The nesto-meter

September 2020

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September 22nd, 2020 - One more month and a whole new set of mortgage data to share, with an “end-of-summer-back-to-school” feel to it. With a change of weather often comes a change of behaviors. So, does lockdown still affect us and our desire or capacity to buy or invest in a property? Does it affect the rate’s volatility? What’s for sure is that mortgage rates, fixed and variable, kept going down through the whole month of August, having digital customers wondering when, if and where it was ever gonna stop.

In this September issue, you will find updated data on our 5 key monthly metrics: Rates volatility and variance, timing, mortgage type trends, purchase price vs down payment and purchase timing intent.

As for this month’s deep dive, our team decided to focus on two specific questions tied to our exclusive data: Are digital consumers renewing early? And, are they buying in a shorter term? The hypothesis being that, because of the actual historically low mortgage rates, consumers are willing to pay a penalty to refinance the remainder of their mortgage at a much better rate instead of waiting to the end of their current contract. True? We decided to find out.

KEY TAKEAWAYS

August 2020 was the steadiest month for rate volatility since the beginning of the pandemic, with only 4 “best rate” changes compared to 14 in April 2020.

For the first time this year, in August 2020, our best variable rates changed more often than our best fixed rates.

August saw the trend of median home price and down payment continue upwards, with the median home price now back to February’s high and the down payment hitting 20% of the total mortgage amount!

Early mortgage renewals, where the clients pay a penalty to exit their current contract, have continued to climb in 2020, especially in the month of August.

August 2020 shows a decrease in long term planned purchases, with a maximum of target date of about 120 days.

#1

RATES

A. Volatility

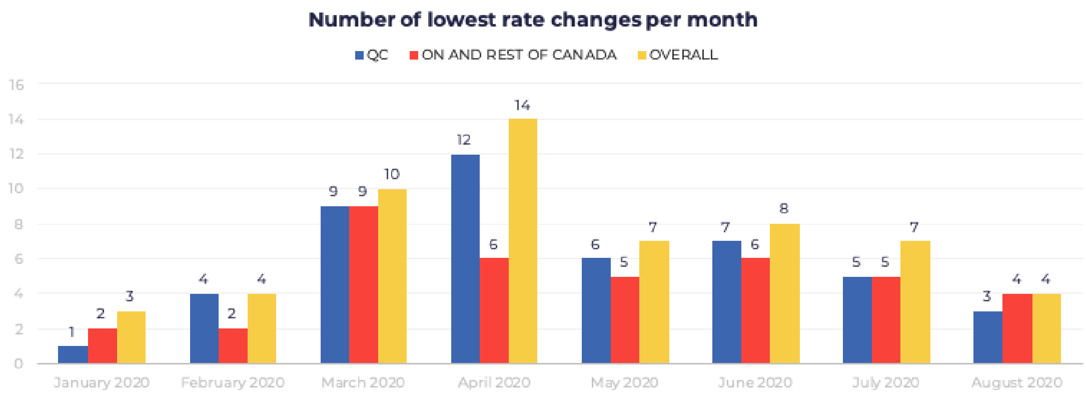


Fig. 1: Number of times the lowest rates offered by nesto to its clients changed per month across provinces between January and August 2020. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment) and correspond to the lowest rate nesto could offer its clients at the time.

Rate Volatility is the first key metric we're analysing, taking all of our lowest (best available) rates for insured (5-19.99% down payment) and insurable (20%+ down payment) mortgages, both 5-year fixed and variable, and comparing their degree of variation adding August's data to our 2020 results.

Finding 1

Overall, April 2020 remains the month with the highest volatility with rates changing 14 times in the span of a month, most probably in correlation with the degree of uncertainty we've experienced during that time frame.

Finding 2

In comparison, August 2020 was the slowest month since the pandemic began, with only 4 days with rate changes. Only January had fewer rate changes this year.

Since January 2020, the lowest available rates changed 57 times, including 4 times in August, for an average of 7.13 per month.

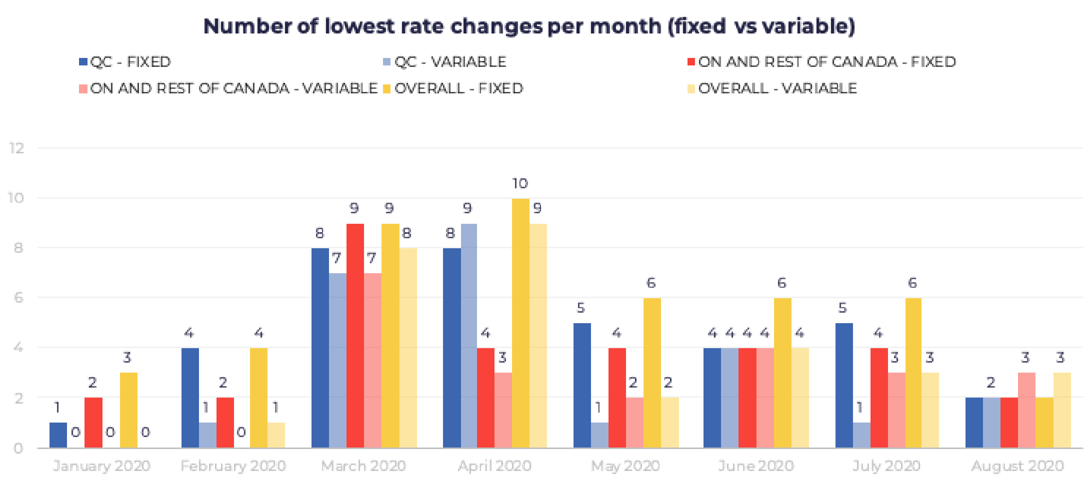
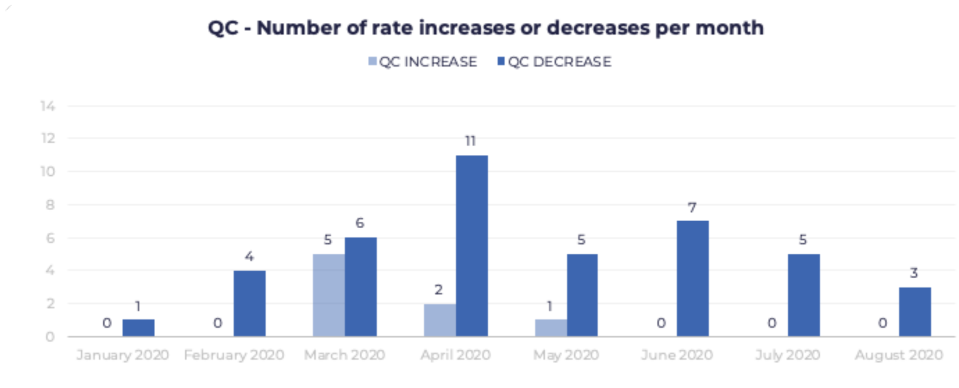
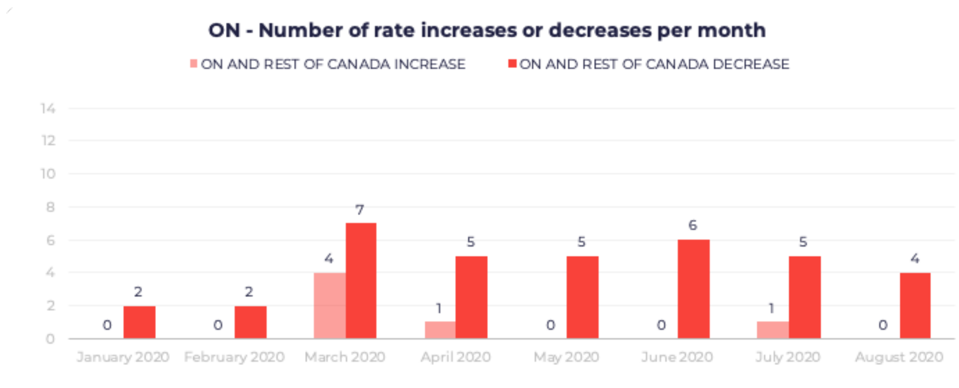


Fig. 2: Number of times the lowest rates offered by nesto to its clients changed per month across provinces between January and August 2020 and comparing fixed to variable rates. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment).

When looking specifically at the number of rate changes by type (fixed or variable) from January to August 2020, the fixed rates are still the ones that changed the most often, across all provinces. The trend continues. For the month of August specifically though, we noticed a different pattern : For the first time this year, variable rates changed more often than fixed rates. This phenomenon is most probably linked to the discount on prime being reduced by the lenders to the borrower's benefit.

Note: It's important to specify that the lowest rates "changing" can be due to the prime rate changing (for variable) or due to lenders modifying the rate (for fixed) or the discounts they offer from prime (for variable). This is different from "having" a variable mortgage and seeing your rate change.





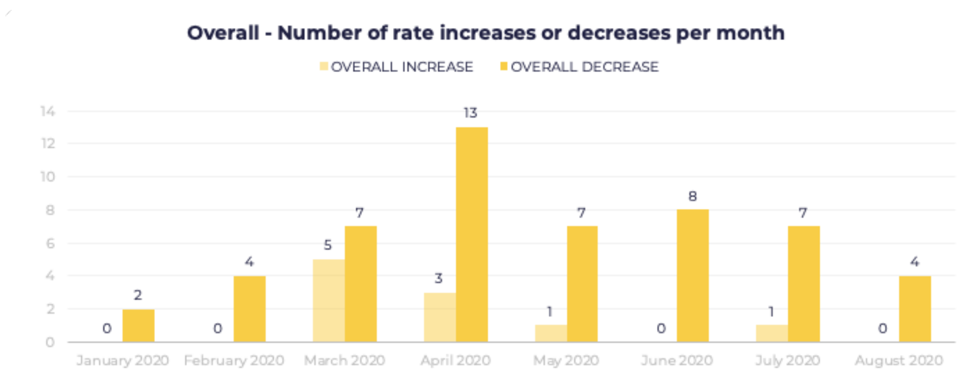


Fig. 3: Number of times the lowest rates offered by nesto to its clients increased or decreased per month across provinces between January and August 2020. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment).

As nesto's rate volatility has generally been higher in Quebec than any other Canadian province, August 2020's data, again, shows the opposite.

Finding 1

In fact, for once, Quebec rates changed less often than those of other provinces this past month! With a total of only 4 rate changes this month.

Finding 2

As mentioned earlier, rates have been going down in Quebec for the last few months, and the month of August is following this trend. This is the 3rd month in a row for Quebec where rates have only decreased.

Finding 3

Ontario and the other provinces saw a rate increase in July, but otherwise followed the same trend as Quebec.

It's interesting to see how our Canadian lenders remain as competitive as they are pricewise amongst each other considering the fact they have reduced efficiency by shifting to remote work and dealing with a record level of pent up financing demand due to lockdown. At first glance, one would assume that when lenders experience ongoing processing delays, they would intentionally price themselves out of the market to allow their operations to catch up.

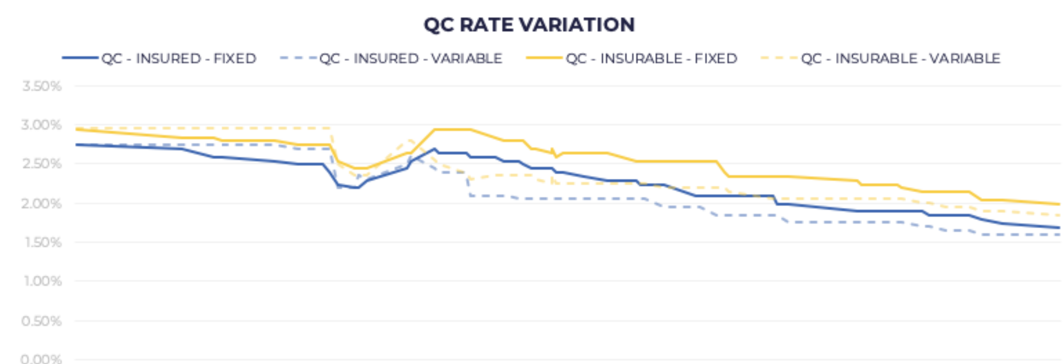
Remember when confinement hit, at the end of March 2020? Lenders quickly inflated their rates, intentionally pricing themselves out of the market as they dealt with the looming uncertainty and the influx of deferment requests from existing clients. Since that time, we have more or less only seen rate decreases down to well below the original March levels .

B. Variance: Lowest rates

Bank of Canada Prime Rate | January-August, 2020

Date	Prime rate
Jan 1	3.95%
Mar 11	3.45%
Mar 18	2.95%
Apr 1	2.45%
Aug 18	2.45% *(no change)*

Table 1: The Bank of Canada's Prime Rate decreased from 3.95% to 2.45% between January and April 2020, losing 1.50% overall. It has remained stable since then.



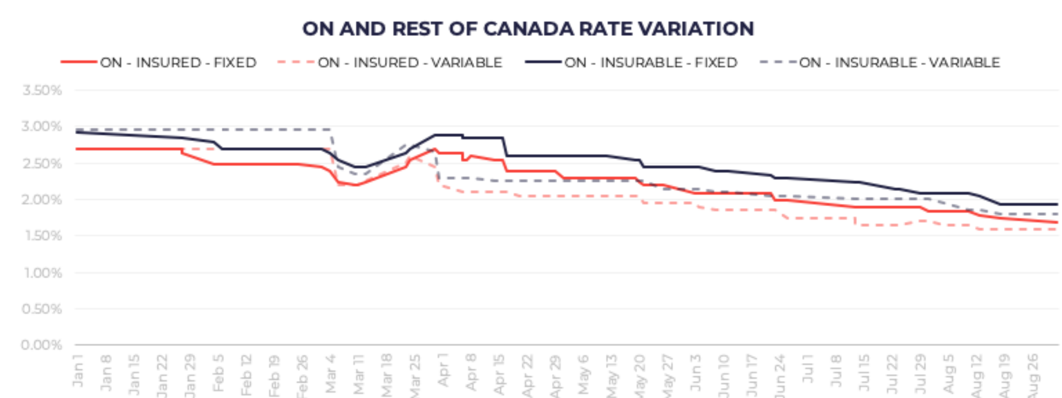


Fig. 4: These graphs show the rate variance from January to September 2020 in Quebec compared to Ontario and the rest of Canada.

Lowest Rates

In this 8-month span, the highest insured variable rate was at 2.75%, while the lowest was at 1.50% - a 1.25% difference.

Differences between highest and lowest rate in 2020	$350k property 10% down payment 25 year amortization 5 year term		
	Lowest rate	**Highest rate**	**Difference**
Rate	1.60%	2.75%	-1.15%
Monthly payment	$1,313.00	$1,496.00	-$156.00
Total payments	$78,801.00	$89,735.00	-$10,934.00
Total interest paid	$23,767.00	$41,215.00	-$17,448.00
Total principal paid	$55,034.00	$48,519.00	$6,515.00
Money saved	$10,934.00		
Balance remaining	**$269,731.00**	**$276,246.00**	**-$6,515.00**

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Table 2: This table represents the effect of a 1.15% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term.

So, what if you would have waited and bought your house in the last few weeks, at 1.60%, one of the lowest insured variable rates seen in a long time? You would have saved $10,934 in mortgage payments and also have $6,515 less owing on the balance after 5 years compared to those who purchased 8 months prior, in January 2020.

#2

TIMING

Where would you stand if you'd taken out a mortgage in January?

A. January vs August fixed rates

January vs August fixed rates	January-August, 2020			
	Quebec		ON and rest of Canada	
	Fixed		Fixed	
	Insured	*Insurable*	*Insured*	*Insurable*
Jan 1	2.74%	2.94%	2.69%	2.92%
Jul 29	1.74%	2.04%	1.74%	1.94%
Difference	-1%	-0.9%	-0.95%	-0.98%

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Table 3: Fixed rates in January vs August across provinces. Rates have fallen by -0.9% to -1% on nesto's lowest rates.

Here it comes again, the big question: What if? What if you'd taken a mortgage in January 2020, months before we, nor the market knew a worldwide lockdown could even be a thing?

Let's say you'd taken a fixed-rate mortgage in January 2020. Compared to the August data, your rate would still be between 0.9-1.0% higher than the best rate you could have had in the last month.

If you'd picked a rate in January

$350k property
10% down payment
25 year amortization
5 year term

Fixed	Lowest rate	Highest rate	Difference
Rate (QC insured)	1.74%	2.74%	-1.00%
Monthly payment	$1,335.00	$1,494.00	-$159.00
Total payments	$80,089.00	$89,636.00	-$9,547.00
Total interest paid	$25,876.00	$41,063.00	-$15,187.00
Total principal paid	$54,213.00	$48,574.00	$5,639.00
Money saved	$9,547.00		
Balance remaining	**$270,552.00**	**$276,191.00**	**-$5,639.00**

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Table 4: The table above represents the effect of a 1% rate difference on a 350k home, with 10% down payment and a 25-year amortization after a 5-year term.

Answer: Obtaining a mortgage in August instead of January could have saved you $9,547.00!

B. January vs August variable rates

January vs August variable rates	January-August, 2020			
	Quebec		ON and rest of Canada	
	Variable		Variable	
	Insured	*Insurable*	*Insured*	*Insurable*
Jan 1 rates	2.75% prime -1.20%	2.95% prime -1.00%	2.70% prime -1.25%	2.95% prime -1.00%
Jan rate in Aug	1.25%	1.45%	1.20%	1.45%
Aug 18 rates	1.60% prime -0.85%	1.90% prime -0.55%	1.60% prime -0.85%	1.80% prime -0.65%
Difference	0.35%	0.45%	0.40%	0.35%

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Table 5: Variable rates in January vs August across provinces.

Now, for variable rates. We now know they behave differently since they are based on a discount from the prime rate. They can therefore increase or decrease based on banks prime rate changes. Looking at nesto's numbers from January to August 2020, we notice lenders have been offering smaller discounts as of late. Please note this does not immediately translate into a higher cost of borrowing. A phenomenon easily explained by the Prime rate having dropped so much since the beginning of the year due to the pandemic.

Let's say you decided to buy a house in January 2020, but chose a variable rate instead of a fixed rate. Well, that would have been a great move! Your rate would still be 0.45% lower compared to today's lowest variable rate.

If you'd picked a rate in January	$350k property 10% down payment 25 year amortization 5 year term		
	Variable		
	Lowest rate	Highest rate	Difference
Rate (insurable)	1.45%	1.90%	-0.45%
Monthly payment	$1,291.00	$1,360.00	-$69.00
Total payments	$77,434.00	$81,576.00	-$4,142.00
Total interest paid	$21,512.00	$28,292.00	-$6,780.00
Total principal paid	$55,923.00	$53,284.00	$2,639.00
Money saved	$4,142.00		
Balance remaining	**$268,842.00**	**$271,481.00**	**-$2,639.00**

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Table 6: The table above illustrates what a -0,45% variable rate difference would represent on a 350k mortgage, with 10% down payment and a 25-year amortisation after a 5-year term.

In this case, you would have saved over $4,142 in mortgage payments and also have $2,639 less owing over 5 years by getting your mortgage in January.

#3

MORTGAGE TYPE TRENDS

B. Purchase vs Renewal vs Refinance

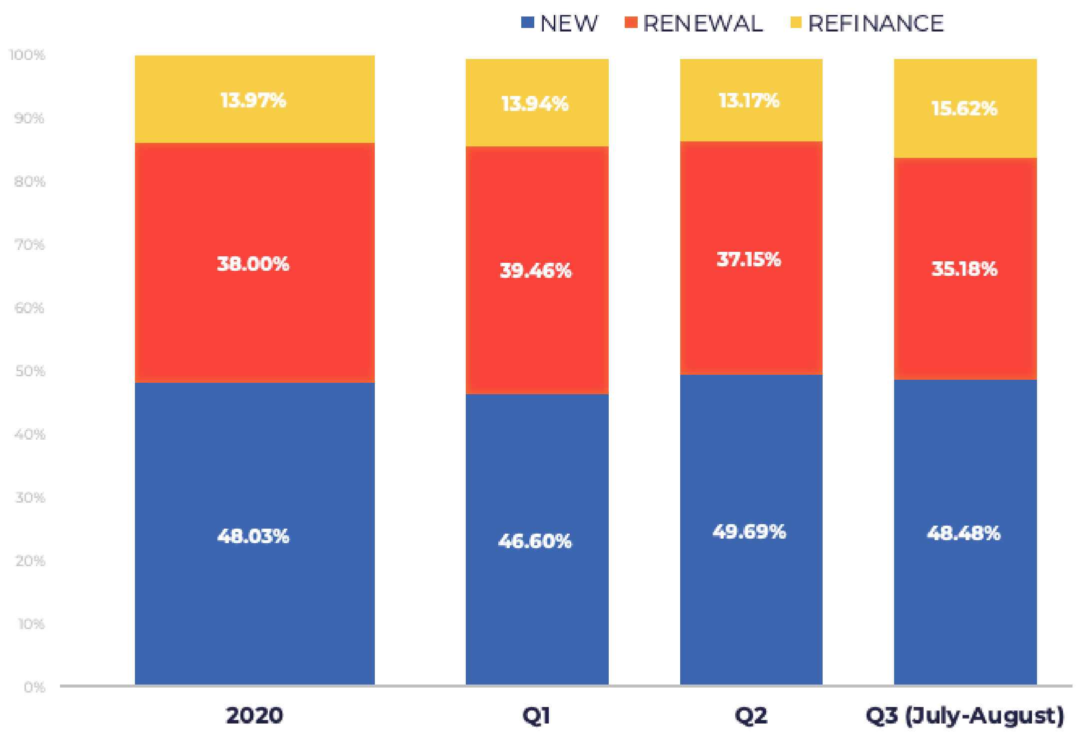
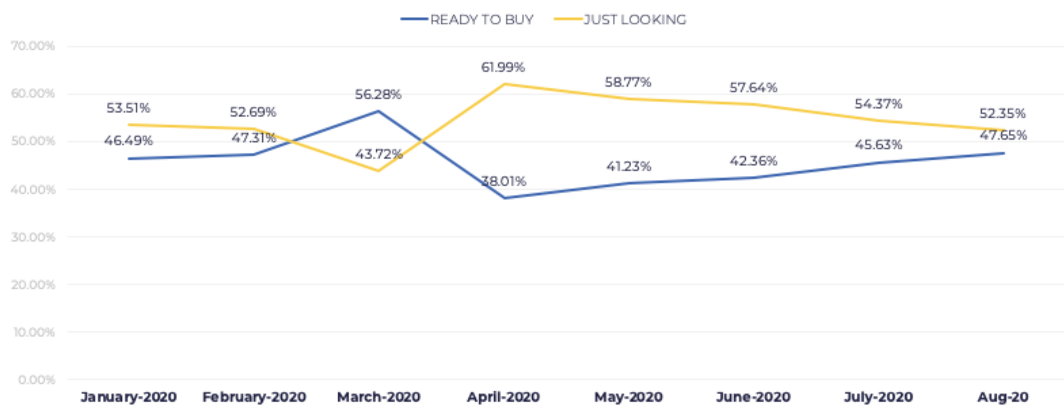


Fig. 5: Overall and view by quarter of the proportion of each mortgage type (purchases, renewals and refinances).

From January to August, purchases represented 48% of nesto.ca's user intent, with renewals at 37% and refinances at close to 14%. Adding August to our Q3 data, our month by month graph illustrates a fairly consistent spread, with purchases taking a little bit more of our overall volume over renewals and refinances by moving up 2% from Q2.

#4

PURCHASE TIMING INTENT



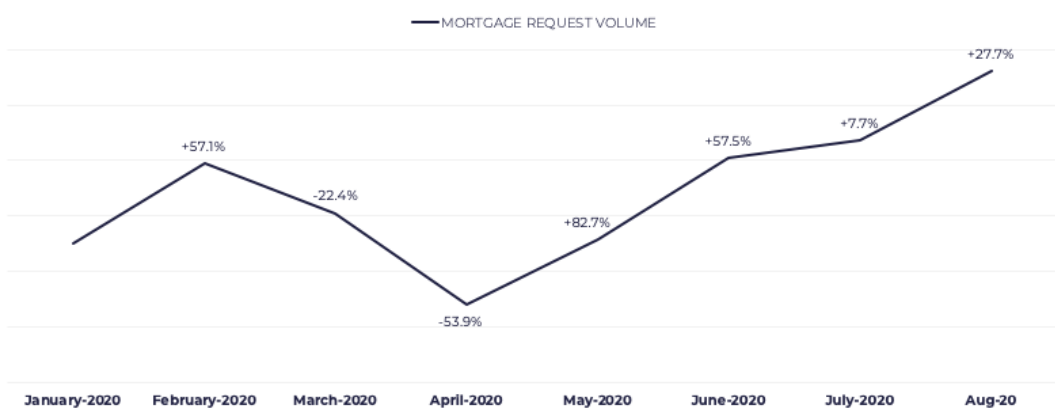
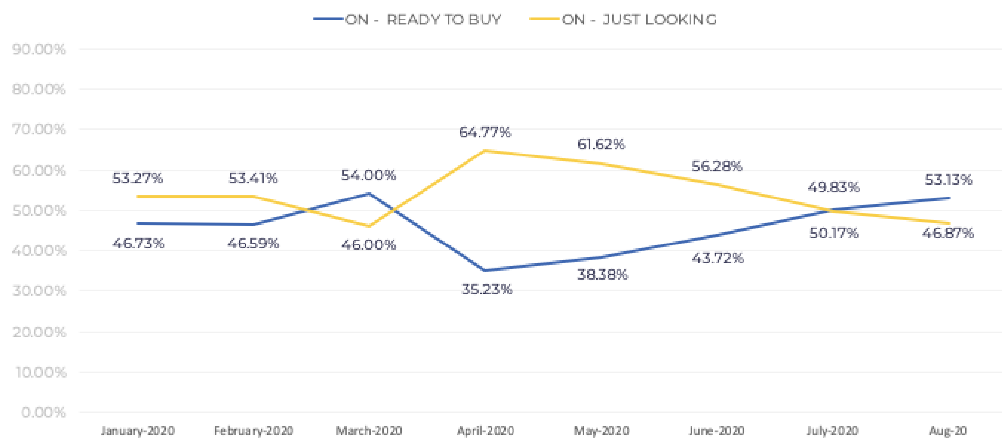


Fig. 6: Purchase intent: proportion of users "ready to buy" vs "just looking" in nesto's mortgage process, showing month by month from January to August 2020.

Are digital consumers more ready to buy right now than they were a few weeks ago? It sure looks like it. August 2020 data saw the July trend continue with more and more of our users closer to having found their property instead of just browsing.

After seeing the overall purchase request volume increase in July at 7.9%, it took a much sharper 27% increase in August!

By Province



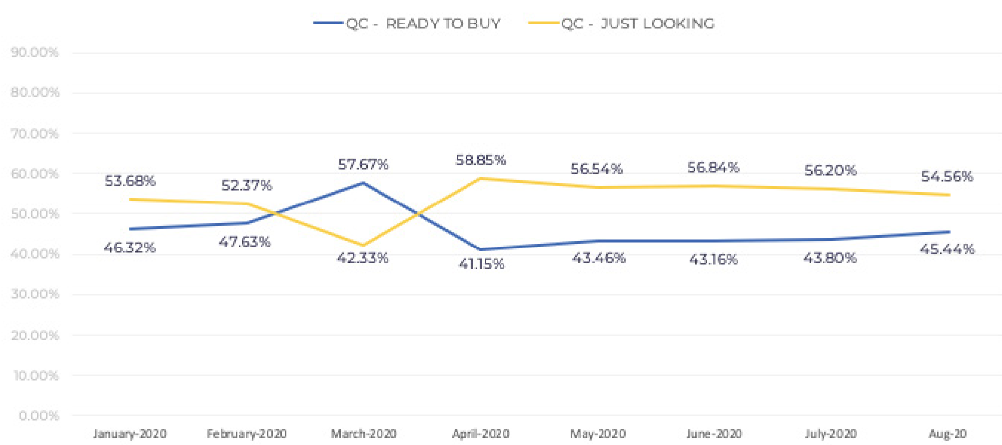


Fig. 7: Purchase timing intent proportion of users “ready to buys” vs “just looking” in nesto’s mortgage process, from January to August 2020 in Quebec and Ontario. Highlighted is the confinement period, from end of March to June 2020.

The purchase timing intent data between Quebec and Ontario shows that they are both trending upwards with a steeper climb in Ontario. In this specific province, approximately 53% of digital users stated that they had found a property to buy in August 2020, against 47% just browsing or beginning their home searching process.

If we go back a couple of months, there was a sizable gap between the percentage of consumers that were “ready to buy” (19.05%) versus “just looking” (81%) back in April, at the peak of the pandemic.

Purchase price and down payment : pre, during and post-lockdown

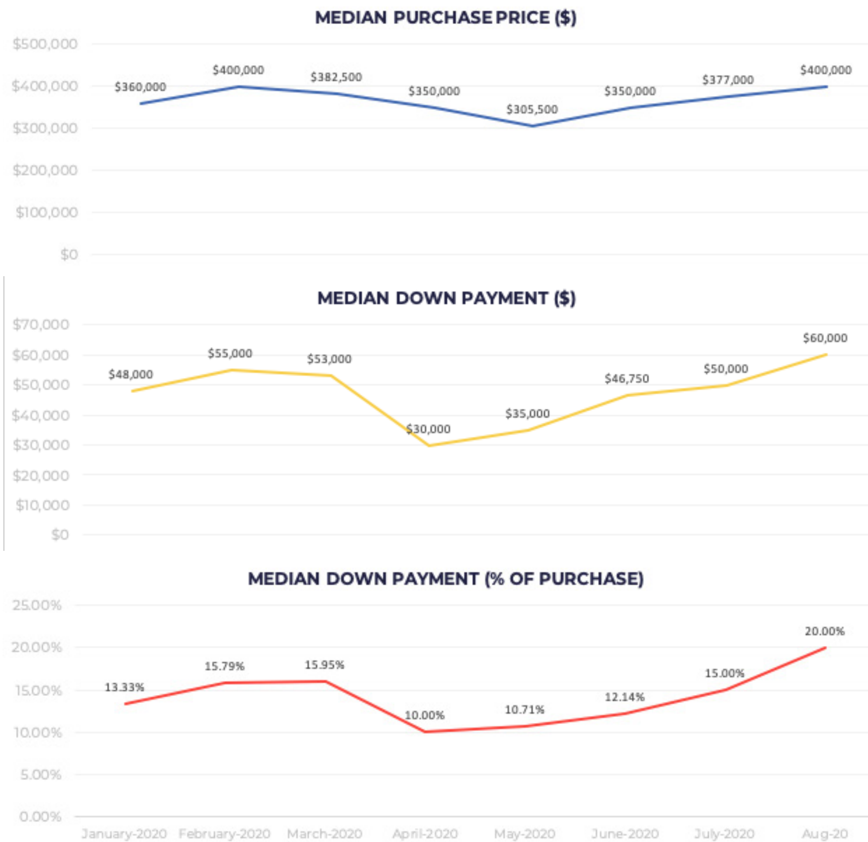


Fig. 8: Graph of intended purchase price vs down payment (in dollars and percentage) from January to August 2020. Highlighted is the confinement period, from end of March to June 2020.

In last month's report, with regards user intent between the periods of March & April 2020 vs July & August 2020, we noted the difference in targeted purchase price being at a "high" prior to the lockdown. The new environnement expectedly changed this. On average, our users began targeting less expensive properties and reducing desired down payments, keeping a lot more money easily accessible for rainy days. What's the data telling us now? August median home price and down payment data resumed trending upwards, with the median home price now reaching February's high of $400,000 and the down payment hitting $60,000 or 20% of the total mortgage amount! These two figures represent a new high for 2020.

The increase in planned down payment indicates more confidence in the real estate market, an investment avenue. It is also a reflection of the fact that home prices in Canada are still steadily increasing. In this respect, the increased down payment may also represent borrowers' desire to exhaust savings and seek other options to obtain the maximum purchase price possible for their situation.

By province

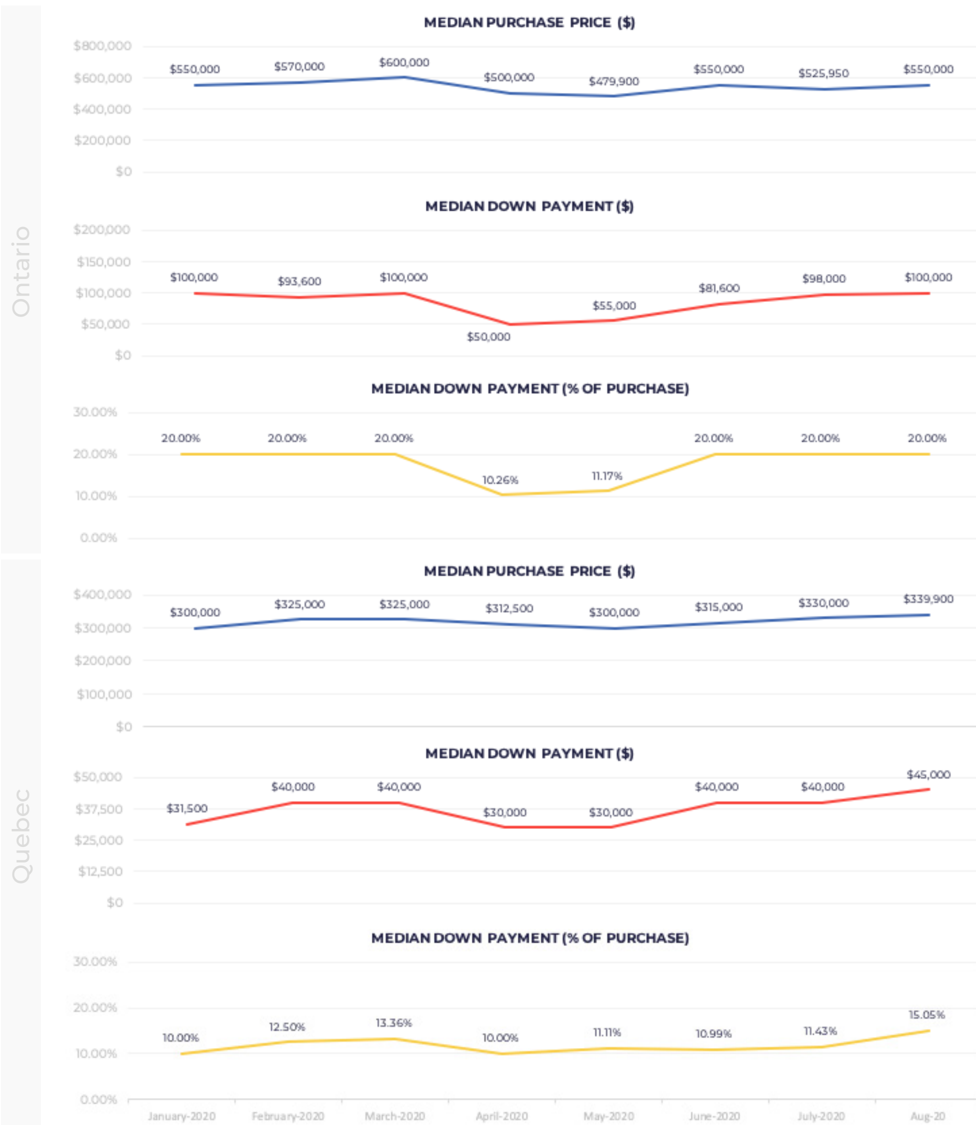


Fig. 9: Graph if intended purchase prices vs down payment (in dollars and percentage) from January to August 2020 in Ontario and Quebec. Highlighted is the confinement period , from end of March to June 2002.

When we compare data across provinces, there was less fluctuations in planned down payment and targeted home prices in Ontario. The 20% down payment median has remained stable since June, even with an increase in home prices in July and August.

DEEP DIVE

The current situation
and its effect on Timing

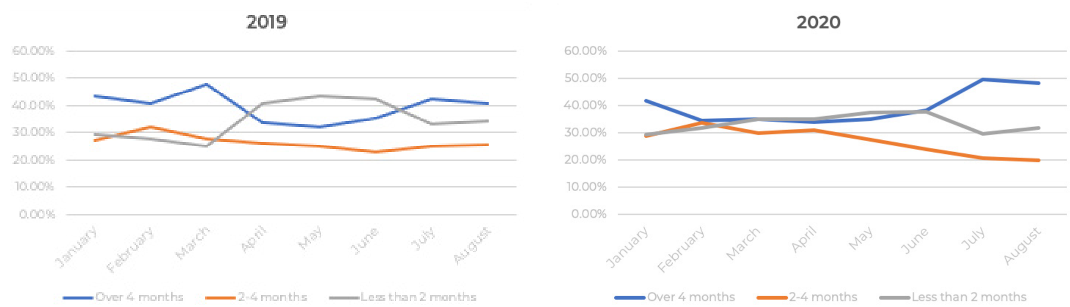
Homebuyers make quicker, more spontaneous moves

Context

First, there was the lockdown. Then, the general slowdown of the economy. A vast percentage of the people who had planned on buying a house decided to push the project further down the road or just cancel it completely while many existing homeowners simply decided to differ their mortgage payments. Lenders also quickly inflated their rates, intentionally pricing themselves out of the market as they dealt with the looming uncertainty and the influx of deferment requests from existing clients. Towards the middle to the end of lockdown, rates started dropping rapidly as lenders brought themselves back into the market, price-wise. Right now, mortgage rates are still very low, hitting historically record lows month after month. In this context, we looked into our data to validate some of the hypotheses that are floating around.

Hypothesis 1

Low mortgage rates are encouraging home owners to renew their existing mortgages early, and many are even paying penalties to break their existing mortgages in advance of the maturity (renewal) date.



Dates: January - August 2019-2020

Fig. 10: This graph represents the inbound renewal requests based on: Date of renewal vs Time remaining to that date from the application date

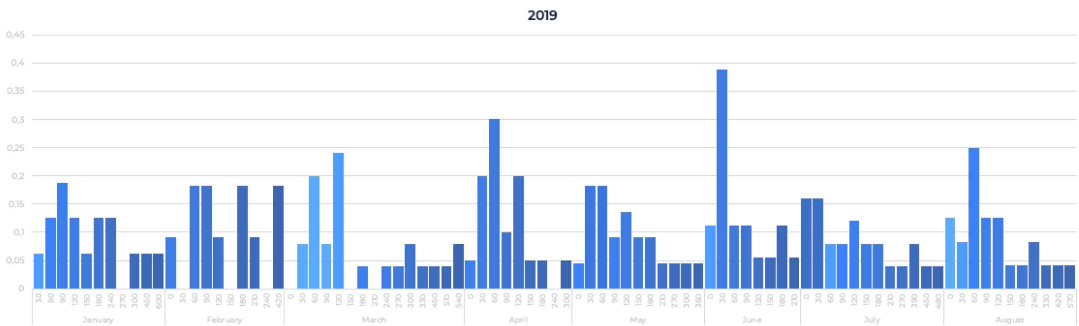
So, are people renewing early?

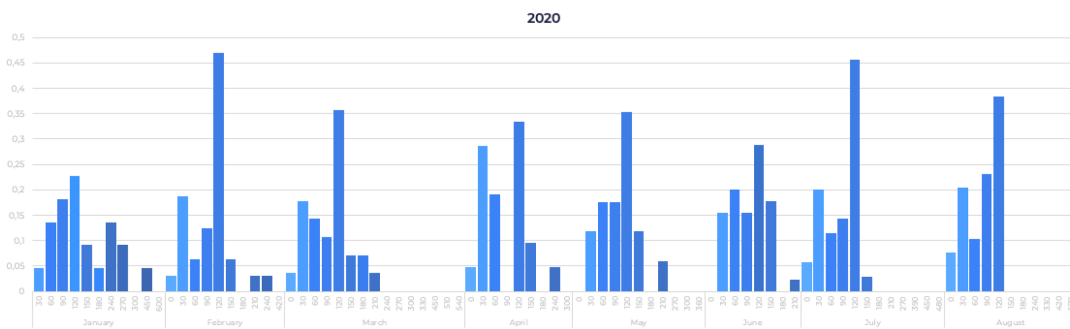
We absolutely see a tendency for more and more renewal requests arriving way before the end term, meaning, more than 4 months in advance of the maturity date. Though medium term (2-4 months) is trending similarly for both 2019 and 2020, 4 months+ renewals are growing strong in 2020 compared to 2019. Short term renewals (less than 2 months) represent less than 20% of our digital users intentions in 2020.

Before the pandemic, most users were sticking with their current lenders for close term renewals, while, during and after lockdown, most probably related to the market's numerous fluctuations, they were more willing to shop around before the end of their term. In other words, with rates at their current lows, homeowners are shopping around and willing to pay lender penalties to break their mortgages and change to lower rates for a new term.

Hypothesis 2

Current context is driving people to commit on shorter terms for purchases





Dates: january - august 2019 vs 2020

Fig. 11: This graph illustrates the number of days between the time a digital application was filled and the moment the mortgage was officially signed, comparing 2019 to 2020.

Are people really buying in a shorter term?

Comparing results from 2019 to 2020, in March 2020 and onwards, the majority of purchase applications had a timeline of less than 180 days.. In 2019 however, a lot more purchases were planned as far out as 600 days (a little less than 2 years) in advance. This trend remained true for the beginning of 2020 before the pandemic. Since then, and especially in August, we are seeing a very low number of long term purchases, signaling that our users are opting for resale homes as opposed to new construction. This is to be expected considering the economic uncertainty that Canadians feel today compared to years prior. Another conclusion we draw from this is that many Canadians are choosing a home based on where they can live immediately, in the event a second period of lockdown arrives.

CONCLUSION

As summer is coming to an end, digital consumers are definitely an insightful demographic with regards to the state of your average canadian home buyer. Our online data confirms both our hypothesis: people are definitely choosing to renew their mortgage early, despite the penalties and tend to buy in a shorter term than previously. Needless to say, we know that the incredibly low mortgage rates have an influence on their current behaviors. How much of an influence compared to the pandemic itself is yet to be determined.

METHODOLOGY

The data used for this study comes from nesto's online application and is solely based on the experience of nesto.ca customers/users, not the national market as a whole.

Data is collected from thousands of monthly users declaring their intent or completing online applications across Canada. The data is anonymized and aggregated for analysis.

Data presented within our Rate volatility and variances report refer to nesto's "best rate" at any given moment. nesto's best rate comes from any one of our many lending partners at any given moment.

Author: *Chase Belair, Co-Founder and Principal Broker at nesto*

For press and research-related requests, email us at media@nesto.ca.

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