

IMPROVED ACCESS TO HOMEOWNERSHIP
THROUGH THE GRADUATED PAYMENT MORTGAGE

Capital Markets Unit,
Program and Market Requirements
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Extension of GPM's to All Section 6 Loans

The objective of this note is to analyse the effect of extending the use of the GPM instrument to all loans made under Section 6 of the NHA. While GPM loans which are addressed to a clientele for modest cost housing will continue to contain a provision for quick settlement in the case of default, loans on higher priced dwellings will be subject to the NHA maximum loan amounts and to the normal insurance settlement procedure.

As the monthly payments for mortgage principal and interest on a GPM start at a lower level than the payments on a traditional level payment mortgage (LPM), the income required to carry a GPM is lower than the income needed to carry a mortgage with equal payments. This is shown in Table 1 which compares across a subset of metropolitan areas the incomes required to purchase an average-priced house with a GPM and with a LPM.

Since the effect of the GPM is to reduce the income required to purchase a house, it results in more households having access to homeownership. However, it is unlikely that all of these potential clients for homeownership dwellings will demand or be eligible for GPM loans. As the GPM instrument is designed primarily for a particular target group consisting of younger households with good income growth prospects, it is unlikely that older households will demand a GPM loan or that a lending institution will make GPM loans to these households. For this reason, the estimates presented in this paper refer only to households with heads of 50 years of age or less.

TABLE 1

Comparison of Incomes Required to Afford
an Average-Priced House With a Level-Payment
Mortgage and With a Graduated Payment Mortgage
by Major Metropolitan Area, 1978

<u>Metropolitan Area</u>	<u>Average House Price⁽¹⁾</u>	<u>Maximum NHA Loan Amounts</u>	<u>Income Required⁽²⁾</u>	
			<u>With Level Payment Mortgage</u>	<u>With Graduated Payment Mortgage</u>
St. John's	41,365	47,500	17,200	13,700
Charlottetown	40,533	47,500	16,900	13,400
Halifax	44,579	51,250	18,500	14,700
Saint John	39,111	47,500	16,300	12,900
Quebec	40,805	47,500	17,000	13,500
Montreal	41,046	47,500	17,100	13,600
Hull	37,899	51,250	15,800	12,500
Ottawa	57,032	51,250	22,600	18,000
Toronto	66,543	61,000	26,400	21,000
Winnipeg	44,756	47,500	18,600	14,800
Regina	45,172	47,500	18,800	14,900
Saskatoon	47,206	47,500	19,600	15,600
Calgary	74,079	61,000	27,100	21,700
Edmonton	69,763	61,000	26,800	21,300
Vancouver	65,531	61,000	26,000	20,700

(1) Average MLS house prices, first half of 1978.

(2) The calculations of income requirements are based on the following parameters and/or assumptions:

- (i) Maximum NHA loans are derived from the following formula; 95% of the first \$50,000 plus 75% of the remainder up to the prescribed maximum.
- (ii) Carrying charges are calculated on the basis that mortgage interest rates are 11% and that property taxes represent 1.5 percent of house price.
- (iii) For Graduated Payment Mortgages, payments in year one are reduced by \$2.25 per \$1,000 of mortgage principal.
- (iv) Income requirements are based on a Gross Debt Service (GDS) ratio of 30%.

In the 14 major metropolitan areas analysed in this paper, some 284,000 renters, 50 years of age or less, could purchase an average-priced house with a level payment mortgage. This represents 25 percent of all renters in that age group. As Chart 1 shows, the GPM instrument could facilitate access to ownership to an additional 160,000 households so that some 444,000 renters could afford to purchase an average-priced house. This represents a substantial improvement in the access of renters to home-ownership dwellings.

The effect of the GPM instrument in easing access to the average-priced house varies across market areas. In areas where house prices are relatively low, a large percentage of renters could afford to purchase the average-priced house with a level payment mortgage.

In general, in those areas, the GPM eases access to homeownership to some 40 to 60 percent more households. However, it is in areas where prices are relatively high that the GPM has the most dramatic impact on access to home-ownership. As Table 2 shows, in areas such as Toronto, Calgary and Edmonton, the number of households who can purchase the average-priced house with the GPM is more than double the number of households who could purchase the same house with a level payment mortgage.


The estimates presented so far refer only to the capacity of renters to obtain Section 6 loans and purchase an average-priced house. On this basis, it was shown that some 444,000 renters could have access to home-ownership. However, this estimate ignores the effect of the AHOP-GPM program. When this program is taken in to account, the number of renters who could afford to purchase a house increases to 634,000 households.

This implies of course that some 190,000 renters who cannot afford the average-priced house could purchase an AHOP-priced house. Since for most of these households, this could be done only with a GPM, one can estimate that the total potential market for GPM's (in the 14 metropolitan areas analysed in this paper) could amount to some 350,000 households. This latter estimates combines the total potential demand arising from the Section 6 and AHOP sub-markets.

All these estimates are based on current maximum house prices and current maximum loan amounts (as of December 1978).

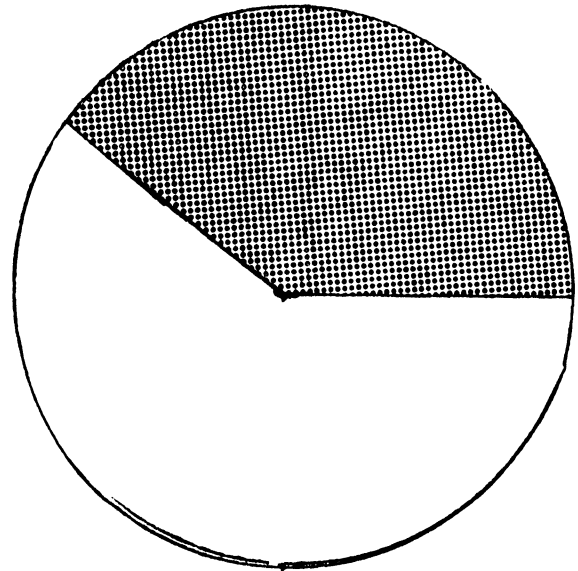
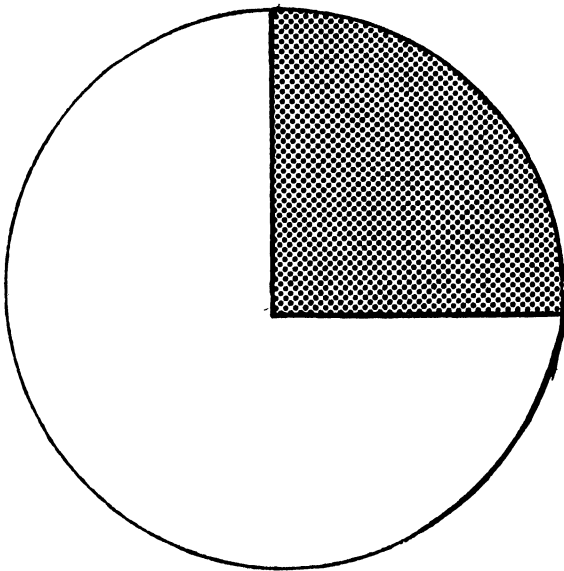
CHART 1

Percentage of Renters⁽¹⁾ That Can Afford Average-
Priced House⁽²⁾ with the Level-Payment Mortgage
and with the Graduated Payment Mortgage, 1978
(Households With Heads 50 Years of Age or Less)

Percentage of Renters That Can Afford Average-Priced House 

With Level-Payment Mortgage

With Graduated Payment Mortgage



With Level Payment Mortgage

	<u>Renters Who Cannot Afford Average-Priced House</u>	<u>Renters Who Can Afford Average- Priced House</u>	<u>Total</u>
Number	869,480	284,205	1,153,685
Percent	75.4	24.6	100.0

With Graduated Payment Mortgage

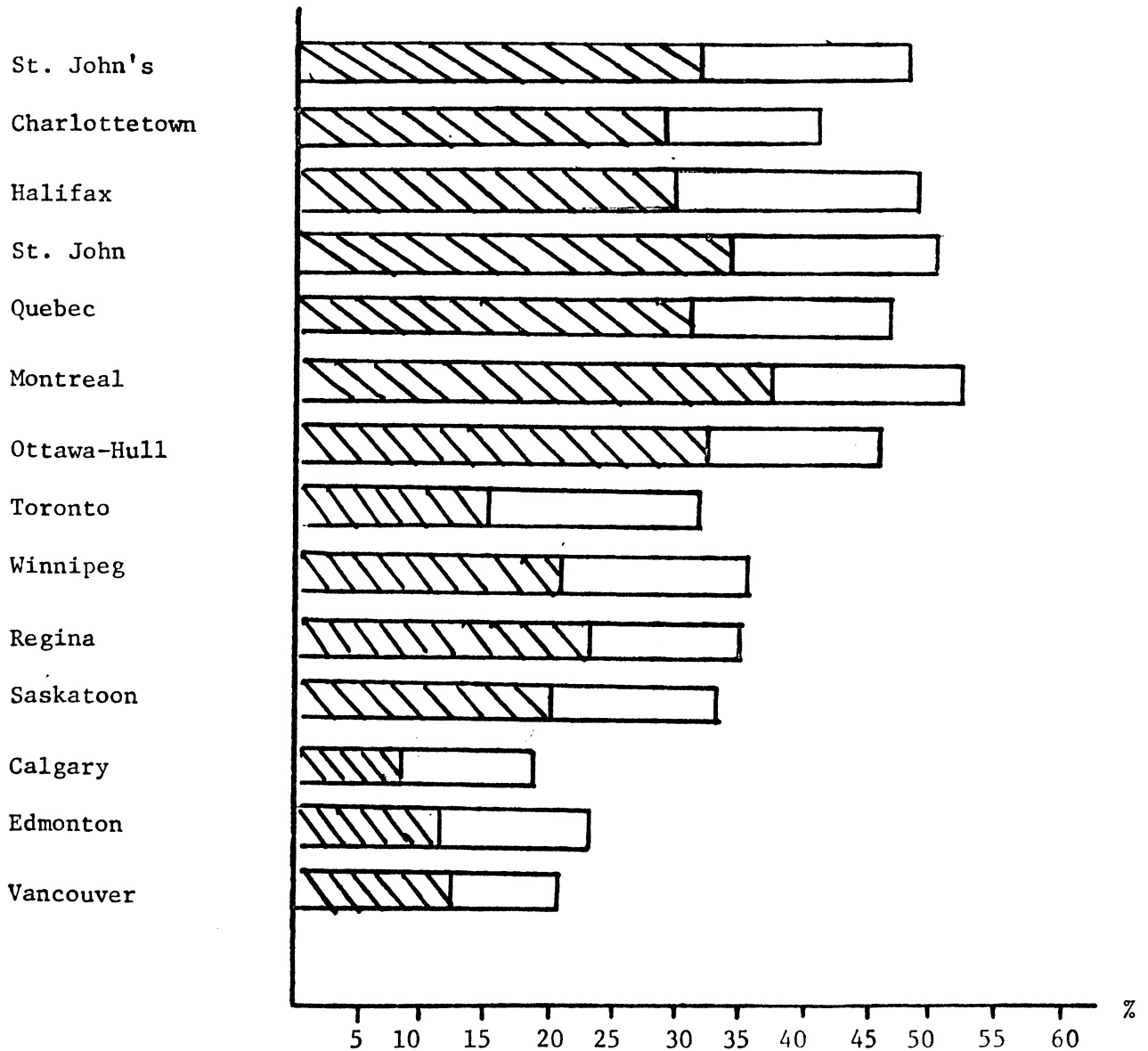
	<u>Renters Who Cannot Afford Average-Priced House</u>	<u>Renters Who Can Afford Average- Priced House</u>	<u>Total</u>
Number	709,401	444,284	1,153,685
Percent	61.5	38.5	100.0

(1) Estimates based on the 1974 Survey of Housing Units.
Both household income and the number of households were inflated to 1978.

(2) Based on average MLS house prices, first half of 1978.

CHART 2

Percentage of Renters⁽¹⁾ That Can Afford Average-Priced House⁽²⁾
 With the Level-Payment Mortgage (LPM) and
 With the Graduated Payment Mortgage (GPM)
 by Metropolitan Area, 1978
 (Households With Heads 50 Years of Age or Less)



Percentage of Renters that can afford average priced-house under the Level-Payment Mortgage (LPM)

Percentage of Renters that cannot afford average-priced house under the LPM but can afford it under the GPM.

(1) Estimates based on the 1974 Survey of Housing Units. Both household income and the number of households were inflated to 1978.

(2) Based on average MLS house prices, first half of 1978.

TABLE 2

Number and Percentage of Renters ⁽¹⁾ That can Afford Average-Priced Houses ⁽²⁾
 With the Level-Payment Mortgage (LPM) and
 With the Graduated Payment Mortgage (GPM)
 by Metropolitan Area, 1978
 (Households With Heads 50 Years of Age or Less)

<u>Metropolitan Area</u>	<u>Renters Who Can Afford Average-Priced House With LPM</u>		<u>Renters Who Can Afford Average-Priced House with GPM</u>		<u>Percent Increase in No. of Renters Who Can Afford Average-Priced House</u>
	No.	%	No.	%	
St. John's	2,184	31.2	3,182	45.5	45.8
Charlottetown	509	28.6	719	40.4	41.3
Halifax	7,971	29.7	13,081	48.8	64.3
St. John	2,977	33.9	4,395	50.0	47.5
Quebec	14,973	30.6	22,664	46.3	51.3
Montreal	142,907	37.5	197,721	51.9	38.4
Ottawa-Hull	27,371	32.4	38,499	45.6	40.7
Toronto	44,378	15.2	89,820	30.8	102.6
Winnipeg	11,507	20.7	19,677	35.4	69.6
Regina	3,068	22.3	4,707	34.2	53.4
Saskatoon	2,623	19.4	4,351	32.2	66.0
Calgary	5,299	8.8	11,369	18.9	114.8
Edmonton	7,729	11.2	15,731	22.8	103.6
Vancouver	10,709	11.9	18,368	20.4	71.4
Total of 14 Areas	284,205	24.6	444,284	38.5	56.3

(1) Estimate based on the 1974 Survey of Housing Units. Both household income and the number of households were inflated to 1978.

(2) Based on average MLS house prices, first half of 1978.