The nesto-meter

June 2021

nesto
mortgage agency

June 16, 2021

Summer days are here, and the beautiful and warm weather certainly hasn't slowed down Canadian customers in their search for the perfect house!

While our best mortgage rates, both fixed and variable, are still very low, the COVID-19 crisis appearing under control and the whole country slowly deconfining might also have something to do with the spike in our overall volume request.

Some may also argue that with the new and improved "stress test" coming into effect on June 1st 2021, some buyers might have rushed their financing process a little earlier than planned in order to beat the approximate 4% reduction in borrowing power caused by the increased stress test rate of 5.25%.

For this month's deep dive, we decided to explore our demographic a little more, looking at our users' different age brackets and what defines them in terms of application type, credit score, property type and so on. We also took another look at the evolution of our approval delays in Ontario, which improved significantly in the last weeks.

KEY TAKEAWAYS

In the last month, only our best fixed rates have changed, decreasing once in Quebec, and twice in the rest of Canada. Our best variable rate remained at 1.20% (prime -1.25%)

In May 2021, we saw increased interest in new purchase volume, and a decrease in refinance and renewal volume

Even with record numbers in April, our overall mortgage requests for the month of May are up another 17%

50% of our users between the ages 35 and 39 are still first time home buyers.

The proportion of our users that do not know their credit score increases with age.

Compared to April 2021, approval delays in Ontario are improving across the board.

#1

RATES

A. Volatility

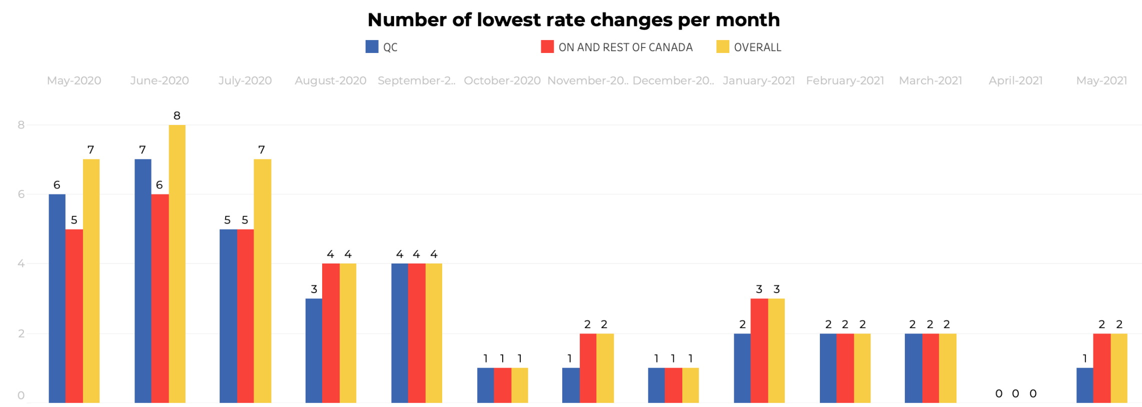

Fig. 1: Number of times the lowest rates offered by nesto to its users changed per month across provinces between May 1st 2020 and June 1st, 2021. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment) and corresponds to the lowest rate nesto could offer its clients at the time.

Between May 2020 and June 1st 2021, our lowest rates for insured (5-19.99% down payment) and insurable (20%+ down payment) mortgages, both 5-year fixed and variable, have changed a total of 43 times, for an average of 3.3 times a month. This last number had been trending down for a couple of months now, since the number of rate changes per month has decreased a lot compared to what we saw at the beginning of the pandemic.

In the last month specifically, our best rates have changed once in Quebec, and twice in the rest of Canada.

Volatility - by type

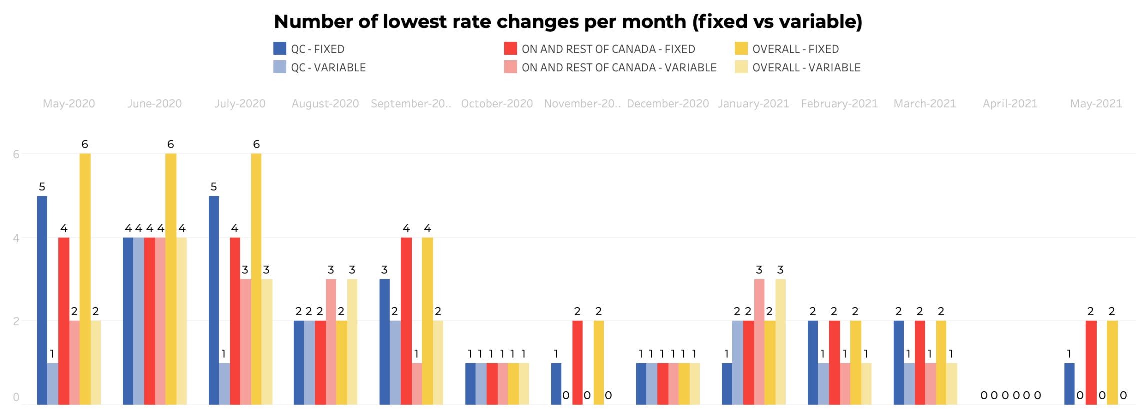

Fig. 2: Number of times the lowest rates offered by nesto to its users changed per month across provinces between May 1st 2020 and June 1st, 2021 and comparing fixed to variable rates. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment).

After remaining unchanged for 2 months in a row, our best fixed rates were on the move again in May 2021, with one rate change in Quebec and 2 rate changes in the rest of Canada. This time, only fixed rates varied, decreasing in all provinces, while variable rates remained stable, at 1.20% (prime -1.25%). We are very far from the volatility we observed back in May 2020!

Volatility - Up or Down: difference due to fixed rate increase

If you'd picked a rate in May: 2020 vs 2021

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

Fixed

	Lowest rate	Highest rate	Difference
Rate (ROC fixed insurable)	1.69%	1.39%	0.30%
Monthly payment	$1,327.00	$1,282.00	$45.00
Total payments	$79,628.00	$76,892.00	$2,736.00
Total interest paid	$25,122.00	$20,611.00	$4,511.00
Total principal paid	$54,506.00	$56,281.00	-$1,775.00
Money saved	-$2,736.00		
Balance remaining	**$270,259.00**	**$268,484.00**	**$1,775.00**

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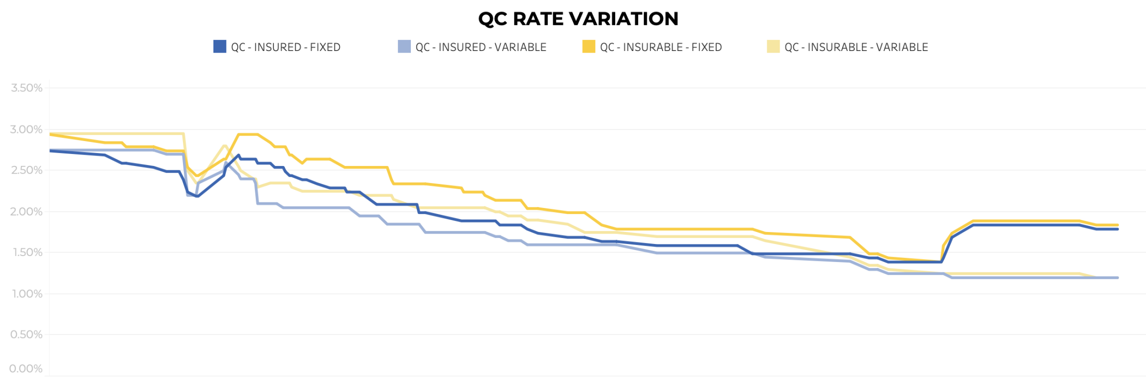
Table 1: This table represents the effect of a 0.30% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term

With 2 more rate changes in May 2021, our best fixed rate as of today is at 1.69% in all of Canada, which represents a 0.30% difference from our lowest fixed rate in 2021.
The table above represents the effect of this 0.30% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term.

Scenario 1: You signed a mortgage at 1.39%, our lowest insured fixed rate since February 2021. Good for you! You'll end up saving $4,500 in interest fees over the course of 5 years compared to today's best rate!

Scenario 2: You recently signed a mortgage at 1.69%, our best current insured fixed rate. It's still a very good rate, but at a 0.30% rate difference, you'll end up spending around $2,700 more in total payments over 5 years than if you locked-in a rate back in February 2021.

B. Variance: Lowest rates



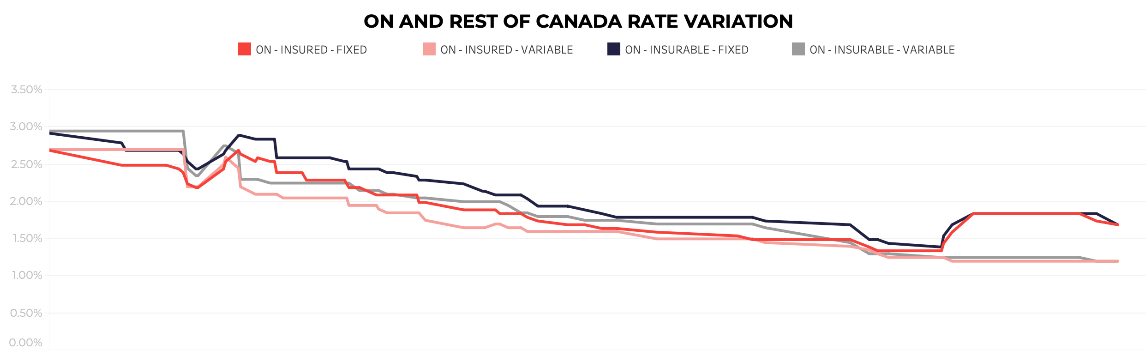


Fig. 3: These graphs show the rate variance from January 1st 2020 to June 1st 2021 in Quebec compared to Ontario and the rest of Canada.

Now looking at the variance between our best variable rates, since January 2020, they have changed by 1.35 to 1.75%. our highest insurable variable rate was at 2.95% while the lowest was at 1.20%, which makes a 1.75% difference.

While our best variable rate was still low at the beginning of February 2021, it quickly climbed back up in the following weeks, to drop again a little in May 2021, at 1.20% (prime -1,25%)

If you'd picked a rate in May: 2020 vs 2021

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

Variable

	Lowest rate	Highest rate	Difference
Rate (ROC variable insurable)	1.20%	2.95%	-1.75%
Monthly payment	$1,253.00	$1,529.00	-$266.00
Total payments	$75,188.00	$91,717.00	-$16,529.00
Total interest paid	$17,766.00	$44,276.00	-$26,510.00
Total principal paid	$57,423.00	$47,441.00	$9,982.00
Money saved	$16,529.00		
Balance remaining	**$267,342.00**	**$277,324.00**	**-$9,982.00**

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Table 2: This table represents the effect of a 1.75% rate difference on a 350k home, with 10% down payment and a 25 year amortization after a 5 year term.

This table illustrates the effect of this 1.75% rate difference on a typical scenario: a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term. How much can you save over 5 years by locking-in the lowest rate?

Scenario 1: You signed a mortgage at 2.95%, our highest insurable variable rate seen in over a year. This 1.70% rate difference would have you end up paying over $16,000 more in monthly mortgage payments over 5 years!

Scenario 2: You signed a mortgage at 1.20%, our lowest insurable variable rate seen in the last 14 months. In this situation, you'll end up saving over $26,000 in interest fees over the course of only 5 years! That's ...huge!

#2

MORTGAGE TYPE TRENDS

Purchase vs Renewal vs Refinance

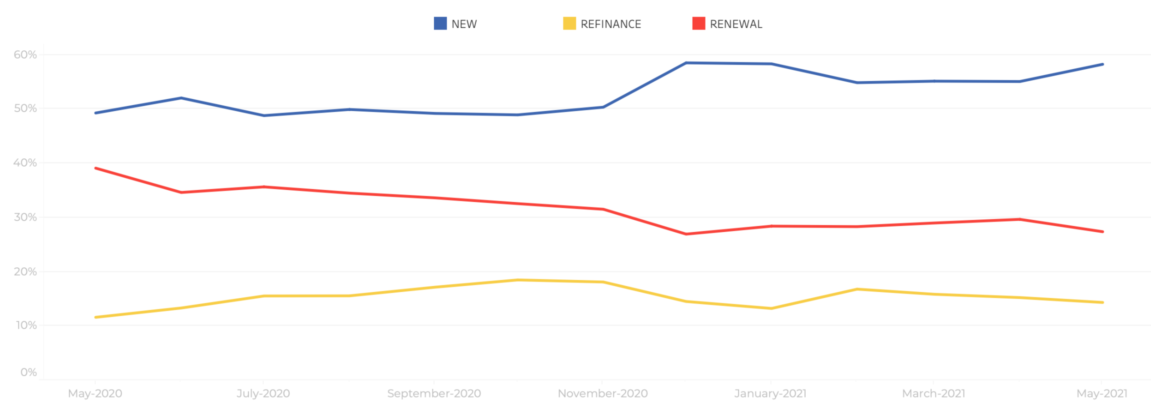

Fig. 4: Trends for proportion of purchases (new mortgages) vs renewals vs refinances from May 1st 2020 to June 1st, 2021. Sum is 100% for each month.

May is usually a busy month in both the real estate and mortgage world and whether it's that seasonality, or lower rates driving the curve back up in the last weeks, 2021 is no exception to the rule.

In the last 31 days, we saw an increase of interest for new purchases, with an approximate 4% reduction in renewal and refinance requests compared to last month.

#3

PURCHASE TIMING INTENT

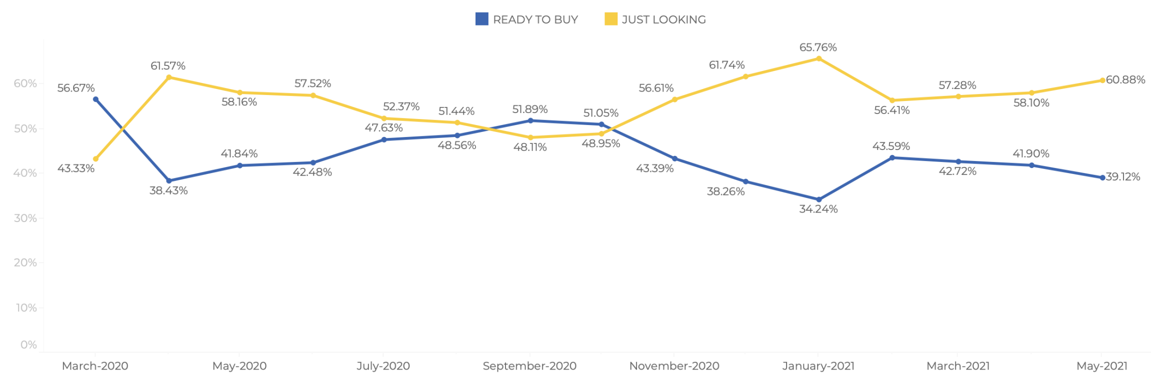

Fig. 5: Purchase intent: proportion of users “ready to buy” vs “just looking” in nesto’s mortgage process, showing month by month from May 1st 2020 to June 1st, 2021.

In May 2021, the purchase timing intent of our users was trending very similarly to what we saw in the previous months, with a small 2% increase in the proportion of our users “just looking” compared to “ready to buy”.

After seeing a 31% uptick in April in our total canadian mortgage volume requests, the demand kept increasing in May, with a smaller, but still significant 17% jump.

Following up on what we said in our previous report, this sustained increase in volume can be attributed to enhanced marketing efforts coupled with real estate market seasonality. We believe this trend is also amplified by a shift in the consumer mindset towards where they feel safe obtaining financial products and general advice. For as long as one remembers, our parents were a primary source for financial wisdom and professional referrals. Fast-forward to today, where personal due diligence often starts on the internet, technology focused companies like nesto are easily found alongside social proof confirming a secure, user-empowering and transparent mortgage experience.

It’s clear to us that Canadians seek an unbiased opinion where they are assured, not just told, that the professional’s commission or paycheck will not interfere with or influence the advice received.

By province

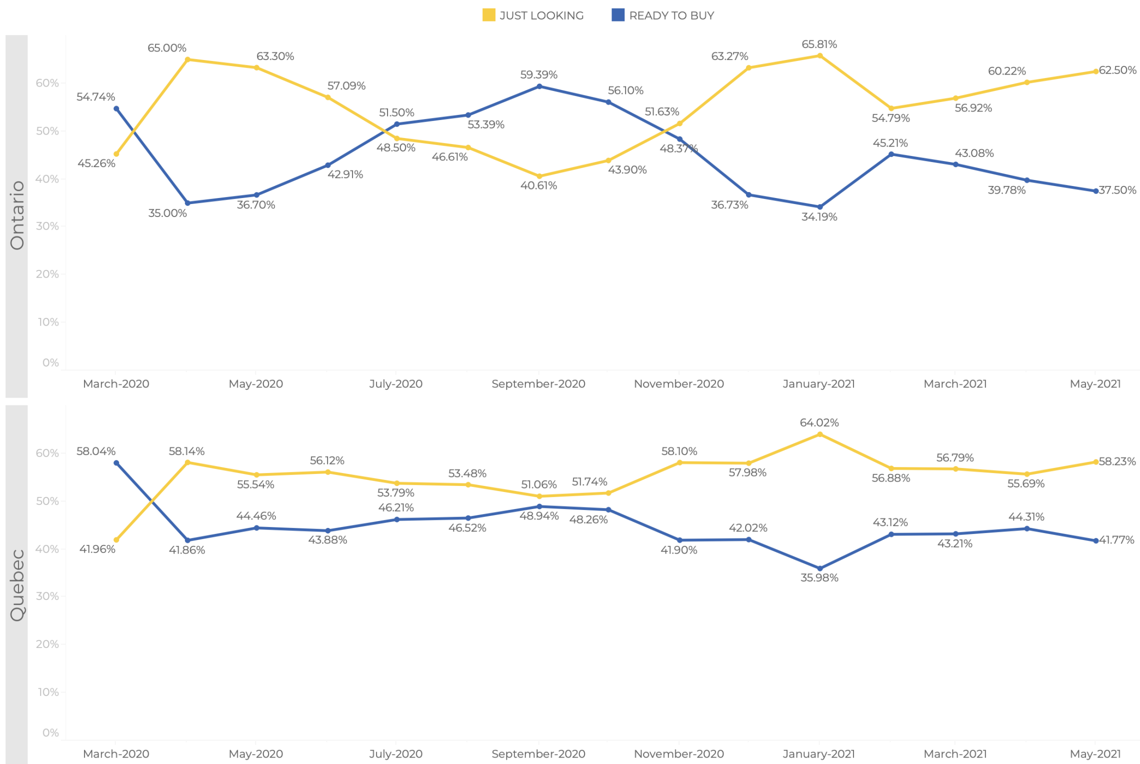

Fig. 6: Purchase timing intent proportion of users “ready to buy” vs “just looking” in nesto’s mortgage process, from April 1st 2020 to June 1st, 2021 in Quebec and Ontario.

From a province to province perspective, the same tendency towards “just looking” is also reflected in both Quebec and Ontario.

In May 2021, our best fixed rates went down again, driving more interest towards the possibility of buying a home, but not necessarily to take action on it right away. An expected result is an upward tick in our “just started looking” or “just curious” user base seeking pre-approvals or rate holds.

In many Canadian markets, searching for a home right now also means being ready to make a “condition free” offer on houses you technically may only have a short window to visit, which is pretty nerve-wracking for a lot of buyers and more so for those buying a home for the first time. In many cases, would-be buyers are bringing their home inspector and contractors with them for this single and only viewing pre-offer.

It is also important to note that nesto partners having a growing influence to our datapoints as we onboard more throughout different Canadian industries and regions. While some of our partners have users right in the middle of the home buying process, other partners may have the majority of users just starting to explore home ownership, which impacts the intent when first arriving to nesto.

#4

PROPERTY VALUE AND DOWN PAYMENT

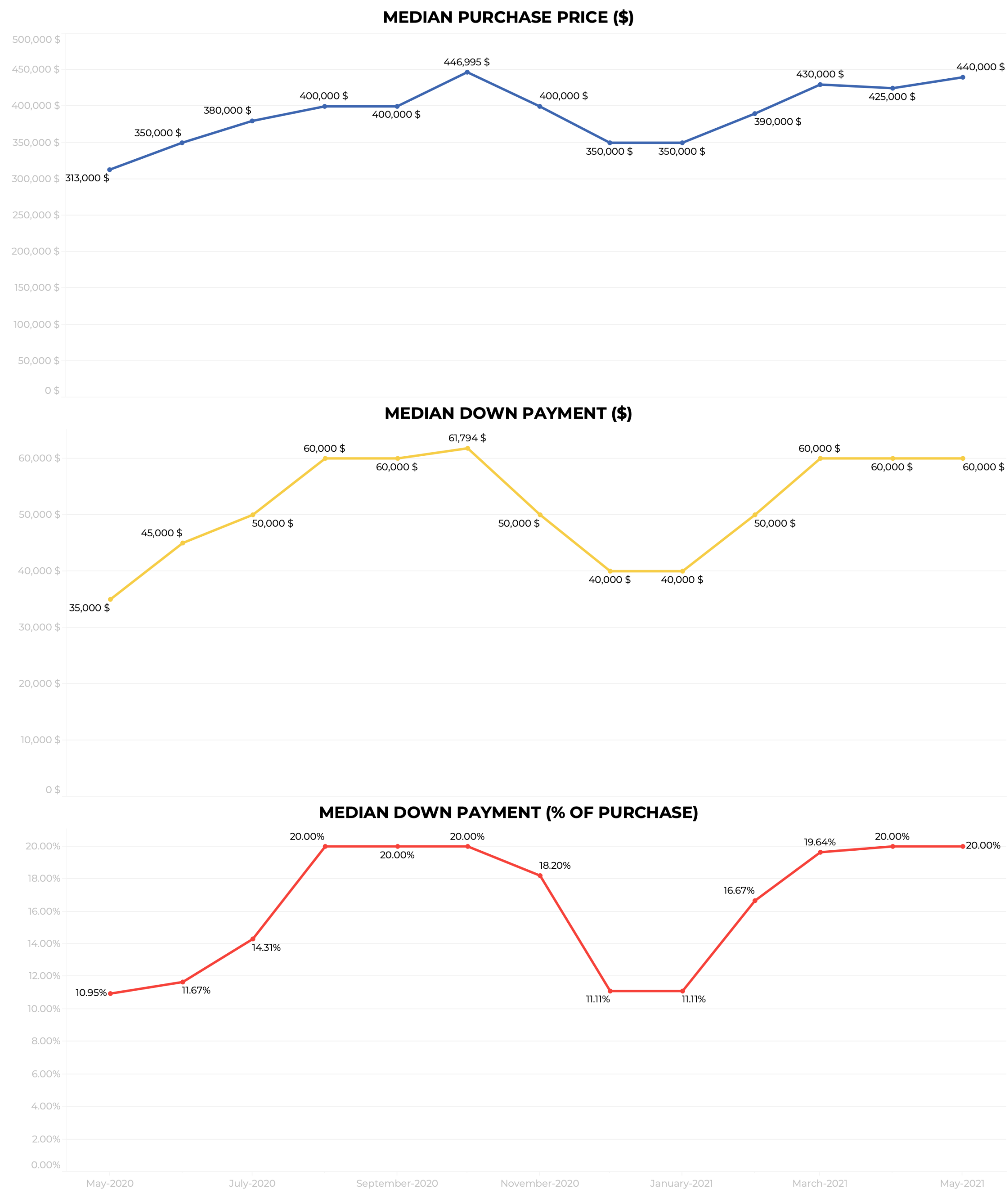

Fig. 7: Graph of intended purchase price vs down payment (in dollars and percentage) from May 1st 2020 to June 1st, 2021.

Looking at our median property value and down payment over the last year, we see 2 major plateaus: the first one from August to October and the second one, lately, from April to today. For the third month in a row, what our May 2021 data is showing us, is some steadiness, with our median down payment remaining at 20% or $60, 000.

As for the median purchase price, there was a small increase of $15,000 from April to June 2021, now reaching $440,000. While the current real estate market remains very hot, those who are looking to buy a house in the near future frequently have to increase their desired purchase price, and sometimes their downpayment too, in order to meet the actual “real” market prices.

By increasing the stress test, the government is hoping to lower the number of potential buyers for a home, therefore lowering the demand and hindering the velocity of price increases.

By province

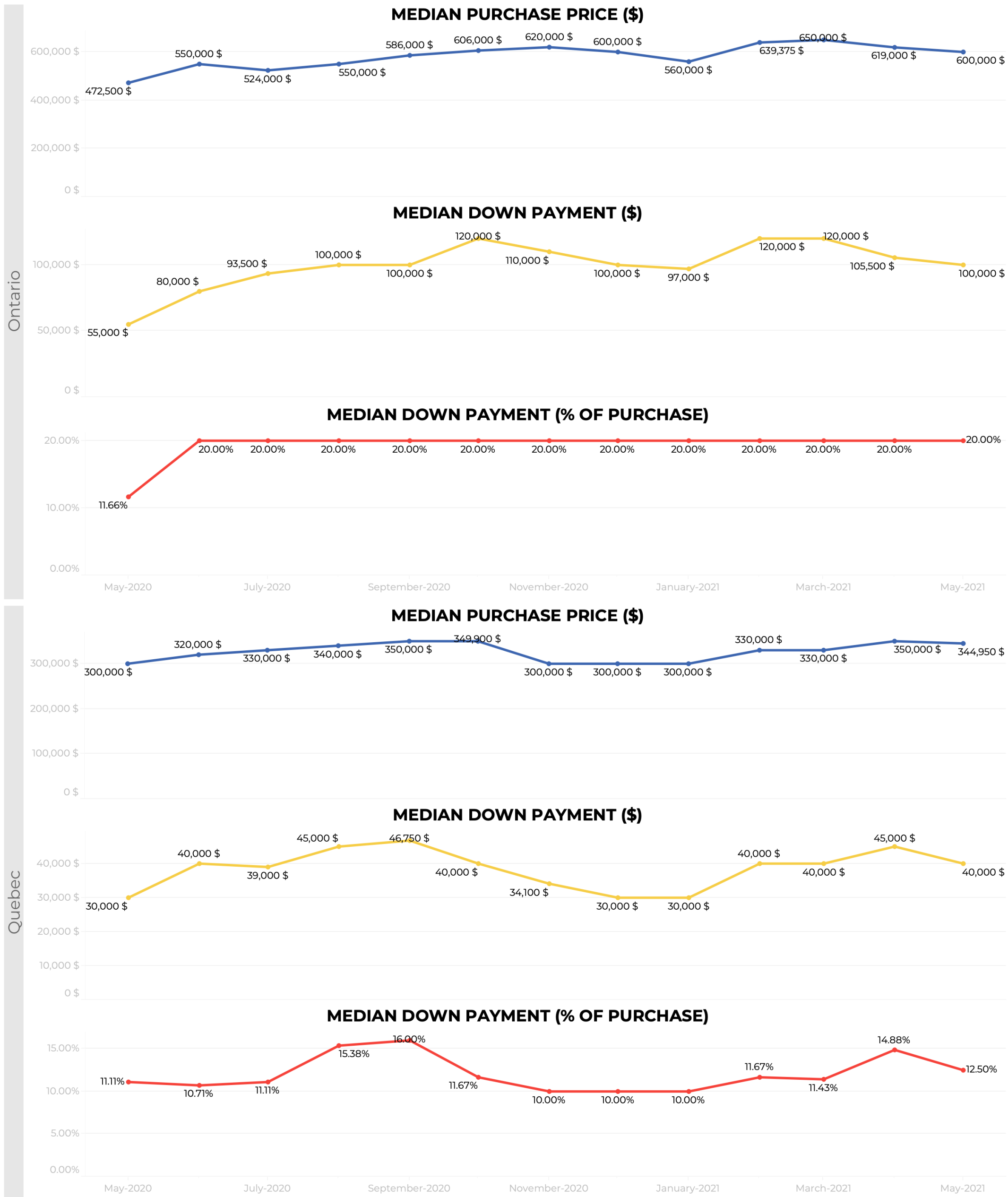

Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage) from April 1st 2020 to June 1st, 2021 in Ontario and Quebec.

Comparing our data by province, it’s noteworthy that while the Ontario median down payment remains at 20%, median purchase price and down payment amounts are both down, now respectively sitting at $600,000 and $100,000. We hope to see this trend continue.

In Quebec, we also see a similar drop in the down payment median amount, now at $40,000, which also results in a drop in the down payment percentage, for a median of 12.5%, while the median purchase price remains high.

Purchase price didn’t drop as much in Quebec - meaning with purchase prices that high, buyers have to either put together more funds, or accepted a reduced percentage of down payment they were initially planning on putting on their house.

DEEP DIVE

1. Age brackets vs various data

A. Application type

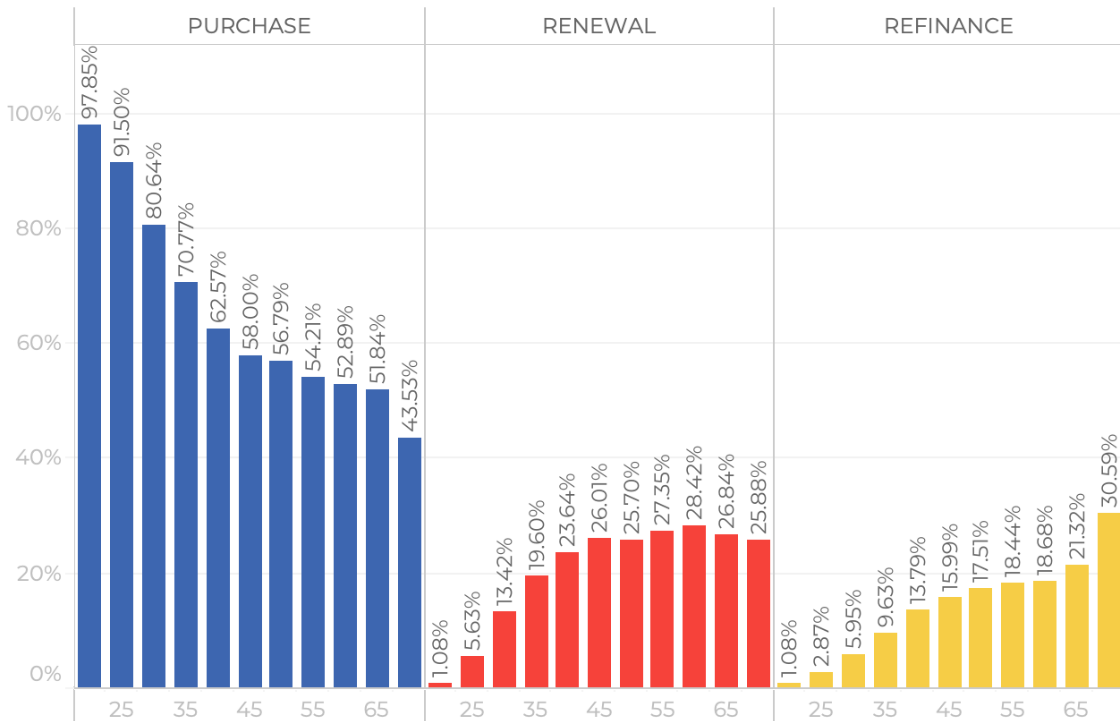

Fig 9: Preferred application type by age bracket

This first topic is pretty straight forward, somewhat in line without assumptions but very interesting nonetheless. Based on this graph, the younger our users are, the more they are interested in a new purchase. By the distribution of this data, we can also deduct that the age bracket where the interest for a new purchase is the highest stands between 20 and 35 years old.

As for renewals and refinances, they both increase with age as expected. What's interesting to keep an eye on is the amount of senior(70+) homeowners seeking to refinance their existing homes compared to the other age brackets. A 10% increase for those 70 and over is alarming at face value and requires a deeper dive. We intend to bring more insight into this metric at a later date.

B. First time home buyers

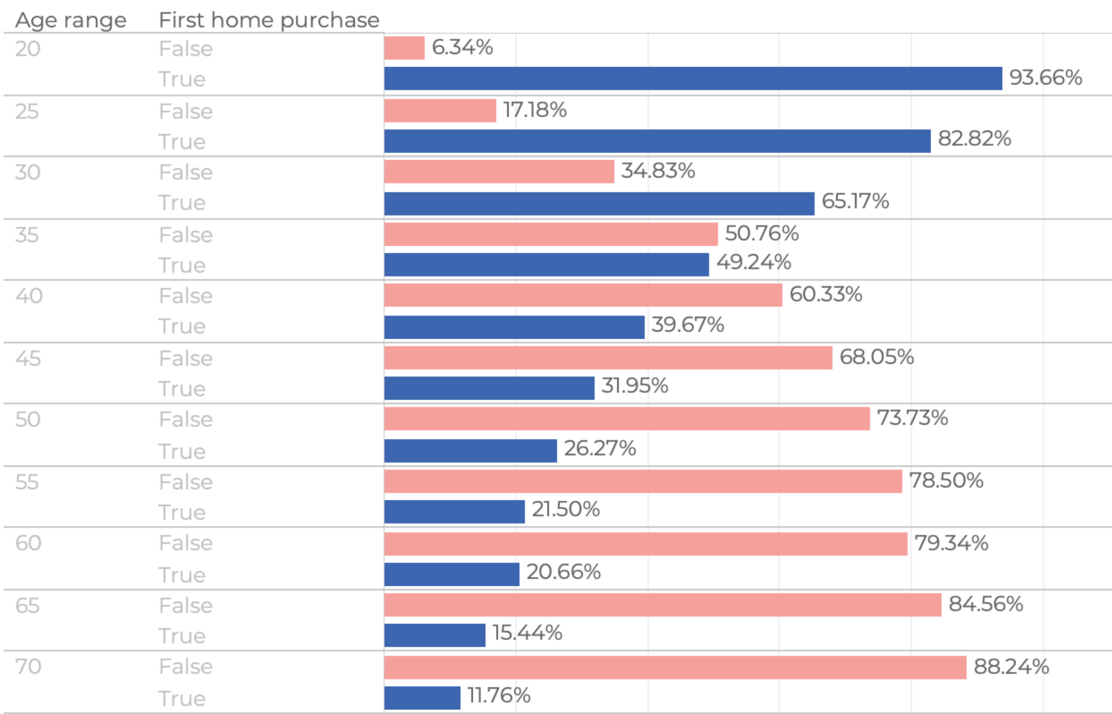

Fig 10: Percentage of First-time home buyers by age bracket

Now looking at the proportion of our users being first time home buyers, it appears, with no surprise, that the percentages invert with time. It is still interesting to see that 40% of our users between the age of 40 and 45 years old are actually buying their very first home. The proportion reaches 50-50% between the age of 35 and 39 years old.

C. Credit score

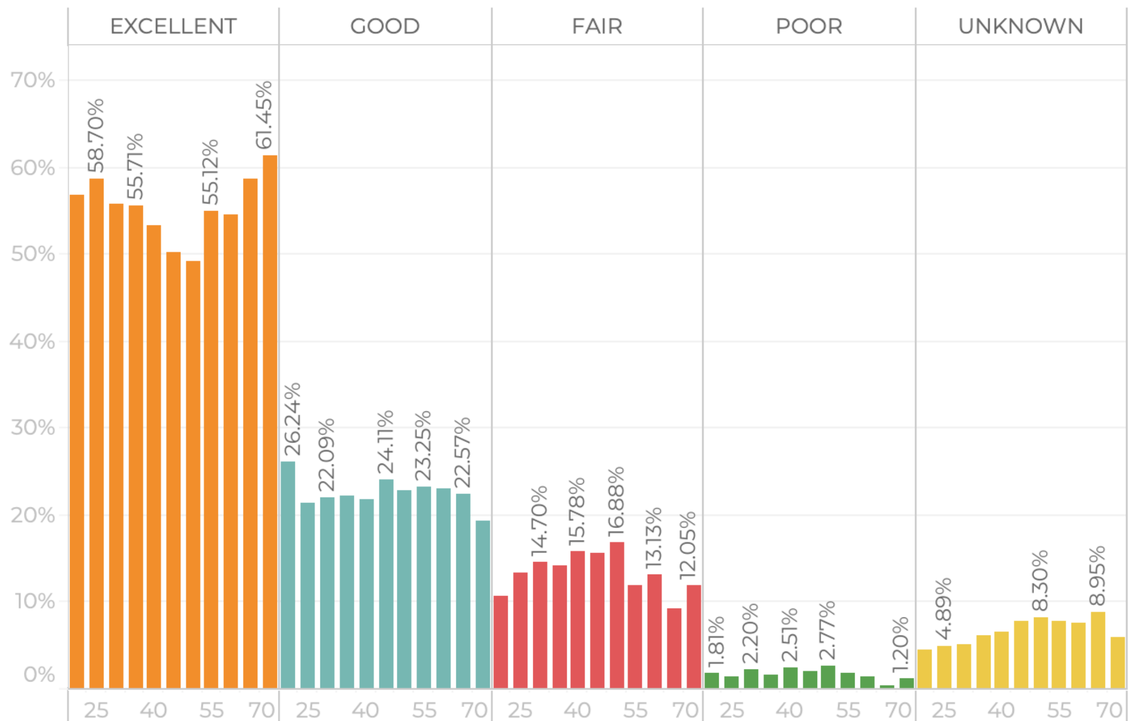

Fig 11: Self-Declared credit score by age group

Without much surprise, our winners for the excellent credit score category are the 65 years old and up!

“I have Excellent Credit” was selected most often by our younger users, aged 30 and younger, dropping down to a low of 49% as the user ages towards 50, followed by a jump towards 60% as the age increases per user.

The portion of our users that do not know their credit score increases with age, which is consistent with anecdotal evidence that younger users are more likely to be aware of their credit score and the tools available for monitoring it (example: Credit Karma, Borrowell)

D. Property type

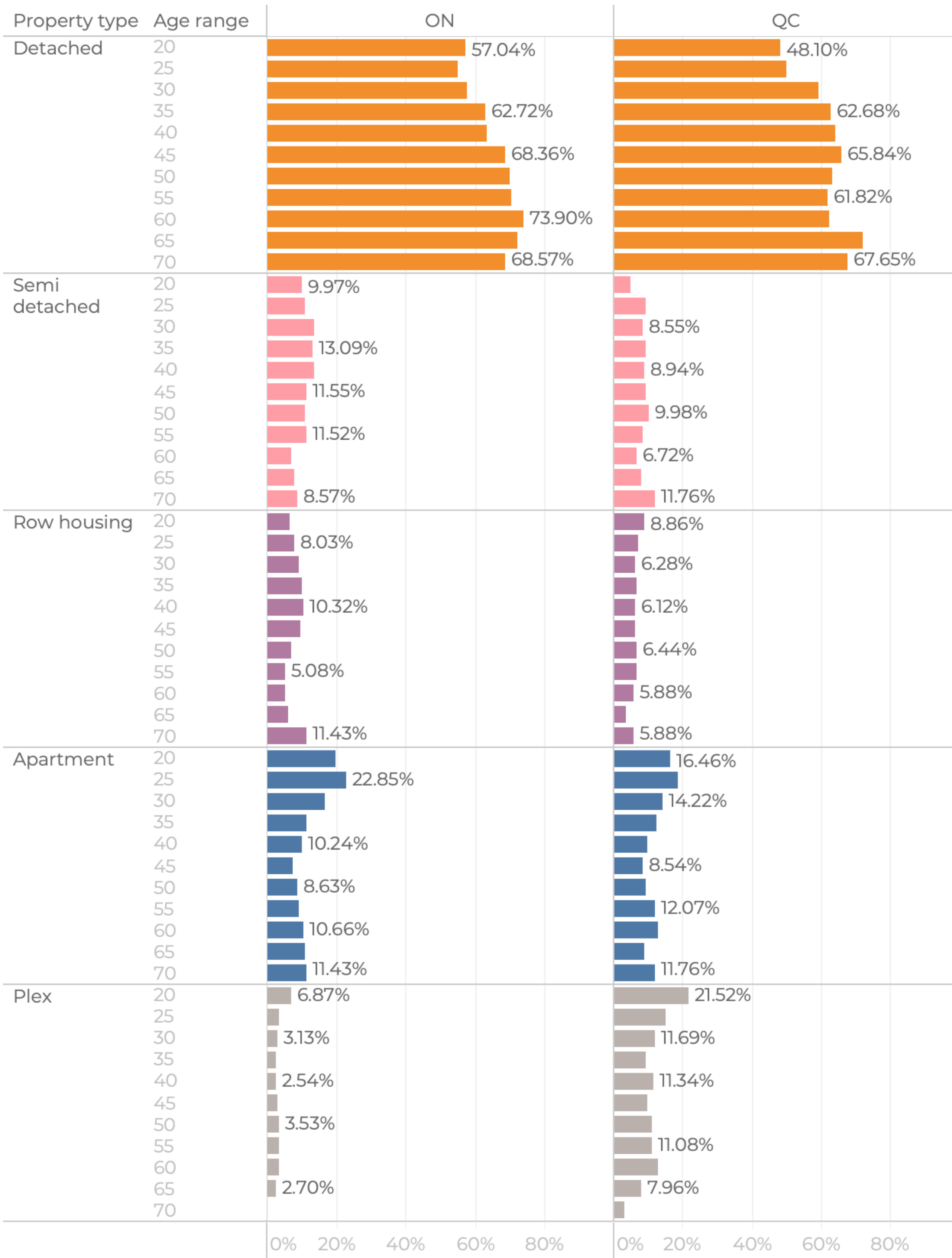

Fig 12: Most popular property type by age group and province

What kind of properties are our users most interested in by age group and province?

A large proportion of our users, in both Quebec and Ontario are most interested in detached family homes, with a unique address and a private yard. The environment that came with COVID leaves little surprise to this stat, but we are eager to see this chart mature overtime as confinement measures are lifted and more of the nation is vaccinated and returning to the workplace.

Compared to Quebec, our Ontario users are more likely to choose an apartment, which includes low/high-rise as well as stacked condos, while there is a much higher interest for plexes(multi-unit) overall in Quebec.

Most probably related to purchase price and buying power and life experiences to date, the interest for apartments is higher amongst our younger users. We see it shrink between the ages of 35 and 60 years old, until it goes up again for olders generations in the downsizing mindset. The interest in buying a plex(multi-unit) is also much higher at a younger age. This could be explained by the fact that buying a multiple unit residential building provides more borrowing power as it often includes a revenue stream. It could also be attributed to the fact that a multi-unit requires more “hand-on” ownership as a landlord.

Impossible to ignore is that the interest for detached homes is approximately 75% of our total volume. Regardless of the influences mentioned above, Canadians want more space, whether it be living space or outdoors.

E. Marital status & co-applicant

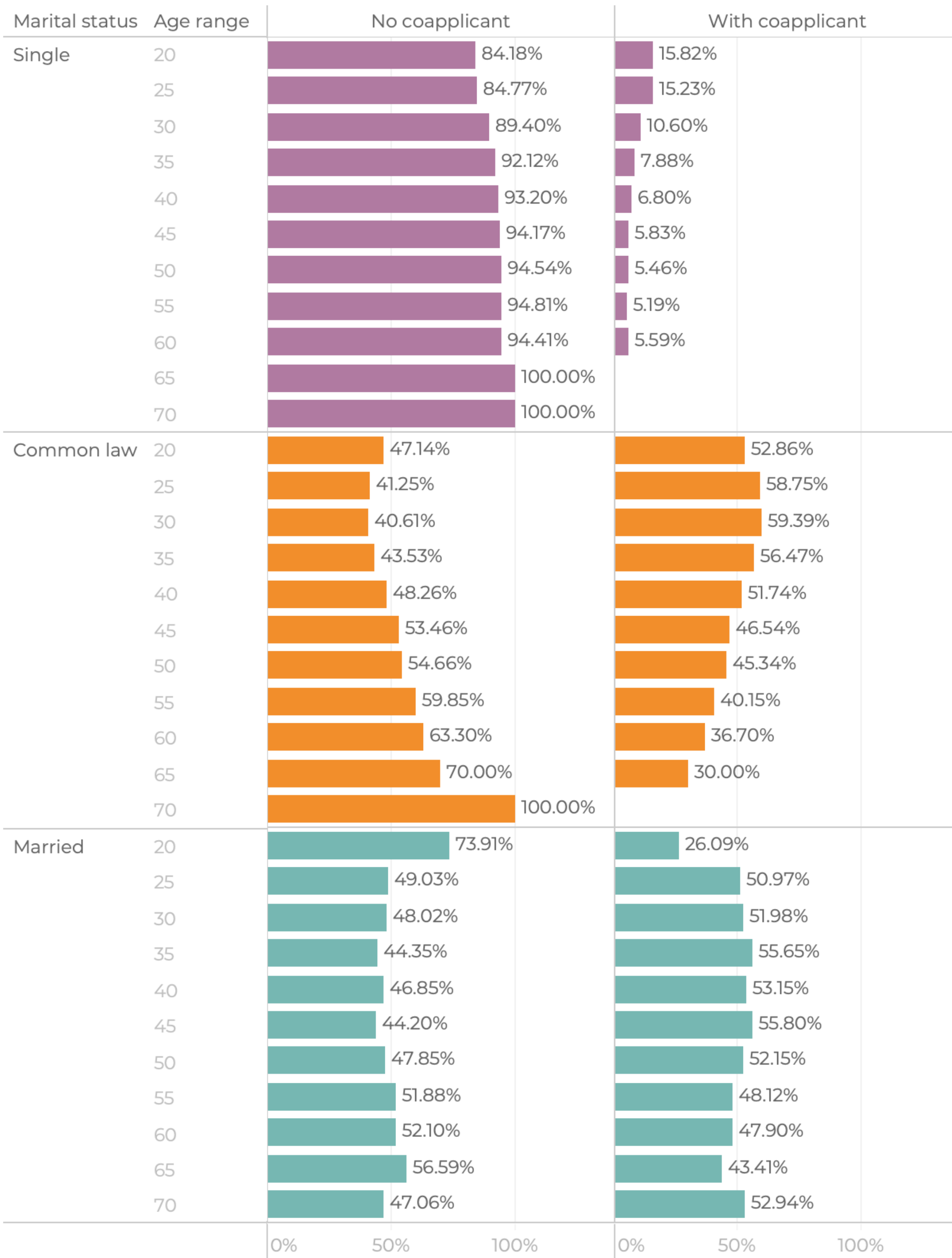

fig 13: Percentage of our users adding a co-applicant to their mortgage depending on their age group and marital status

For our last metric, we were interested in seeing whether there was a correlation between age, marital status and whether users had a co-applicant(partner, spouse, friend or even co-signer) for their mortgage or not.

For borrowers that are labelled as legally single, a co-applicant existed far more often when the primary borrower was younger than 25. In many of these cases, the borrower either required some form of support. In some cases, the primary borrower was supporting a friend or family member(example: Purchasing home for mom to downsize with mom as the co-applicant and primary occupant)

Surprisingly, married and common-law borrowers have co-applicants only roughly 60% of the time, and this proportion decreases as they get older.

Also, young (20-24) married borrowers do not have a co-applicant nearly 75% of the time.

Disclosure:

\+ Note that it is possible borrowers added a co-applicant later in the process if needed without being associated with one at the time we retrieved the data for this report.

++ Data excludes separated, divorced and widowed users

2. APPROVAL DELAYS

Ontario

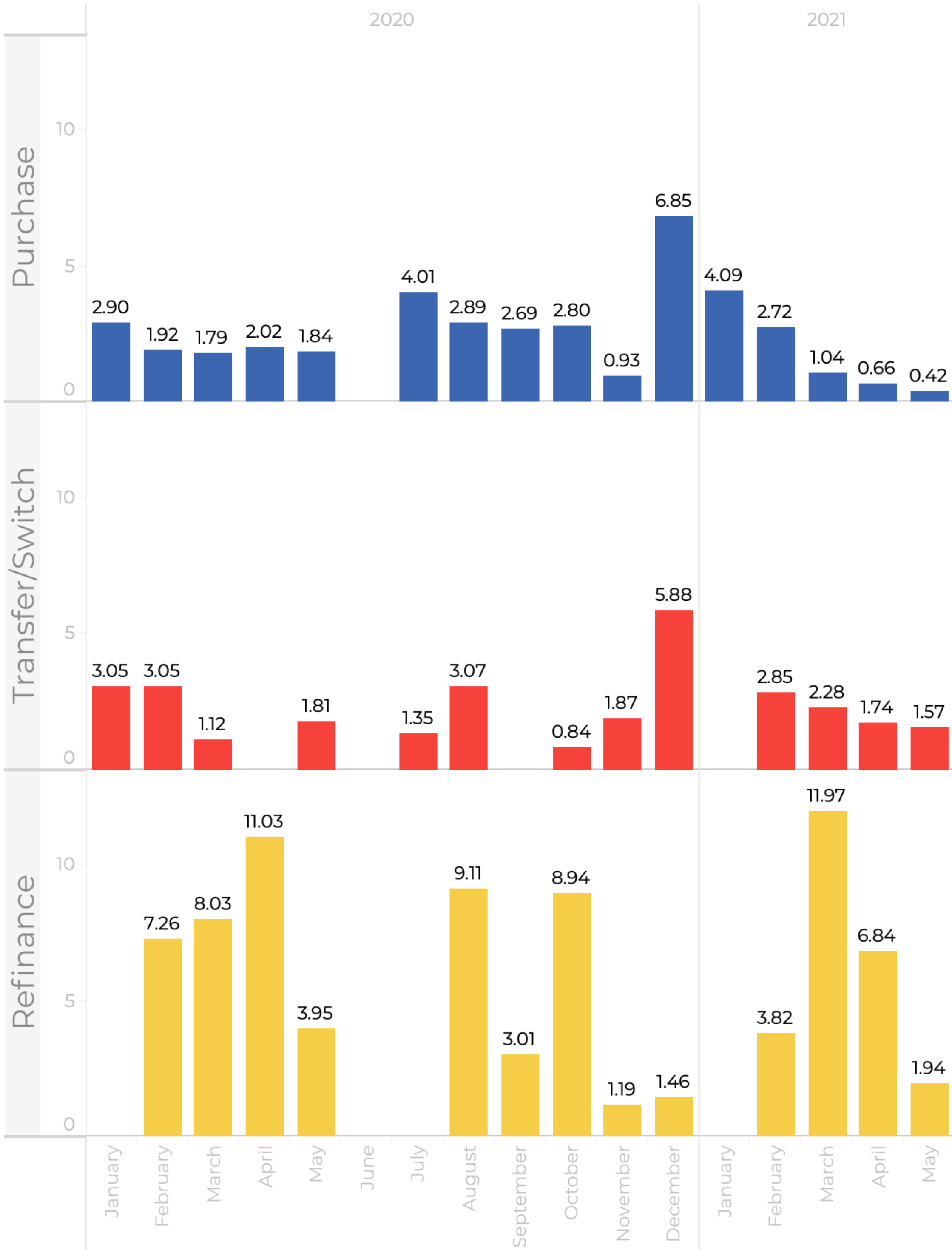

Fig 14: Approval delays in ontario as of June 1st 2021 (compiling data between July 2020 and June 2021)

Comparing our May 2021 data to what we saw in the previous month, the approval delays in Ontario are improving across the board. While much of this is natural and incremental improvements on many fronts, not all of it is natural.

It is true that lenders, evaluators and other participants are all finding ways to conquer existing obstacles. At the same time, nesto has been vigilantly advising would-be borrowers about the lenders currently and historically equipped to provide a positive mortgage experience in unique environments. Without naming names, not all lenders have been able to improve the experience for non-purchase related transactions.

In the spirit of transparency, it’s important to share that nesto is often put in a position where the borrower is directed back to their existing lender because their desired or preferred new lender cannot facilitate the required timeline. As a result of these events, our “time to approval” metric is spared, but it is not natural as that is a borrower that we would have normally loved to help.

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.

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