have difficulty imagining what life will be like in 10 years (55% vs. 48% medium, 43% low).

Within the general population, younger respondents (18-34) are similarly more likely to *agree* that they would feel anxious being locked into a mortgage term longer than 5 years (35%, 34% 35-54 vs. 25% 55+) and that they would regret it if they didn't go with a variable mortgage, or a shorter fixed mortgage, as those options provide flexibility (30% vs. 21% 45-54, 21% 55+). Similar to the target audience, older respondents (aged 55+) highlighted their interest in avoiding the hassle of frequently renewing their mortgage (58% vs. 51% 18-34, 49% 35-44).

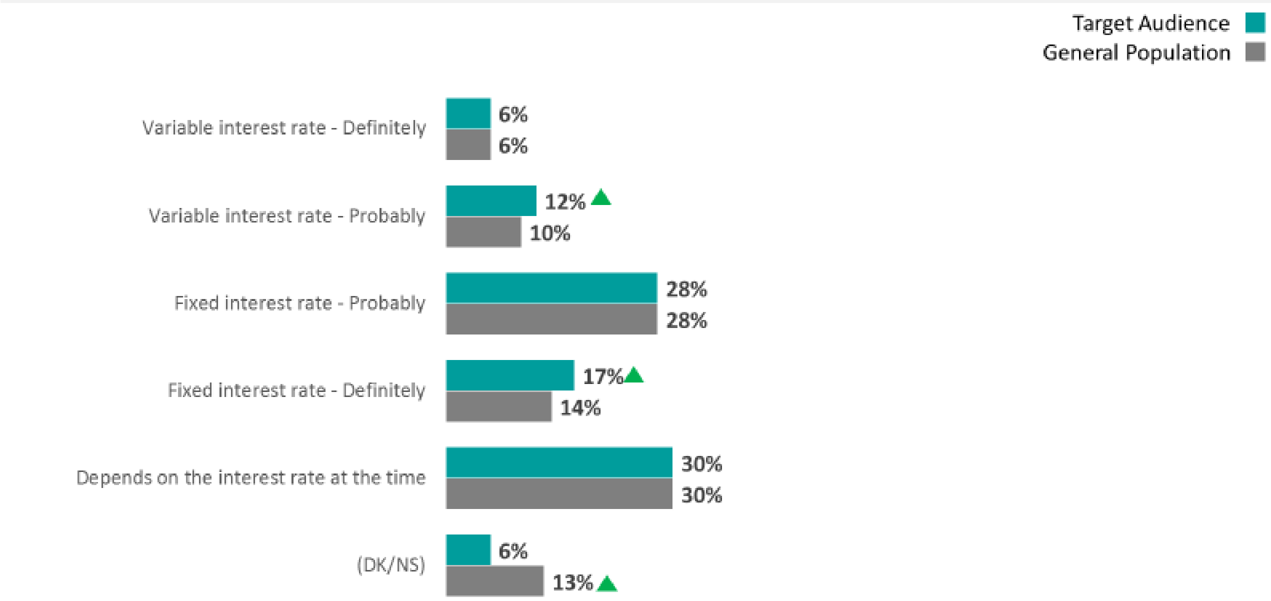
LIKELIHOOD TO CONSIDER A LONGER-TERM MORTGAGE

This section discusses consumers' propensity to consider fixed rate mortgage terms of 5 years or longer, and the motivations and barriers in such a choice.

Preference for fixed or variable terms

When asked what type of mortgage they would lean towards when considering either renewing or applying for a mortgage, almost half (46%) of the target audience would lean towards a fixed rate mortgage, while 19% lean towards a variable. A further third (30%) say that it would depend on the interest rate at the time. Similarly, within the general population 42% lean towards a fixed interest rate while 16% lean towards a variable interest rate. Notably, the general population is significantly more likely (13% vs. 6% target audience) to say that they don't know what type of mortgage they would lean towards.

Figure 24: Preferences for Fixed or Variable Mortgage

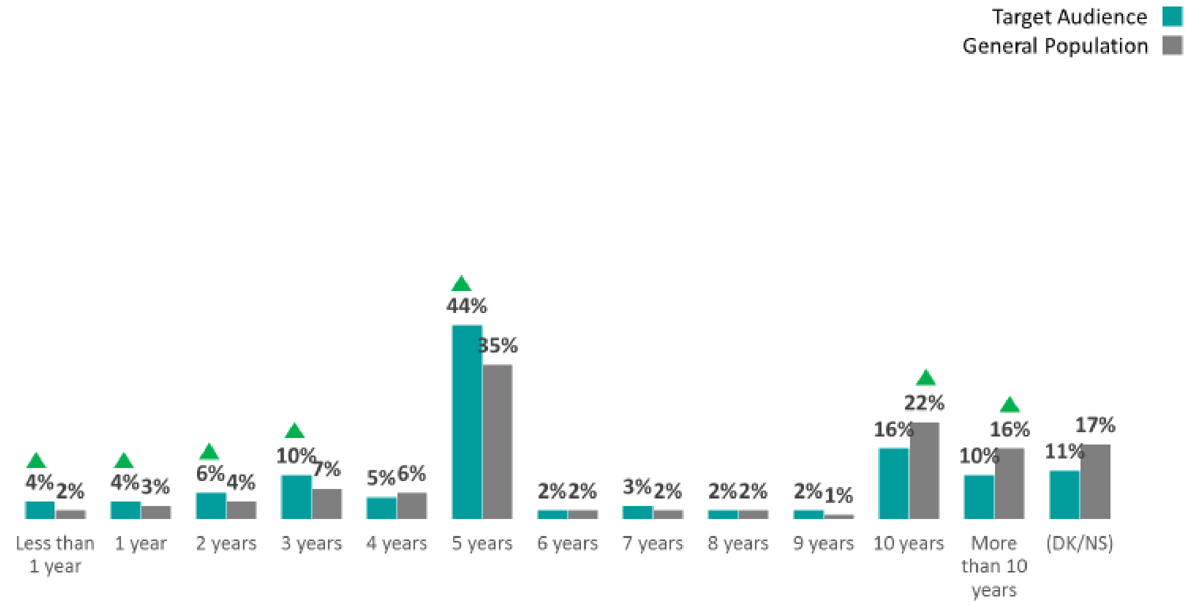


Q14. [The next time you need to renew your mortgage / If you were to purchase a home with a mortgage loan] would you lean toward looking at options for a mortgage with a variable interest rate or a fixed interest rate? Base: All respondents - Target audience (n=2511); General population (n=2525)

Mortgage term preferences

Within the target audience, a large minority (44%) of homeowners and likely homeowners would prefer a 5-year mortgage. This is followed by 16% who would prefer a 10-year mortgage term. Within the general population, a third (35%) of consumers would prefer a 5-year mortgage term, while two in ten (22%) would prefer a 10-year mortgage term. Interestingly, homeowners and likely homeowners are significantly more likely to prefer terms of 5 years or less, while members of the general population are significantly more likely to prefer mortgage terms of 10 years or more.

Figure 25: Life Stage Suitability

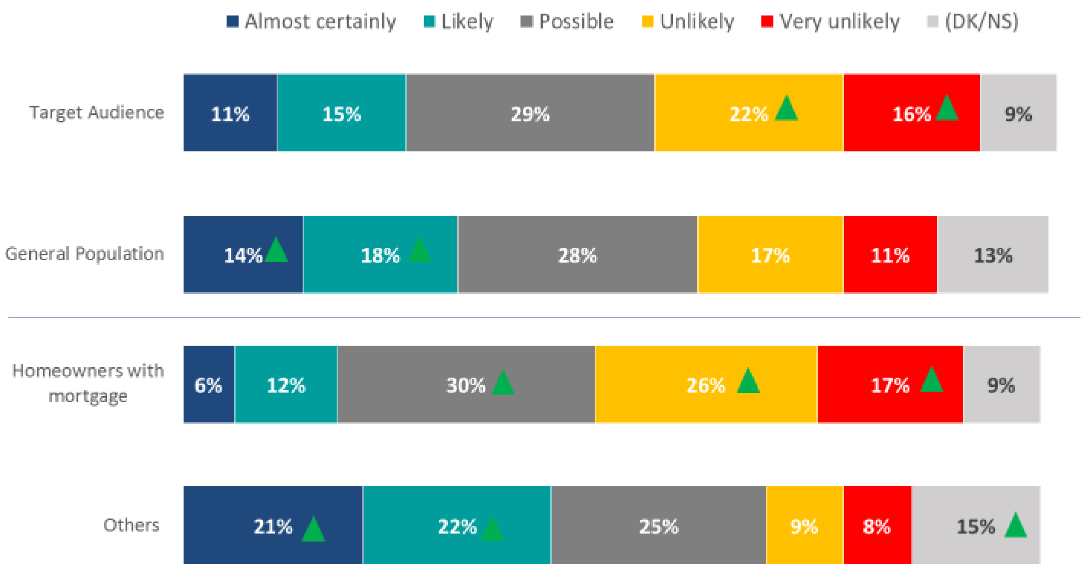


Q10. [The next time you need to renew your mortgage / If you were to purchase a home and finance it with a mortgage] what mortgage terms would ideally suit you best, given your life plans and circumstances? Please assume the same interest rate would apply to any mortgage term.
Base: All respondents - Target audience (n=2511); General population (n=2525)

Likelihood to consider longer-term mortgages

Homeowners with a mortgage were asked how likely they would be to consider a mortgage term longer than 5 years the next time they need to renew their mortgage. Those who do not own a home were asked about their consideration of a mortgage term longer than 5 years if they were to purchase a home that they would finance with a mortgage. As shown in the chart below, only one in ten indicated that they would *almost certainly* consider mortgage terms longer than 5 years (11% among the target audience and 14% among the general population). Slightly more say they would be *likely* to consider a longer-term mortgage (15% target audience and 18% general population). Current homeowners with a mortgage indicate much lower level of interest in longer-term mortgage (6% almost certain, 12% likely) than others (21% almost certain, 22% likely).

Figure 26: Stated Likelihood to Consider Longer-Term Mortgages



Q15. [The next time you need to renew your mortgage / 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? Base: All respondents - Target audience (n=2511); General population (n=2525) – Homeowners with a mortgage (n=3093); Others (n=1943)

While the target and general populations obtain their information about mortgages from similar sources, homeowners and likely homeowners indicate slightly stronger knowledge of longer-term mortgages, however, they are unsure of penalty fees associated with these mortgages and are not strongly interested in them. Within the general population, despite having slightly less knowledge of longer-term mortgages and a low understanding of penalty fees, they indicate a stronger interest in longer-term mortgages, indicating that the general population shows more receptivity to the potential consideration of a longer-term mortgage. Notably, 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 conjoint exercise was conducted to supplement consumers' stated likelihood in the question above, by asking consumers to make choices from 3 options 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 data shows that among non-mortgage holders the probability of choosing the 10-year fixed option dropped significantly when the interest rate was 0.75% higher than the interest rate offered with 5-year fixed option. When the differential was 0.5% the drop was within the threshold of the statistical error, but at 0.75% the drop was outside the error margin.

The exercise was also designed to look at the share of preference or probability of considering the 10-year fixed term option in four specific interest rates scenarios – flat, normal, steep, inverted. The four scenarios were constructed to mimic mortgage rate differentials that can be observed under different economic conditions:

- In the flat scenario, the mortgage interest rate changes by a small amount as the term length increases;

- In the normal scenario, the mortgage interest rate increases steadily as the term length increases;
- In the steep scenario, the mortgage interest rate increases at an accelerated pace as the term length increases;
- In the inverted scenario, the mortgage interest rate remains largely unchanged as the term length increases.

Among mortgage holders the results of the conjoint exercise revealed similar average probabilities of choosing the 10-year fixed term option across all scenarios as the percentage selecting *almost certain* to consider a fixed mortgage term greater than 5 years in the stated likelihood question (7% and 6% respectively). However, the percentage who state being *almost certain* is higher than the average probabilities of choosing 10-year fixed term among all others (e.g. non-mortgage holders) at 21% and 15% respectively.

Naturally, the level of interest in a 10-year fixed interest is highest when the interest rate offered with each of the 3 options – 5-year variable, 5-year fixed and 10-year fixed are equal. Given this unique (and unlikely) scenario, 20% of non-mortgage holders and 11% of mortgage holders indicate a preference for the 10-year fixed. If the 5-year variable and 5-year fixed options remain at 4% interest rate and 10-year fixed is offered at 0.25% higher (4.25%) – inverted scenario – the likelihood of choosing a 10-year fixed term falls to 17% among non-mortgage holders and 9% among mortgage holders.

The table below demonstrates the share of preference for each option at various interest rate simulations. Note: The design of the conjoint held the 5-year variable interest rate at 4% for all scenarios.

Figure 27: Share of Preference Probability among Mortgage Holders

Scenario	5 year- variable		5-year fixed		10-year fixed	
	Interest rate	Share of preference	Interest rate	Share of preference	Interest rate	Share of preference
*	4.00%	26%	4.00%	63%	4.00%	11%
Inverted	4.00%	26%	4.00%	65%	4.25%	9%
*	4.00%	36%	4.25%	55%	4.50%	9%
Flat	4.00%	46%	4.50%	47%	5.00%	7%
*	4.00%	54%	4.75%	37%	5.00%	9%
*	4.00%	62%	5.00%	30%	5.25%	8%
*	4.00%	62%	5.00%	31%	5.50%	6%
Normal	4.00%	63%	5.00%	32%	5.75%	5%
*	4.00%	68%	5.25%	24%	5.50%	8%
*	4.00%	74%	5.50%	20%	5.75%	7%
*	4.00%	74%	5.50%	20%	6.00%	5%
Steep	4.00%	75%	5.50%	22%	6.50%	3%

*These scenarios have been interpolated using the scenario simulator.

Figure 28: Share of Preference Probability among Non-Mortgage Holders

Scenario	5-year variable		5-year fixed		10-year fixed	
	Interest rate	Share of preference	Interest rate	Share of preference	Interest rate	Share of preference
*	4.00%	28%	4.00%	53%	4.00%	20%
Inverted	4.00%	28%	4.00%	55%	4.25%	17%
*	4.00%	36%	4.25%	47%	4.50%	17%
Flat	4.00%	44%	4.50%	41%	5.00%	15%
*	4.00%	51%	4.75%	32%	5.00%	17%
*	4.00%	57%	5.00%	27%	5.25%	16%
*	4.00%	58%	5.00%	29%	5.50%	14%
Normal	4.00%	59%	5.00%	30%	5.75%	11%
*	4.00%	62%	5.25%	23%	5.50%	15%
*	4.00%	67%	5.50%	19%	5.75%	14%
*	4.00%	68%	5.50%	20%	6.00%	12%
Steep	4.00%	70%	5.50%	22%	6.50%	8%

*These scenarios have been interpolated using the scenario simulator.

FACTORS CONTRIBUTING TO INTEREST IN A LONGER-TERM MORTAGE

Factors contributing to likelihood to consider a longer-term mortgage

Partial Least Squares analysis (PLS) was conducted to explore latent factors that motivate or act as a barrier to choosing 10-year fixed terms. As noted earlier, a main barrier to uptake is lack of understanding or misunderstanding of penalties. However, this lack of understanding was not easy to include in the model because of the high percentage of don't know responses, and thus it will be referenced below. Despite this, the lack of understanding should be considered a barrier.

The probability of choosing the 10-year option was used as a dependent variable in four separate runs – each where the probability represents the flat, normal, steep and inverted scenarios. Each of the four runs were repeated twice – once on the total sample and one filtered by mortgage holders.

The results are generally consistent between the total sample and mortgage holders and generally consistent regardless of which of the 4 scenarios (normal, steep, flat inverted) is used as the dependent variable. The results are provided in the Appendix.

Factors that generate an increase in share of preference probability

Results show the key factors having some role in choice, aside from the actual interest rate, are:

- Household income
- Financial stress
- Risk aversion (in general as defined by the income gambling question, as well as, comfort of having the interest rate fixed for as long as possible to avoid risk of increase)

Other secondary factors:

- (Perception of) consistency of mortgage payments with fixed terms
- Appeal of avoiding the hassle of renewing

Interpretation of findings

Both low income and higher income individuals could choose the 10-year mortgage, but for different reasons. Lower income individuals have more immediate higher financial stress that seems to contribute to the individual being in a protective mode of thinking. The resulting attitudes could be summarized as follows: 10 years offers guaranteed stability and allows them to avoid the hassle of renewal. For them, a 10-year fixed mortgage is more of a security umbrella rather than active "savings" decision.

In contrast, higher income individuals appear to be less concerned about potentially making a wrong decision by locking themselves into 10-year fixed – potential cost of error is not something that they would pay attention to now. Their lower financial stress suggests that they may not care much if they might "win" some money should interest rates drop. For them 10-year fixed mortgage is "shoot-and-forget" decision – meaning they are making a choice because they believe the potential negative consequences will be small/not a cause of major concern. Taking into 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.

A conjoint analysis was conducted where scenarios with varying interest rates and interest type (fixed vs. variable) were presented to the respondent. An interesting finding is that there is a relatively low correlation between predicted probabilities and the stated likelihood to consider. It is acknowledged that the two measures are quite different – specifically that the conjoint published interest rate differentials for respondents to evaluate in their decision-making and stated question did not. This may explain the low correlation. However, one other interpretation of this disconnect is that the loan value and interest rates proposed in the conjoint analysis may have been more realistic for some respondents and less real for others who take mortgages in much higher amounts and at lower interest rates (4-6.75% was the range used in the survey vs 2.99% in the current marketplace at the time of the survey). Also supporting this interpretation is that the disconnect is higher among mortgage holders than non-mortgage holders.

The disconnect is also higher among more knowledgeable respondents. In the absence of giving these knowledgeable people an interest rate differential in Q15 it is possible to over-estimate their consideration of a 10-year fixed option. When they see the rate is greater than 0.75 of a point higher for 10-year fixed (per exercise) some shy away from the 10-year option. Individuals who don't know as much (less knowledgeable) are more willing to accept 0.75 higher rates, or even higher, for a 10-year fixed. This would be generally consistent with the focus group learning.

Further, there is the potential for the 10-year option to be more associated with less logical choices. We observe that acceptance of the 10-year mortgage is coupled with a decrease of the conjoint fit score, which is the average modelled probability of choice based on actual choices made. One interpretation of this is that individuals who make less logical choices are more likely to accept the 10-year option. It is unclear if this is a consequence of perceived value and risks of the 10-year mortgage or a result of the unattractive interest rates rotated in the exercise (e.g. the 10-year option was always shown with an extra bump in the interest rate).

To further validate the findings of the PLS are correct, an additional step was undertaken. A randomly-generated series of choices was created and modelled against the sample to identify what may potentially be respondents who made random choices. Identifying random choices is quite difficult because the conjoint was conducted on only 4-choice sets – not enough to reliably identify randomness. That said, once respondents with a pattern of choice showing a potentially random pattern were removed and the PLS was re-run, the factors held steady and the interpretation of the two latent factors found remain consistent.

Impact of information disclosed with the mortgage term/interest rate/prepayment penalties

The results demonstrate that providing disclosure information, regardless of amount, did not have a significant impact on overall likelihood of choosing a 10-year mortgage among mortgage holders or among non-mortgage holders. Further analysis on sub-groups (e.g. renters or mortgage-free homeowners) is required to determine if the information has an impact on those consumers.

Figure 29: Impact of Disclosure Information Among Mortgage Holders

No Disclosure	5-year variable		5-year fixed		10-year fixed	
	Interest rate	Share of preference	Interest rate	Share of preference	Interest rate	Share of preference
Inverted	4.00%	27%	4.00%	64%	4.25%	9%
Flat	4.00%	47%	4.50%	47%	5.00%	7%
Normal	4.00%	64%	5.00%	32%	5.75%	4%
Steep	4.00%	75%	5.50%	22%	6.50%	3%

Partial Disclosure	5-year variable		5-year fixed		10-year fixed	
	Interest rate	Share of preference	Interest rate	Share of preference	Interest rate	Share of preference
Inverted	4.00%	24%	4.00%	66%	4.25%	10%
Flat	4.00%	44%	4.50%	48%	5.00%	8%
Normal	4.00%	62%	5.00%	33%	5.75%	5%
Steep	4.00%	75%	5.50%	22%	6.50%	3%

Full Disclosure	5-year variable		5-year fixed		10-year fixed	
	Interest rate	Share of preference	Interest rate	Share of preference	Interest rate	Share of preference
Inverted	4.00%	28%	4.00%	64%	4.25%	8%
Flat	4.00%	47%	4.50%	46%	5.00%	7%
Normal	4.00%	63%	5.00%	32%	5.75%	5%
Steep	4.00%	75%	5.50%	22%	6.50%	4%

Figure 30: Impact of Disclosure Information Among Non-Mortgage Holders

No Disclosure	5-year variable		5-year fixed		10-year fixed	
	Interest rate	Share of preference	Interest rate	Share of preference	Interest rate	Share of preference
Inverted	4.00%	28%	4.00%	54%	4.25%	18%
Flat	4.00%	43%	4.50%	42%	5.00%	15%
Normal	4.00%	57%	5.00%	31%	5.75%	12%
Steep	4.00%	68%	5.50%	24%	6.50%	9%

Partial Disclosure	5-year variable		5-year fixed		10-year fixed	
	Interest rate	Share of preference	Interest rate	Share of preference	Interest rate	Share of preference
Inverted	4.00%	28%	4.00%	60%	4.25%	17%
Flat	4.00%	45%	4.50%	42%	5.00%	14%
Normal	4.00%	60%	5.00%	30%	5.75%	10%
Steep	4.00%	71%	5.50%	22%	6.50%	7%

Full Disclosure	5-year variable		5-year fixed		10-year fixed	
	Interest rate	Share of preference	Interest rate	Share of preference	Interest rate	Share of preference
Inverted	4.00%	29%	4.00%	54%	4.25%	17%
Flat	4.00%	45%	4.50%	40%	5.00%	15%
Normal	4.00%	59%	5.00%	29%	5.75%	12%
Steep	4.00%	69%	5.50%	21%	6.50%	10%

APPENDIX

PROFILE OF RESPONDENTS

The following table presents the screening, demographic and other relevant information gathered on respondents. Note: demographic variables that were used for sample weighting are not shown below as they are detailed in the Methodology section of the report. The percentages shown below are weighted.

Figure 31: Profile of Respondents

	Target Audience	General Population
Home ownership		
Own	83%	66%
Rent	16%	29%
Other	1%	5%
Mortgage on home		
Yes	100%	60%
No	-	40%
Within the next 5 years, likelihood to buy a home that you will finance with a mortgage		
Almost certainly	53%	16%
Likely	47%	15%
Possible	-	26%
Unlikely	-	14%
Very unlikely	-	30%
Length of time planning to stay in the home (own/ rent)		
1 year	6%	7%
2 years	9%	8%
3 years	8%	7%
4 years	4%	5%
5 years	13%	13%
6-10 years	18%	17%
10+ years	42%	43%
Original value of mortgage loan on home (at time of purchase)		
Under $100,000	16%	13%
$100,000 < $150,000	18%	14%
$150,000 < $200,000	17%	14%
$200,000 < $250,000	14%	15%
$250,000 < $300,000	11%	12%
$300,000 < $400,000	13%	17%
$400,000 < $500,000	6%	6%
$500,000 < $600,000	3%	4%
$600,000 < $750,000	2%	3%
$750,000 +	1%	2%

	Target Audience	General Population
Approximate amount of money you have left on your mortgage		
Under $50,000	15%	13%
$50,000 < $100,000	20%	17%
$100,000 < $150,000	19%	18%
$150,000 < $200,000	15%	13%
$200,000 < $250,000	9%	11%
$250,000 < $300,000	7%	7%
$300,000 < $400,000	7%	9%
$400,000 < $500,000	3%	4%
$500,000 < $600,000	1%	1%
$600,000 +	1%	2%
Don’t know	4%	5%
Education		
Some high school	3%	3%
High school diploma or equivalent	18%	20%
Registered Apprenticeship or other trades certificate or diploma	7%	7%
College, CEGEP or other non-university certificate or diploma	27%	25%
University certificate of diploma below bachelor’s level	6%	6%
Bachelor’s degree	27%	25%
Post graduate degree above bachelor’s level	11%	11%
Prefer not to answer	1%	3%
Number of household members (including self)		
Adults		
1	19%	22%
2	60%	53%
3	13%	14%
4	6%	9%
5+	2%	4%
Children (under the age of 18)		
0	65%	72%
1	17%	14%
2	13%	9%
3+	5%	4%

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.

PARTIAL LEAST SQUARES REGRESSSION

Partial least squares (PLS) is a well-known predictive regression technique. It is a technique that reduces the predictors to a smaller set of components and performs least squares regression on these components, instead of on the original data. PLS was chosen primarily as a mean of locating latent variables or factors that explain variance both in the predictors and responses. It is often a preferred technique for analysis because it can handle many independent variables, instances where predictors display strong multicollinearity, and when there are more predictors than observations. These properties come from its ability to reduce dimension in data and to project input variables into latent factors or dimensions.

While PLS is a good exploratory and predictive technique, thresholds and cut-offs on PLS results should be applied because of its low power to filter out variables of minor causal importance.

The other advantages of PLS include: the ability to model multiple dependents (via projecting them to latent factors); robustness in the face of data noise and missing data; and creating independent latent factors directly on the basis of cross-products involving the response variable(s), making for stronger predictions. Disadvantages of PLS include: greater difficulty of interpreting the loadings of the independent latent variables (which are based on cross-product relations with the response variables, not based on covariances among the manifest independents as in common factor analysis); and because the distributional properties of estimates are not known, significance cannot be assessed.

Overall, the mix of advantages and disadvantages means PLS is favoured as a predictive technique or as an exploratory analysis in providing an overall understanding of the structure of relationships in the data. It is good at detecting weak signals even when much stronger signals and noise are present in the data. The technique is helpful in informing researchers about all of the possible ways respondents arrived at their ratings or responses given for all the dependent variables in the analysis. It lists the most important patterns of responses given for independent variables each resulting in its own pattern of responses given for dependent variable(s). Therefore, where the goal is to understand the nature of relationships in the data overall or verify if any specific predictor(s) could be more important in any combination with other predictors even for a portion of sample, then PLS regression is an excellent choice.

In this study, PLS was run on each of the four main interest rate scenarios: normal, flat, steep, inverted. Each model was run 3 times: among the total sample, among mortgage holders, and among all others (non-mortgage holders).

The following variables were included in the model.

- Level of risk aversion
- Suitable mortgage length
- Household income
- Financial stress
- Length of time planning to stay in the home your current own or rent
- Relative mortgage value
- Disclosure

- Current Mortgage Term
- Current Mortgage Type
- Likelihood to consider a mortgage term longer than 5 years
- Agree/Disagree [I think interest rates will be higher in 5 years than they are today.]
- Agree/Disagree [I would be more comfortable having my interest rate fixed for as long as possible to avoid the risk of it increasing.]
- Agree/Disagree [It important to me that my mortgage payments are consistent over the term and do not change.]
- Agree/Disagree [I am knowledgeable about mortgages.]
- Agree/Disagree [The major banks encourage mortgages with terms of 5 years or less.]
- Agree/Disagree [The longer the mortgage terms the harder it is to qualify.]
- Agree/Disagree [The longer the mortgage term the more expensive it is to break the mortgage contract.]
- Agree/Disagree [I'd be afraid of missing out on a potential decrease in interest rates if I locked into a mortgage longer than 5 years.]
- Agree/Disagree [Avoiding the hassle of having to renew my mortgage often is appealing to me.]
- Agree/Disagree [I have a hard time imagining what life will be like in 10 years.]
- Agree/Disagree [I would feel anxious to be locked into a mortgage term longer than 5 years, even if I had the flexibility to break the contract.]
- Agree/Disagree [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.]
- Age
- Education
- Toronto or Vancouver compared with other locations

The results showed a similar outcome or picture of the latent factors that positively influence the probability of choosing the 10-year fixed rate option across each of the 4 runs: normal, flat, steep, inverted and across each sample group: total, mortgage holders and non-mortgage holders.

After applying cut-off thresholds on PLS results, two latent factors emerged as shown in the table below. The first creates a picture of lower household income, higher financial stress and higher risk aversion. The second is of higher household income and lower financial stress with lower risk aversion.

The table below depicts two latent factors most linked to the probability of choosing the 10-year fixed mortgage option among the total sample using the normal scenario. However, the same latent factors emerged for mortgage holders and all others and across scenarios.

The figures shown reflect values from -1.00 to +1.00. The closer the figure is to either end of the range, the stronger the relationship to choosing the 10-year fixed option. The indication of a positive or negative indicates the direction of the relationship. For example, for financial stress: Factor 1 is positive (0.196) indicating increased or higher financial stress and Factor 2 is negative (-0.402) indicating lower financial stress.

Figure 32: Partial Least Squares Loadings

PLS Loadings		
Variables	Latent Factors	
	FACTOR 1: Lower household income and higher financial stress	FACTOR 2: Higher household income and lower financial stress
Financial stress (computed)	0.196	-0.402
Household income		
Household income (recoded)	-0.328	0.233
Under $20,000	0.233	-0.094
$20,000 to just under $40,000	0.166	-0.130
$40,000 to just under $60,000	0.079	-0.061
$60,000 to just under $80,000	-0.012	-0.003
$80,000 to just under $100,000	-0.068	0.033
$100,000 to just under $150,000	-0.164	0.080
$150,000 and above	-0.145	0.161
Risk aversion		
Risk averse	0.104	-0.039
Low risk	-0.129	0.014
Medium risk	0.004	0.001
High risk	0.038	0.041
Very high risk	0.047	0.053
Suitable mortgage length		
Less than 1 year	-0.034	0.040
1 year	-0.079	-0.019
2 years	-0.106	-0.041
3 years	-0.132	-0.004
4 years	-0.089	-0.014
5 years	-0.213	-0.042
6 years	0.008	-0.016
7 years	0.017	-0.007
8 years	0.042	0.004
9 years	0.043	-0.004
10 years	0.189	0.053
More than 10 years	0.213	0.078
Number of years planning to stay in home		
1 year	0.070	-0.035

2 years	0.072	-0.017
3 years	0.029	-0.036
4 years	0.015	-0.026
5 years	-0.033	-0.020
6-10 years	-0.065	0.008
Age		
Age=18-24	0.107	-0.014
Age=25-34	0.007	-0.060
Age=35-44	-0.064	-0.002
Age=45-54	-0.044	-0.031
Age=55-64+	0.009	0.049
Education		
[Highest education =Grade 8 or less]	0.022	0.020
[Highest education=Some high school]	0.076	-0.006
[Highest education=High school diploma or equivalent]	0.105	-0.048
[Highest education=Registered Apprenticeship or other trades certificate or dip]	-0.002	-0.053
[Highest education=College, CEGEP or other non-university certificate or diploma]	0.045	-0.011
[Highest education=University certificate of diploma below bachelor's level]	0.006	-0.008
[Highest education=Bachelor's degree]	-0.125	0.039
[Highest education=Post graduate degree above bachelor's level]	-0.070	0.071
Key Locations		
Toronto	0.026	0.074
Vancouver	-0.037	-0.013
Disclosure		
No disclosure	-0.005	-0.004
Disclosure	0.006	-0.024
Current Expenses		
Can pay for monthly expenses =Yes, and I have more than $200 left to spend	-0.165	0.367
Can pay for monthly expenses =Yes, and I have less than $200 left to spend	0.061	-0.232
Can pay for monthly expenses =No, but $200 more would cover all my expenses	0.085	-0.135
Unexpected Expenses		
If you had an unexpected expense equivalent to a month's income, how much can you cover =All of it	-0.126	0.391
If you had an unexpected expense equivalent to a month's income, how much can you cover =Some of it	0.029	-0.273
Likelihood to Consider Mortgage Term Longer than 5 Years (absent interest rate)		
Stated likelihood to consider mortgage term longer than 5 years =Almost certainly	0.231	0.121

Stated likelihood to consider mortgage term longer than 5 years =Likely	0.132	-0.034
Stated likelihood to consider mortgage term longer than 5 years =Possible	-0.038	-0.054
Stated likelihood to consider mortgage term longer than 5 years =Unlikely	-0.199	-0.012
Stated likelihood to consider mortgage term longer than 5 years =Very Unlikely	-0.126	0.033
Knowledge and Attitudes of Longer-Term Mortgages		
I think interest rates will be higher in 5 years than they are today.	0.127	0.067
I would be more comfortable having my interest rate fixed for as long as possible to avoid the risk of it increasing.	0.233	0.077
It important to me that my mortgage payments are consistent over the term and do not change.	0.179	0.032
The major banks encourage mortgages with terms of 5 years or less.	-0.050	-0.035
The longer the mortgage terms the harder it is to qualify.	0.071	-0.047
The longer the mortgage term the more expensive it is to break the mortgage contract.	-0.021	-0.024
I'd be afraid of missing out on a potential decrease in interest rates if I locked into a mortgage longer than 5 years.	-0.066	-0.145
Avoiding the hassle of having to renew my mortgage often is appealing to me.	0.177	0.037
I have a hard time imagining what life will be like in 10 years.	0.044	-0.130
I would feel anxious to be locked into a mortgage term longer than 5 years, even if I had the flexibility to break the contract.	-0.037	-0.119
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.	-0.023	-0.111

PARTICIPANTS' RESPONSE RATE

Figure 33: The response rate and how it was calculated

Response rate Calculation	Number of respondents	Percentage
Invalid cases	85	
Unresolved (U)	24794	
In-scope non-responding units (IS)	983	
Responding units (R)	6059	
Participation rate / response rate = R / (U + IS + R)		19%

MODERATOR'S GUIDE – FCAC LMT RESEARCH

INTRODUCTION [10 MINUTES]

Explain to participants:

- The role of moderator is to ask questions, timekeeper, objective/no special interest
- The length of the session (1 ½ and 2 hours)
- Taping of the discussion, one-way mirror and colleagues viewing in back room
- Results are confidential and reported all together/individuals are not identified/participation is voluntary
- Role of participants: not expected to be experts, no need to agree with each other, speak openly and frankly about opinions and remember that there are no wrong answers
- Get participants to introduce themselves and their occupation/hobbies etc...

WARM UP: Information needs and sources [20 MINUTES]

- I'd like us to start off by talking about real estate purchases and specifically purchasing a home.
- What are some of the things you consider when thinking of purchasing a home? [MODERATOR LISTEN FOR REFERENCES TO MORTAGES/LENDERS/INTEREST RATES ETC – if not mentioned prompt with 'What about financing considerations/mortgages etc?'
- How much do you know about mortgages and the various options you as a borrower have when it comes to deciding on a specific type of mortgage? Let's assume for a second that I know very little if anything about them – what would you tell me? What do I need to know about them?

<u>HANDOUT #1</u>

OK I'm going to have you complete a short exercise. I would like you to answer the following questions to the best of your ability – please don't worry about using technical language here – I want you to provide me with your understanding of each of these terms using your OWN words.

- What does it mean for a mortgage to have a "fixed" interest rate?
- What does it mean for a mortgage to have a "variable" interest rate?
- When I say the word 'AMORTIZATION' what comes to mind? What does that mean?
- When I say the word "TERM" what comes to mind? What does that mean?

OK now I'd like you to share your answers with me? Let's do a quick once around – again no one expects you to be subject matter experts here so please don't feel intimidated about sharing your answers.

Definitions:

- **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.

INFORMATION SOURCES

- And what sources of information do you consider/trust when looking for mortgage related information OR which mortgage option would work best for you? Where do you go to get answers to your questions?
- Why this source rather than others?
- Are there any difficulties getting the most up to date mortgage related information? / Are there any difficulties finding mortgage related information you understand and trust? Why?
- Let's talk a bit more about online information – what sources specifically, if any, would you consult online – and why would you be more confident of this source than others?
- Are you aware of the different term options offered by lenders? How did you get information on multiple term options?

FACTORS THAT MOTIVATE BORROWERS TO CHOOSE LONGER-TERM MORTGAGES. [60 MINUTES]

[ASSUMING THEY HAVE MENTIONED MORTAGES SHORT TERM VS. LONGER TERM] Many of you mentioned the term of the mortgage you apply for. Why is this a consideration? What mortgage terms are offered by financial institutions?

HANDOUT #2 [RED/GREEN EXERCISE]
I'd like you to take a few minutes to read the document I'm currently handing out – As you read it with your red pen I'd like you to underline anything and everything that you don't understand – could be words/terminology, or ideas or otherwise. With the green pen please underline words, terminology, ideas that are clear and easy for you to understand/ not confusing.

For the next few questions, we will be asking you questions regarding mortgage terms. The mortgage term can vary between a few months and longer, like 5 years, 10 years and maybe even longer. We have classified the mortgage term in 2 categories:

1. **Short term mortgage: 5 years or less**
2. **Long term mortgages: more than 5 years**

- Did you learn anything new here? What specifically did you learn?

[IN THEIR OWN WORDS]

- If you had to describe to me what the major differences/advantages and drawbacks are between short-term (a mortgage term of 5 years or less) and long-term (a mortgage term of more than 5 years) what would you say?

BENEFITS OF LTMs
I'M GOING TO PRESENT 3 POSSIBLE SCENARIOS and I'd like to hear your thoughts on each:
SCENARIO #1:
You are shopping for a mortgage – In this case you have two options:
Option #1 – you can opt for a 5-year fixed rate mortgage at an interest rate of 5.24% OR
Option #2 – you could decide to go with a 10-year fixed rate mortgage at an interest rate of 6.60%.
Which of the two options would you opt for? What makes you say that? What factors influence your decision to go one way or the other?

SCENARIO #2,
You are shopping for a mortgage – In this case you have two options:
Option #1 – you can opt for a 5-year fixed rate mortgage at an interest rate of 5.24% OR
Option #2 – you could decide to go with a 7-year fixed rate mortgage at an interest rate of 5.68%.
Which of the two options would you opt for? What makes you say that? What factors influence your decision to go one way or the other?

SCENARIO #3
You are shopping for a mortgage – In this case you have two options:

Option #1 – you can opt for a 5-year variable rate mortgage at an interest rate of 4.1% OR
Option #2 – you could decide to go with a 5 year fixed rate mortgage at an interest rate of 5.24%
Which of the two options would you opt for? What makes you say that? What factors influence your decision to go one way or the other?

MODERATOR - PROMPT WITH FOLLOWING AS APPROPRIATE

Predictable interest rates:

- **What about cost certainty** – that is the idea that you can choose to 'lock in' your interest rates for a longer period of time? Do you see this as a benefit or a drawback? What are the advantages that come with this type of approach? What are some of the drawbacks? [PROBE ON GUARDING AGAINST POTENTIAL INTEREST RATE HIKES.]

Costs associated with longer-term mortgages:

- What are some of the **cost considerations** that might affect your decision to opt for a longer-term mortgage (more than 5 years) vs. a shorter-term (5 years or less) mortgage? Are LTMs more expensive for you the borrower than STMs? What makes you say that? Do you think financial institutions would rather you opt for an LTM or a STM? Why is that?

Threshold for risk:

- Does locking in a mortgage interest rate for a longer term, justify a higher interest rate? Why is that? How much higher could the interest rate be for you to be comfortable paying for the additional security?

Are there any additional benefits that come with long-term mortgages beyond what has been mentioned thus far?

DRAWBACKS OF LTMs

OK – I'd like us to spend the next little while focusing on some of the factors that might prevent you from considering a mortgage term longer than 5 years. Let's start by generating a list here:

[MODERATOR FLIP-CHART AS NEEDED AND DISCUSS FULLY AS NEEDED]

IF NOT SPECIFICALLY MENTIONED PROMPT AS NEEDED WITH:

Financial commitment

- Possible uncertainty with personal situation (job, marital status, children, sickness, move etc.) – is this something you had considered? How important of a consideration is this for you and why do you say that?

Difference in interest rates from STMS TO LTMS

- When it comes to mortgage interest rates – if you must choose between a shorter-term mortgage with a marginally better interest rate rather than a longer-term mortgage (say 10-year term) with a slightly higher interest rate - which would you opt for and what makes you say that?

Fluctuations in interest rates to the benefit of STMs vs. LTMs – i.e. the fear of 'locking-in'.

Difficulty in obtaining LTMS

- Do you think it is difficult to get a longer-term mortgage with a financial institution? What makes you say that?

INFORMATION DISCLOSURE [10 MINUTES]

- Do you feel like you have sufficient information/knowledge in order to decide on the best mortgage term for your needs?

- **IF YES,** what are the key things you need to keep in mind when deciding? **IF NO,** what specifically should Banks or financial institutions be telling you/sharing with you to help make an informed decision?

[MODERATOR LISTEN FOR REFERENCES TO PENALTIES]

MORTGAGE PENALTIES [20 MINUTES]

I'd like us to spend our last few minutes together talking about some specific information you might be interested in when it comes to mortgages.

When I say mortgage penalties – what specifically are we talking about here? When would you as a borrower incur mortgage penalties? Under what scenario would this apply? **[MODERATOR LISTEN SPECIFICALLY FOR REFERENCES TO SELLING HOME BEFORE END OF MORTGAGE TERM]**

PENALTIES SCENARIO #1

- IF NOT MENTIONED ASK: Ok, so let's assume for a second that I've purchased a home and that as part of this purchase I applied for and been approved for a 10-year mortgage. My wife and I then decide we want to purchase a bigger home. What are some of the options available to me with regards to the mortgage I have on my existing home? **[MODERATOR LISTEN FOR TRANSFER MORTAGE TO NEW HOME, PURCHASER TO TAKE OVER MORTAGE, PAY PENALTY]**

PENALTIES SCENARIO #2

- And what about if we were looking to downsize and simply wanted to sell our home before the end of the term in order to become renters – what options would we have under this scenario?

CONCLUSION [5 MINUTES]

We have covered a lot of topics today and really appreciate you taking the time and energy to come down here and give your opinion. Your input is very important and insightful! Do you have any last thoughts that you want to share?