



The new mortgage products:
easy access to deeper indebtedness
(Executive summary)

Report produced by Option consommateurs
and presented to

Industry Canada's Office of Consumer Affairs

2009

OPTION CONSOMMATEURS

MISSION

Option consommateurs is a not-for-profit association whose mission is to defend the rights and interests of consumers and to ensure that they are respected.

HISTORY

Option consommateurs has been in existence since 1983, when it arose from the *Associations coopératives d'économie familial* movement, more specifically, the Montreal ACEF. In 1999 it joined forces with the *Association des consommateurs du Québec* (ACQ), which had already pursued a similar mission for over 50 years

PRINCIPAL ACTIVITIES

Options consommateurs has a team of some 30 employees working in five departments: Budgeting, Energy Efficiency, Legal Affairs, Press Room, and Research and Representation. Over the years, *Option consommateurs* has developed special expertise in the areas of financial services, health, agrifood, energy, travel, access to justice, trade practices, indebtedness, and the protection of privacy. Every year, we reach 7,000–10,000 consumers directly, conduct numerous interviews in the media, participate in working groups, sit on boards of directors, carry out large-scale projects with key partners, and produce research reports, policy papers and buyers' guides, including the annual *Toy Guide* in *Protégez-vous* magazine.

MEMBERSHIP

In its quest to bring about change, *Option consommateurs* is active on many fronts: conducting research, organizing class action suits, and applying pressure on companies and government authorities. You can help us do more for you by becoming a member of *Option consommateurs* at www.option-consommateurs.org.

Acknowledgements

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Executive Summary

Beginning in the 1990s, the changes brought to the mortgage insurance guarantee framework by the federal government made it possible for Canadians to gain access to new mortgage products. Prominent among these are loans requiring small down payments and loans with longer amortization periods. These new financial products have made it possible for younger Canadians with little accumulated savings and for lower-income Canadians to buy a home on credit, which would have been impossible until then. Another such product is the hybrid loan, which is a home equity loan combined with a line of credit.

Our study made it abundantly clear that buying property is a complex exercise requiring first-time buyers to assimilate a great deal of information in a short time. Also, the terminology used to define mortgage products is difficult to understand for novices in the world of banking.

A survey carried out by the firm Environics on behalf of *Option consommateurs* showed that consumers between the ages of 18 and 29 and households that earn less than \$60,000 a year have more difficulty understanding these products than other groups in the population. *Option consommateurs* believes that groups such as these, which will have easier access to mortgages from now on, should get special educational support in financial matters.

Canadian consumers have found the credit made available by means of the new mortgage products extremely attractive. One of the consequences of this infatuation is that their level of indebtedness has risen dramatically. In 1990 the overall mortgage debt stood at \$250 billion; by 2007, this sum had risen to nearly \$800 billion.

As mortgage credit to Canadians homeowners increases, their level of indebtedness makes them ever more vulnerable to a rise in interest rates. In our view, this increased vulnerability raises questions about the public policy objectives that need to be adopted with regard to housing. In other words, does public policy have to continue to support access to ownership by increasing accessibility to mortgages? This is a question to which *Option consommateurs* has not yet found an answer.

This research project provided an opportunity to analyze three new mortgage products and to survey Canadians' knowledge of them. Based on the results, *Option consommateurs* makes the following recommendations:

To consumers:

***Option consommateurs* recommends that consumers become better informed about mortgage products by consulting the guides published by consumer organizations and government agencies whose role is to inform Canadians in financial matters.**

***Option consommateurs* recommends caution in the use of new mortgage products and emphasizes the importance of saving before buying a property.**

***Option consommateurs* recommends that consumers be wary when a financial institution calculates their borrowing power. The method of calculation does not take into account the overall situation of the household and its projects, such as buying a new car, having children, travelling or even renovating.**

To the Financial Consumer Agency of Canada (FCAC)

***Option consommateurs* recommends that it offer, in collaboration with consumers' associations, group information sessions to assist consumers in buying their first home.**

***Option consommateurs* recommends that it make itself better known to Canadians.**

***Option consommateurs* recommends making educational videos on mortgage products available to consumers on its Website.**

***Option consommateurs* recommends that, when applicable, its electronic publications carry notification that the written information has been revised by readability experts.**

***Option consommateurs* recommends that a tool be developed to allow consumers to determine a reasonable mortgage credit debt threshold.**

***Option consommateurs* recommends that a tool be developed to calculate of the implicit interest rate of the rebate that is offered as a “gift” when a consumer commits to a fixed-rate mortgage loan with a financial institution for a period of 5 to 7 years.**

***Option consommateurs* recommends, in the light of the results of our survey, that it continue its financial education efforts to contact and inform low income households and young people of 18 to 29 years of age.**

To the federal government

***Option consommateurs* recommends that it take advantage of the next review of the *Bank Act* to oblige the financial institutions under its responsibility to distribute a property buyer’s guide to every new prospective buyer at their branches. This guide should be produced independently of the financial institution and written by the Financial Consumer Agency in collaboration with consumers’ associations.**

***Option consommateurs* recommends that a study be undertaken to determine whether financial institutions lend excessively to certain Canadians. This practice could inordinately weaken the financial health of Canadians and the economic stability of the country.**

***Option consommateurs* recommends that it maintain tighter checks on mortgages requiring a small down payment and loans amortized over long periods.**

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***Option consommateurs* recommends that it reduce penalties for consumers who pay off their mortgage before the end of the contract. This measure could stimulate competition on mortgage interest rates.**

***Option consommateurs* recommends that it develop guidelines for loans offered with a cash rebate and oblige financial institutions to divulge the cost more clearly.**

To financial institutions and their representatives

***Option consommateurs* recommends that they include the Financial Consumer Agency of Canada's contact information on their Websites and in their brochures.**