The nesto-meter

November 2020

nesto
mortgage agency

November 10th, 2020

On October 1st 2020, with the number of new coronavirus cases increasing drastically in major cities, the Government of Quebec called for a second lockdown. On October 9th, after trying to avoid re-imposing stricter measures to its people and businesses, Ontario quickly had to follow the same path. 28 more days of remote work, closed restaurants and social distancing. If government measures weren't necessarily as restrictive in every province, a generalized feeling of anxiety and uncertainty raised in the country. And if there's something markets and finances don't like, it's uncertainty.

Despite this tangible unpredictability, new purchases are still going up amongst our users. With mortgage rates only decreasing, now for the fifth month in a row, it seems like, for those who can afford it, the amount of money saved on the long term might be worth the risk.

In this November 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.

In our deep dive section, we decided to explore the three following subjects : The second lockdown effect, the type of property our users are mostly looking for in October and the increasing debt level amongst our users.

All of this, in one report.

KEY TAKEAWAYS

In October, we had a total of one rate change, the least amount of volatility we've seen so far in 2020.

In Quebec, October marks the 5th month in a row with rates only decreasing, reaching record-lows.

While our 5 year fixed mortgage rates have consistently dropped since July, the 5 year bond has not moved much in either direction.

Refinances are gaining ground in October to reach over 18.60% of requests, the highest percentage seen this year.

While our Quebec users are still more interested in purchasing a house, in Ontario, the interest for condos has been increasing as of late.

Higher refinance requests are driven by a higher consumer debt level.

#1

RATES

A. Volatility

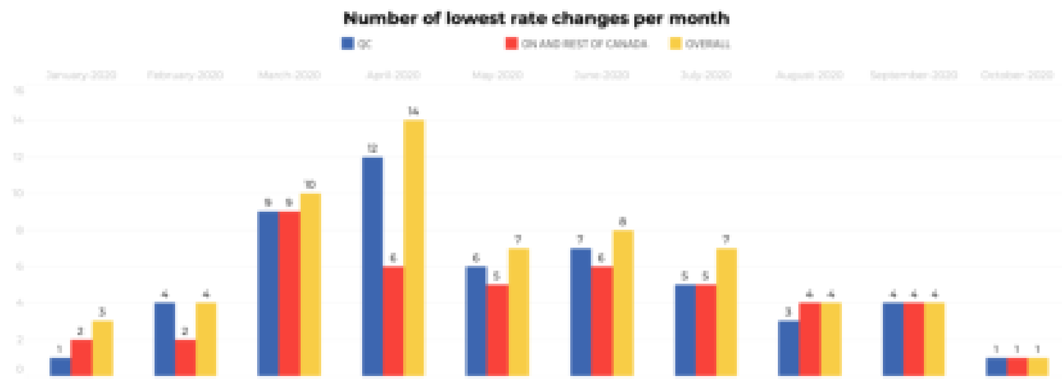

Fig. 1: Number of times the lowest rates offered by nesto to its users changed per month across provinces between January and October 2020. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment) and corresponds to the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

First things first: Like we do every month, we started by looking at our lowest rates for both insured (5-19.99% down payment) and insurable (20%+ down payment) mortgages, both 5-year fixed and variable, from January to October 2020 and we compared the results.

Since January nesto's best rates have changed a total of 62 times, for an average of 6.2 times a month, with a strong increase in April, due to the market's uncertainty. On the opposite, October only saw one best rate change for the whole month. That's the least amount of volatility we've seen so far in 2020. It appears that lenders remain confident in their ability to underwrite quality mortgages despite the second lockdown being underway.

Volatility - by type

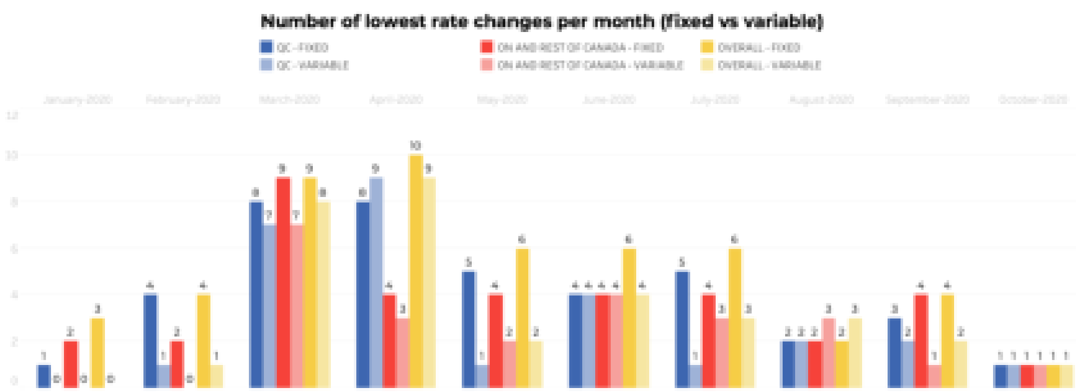

Fig. 2: Number of times the lowest rates offered by nesto to its users changed per month across provinces between January and October 2020 and comparing fixed to variable rates. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+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

Now, if we look at the same number of changes divided by type, we notice that both our lower fixed and variable rates only changed once this month. Whether it was in Ontario or Quebec, volatility has reached its lowest level since the COVID-19 crisis. The number of rate changes per month has been consistently reduced since April 2020, still, always showing a little more volatility in Ontario, due to the higher number of lenders, which makes October 2020 the exception to this trend. Through this one and only change in October, the best insured fixed rates nudged a bit lower, down to 1.59%.

Volatility : Up or Down

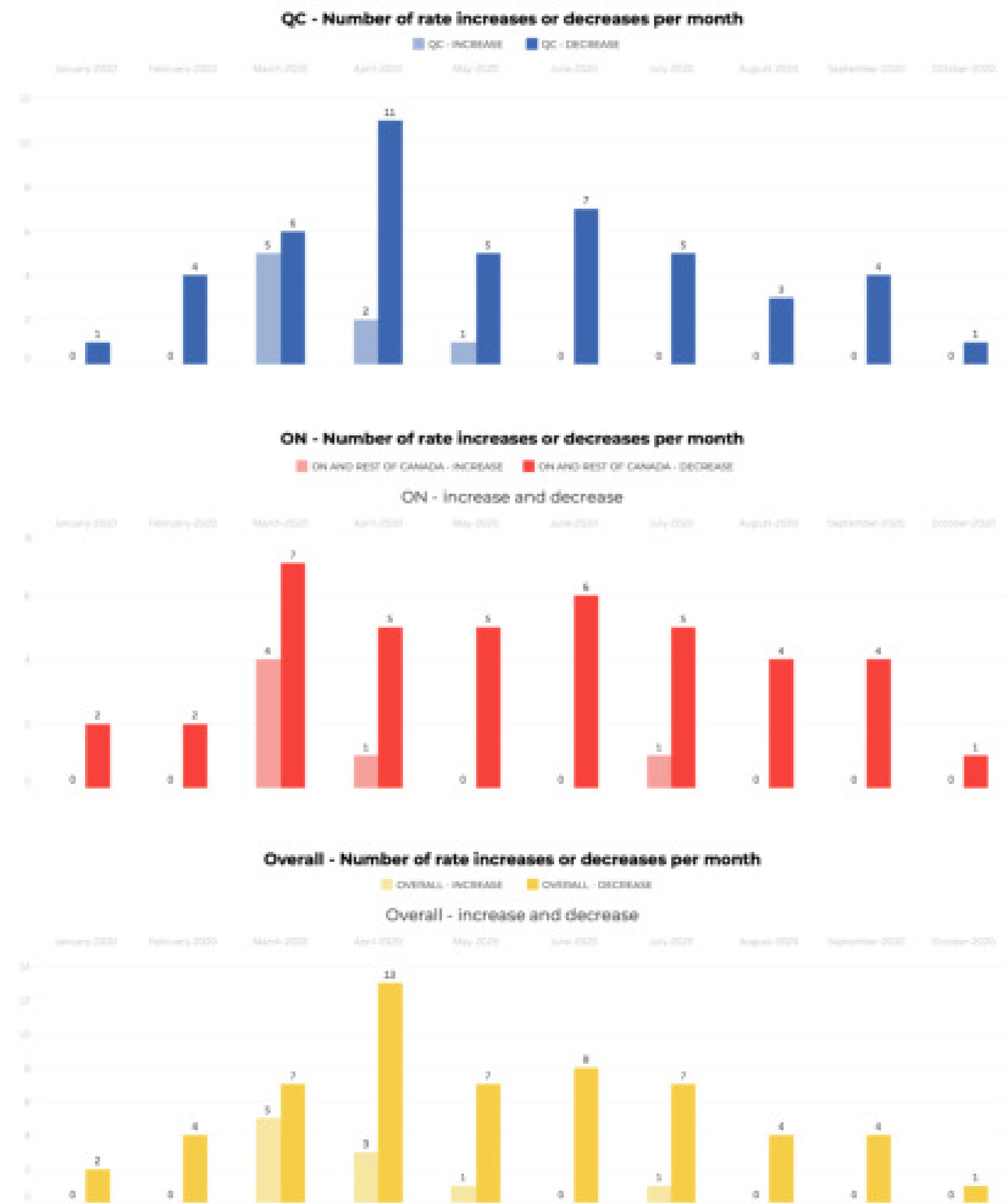

Fig. 3: Number of times the lowest rates offered by nesto to its users increased or decreased per month across provinces between January and October 2020. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment).

So, mortgage rates are low. Very low. Even lower in October than they already were in September 2020, our lowest fixed rate now down to 1.59%. In Quebec, this marks the 5th month in a row with rates only decreasing, reaching record-lows. In Ontario and the other provinces, even if a small rate increase was recorded in July 2020, the last months' trend is following the same downward curve.

The 5 year bond which tends to influence fixed rates has not moved much in either direction since July 2020, yet our 5 year fixed mortgage rates have consistently dropped since July. If it wasn't for the COVID related economic uncertainty, we could have seen today's rates in July 2020.

B. Variance: Lowest rates

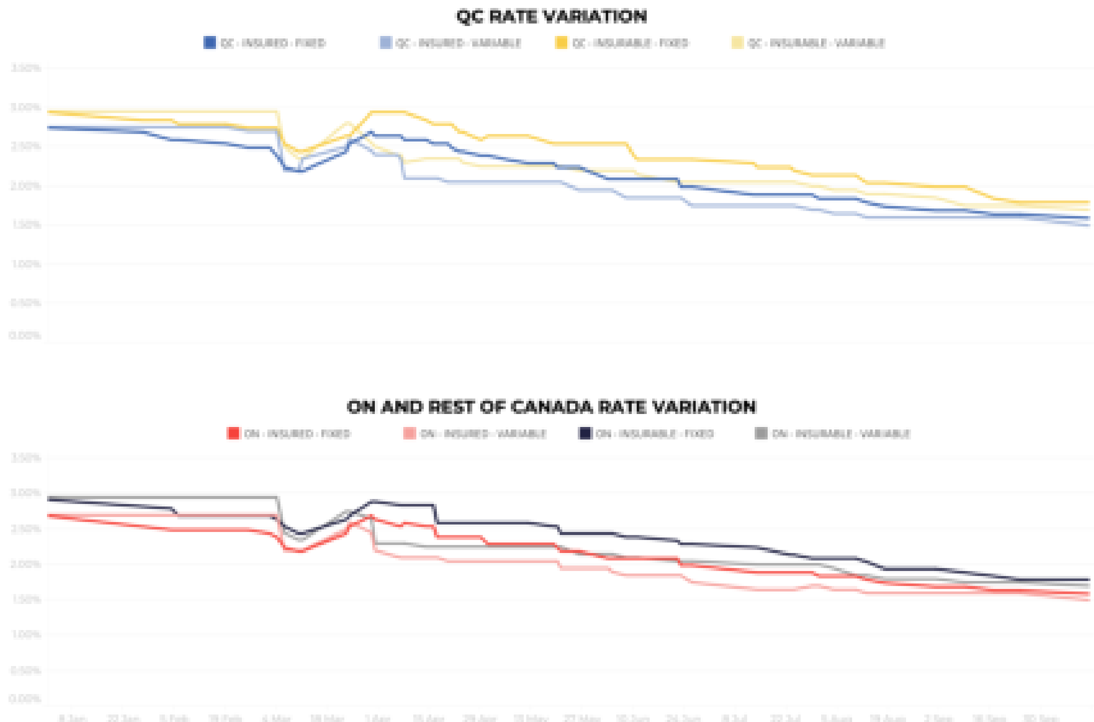

Fig. 4: These graphs show the rate variance from January 1st to November 1st 2020 in Quebec compared to Ontario and the rest of Canada.

Now, let's look at how much our lowest rates have changed in the last month and compare our best current mortgage rates to January 2020's best rates. From 1.64% in September to 1.59% in October, our best fixed rate only decreased by a small 0.05% in the last month. Since January 2020 though, or should we say, pre COVID-19 era, nesto's best rates have changed by 1.10 to 1.25%, the highest insured variable rate of the last 10 months being at 2.75% (in January) while the lowest is currently at 1.50%, a 1.25% spread.

Looking back at our September's report, in which we mentioned fixed and variable rates for the same category (insured or insurable) seemed to be trending closer and closer to each other every month, well it seems they have been trending the opposite way in October, while still being very close to each other, with currently 0.09% difference between them vs 0.04% last month.

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	1.50%	2.75%	-1.25%
Monthly payment	$1,298.00	$1,469.00	-$171.00
Total payments	$77,888.00	$89,735.00	-$11,847.00
Total interest paid	$22,263.00	$41,215.00	-$18,952.00
Total principal paid	$55,626.00	$48,519.00	$7,107.00
Money saved	$11,847.00		
Balance remaining	**$269,139.00**	**$276,246.00**	**-$7,107.00**

Table 1: This table represents the effect of a 1.25% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term.

It's always fun to compare rates using a concrete example to show how much impact a small 1.25% rate difference can have over a 5 year term! So here you have it: If you took a mortgage at 2.75%, the highest insured variable rate in 2020, on a 350k home, with 10% down payment and a 25 year amortisation, your total principal paid at the end of your 5 year term would be 7 107$ less than if you'd taken your mortgage at the lowest rate possible, which is currently 1.50%. A 1.25% difference makes a huge...difference!

#2

TIMING

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

A. January vs September fixed rates

January vs October fixed rates | January-October, 2020

	Quebec		ON and rest of Canada	
	Fixed		Fixed	
	Insured	*Insurable*	*Insured*	*Insurable*
Jan 1	2.74%	2.94%	2.69%	2.92%
Oct 13	1.59%	1.79%	1.59%	1.79%
Difference	-1.15%	-1.15%	-1.1%	-1.13%

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Table 2: Fixed rates in January vs October across provinces. Rates have fallen by -1.10% to -1.15% on nesto's lowest rates.

Talking about "concrete examples", what if you'd taken a fixed rate in January 2020 instead of October 2020 ? Whether it would have been insured or insurable, according to this table, your rate would still be between 1.10% to 1.15% higher than the best fixed rate you could have had with nesto 10 months later, in October 2020.

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 insurable)	1.79%	2.94%	-1.15%
Monthly payment	$1,343.00	$1,527.00	-$184.00
Total payments	$80,552.00	$91,617.00	-$11,065.00
Total interest paid	$26,630.00	$44,123.00	-$17,493.00
Total principal paid	$53,922.00	$47,494.00	$6,428.00
Money saved	$11,065.00		
Balance remaining	**$270,843.00**	**$277,271.00**	**-$6,428.00**

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Table 3: The table above represents the effect of a 1.15% rate difference on a 350k home, with 10% down payment and a 25-year amortization after a 5-year term.

With regards to buying a 350k home, with 10% down payment and a 25-year amortization, this 1.15% rate difference means $6,428.00 less repaid on your capital at the end of a 5 year term. Again, lots of money!

B. January vs September variable rates

January vs September variable rates		January-September, 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 Sept	1.25%	1.45%	1.20%	1.45%
Oct 13 rates	1.50% prime -0.95%	1.70% prime -0.75%	1.50% prime -0.95%	1.70% prime -0.75%
Difference	0.25%	0.25%	0.30%	0.25%

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Table 4: Variable rates in January vs October across provinces.

As for variable rates, they behave differently and are based on a discount from the prime rate.

With the Prime rate having dropped so much in the last few months, lenders are offering smaller discounts today. So, back in January, the discount from the prime rate for an insured variable rate in Quebec was at 1.20%, while it is at 0.95% today. In other words, having chosen an insured variable rate in January in Quebec, your rate would still be 0.25% lower than 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 (insured)	1.20%	1.50%	-0.30%
Monthly payment	$1,253.00	$1,298.00	-$45.00
Total payments	$75,188.00	$77,888.00	-$2,700.00
Total interest paid	$17,765.00	$22,263.00	-$4,498.00
Total principal paid	$57,423.00	$55,626.00	$1,797.00
Money saved	$2,700.00		
Balance remaining	**$267,342.00**	**$269,139.00**	**-$1,797.00**

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Table 5: The table above illustrates what a -0.30% variable rate difference would represent on a 350k mortgage, with 10% down payment and a 25-year amortisation after a 5-year term.

Applying our Ontario numbers to an actual borrower's situation, choosing the best insured variable rate in January would have saved you a total of $2,700.00 in monthly payments over 5 years. You would also have paid $4,498.00 less in interest than if you picked October's best insured variable rate.

#3

MORTGAGE TYPE TRENDS

Purchase vs Renewal

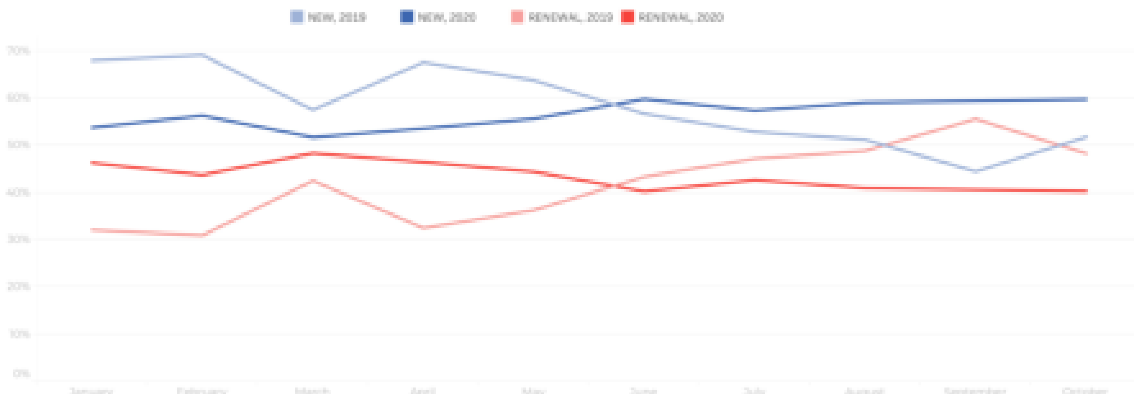

Fig. 5: Trends for proportion of purchases (new mortgages) vs renewals from January to October, in 2020 vs 2019. Sum is 100% for each month.

For the last couple of months, we've noticed, through our data analysis, a much higher percentage of our users being homebuyers than those intending to renew their existing mortgages. A trend that continued in September, with an even bigger gap between the two amongst our users. More recently, we see slightly more purchases than renewals, it seems like our users are investigating new home purchases before investigating renewal options. Back in 2019, October numbers tended to switch between purchases and renewals against September.

Purchase
vs Renewal
vs Refinance

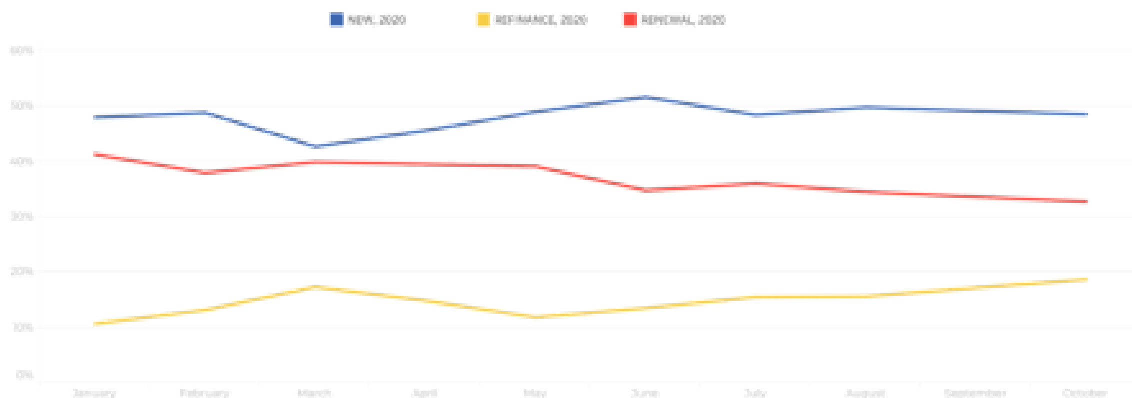

Fig. 6: Trends for proportion of purchases (new mortgages) vs renewals vs refinances from January to October 2020. Sum is 100% for each month.

Looking at this graph, we notice one trend going upward. In fact, if renewals have been trending downward since July, refinances, on the other hand, are gaining ground again in October to reach over 18.60% of requests, the highest percentage seen this year.

So, the fourth quarter starts and confirms the trend we first noticed at the end of the third quarter : refinances are now clearly taking more place, absorbing more of the renewal requests.

The most common purpose of refinances in the month of October was equity takeout to pay-off debt and - or invest.

While the underlying causes of this increased refinance requests will become more clear as more data arrives most indicators are hinting towards consumers debt relief.

#4

PURCHASE TIMING INTENT

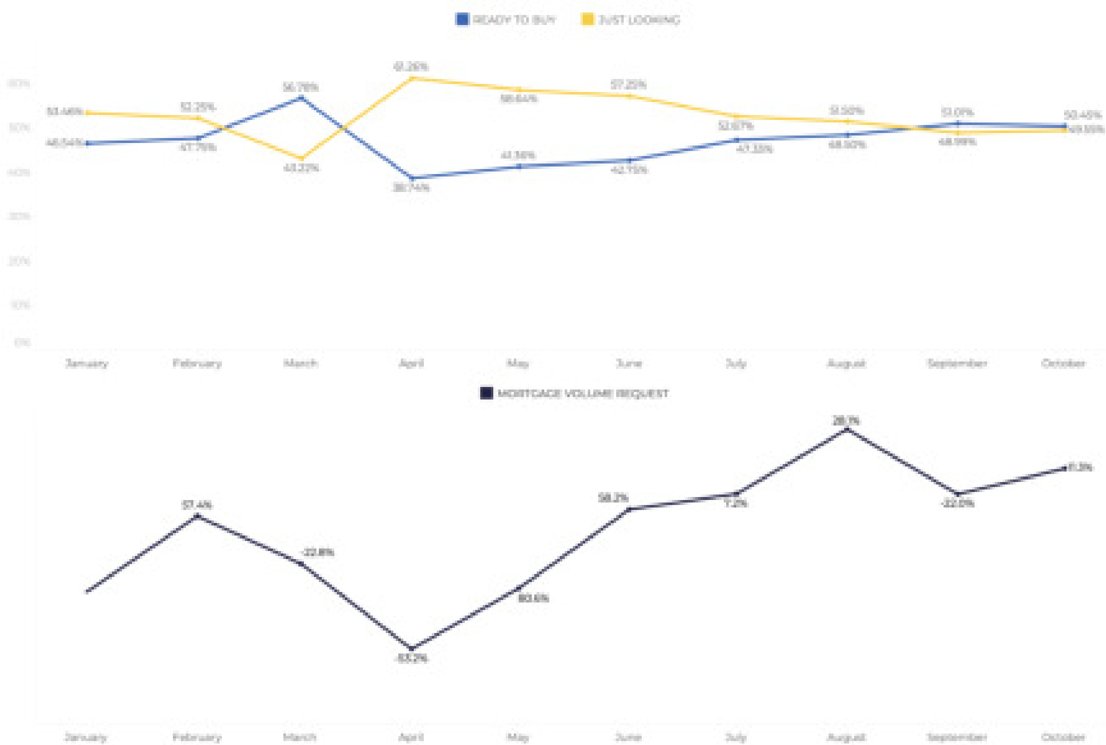

Fig. 7: Purchase intent: proportion of users "ready to buy" vs "just looking" in nesto's mortgage process, showing month by month from January to October 2020.

As March 2020 began, right before the first lockdown, a majority of our users were ready to buy. Then, what followed brought these users to rethink their intentions and review their finances, until the markets settled and they were ready again, in August 2020. There was a bit of a drop in mortgage requests in September, but no surprises there, as it is commonly known to be a slow month in the industry, marked by the start of the school year.

In October, the number of people having found a property increased, staying just above those still looking for one. So, request volume was up again last month, even though lockdowns are still in effect across the country. Are nesto users generally less concerned by the economy's uncertainty now then they were when the first lockdown began? Or, are our record-low rates compensating for the uncertainty?

By Province

Fig. 8: Purchase timing intent proportion of users "ready to buy" vs "just looking" in nesto's mortgage process, from January to October 2020 in Quebec and Ontario. Highlighted is the first lockdown period, from end of March to June 2020.

Taking a closer look at this, but dividing it into a province to province perspective, we notice another interesting fact: as the two trends seem to have stabilised in Quebec (trending closer to each other), in Ontario, they completely inverted. In other words, in April 2020, at the peak of the pandemic, "ready to buy" intents were down to 35%, and "just looking", up to 64%, while today, those who are "just browsing" are closer to 45%, while "Ready to buy" represent 55% of intentions.

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

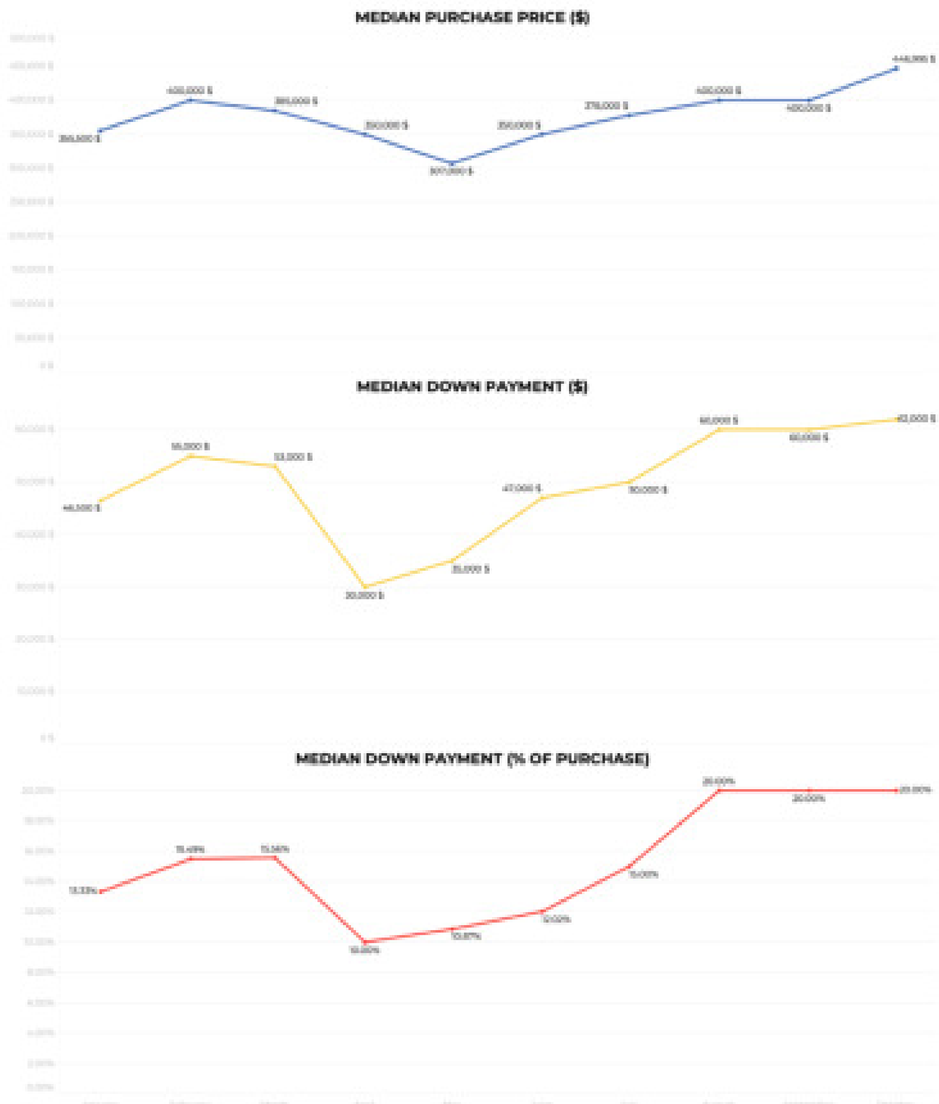

Fig. 9: Graph of intended purchase price vs down payment (in dollars and percentage) from January to October 2020. Highlighted is the first lockdown period, from end of March to June 2020.

As both property value and down payment medians remained the same for two months in a row (August and September 2020), in October, median prices across the country for planned purchase price and down payment amount increased. And, they had too in order to keep up with the home prices in major markets. With mortgage rates reaching record lows, demand continuing to increase, all the while, supply going down in all categories with the exception of small condominiums in major markets, if you are a buyer and want to benefit from the current low rates, you have no choice but to aim for a higher purchase price and a higher down payment. If you still want to avoid paying CMHC insurance and put 20% on a house, well, you'll have to put more money down. We're still clearly in a sellers' market.

By province

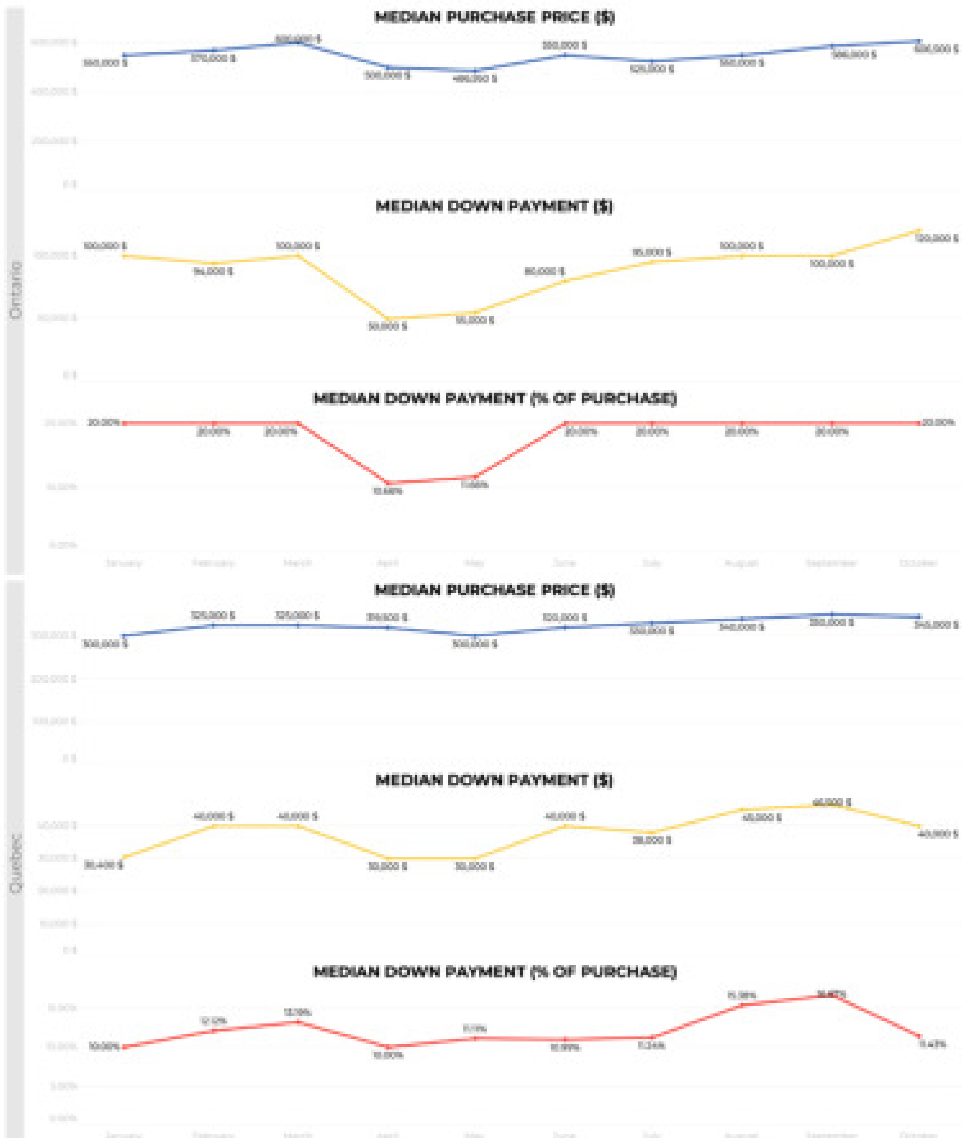

Fig. 10: Graph of intended purchase prices vs down payment (in dollars and percentage) from January to October 2020 in Ontario and Quebec. Highlighted is the first lockdown period , from the end of March to June 2020.

Comparing Quebec to Ontario, we noticed 2 opposite trends. While our Ontario users are increasing their purchase price as well as their down payment amount (a strong increase of 20 000$) in October, with their median down payment percentage remaining at 20%, in Quebec, all similar figures decreased, with down payment amount and percentage taking the biggest hits. Ontario's median down payment percentage remained at 20%, while in Quebec, it's down to 11% (almost a 5% decrease), reverting back to the May figures we saw during the first wave of COVID-19. Is the second lockdown hitting Quebec's economy harder than its neighbors? If October's confinement might have encouraged Quebec users to go back into saving mode, it doesn't seem to have affected our Ontario users' intentions so much. What we do know, is that buying a home in Quebec has definitely been a little more stressful due to the province's consumer protection practices, as a result of pandemic related delays experienced by industry players. We still strongly believe that the proof of financing requirement in Quebec is a best practice that could be adopted by other provinces to further protect homebuyers.

DEEP DIVE

1. Comparing Lockdowns

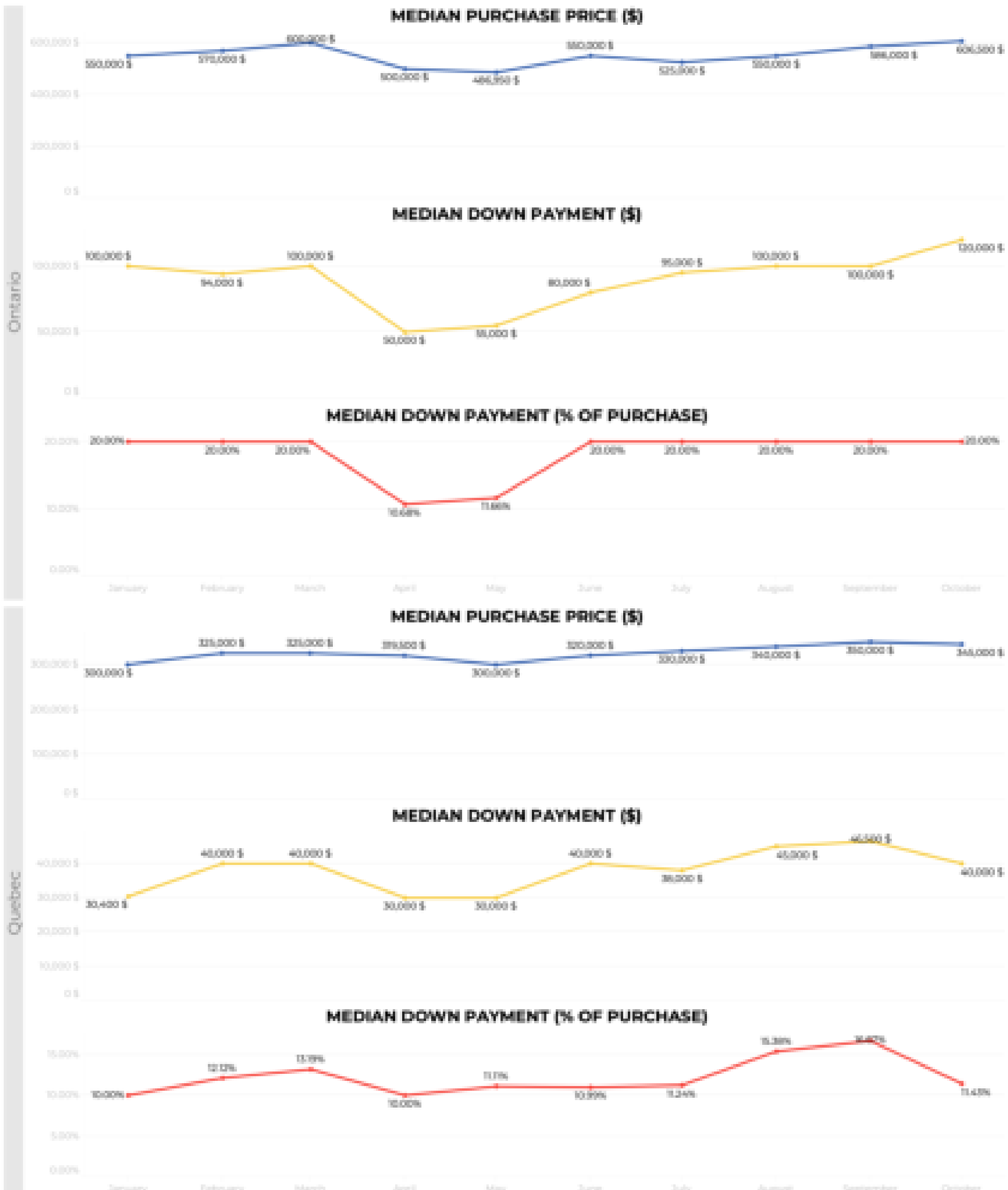

Fig. 10: Graph of intended purchase prices vs down payment (in dollars and percentage) from January to October 2020 in Ontario and Quebec. Highlighted is the first lockdown period , from the end of March to June 2020. (same graph as previous)

Hypothesis 1

The second lockdown in both Ontario and Quebec in October will have less of an effect on the mortgage industry than the first one, in March-April, as consumers and businesses are more familiar to it and fewer activities are completely locked down.

Findings

Following up on our previous analysis, comparing the targeted property value and planned down payment for both periods (March-April 2020 to October 2020) is a good way to see how our users of each province are reacting to the "crisis", if they are. In Ontario, while we saw a clear drop in both property value and down payment when the first wave hit, this time, it's almost as if nothing happened. As opposed to March-April, the housing market in October is doing great in Ontario, and the curve is going upwards, as borrowers are aiming for higher priced houses and bigger down payments.

In Quebec, again, we see a different pattern. Comparing both time periods, we realise October's numbers are trending back towards how things were during the first wave. Both targeted purchase price and planned down payment have been decreasing since September.

To be fair to the interpretation, it'd be necessary to mention that the second Ontario lockdown was initiated about 2 weeks after Quebec declared theirs. At the same time, Ontario's current lockdown measures are slightly more relaxed than Quebec's restrictions.

2. What type of property are people buying?

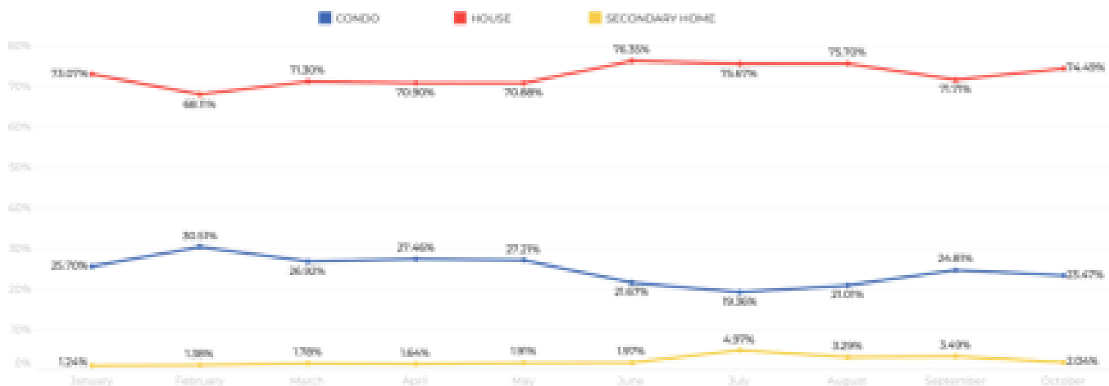

Fig. 11: Overall proportion of purchase intent for condos vs houses vs secondary homes, from January to October 2020.

Hypothesis 2

As mentioned in other media, and following up on last month's nesto-meter analysis, our users are still looking to purchase houses rather than condos in the current context.

Findings

As demonstrated in a previous report, in May 2020, we saw an increase in the number of our users looking at houses, while the interest in condos decreased by almost 10%. This trend continues in October.

Between September and October specifically, the increase of interest for houses is up 3% while the interest for condos is down 1%.

Comparing October to January 2020, we realize that today's numbers are almost exactly the same as they were at the beginning of the year, back to a pre-pandemic level.

There is also a further drop of interest for secondary homes (-1.5%) in the last month, which might be related to the fact that the prices for cottages and houses further away from big cities have gone up so much in the last few months.

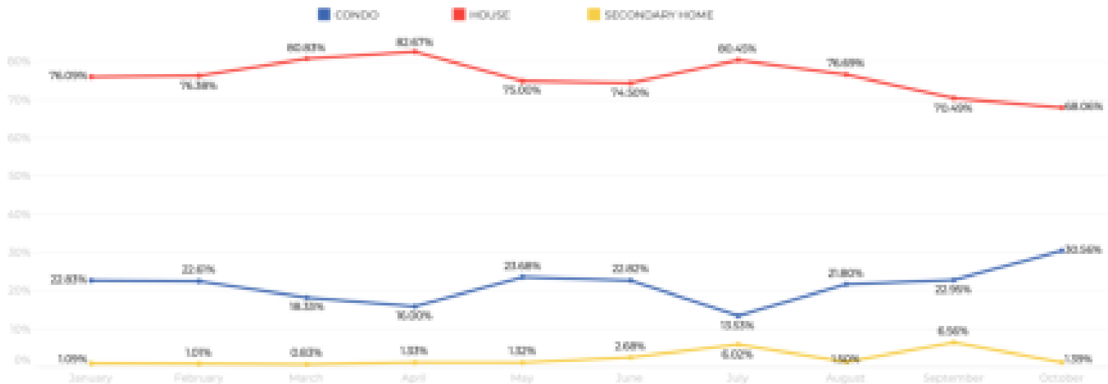

Fig. 12: Proportion of purchase intent for condos vs houses vs secondary homes in Ontario, from January to October 2020.

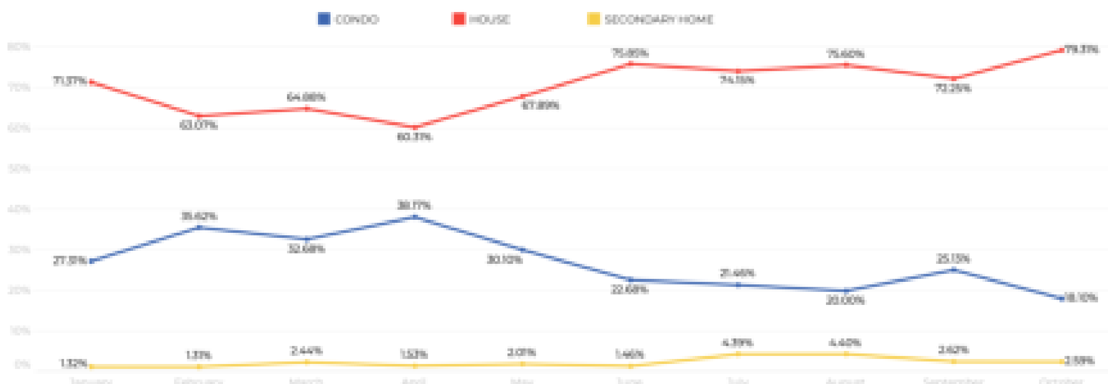

Fig. 13: Proportion of purchase intent for condos vs houses vs secondary homes in Quebec, from January to October 2020.

In Ontario, after seeing a steep drop in July, the interest for condos has been increasing as of lately. Meanwhile, interest for houses dropped by a big 12%. But why are our users' behaviors so different in Ontario than they are in Quebec?

This might have to do with the influence of the Toronto market. As per Better Dwelling's latest real estate release, Toronto has recently seen condominiums flood the market. We don't believe this data is a reflection of reduced interest in houses but more of a result of buyers on standby, gaining access to the previously out-of-reach condo market.

In Quebec, however, the curve remains quite clearly in favour of houses.

3. Consumer debt climbing

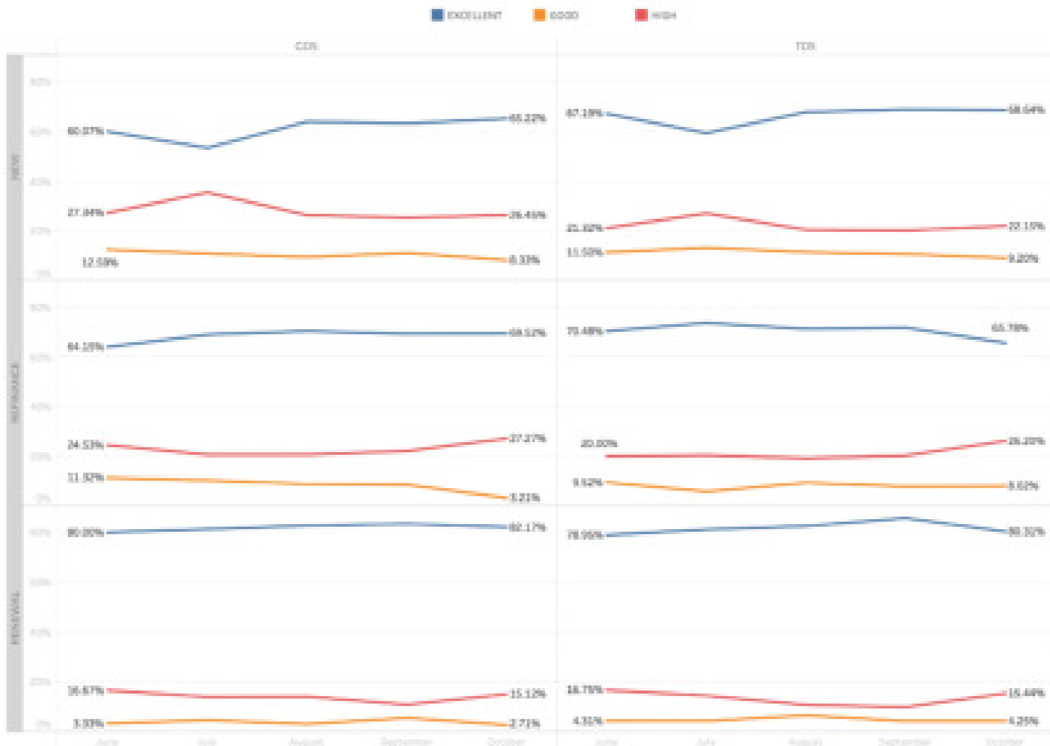

Fig 14: Overall proportion of our users' GDS/TDS ratios by mortgage type. Users with "High" ratios risk not being able to obtain the best products or rates and are indicative of high consumer debt.

Hypothesis

Higher refinance requests are driven by a higher consumer debt level.

Findings

According to a recent report by Equifax Canada, picked up by BNN, the canadian total consumer debt has climbed to $1.991 trillion in the second quarter, which is up 2.8 per cent compared to the same quarter a year ago.

Looking at the upper graph results, for purchases, the ratios don't seem to trend towards being high as the year advances. However, renewals and refinances do seem to point that way.

With regards to home buying, one of the main obstacles for obtaining an approval at best rates faced by our users has always been consumer debt obligations. In recent months, we've seen the impact of this obstacle at a greater scale. Specifically related to refinances, where the purpose is often debt consolidation, it has become more common to conclude that a refinance at best rates is not possible due to these higher than usual consumer debt levels.

Note: The GDS ratio is the percentage of your income needed to pay all of your monthly housing costs, including principal, interest, taxes, and heat, multiplied by a 100. Your TDS ratio, also known as Total Debt Service (TDS) ratio is the percentage of your income needed to cover all of your debts.

CONCLUSION

In the last month, we've only seen one rate change, the least amount of volatility we've experienced so far in 2020, which also translates into more stability. Rates are still at their lowest point since the beginning of the pandemic, and even if our 5 year fixed mortgage rates have consistently dropped since July, we noticed the 5 year bond has not moved much in either direction. Demand for refinances has gone up and reached the highest percentage seen this year, showing an increase in general consumer debt level.

In light of this new analysis, while it is still early to determine whether or not the second lockdown will have the same effects on the market as the first one did, back in March-April, it is clear that for now, it doesn't seem to affect Ontario as much as it does affect our Quebec users' intentions and behaviors.

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.

The GDS/TDS ratios presented in the deep dive section are based on declarative data and not on a credit pull.

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