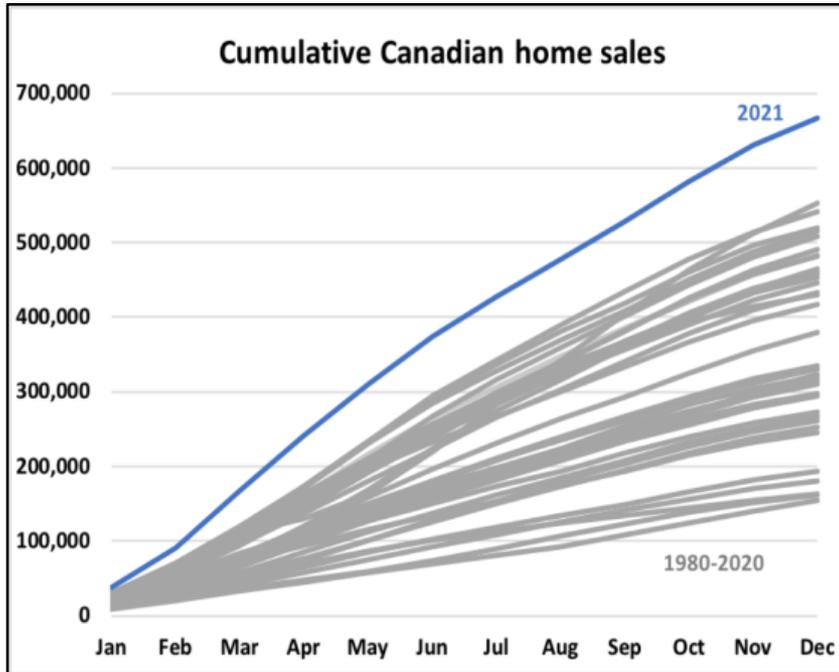


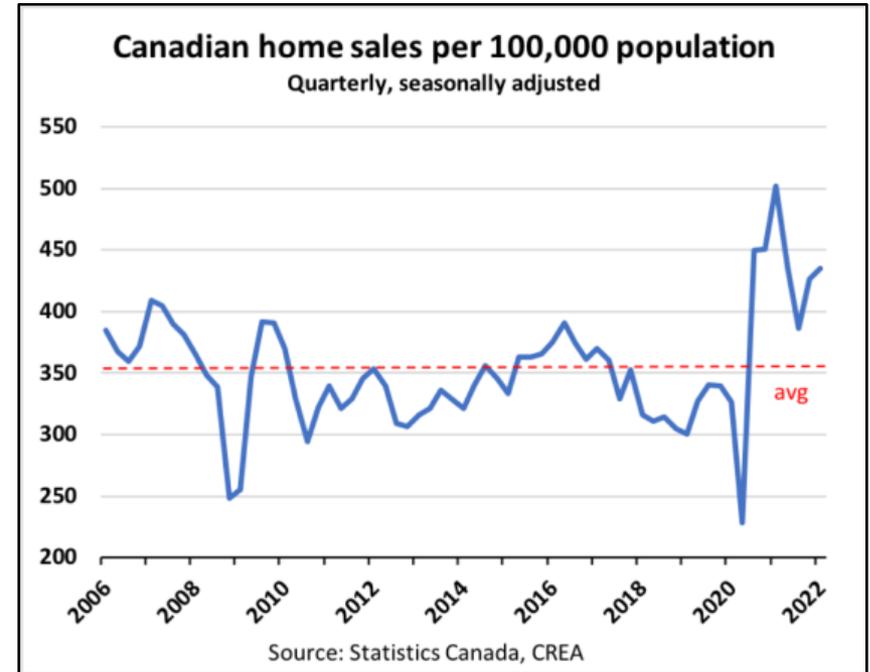
Canadian housing/credit macro deck



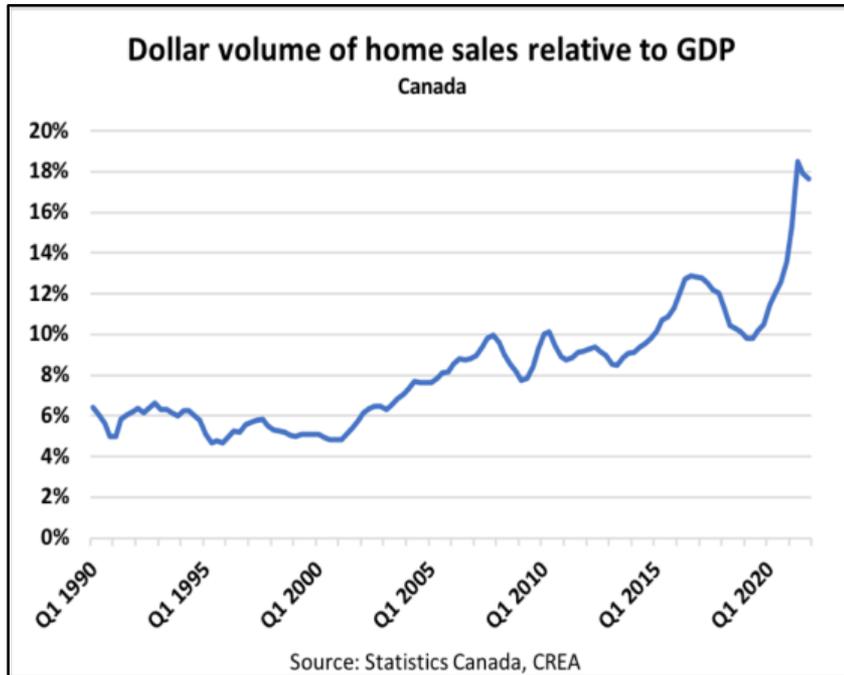
1. Canadian housing has been on fire!



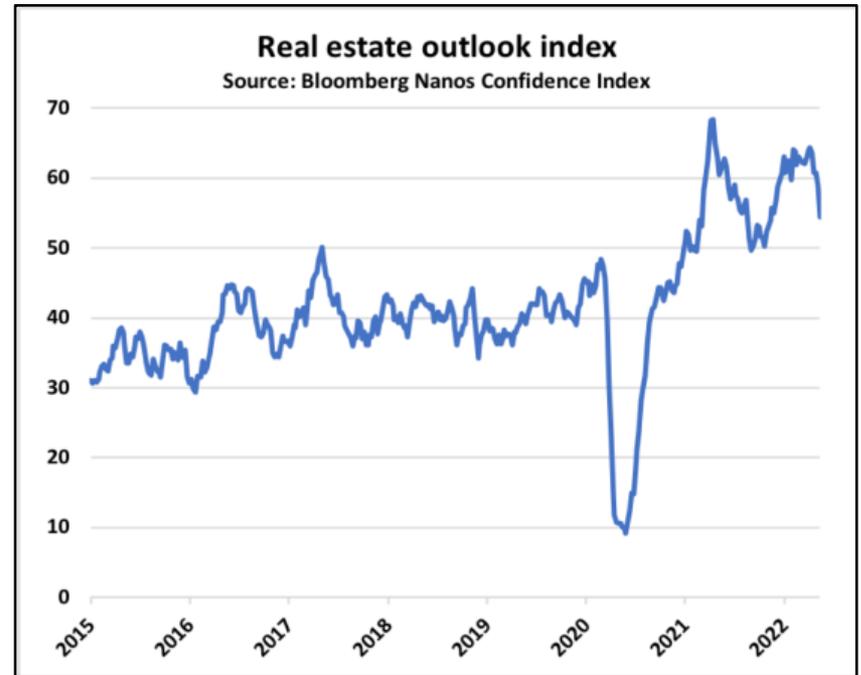
Home sales set a record in 2021 by a 20% margin.



On a population-adjusted basis, home sales were 25% above long-term norms in Q1. Lots of pulled-forward demand!

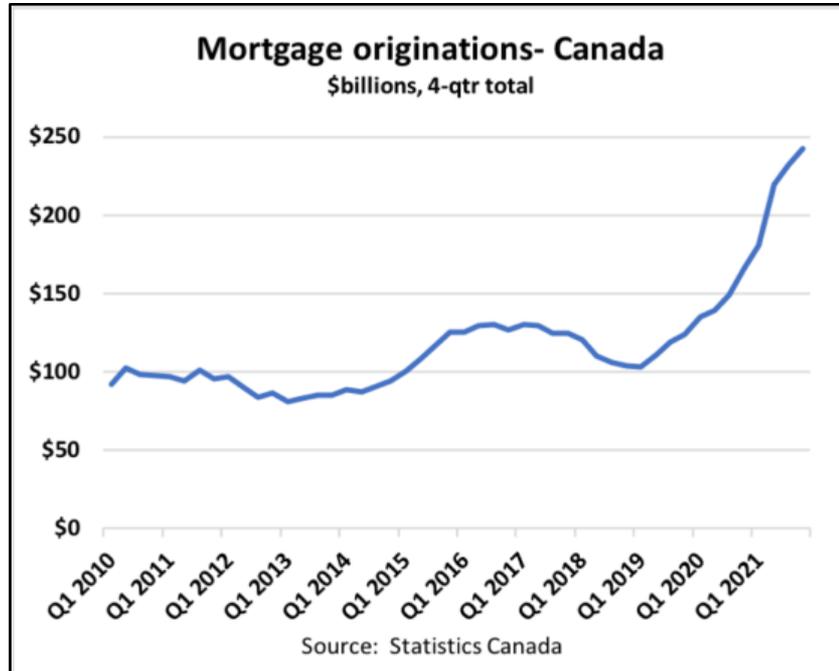


Dollar volume of home sales relative to GDP set a record in 2021 into early 2022...nearly 50% above prior 2016 peak.



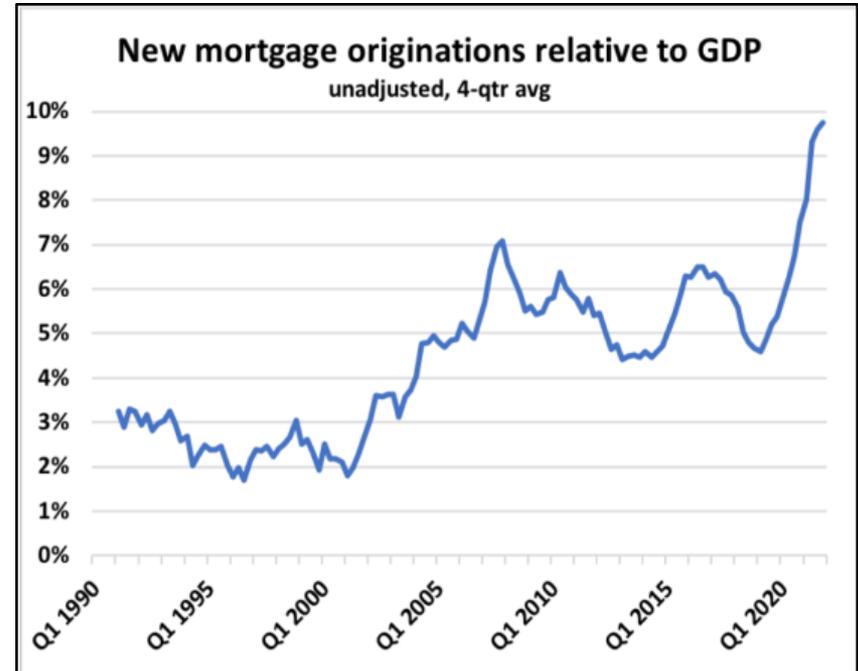
Real estate sentiment had been the most bullish on record. Has started to turn but still today remains above prior highs seen in 2017.

2. Household credit is booming



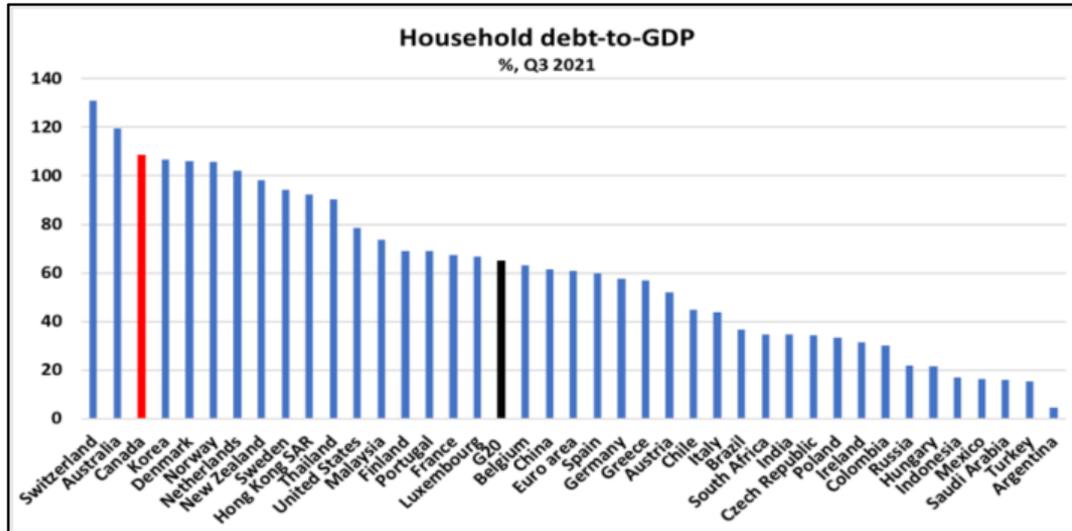
Mortgage origination volumes are nearly double the 2016-2017 peak.

\$150B increase in mortgage debt in 2020 and 2021....double the annual growth rate from 2015-2019



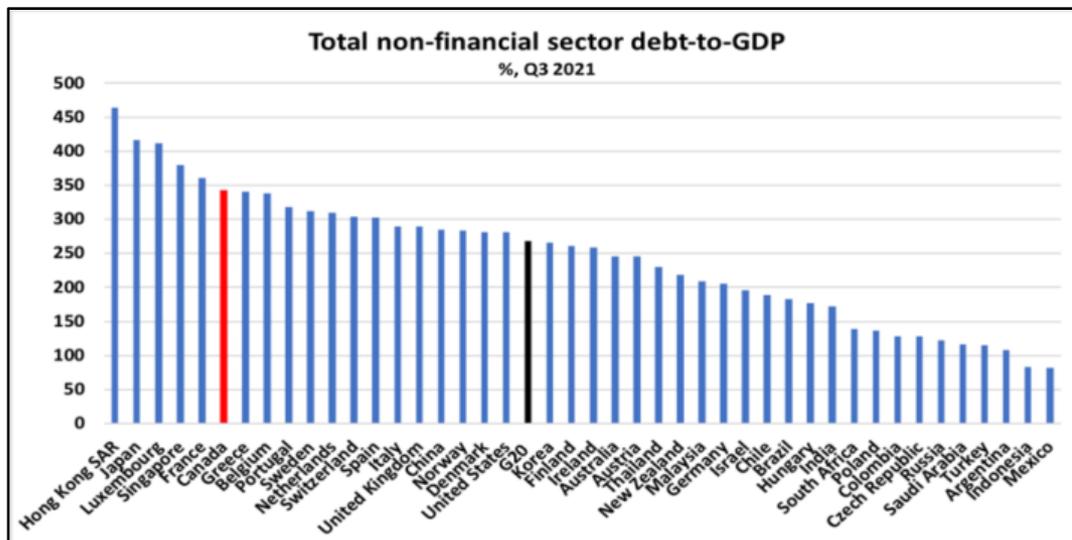
Originations relative to GDP have never been higher.

3. Debt burdens are very high ...and growing

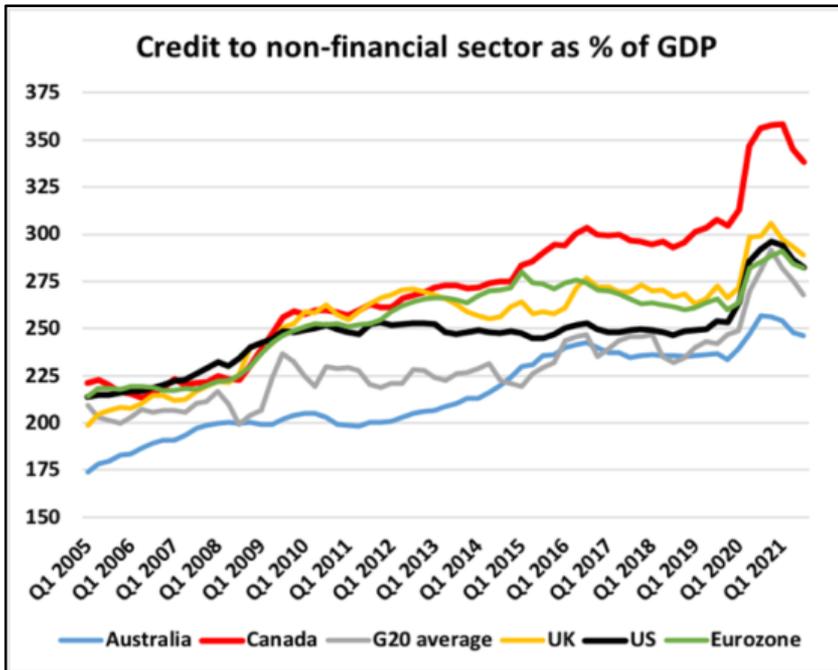


An incredibly levered economy heading into a tightening cycle.

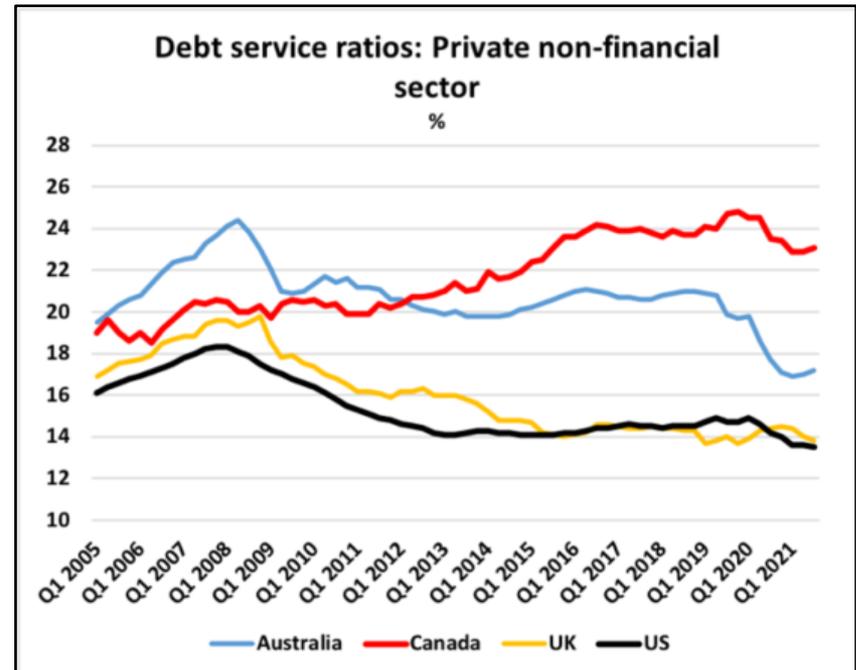
Household debt-to-GDP 40 points above G20 avg.



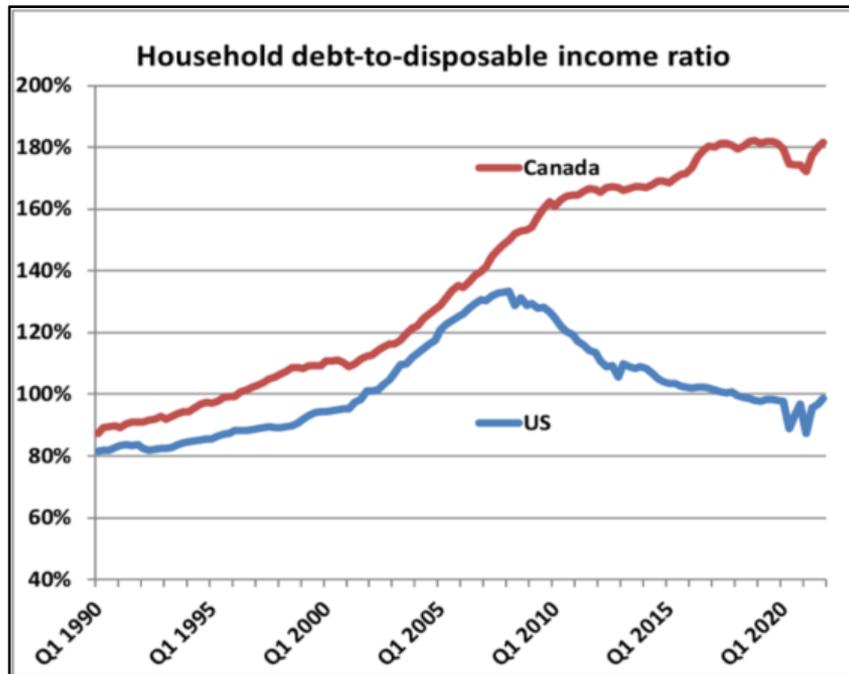
Total non-financial sector (household + non-financial corps + govt) debt-to-GDP nearly 350%, 70 points above G20 avg.



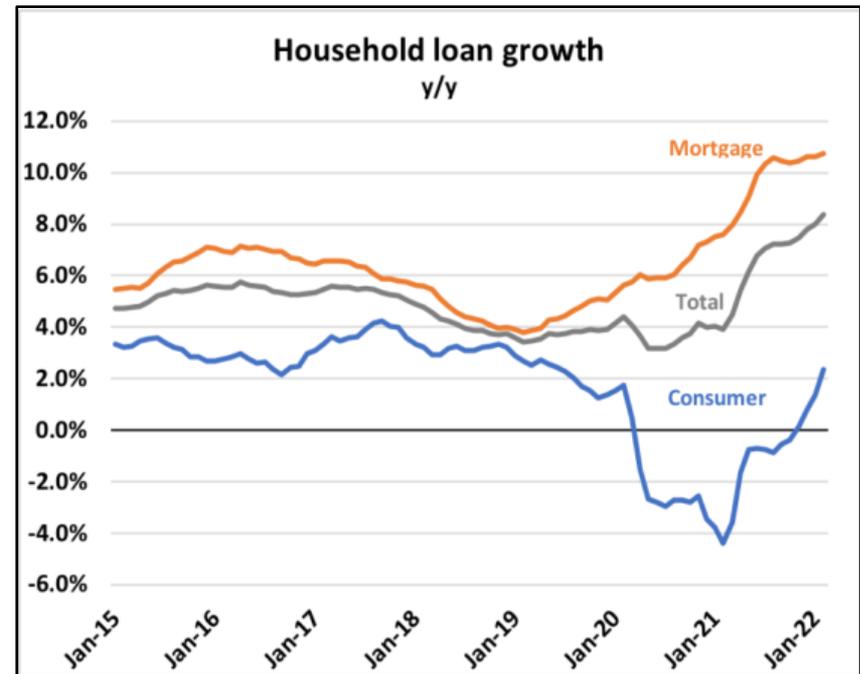
Not only are debt levels high, but the rate of growth since 2014 has dwarfed most other G20 countries.



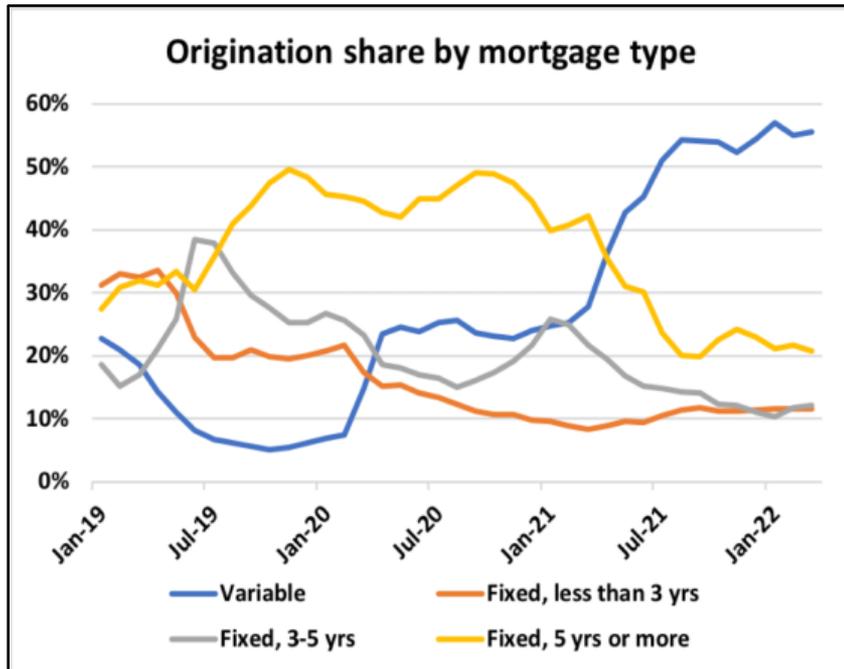
Debt service ratios of households and non-financial corps are elevated relative to peers. High sensitivity to rising rates.



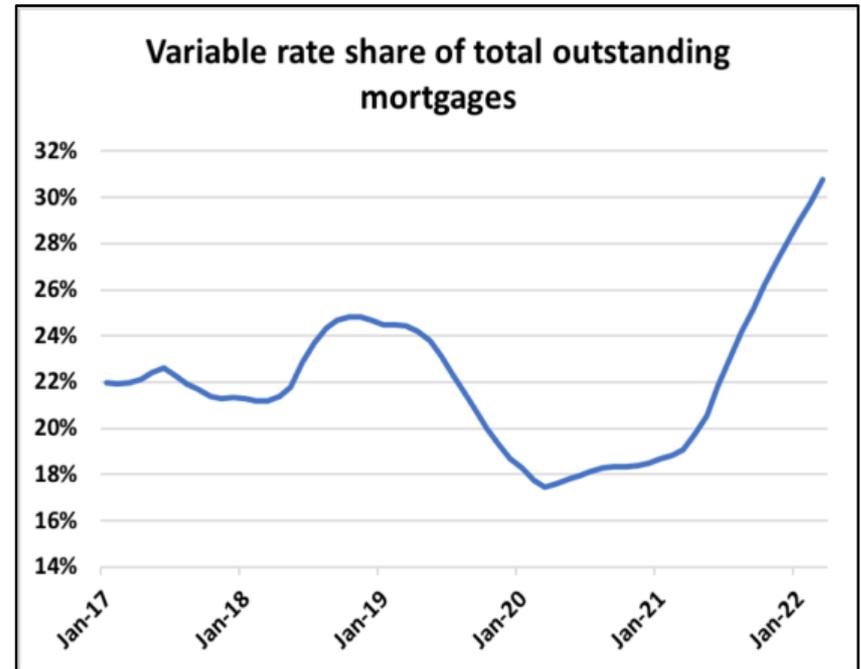
Household debt-income ratio at all-time highs.



Mortgage debt growing at fastest rate since 2008.



Consumers have pivoted into variable rate mortgages. They now account for nearly 60% of new originations...

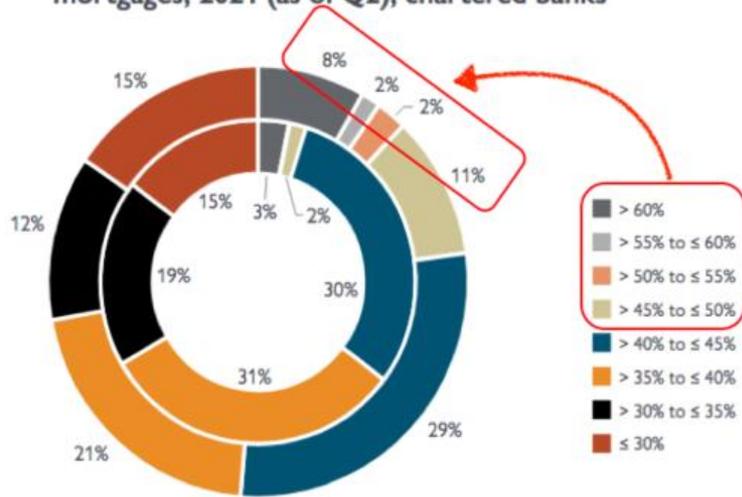


...and nearly 1/3 of all outstanding debt, up from 18% in 2020.

Note: Roughly 60% of variable rate mortgages have fixed payments....ie automatically adjusted amortization to hold payments flat.

4. Banks have loosened underwriting

Figure 11 TDS ratio for uninsured (outbound) and insured (inbound) mortgages, 2021 (as of Q2), chartered banks

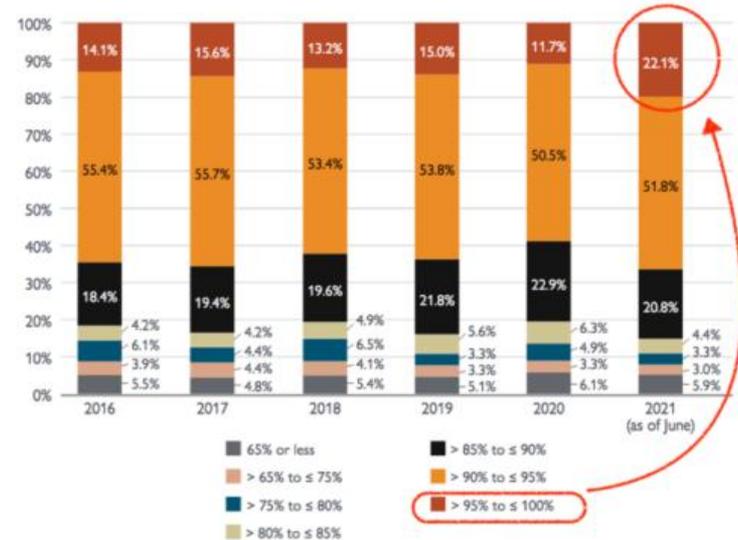


Source: CMHC residential mortgage data reporting of NHA MBS issuers; CMHC calculations

Banks are regularly granting debt service ratio exceptions to soften or bypass the stress test.

Nearly ¼ of new uninsured originations have DSRs in excess of 45% vs internal “guidelines” of 44% max.

Figure 10 Newly originated insured mortgages saw growth in loans with an LTV ratio from 96% up to and including 100%, chartered banks



Source: CMHC residential mortgage data reporting of NHA MBS issuers; CMHC calculations

The share of new insured buyers making minimum down payment has risen to 22%.

Insurance premium is added to mortgage which means LTV is often +98% at origination.

Supervisory Responses

Work on the application of [Guideline B-20, Residential Mortgage Underwriting Practices and Procedures](#), and supervisory expectations and new product assessments continues.

Recent supervisory reviews identified several common issues around underwriting, specifically income verification in areas that have been raised as being problematic in the past including business for self, rentals, exceptions to income sustainability as well as collateral management.

Mortgage fraud has become more pervasive. In April, OSFI acknowledged issues related to income verification.

Widely recognized within mortgage industry that some bank mobile mortgage reps are much more aggressive than others....antics at CIBC get mentioned a lot!



Ron Butler
@ronmortgageguy

Replying to @lender_guy @systemcorrupt and 7 others

Sadly, I think this stuff has ramped up in the last 6 months

I have always maintained its not as rampant as the stories we hear say it is but I am starting to think Fake Income docs in the GTA have really taken off lately

6:41 PM · Mar 21, 2022 · Twitter for Android

9 Retweets 3 Quote Tweets 31 Likes



Ron Butler
@ronmortgageguy

Bank Rep Says: No Problem, I can help with "Documents"

Jeez Louise, that's bold, brazen and bad

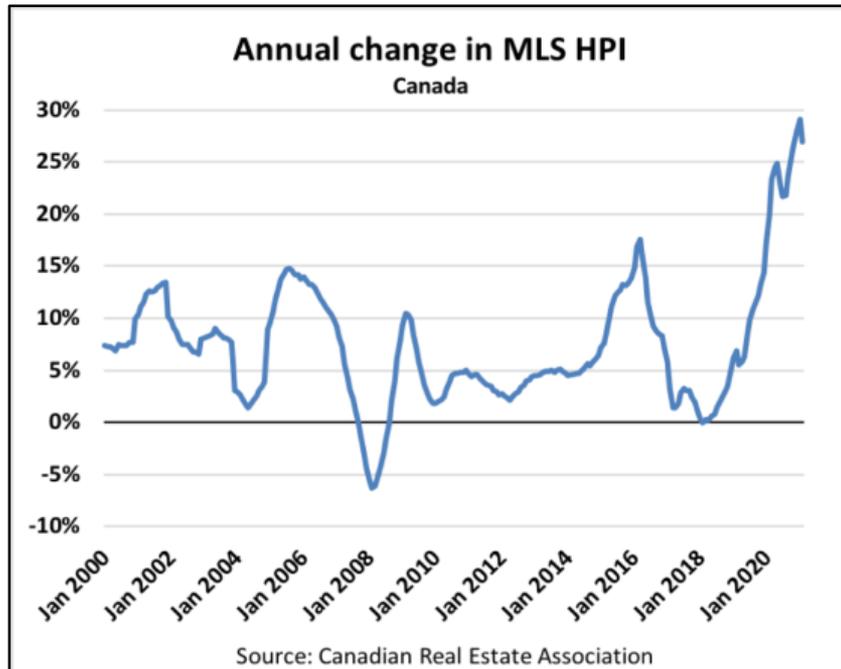
Anecdotally my own sales group have said the percentage of people who ask for "creative" approaches to mortgages is steadily up last few months

Reports from other brokerages

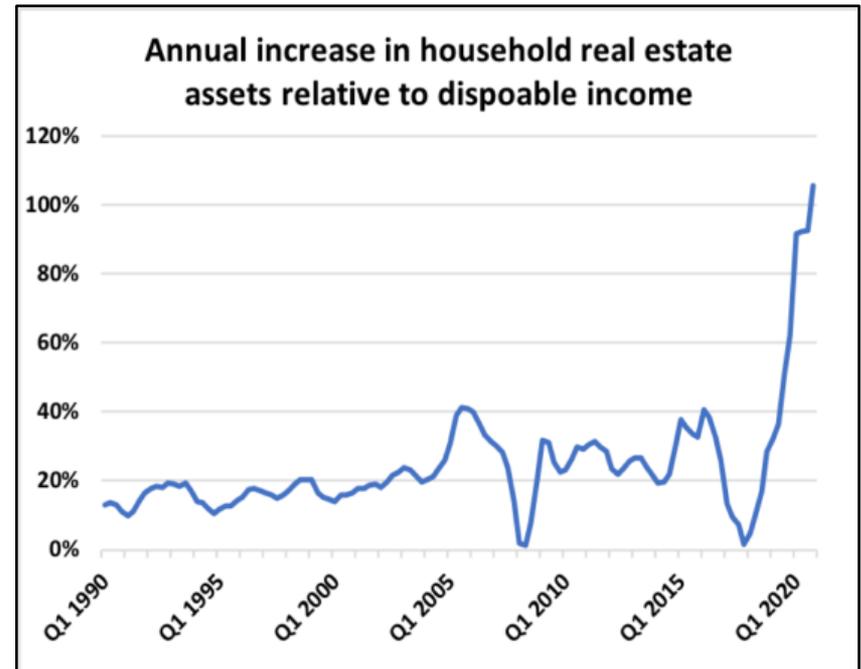
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1:08 PM · Apr 10, 2022 · Twitter for Android

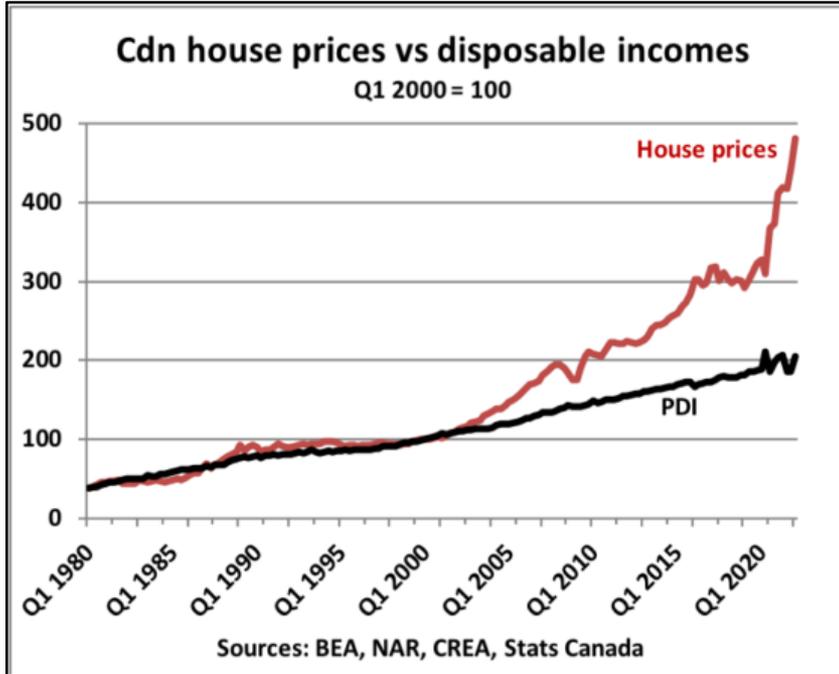
5. Housing valuations have gotten extreme



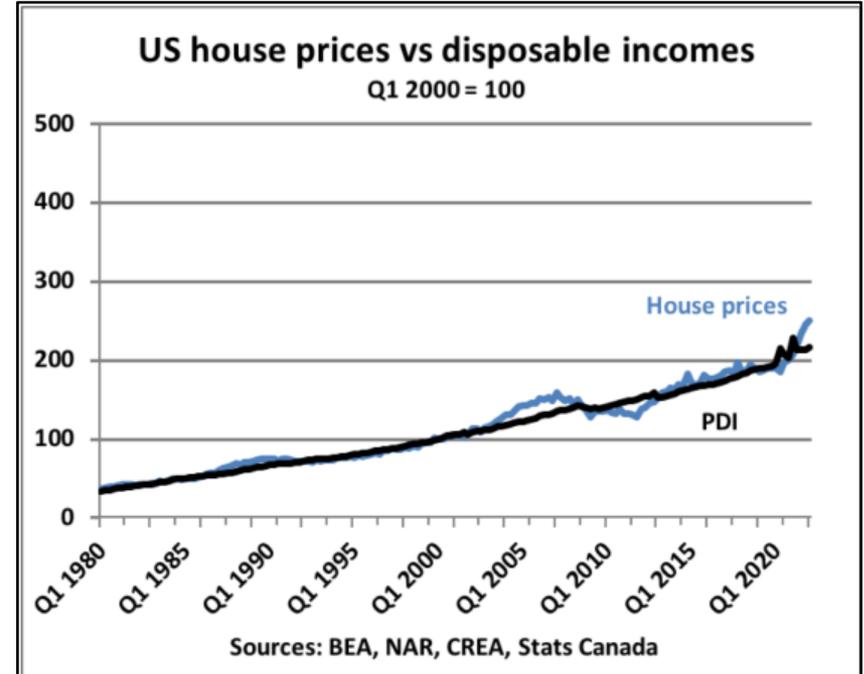
Price gains peaked at nearly 30% y/y in early 2022.



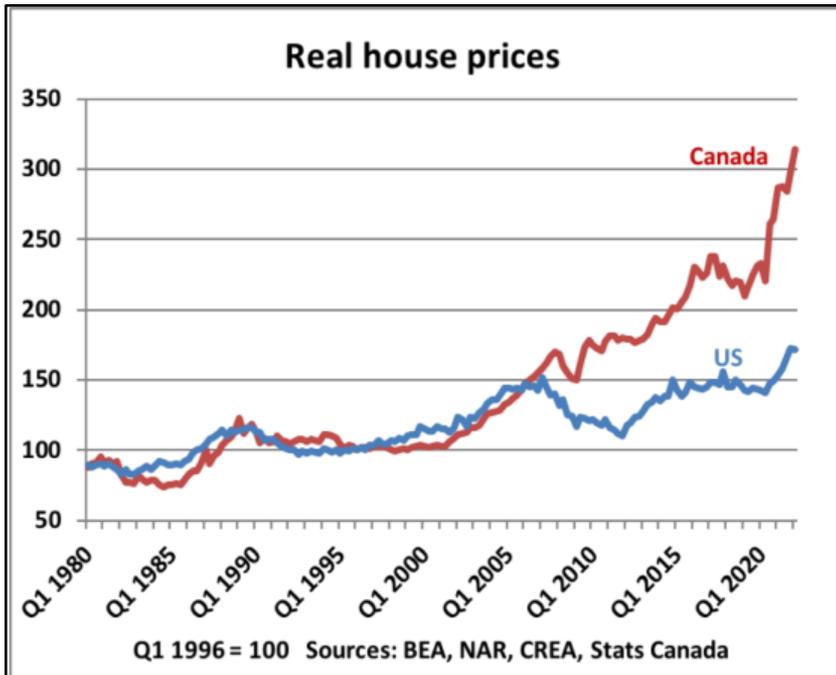
The annual increase in household real estate assets was larger than aggregate disposable income for the first time ever in 2021-2022.



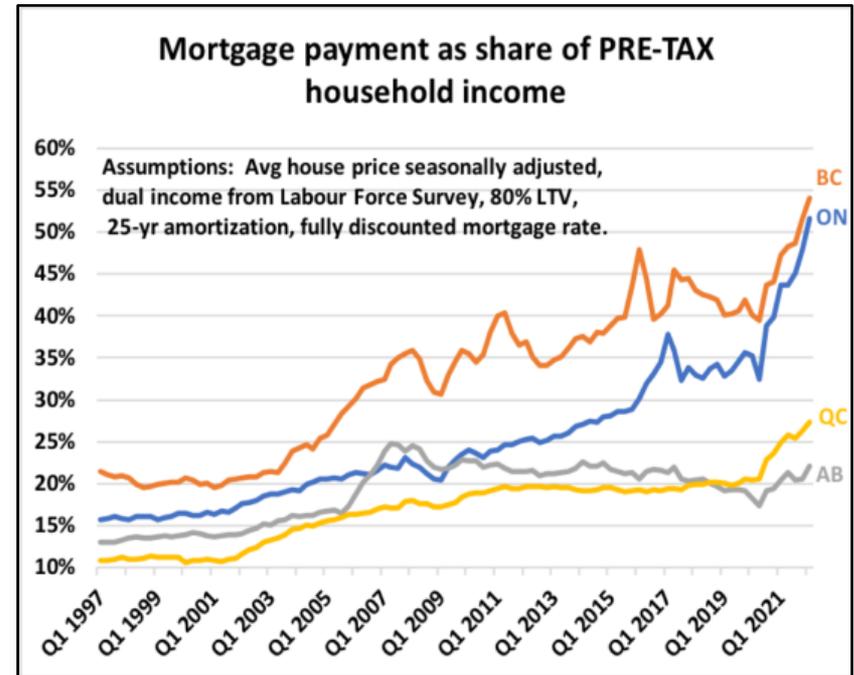
House prices have dramatically outpaced disposable incomes in Canada.



It puts US housing bubble concerns into perspective...

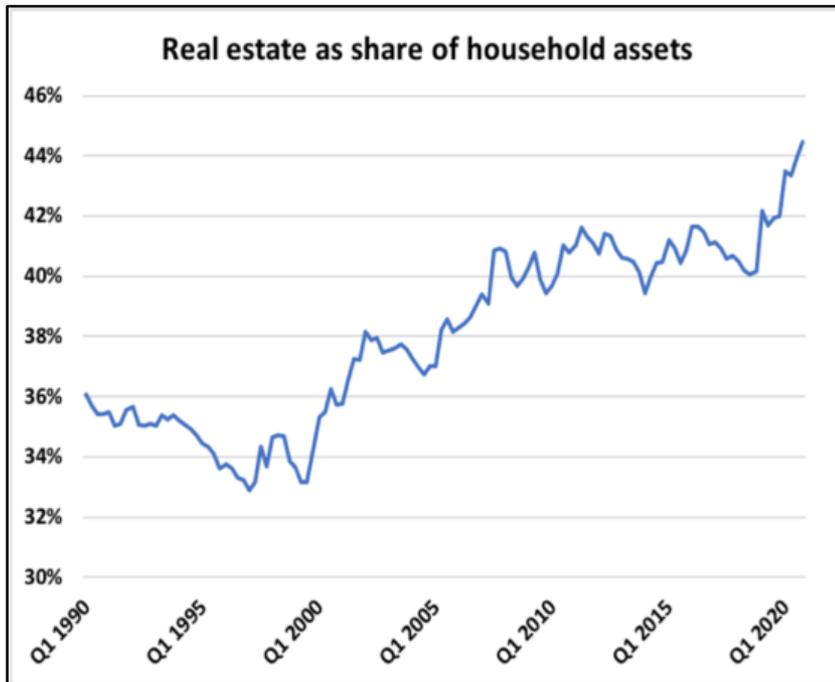


Real house prices have dramatically outpaced the US.



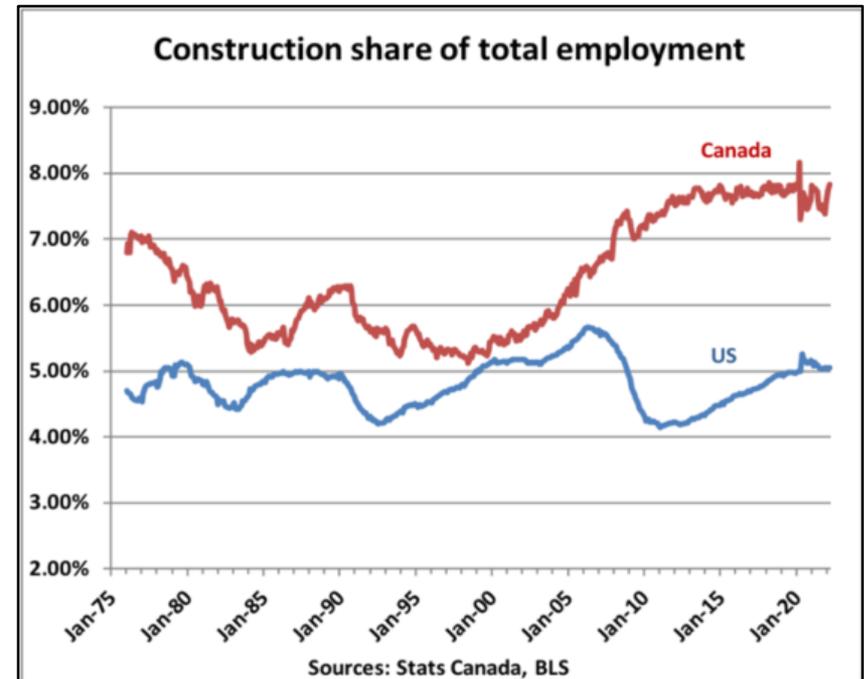
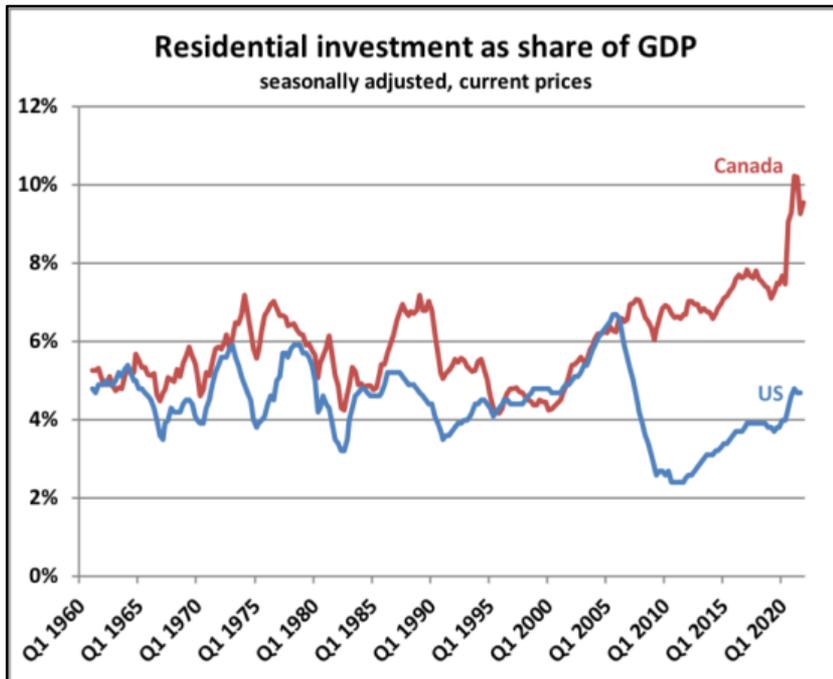
Affordability constraints have gotten extreme in Ontario and BC. Much less so in Alberta.

6. Household balance sheets are more tied to real estate than ever



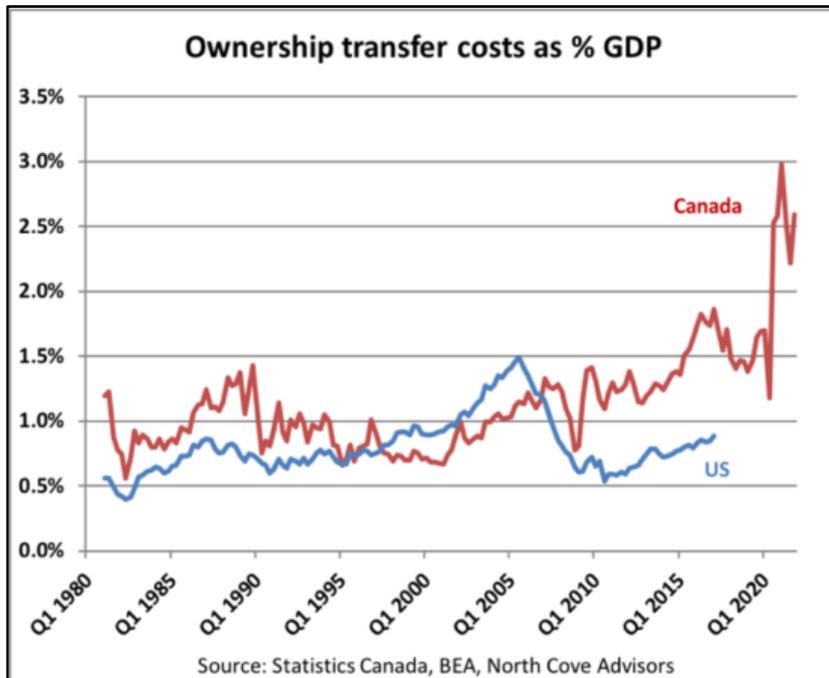
Real estate represents a record share of household assets. Raises risk of balance sheet shock if prices decline.

7. Economy remains very levered to housing

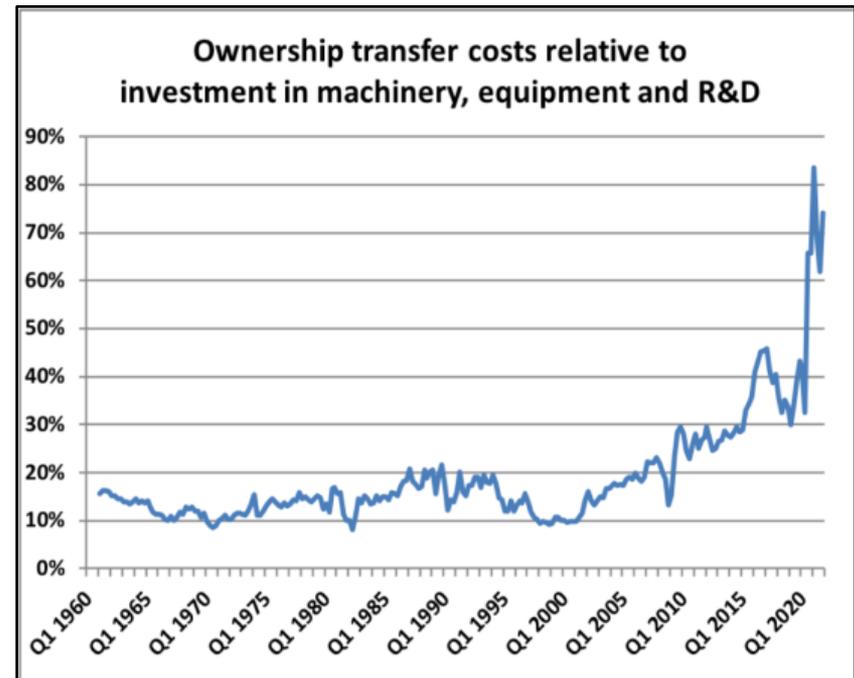


Residential investment (new housing + renovations + ownership transfer costs) are nearly 10% of Canadian GDP vs prior cycle peaks of 7% and US peak of 6.8%.

Residential investment + household consumption have accounted for 85% of real GDP growth over past 5 years.

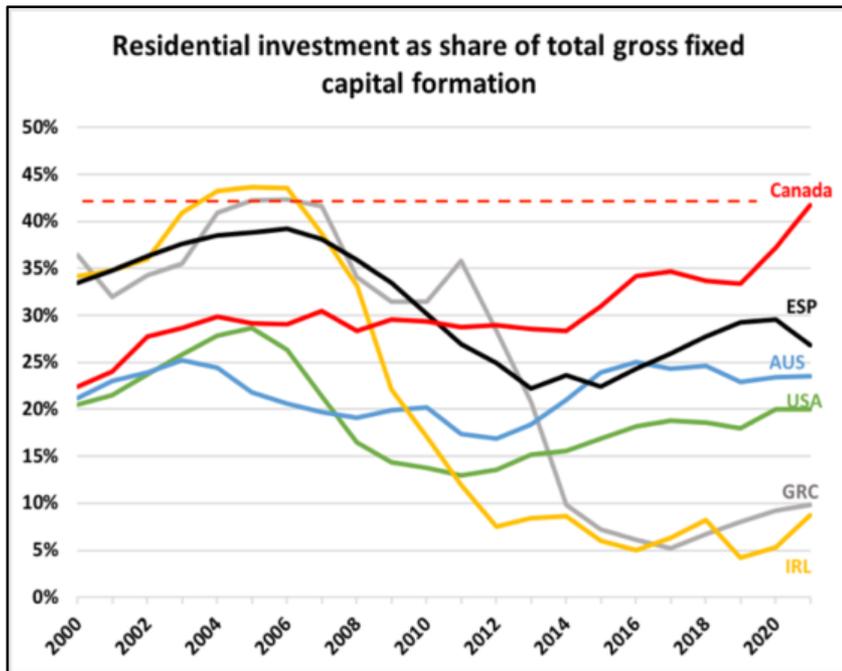


Ownership transfer costs alone are 2.6% of GDP vs 1.5% in US at peak.

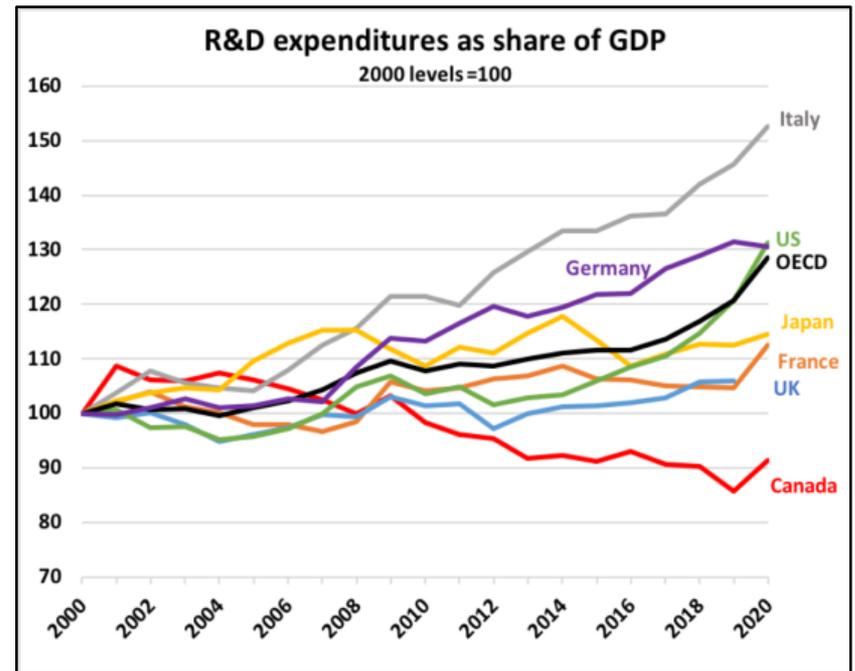


Transfer costs are nearly as large as all machinery, equipment, and R&D expenditures across all industries.

8. A massive misallocation of capital?

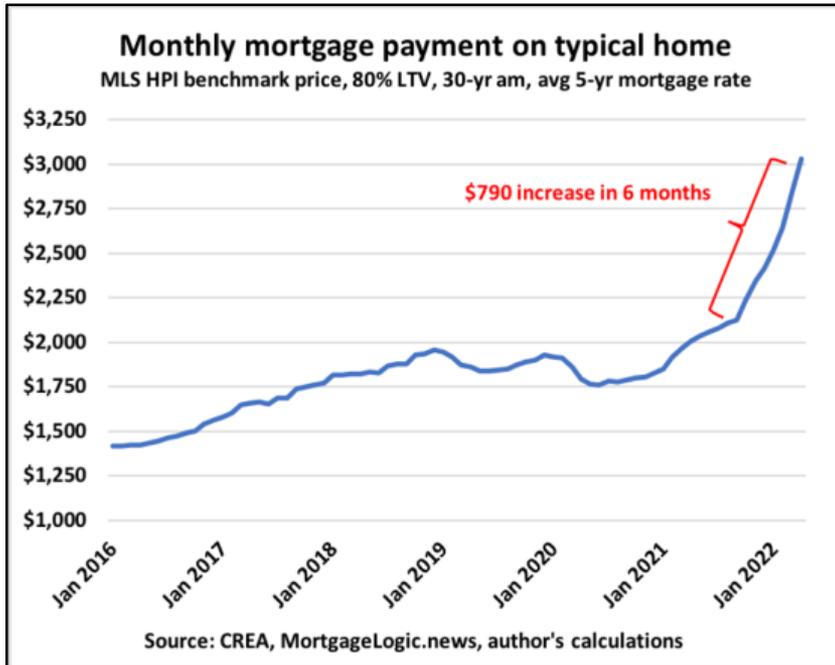


Potentially massive misallocation of investment dollars. Residential investment accounts for 42% of all gross fixed capital formation...on par with Spain, Ireland, Greece at the height of their respective bubbles.

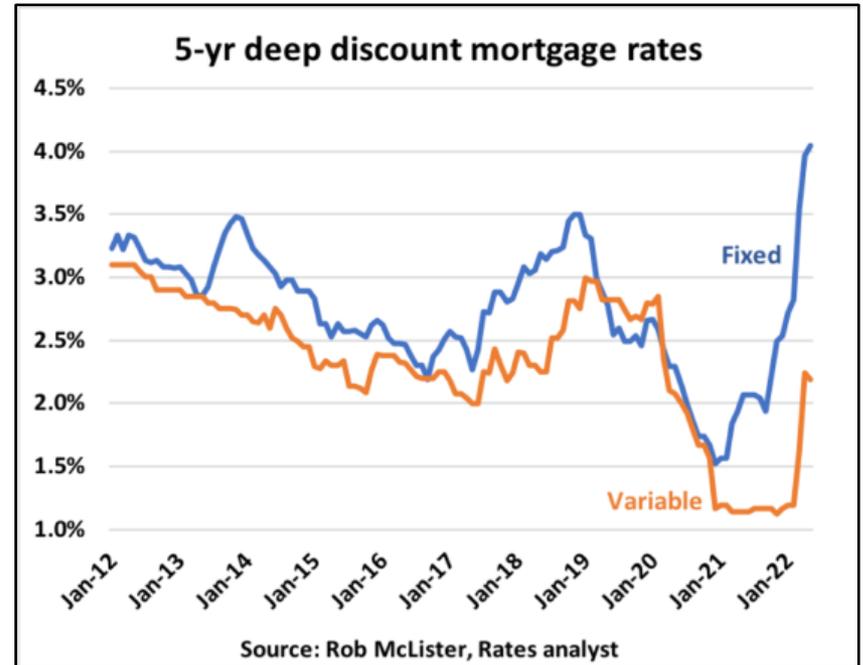


Canada is one of the only countries to see R&D expenditures as a share of GDP fall since 2000.

9. Interest rates are now crushing affordability

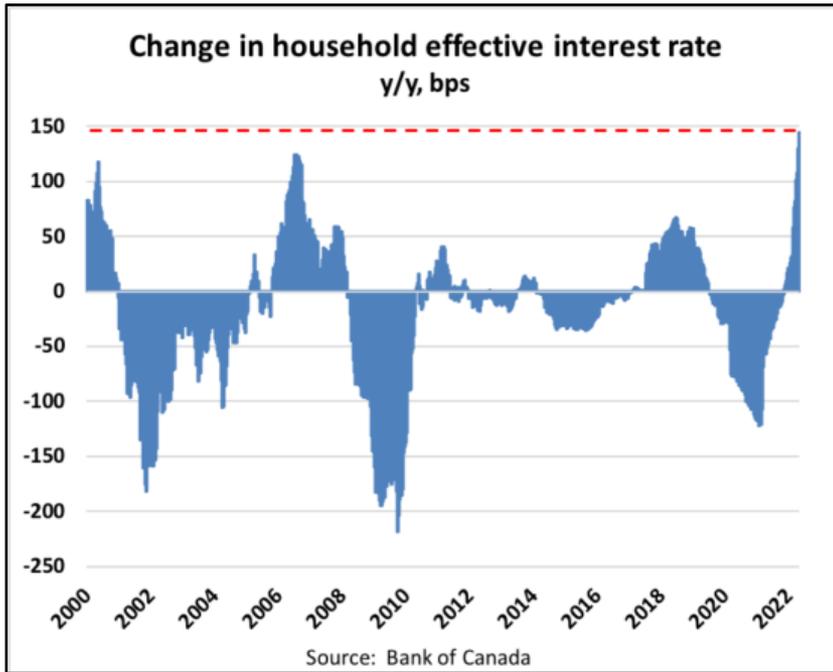


Interest rates are crushing affordability. Monthly mortgage payments needed to buy the typical home in Canada have risen by nearly \$800 in 6 months!!!!

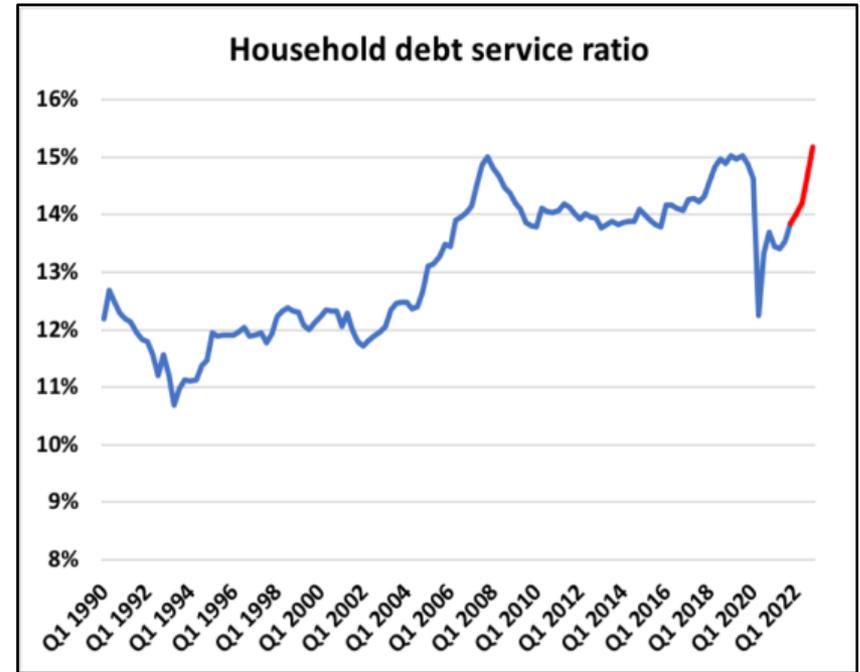


Fixed mortgage rates are above 4% for the first time since 2010.

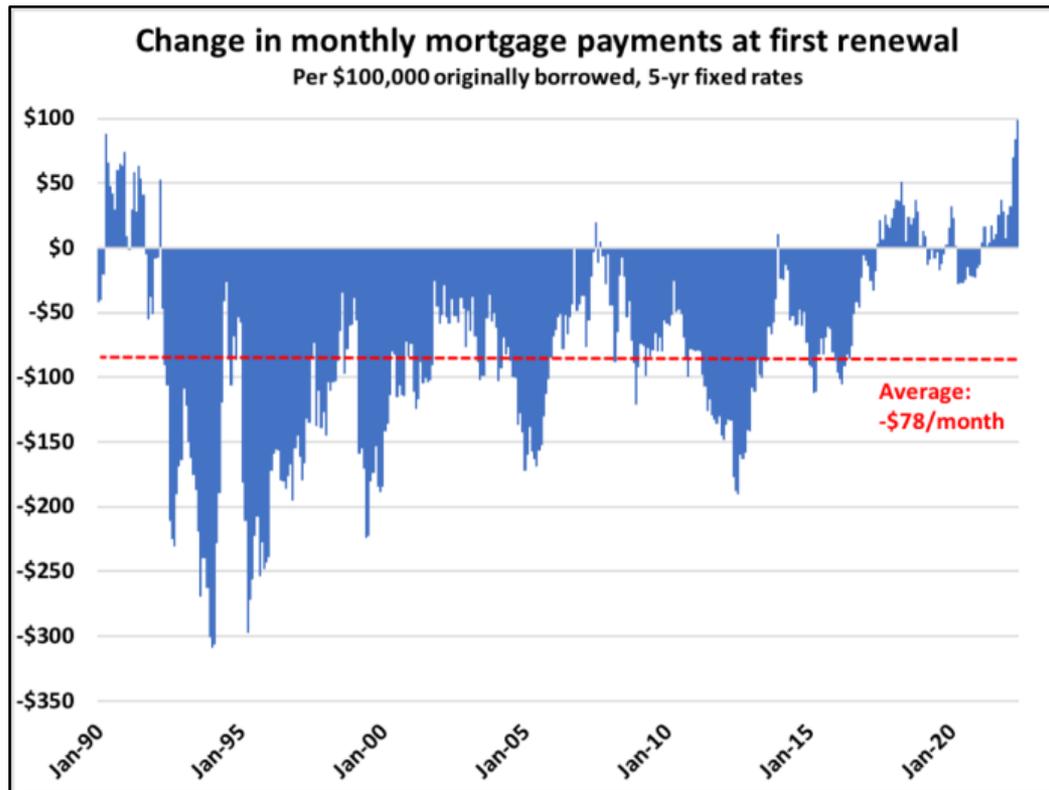
10. Consumers are about to feel the pinch



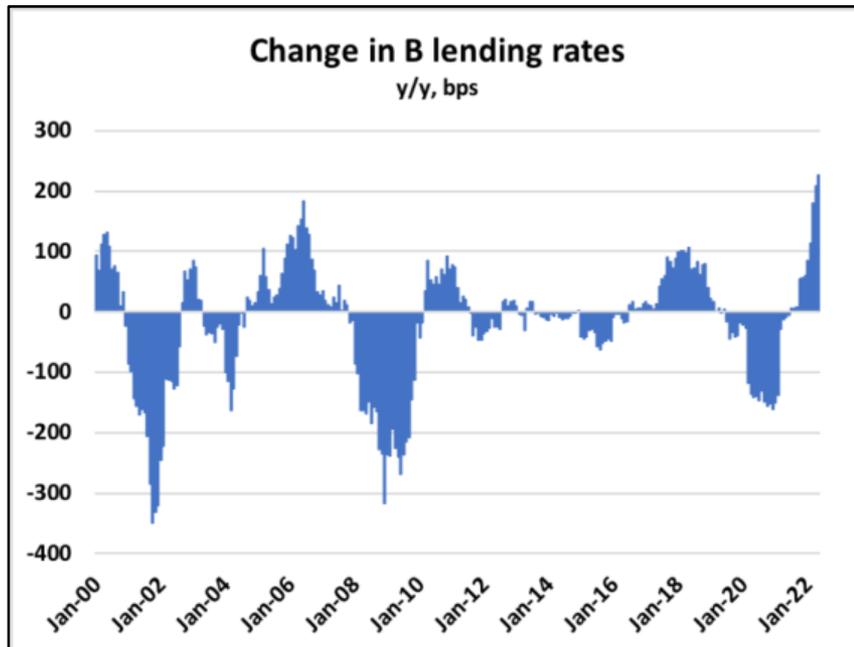
High debt burdens and a shift towards variable rate debt means rising rates are hitting households at the quickest rate in at least 20 years.



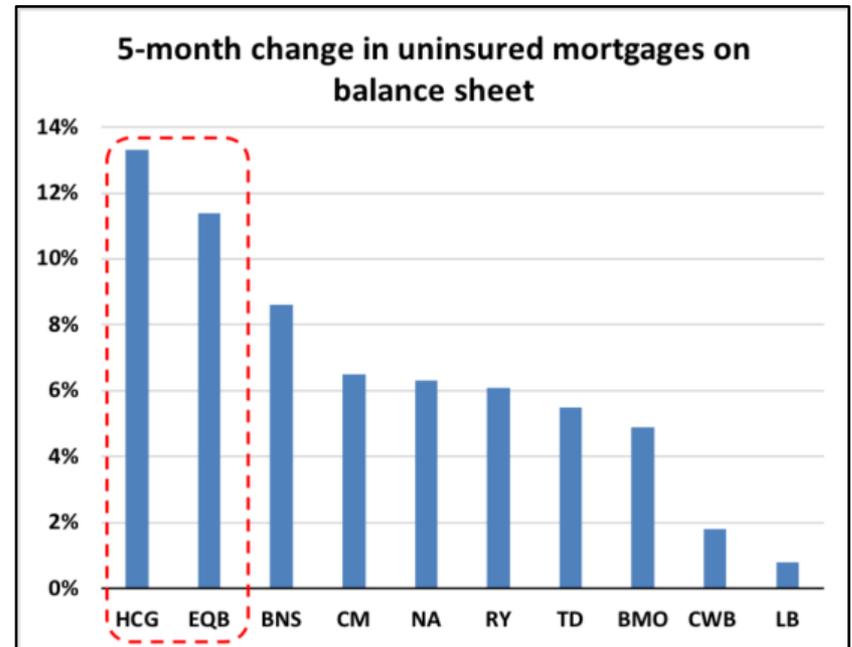
If Bank of Canada hikes 50bps in June and then holds there, debt service ratios will hit all-time highs by Q2 2023.



5-year fixed rate mortgages remain the most popular...45% of all mortgage debt outstanding. Borrowers renewing those mortgages today face a \$100 per month increase in payments for every \$100k originally borrowed.

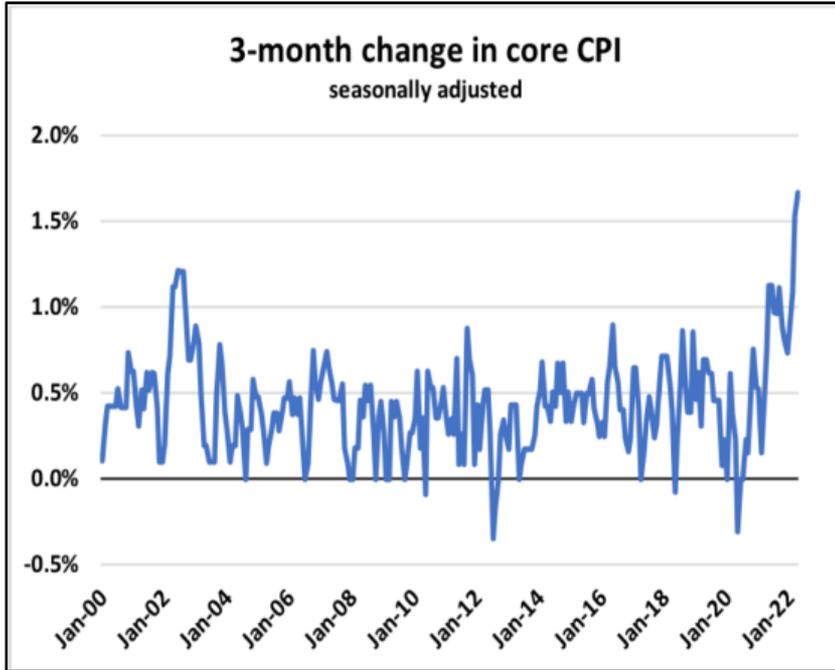


Non-prime mortgages through institutional B-side lenders like HCG and EQB are typically 1-year terms. Those borrowers will be facing the largest increase in rates at renewal in over 20 years.



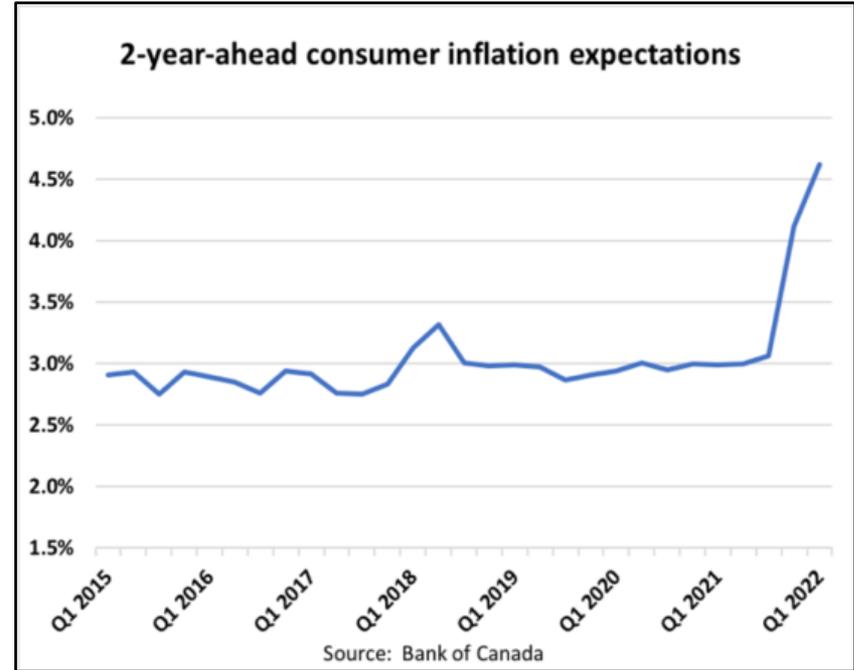
HCG and EQB have aggressively ramped up loan growth from Nov 2021 - Mar 2022 into the market peak. Big exposure to southern Ontario where house prices have rolled over.

11. Bank of Canada backed into a corner. Another 50bps coming in June.



Headline CPI at 6.8% y/y....highest since 1991.

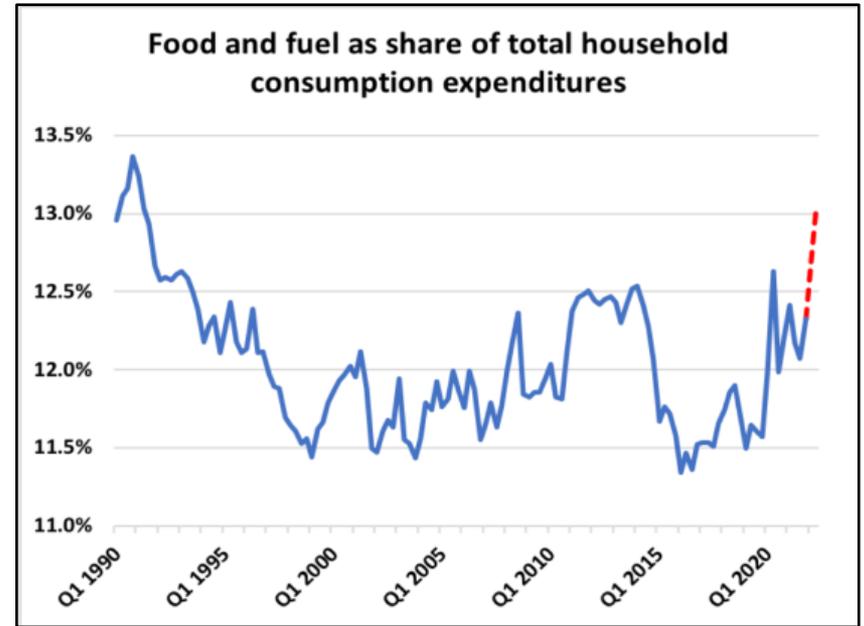
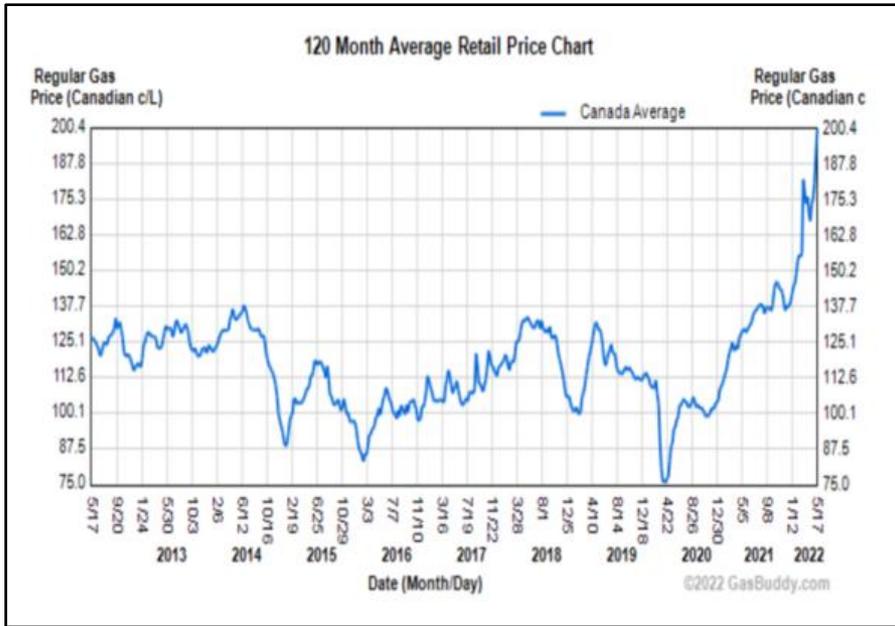
Core CPI still accelerating. April saw the biggest 3-month move in seasonally adjusted core CPI in at least 30 years.



Inflation expectations risk becoming unanchored.

Recent speech by BoC on the need to “maintain credibility”.

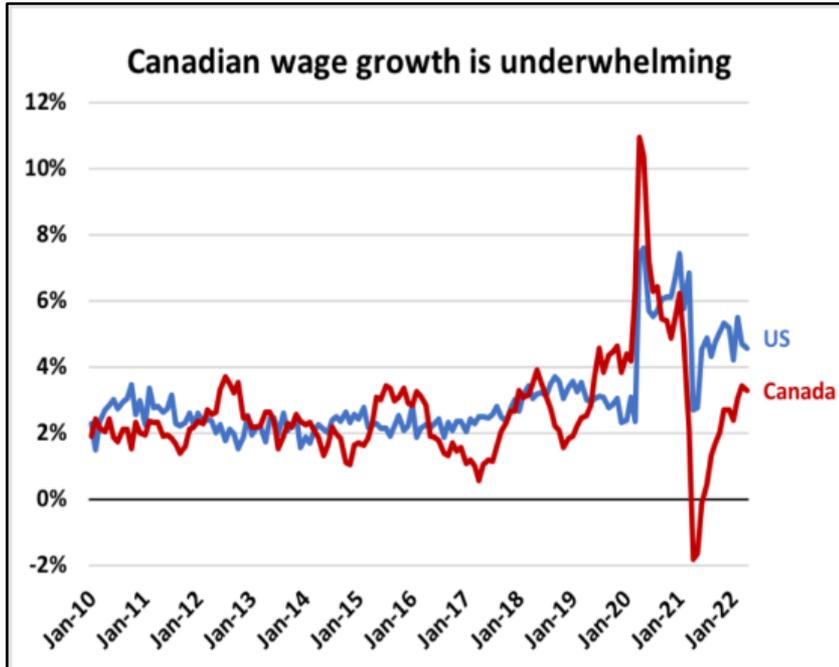
12. Discretionary spending at risk, but savings will provide a buffer for now



In addition to rising rates, consumers are getting pinched by record gasoline prices and surging food costs. Gasoline is now above \$2.00/litre for the first time ever.

Based on current pricing, later this year households will be dedicating the highest share of consumption expenditures to food and fuel since the early 1990s.

Discretionary spending set to get pinched?



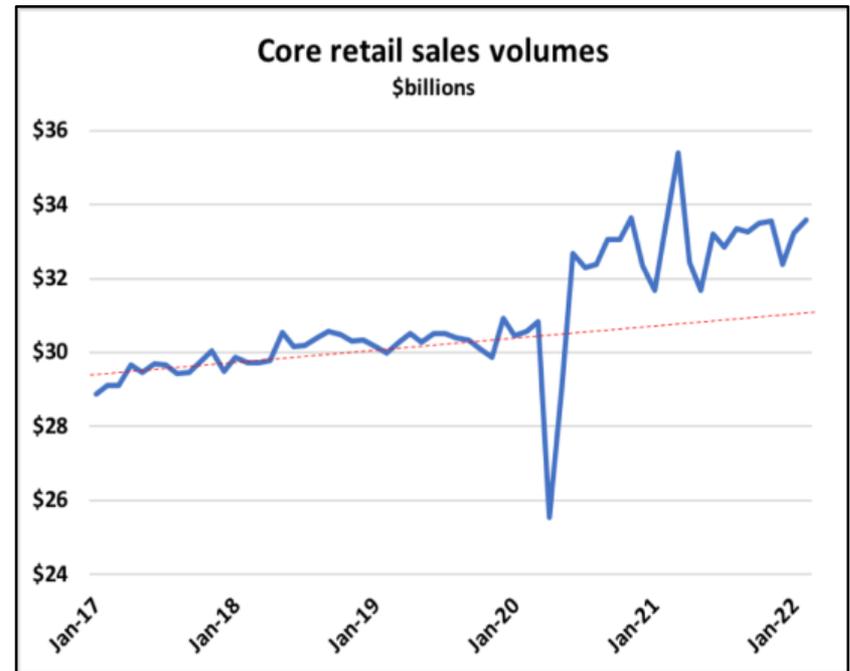
In spite of very tight labour market, wage growth in Canada remains anaemic...nearly a full percentage point below the US.



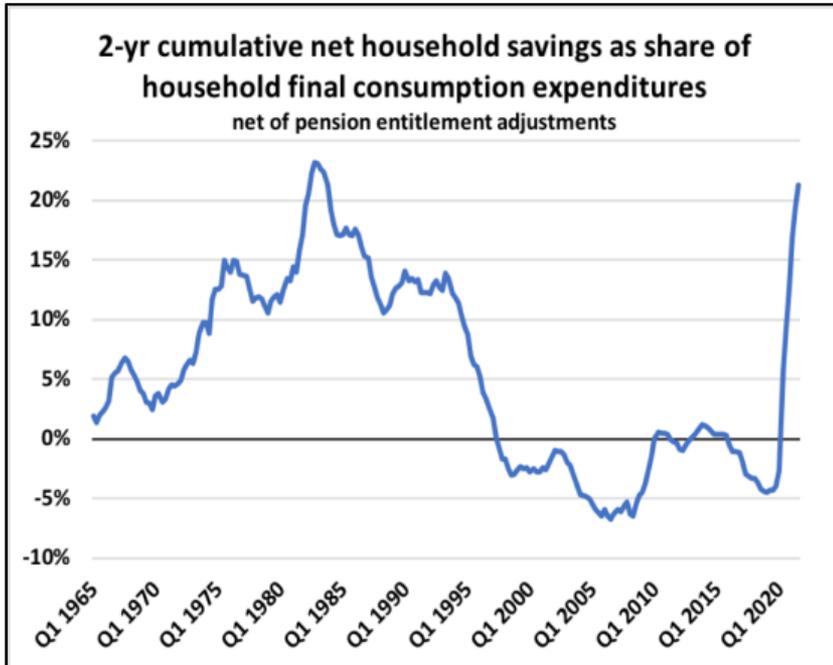
Real wage growth was negative 3.4% y/y in April.



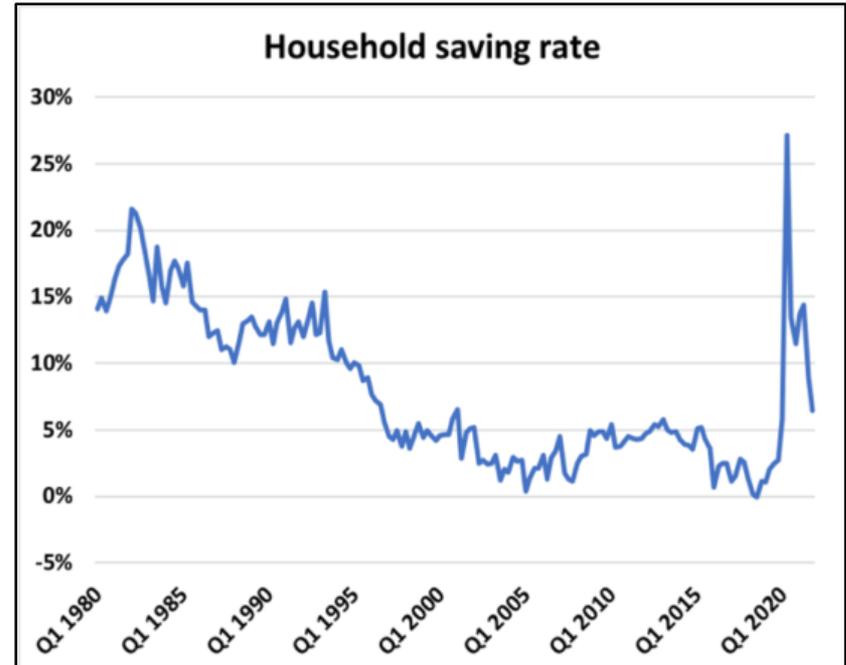
Consumer confidence is under pressure and is now below pre-COVID levels.



Combination of weak confidence, higher rates, higher food/fuel costs look set to pinch discretionary spending. Core retail sales volumes (ie adjusted for prices) are running well above pre-pandemic trend.

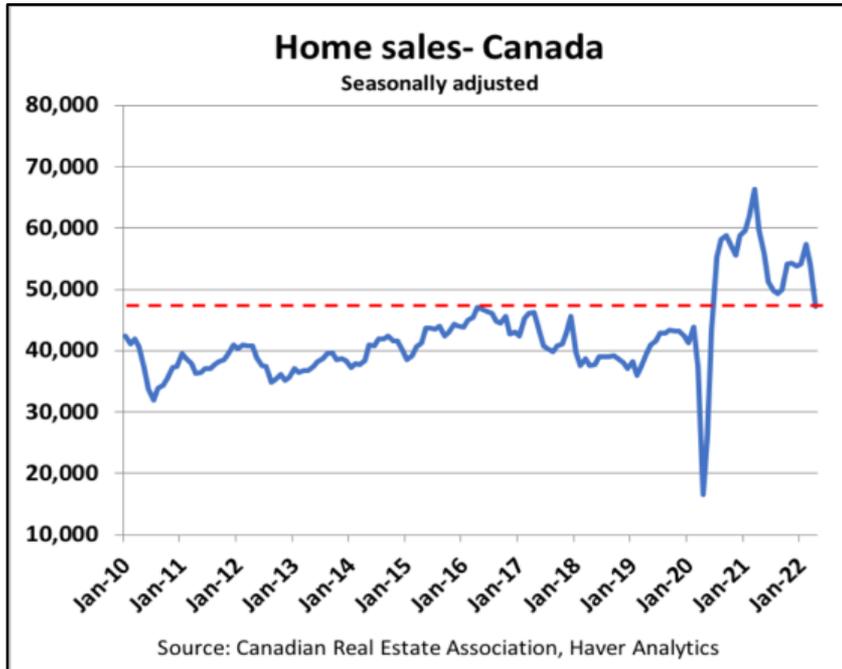


One major support for consumption is the amount of household savings accumulated over the past 2 years. Largest since early 1980s when measured against GDP. Most is concentrated in high income households with lower propensity to consumer. Will it get spent at all?

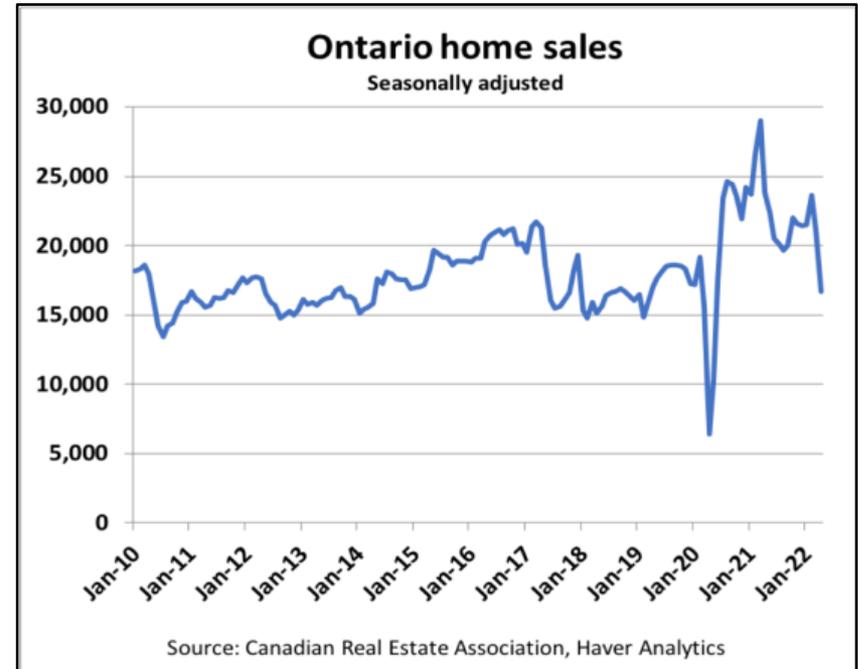


Savings rate is still elevated relative to pre-pandemic norms but is falling fast.

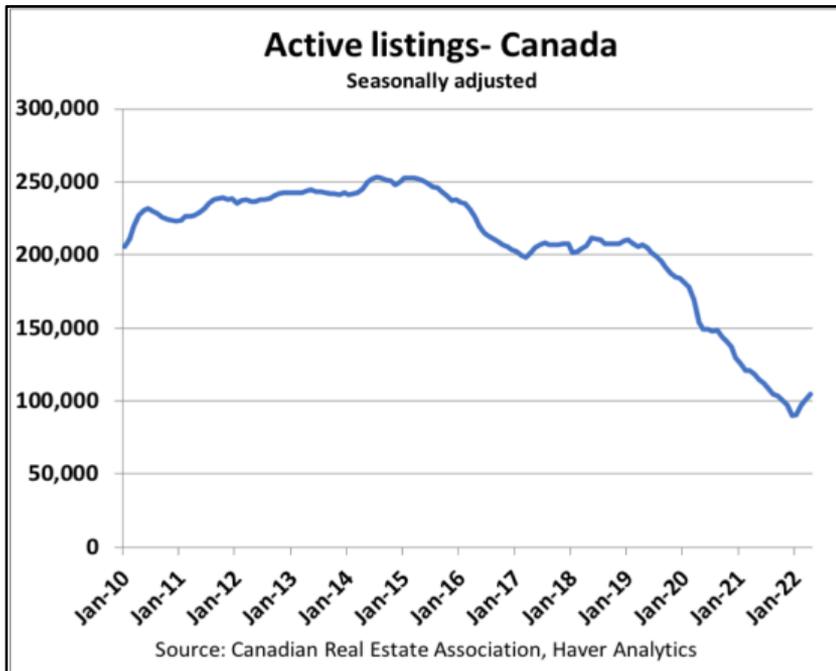
13. Resale market is inflecting



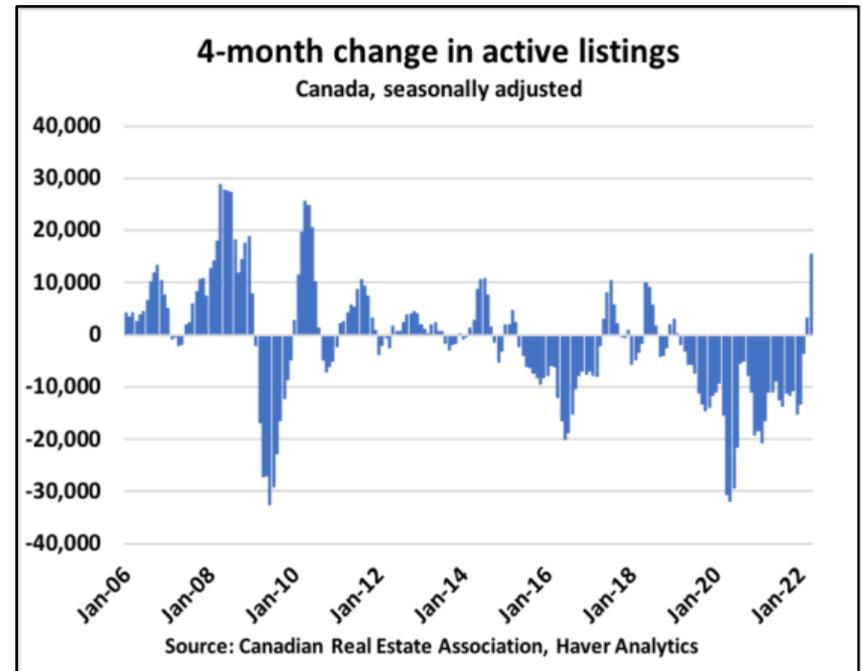
Home sales fell 12.6% m/m nationally in April. Notwithstanding the COVID downturn in April/May 2020, this is the steepest monthly decline since B20 came into effect in Jan 2018.



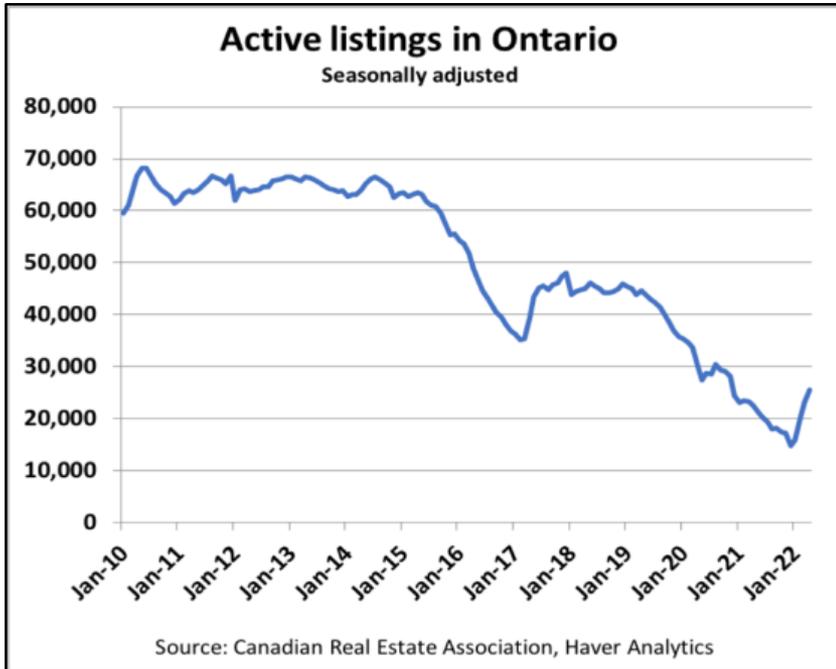
Slowdown has been even more pronounced in Ontario. 30% decline in sales over 2 months. Outside of COVID lockdown in April/May 2020, this is the steepest slowdown since 2008.



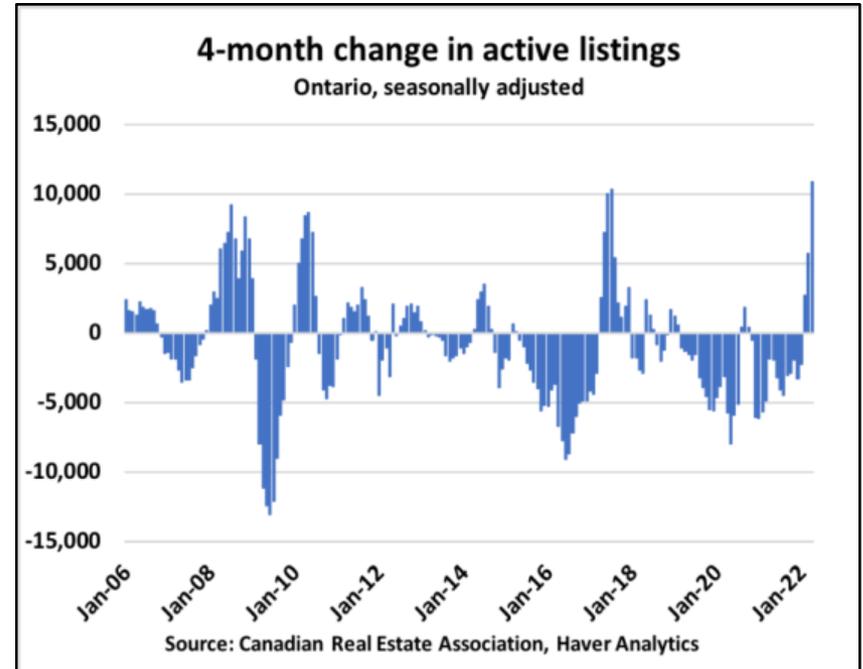
Relentless decline in active listings is now reversing



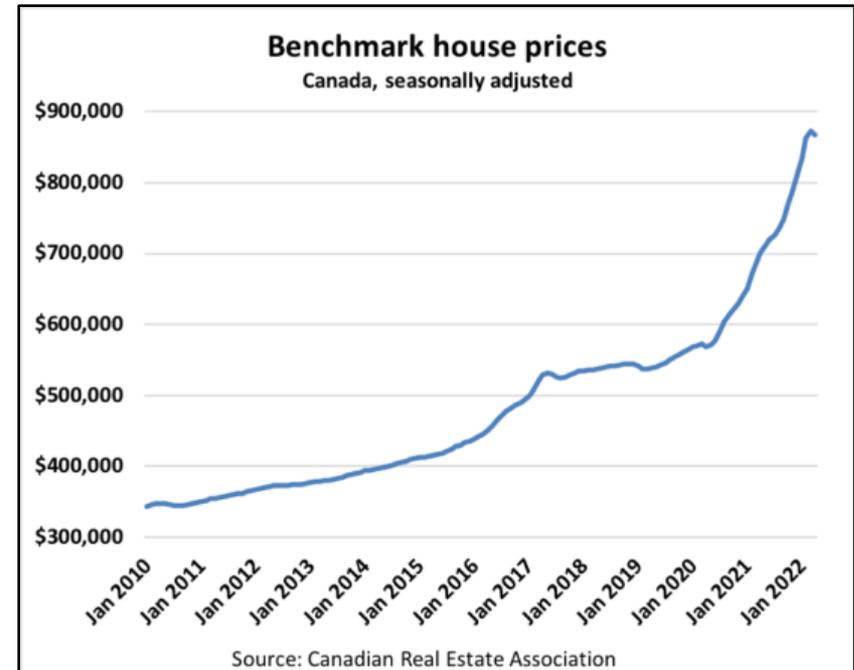
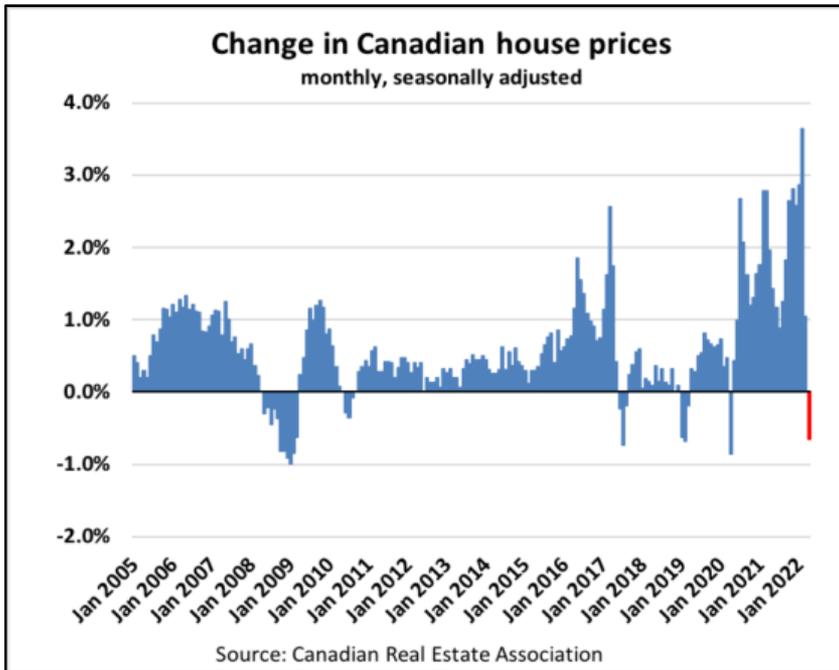
Seasonally adjusted inventory is building at the fastest rate in unit terms since 2010.



Reversal has been most pronounced in Ontario.



Inventory is building at the fastest rate since at least 2005.



First seasonally adjusted monthly decline in house prices since Apr 2020.

14. Abrupt cooling is creating disorderly selling in Ontario

← Tweet

 **Condo Chris**
@CondoChris

Just got off the phone with a couple of real estate brokers and i can confirm that they are freaking the fuck out. Lots of agents with clients that have bought ehomes before they listed theirs and are now stuck. Appraisals not coming in. Buyers offering huge \$ for mutual release

12:48 PM · May 2, 2022 · Twitter for Android

113 Retweets 23 Quote Tweets 531 Likes

 **Nasma Ali**
@nasmadotali

I'm hearing stories of appraisals falling short \$50-200K. Some on firm deals.

No one is really seeing the full picture of what's really going on. B/w this & buyers wanting to back out of purchases & sellers price dropping.

Far cry frm January & last 2 yrs.

9:14 AM · Apr 29, 2022 · Twitter for iPhone

57 Retweets 5 Quote Tweets 536 Likes

reddit PERSONALFINANCECANADA comments

↑ B lender to rescue - urgency (self:PersonalFinanceCanada)
13 submitted 23 hours ago by Motor-Factor-7312

My brother is stuck with his property closing due to appraisal value dropping by 125k and spike in interest rates. All the big banks and A lenders have completely given up. There are couple of B lenders who are ready to give that extra 125k with higher interest. Is this a safe option or going through B lender puts him in some sort risk?? Many folks advise that some of mortgage agents do make fraud documents to bump up the mortgage amount...

25 comments share save hide give award report crosspost

 **Group member**
16h · 🌐

Urgent - admins please approve and post as anonymous only.

I Sold my house for 1.3 million, the buyers offer is firm and getting closed in a week.

The time between offer and closing was 90 days.

Below is my query to the bank/ mortgage specialists in the group.

How many times does the bank verify and appraise a property before closing ?

Asking this question because our buyers bank has appraised the property twice

1st time to the agreed selling price
2nd time 150k less than the selling price.

The buyer is now struggling to make ends meet, and we are stuck with a house to close as well.

Ps: would appreciate genuine and industry experts opinion on how to deal with this.

Thank you

👍 2 3 Comments

👍 Like Comment

18h · 🌐

Hi All,

Posting anonymously as our realtor and family friends are also in this group. Admin please approve the post

We bought a house right before March hike and our closing is in May.

We bought it ~1.3 and now in same neighborhood similar ones recently sold for 1.1, intact better than what we bought in terms or overall square feet n all.

We are first time homebuyers and invested our hard earned savings, our realtor suggested to make a move and he did mention housing never goes down in canada, and BOC is in no position to hike the rates. We are already stretched on the existing rates and anymore hike would make our life even more difficult. I recently listened to bank of Canada April press release where they have mentioned that lending rate will go up at least 3.5%, and may be more if needed.

I'm feeling stressed and wanted to get out of this deal though I have no option left other than forfeit my deposit. Please suggest if there is any other way I can walk out from it.

👍👎👉 27 65 Comments

reddit TORONTOREALESTATE comments

In a tough situation and need some advice **Selling** (self.TorontoRealEstate)

submitted 8 hours ago by jaccorboy

I bought a house for 1.7M with the intention that I would sell my current house for about 1.1 and get a loan from a relative for the difference. I'm caught in a tight situation because my house has been on the market for almost 10 days and we got no offers on the offer date, even though the listed price was really low. Now the closing for the new house is on May 31 and I pretty much need the house to sell ASAP. What are my options here, is it possible to get a bridge loan to give me enough time to sell the house?

[-] randomman_5 9 points 3 hours ago

This is the same situation with me. We purchased for 1.75m with the confidence that we can sell our semi for 1.1-1.2. Atleast. Realtor first made us list at 899. We got low ball offers and increased it to 1.1m. On market for 20 days now. We still get showings yet no offers. Realtor made us do renovations too. Closing on new house on may 30 I just want to get list price at this point. This is so stressing.

permlink embed save report give award reply

[-] jaccorboy [S] 2 points an hour ago

Wow, sorry to hear that but it's good to know someone else is also dealing with the same situation. I guess what are your backup plans if your house doesn't sell at the price you are looking for?

permlink embed save parent report give award reply

May 12 at 3:07 PM · 🌐

Strictly for those buyers who've done this OR for lawyers who know how to dos this. Please no general statements/responses about "keeping heart" and "being patient" etc etc.

Has anyone successfully backed out of an offer to buy. I have paid 100k down when my offer was accepted and my property is now 200-300k down. Closing is still one month away. What are my options? I am ready to loose 100k but don't want to pay the entire difference when seller re-sells.

👍👎👉 16 107 Comments

👍 Like 💬 Comment

Yesterday at 7:00 AM · 🌐

Hi, I really need someone's help/ guidance here as I'm on the verge of being bankrupt. I bought a new house with a firm offer almost two months ago assuming that I'll be able to sell my current house and pay off everything. With the recent hit in the market and increase in rate of interest, there has been absolutely no showings at all. It's like the market is stagnant and no one is willing to purchase.

The closing of my house is in 45 days and I'm afraid I won't be able to arrange the required money.

What should I do?

Anyone else going through the same situation?

👍👎👉 21 72 Comments



700 Stonepath Circ
 Pickering - Amberlea
 Detached

Listed for: \$998,800
Sold for: \$1,330,000
 Sold 7 days ago
 Listed by AIMHOME REALTY INC., BROKERAGE

 3+2 Bedrooms
  5 Bathrooms
  2 Garage

Listing History
 Buy/sell history for 700 Stonepath Circ, Pickering (Detached)

Date Start	Date End	Price	Event	Listing ID
2022-05-02	2022-05-09	\$1,330,000	Sold	E5598892
2022-01-26	2022-01-31	\$1,650,000	Sold	E5481102
2016-11-23	2016-11-28	\$700,000	Sold	E3661342



22 Parklawn Dr
 Clarington - Courtyce
 Link

Listed for: \$799,900
Sold for: \$850,000
 Sold 7 days ago
 Listed by CENTURY 21 INFINITY REALTY INC., BROKERAGE

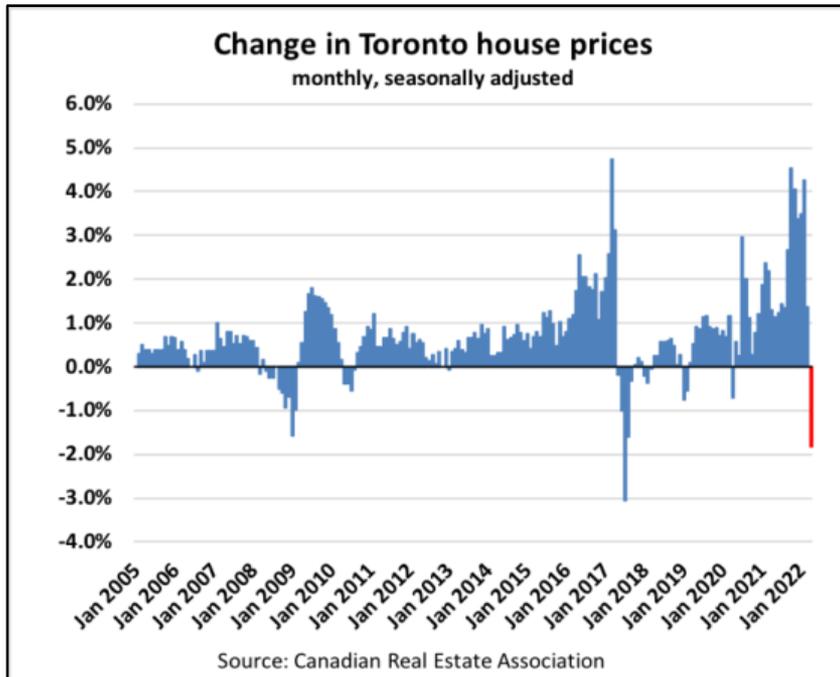
 3 Bedrooms
  3 Bathrooms
  1 Garage

Listing History
 Buy/sell history for 22 Parklawn Dr, Clarington (Link)

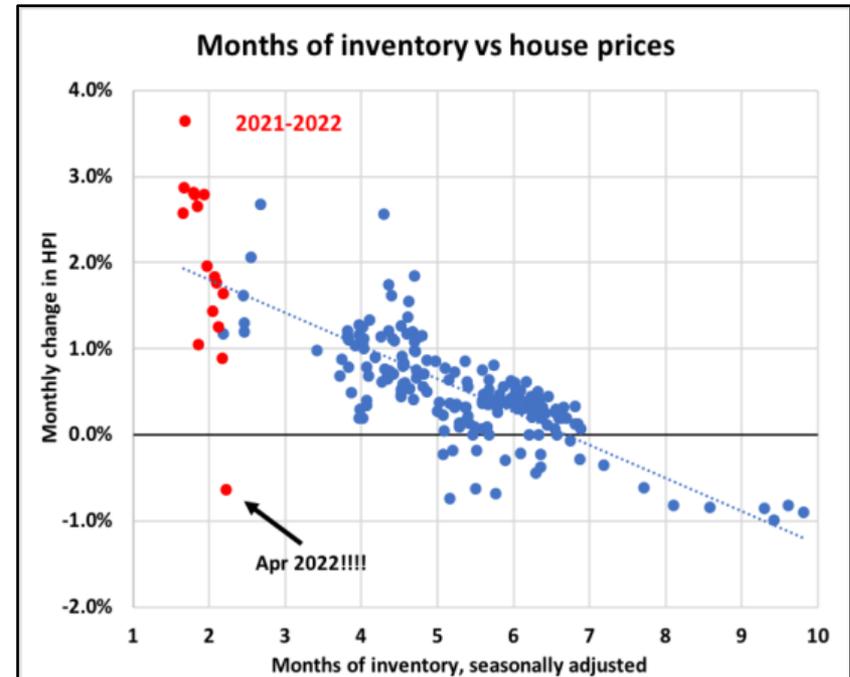
Date Start	Date End	Price	Event	Listing ID
2022-04-29	2022-05-09	\$850,000	Sold	E5596410
2022-02-03	2022-02-07	\$1,035,000	Sold	E5489148
2014-09-17	2014-09-26	\$313,500	Sold	E3021613

Appraisals are failing. Deals are falling apart. Buyers who purchased before selling their existing homes are caught short and now HAVE to sell at distressed prices.

Homes that sold in Jan/Feb but failed to close are being resold at substantial discounts, similar to 2017.



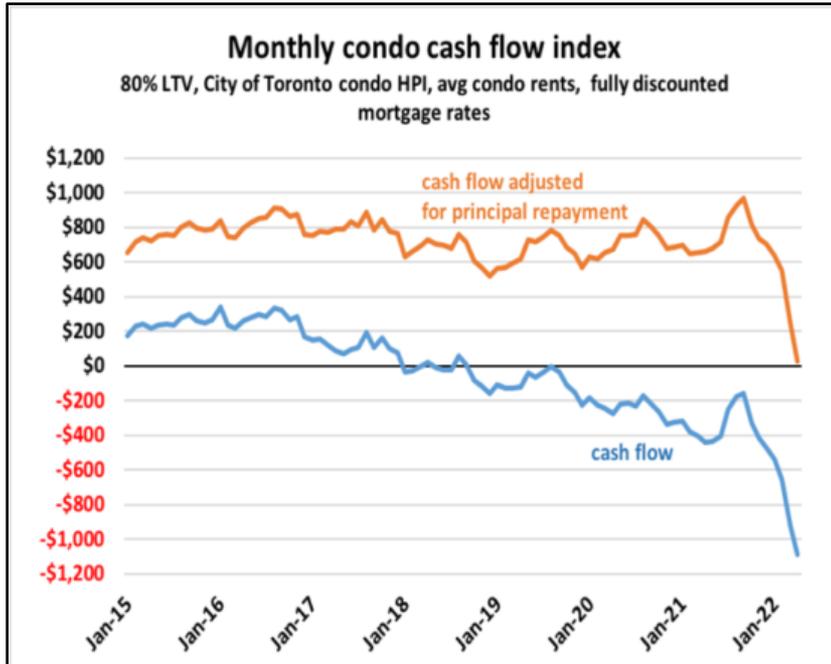
Largest monthly price decline in Toronto since 2017.



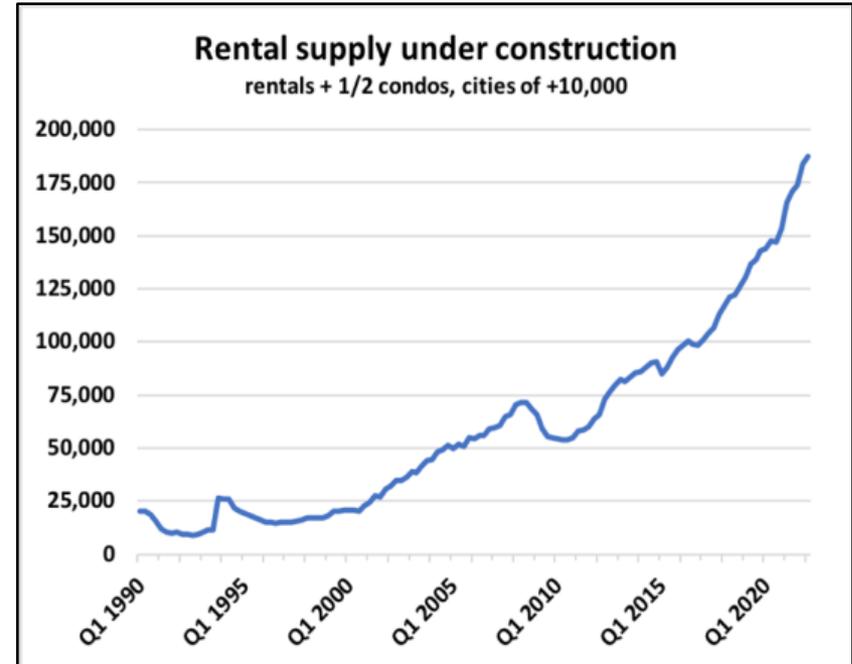
This is causing prices to decline more than would otherwise be expected given how tight the market is.

Months of inventory are still barely 2. Prices have never declined with MOI that low.

15. Two areas of concern: Condos and cottages

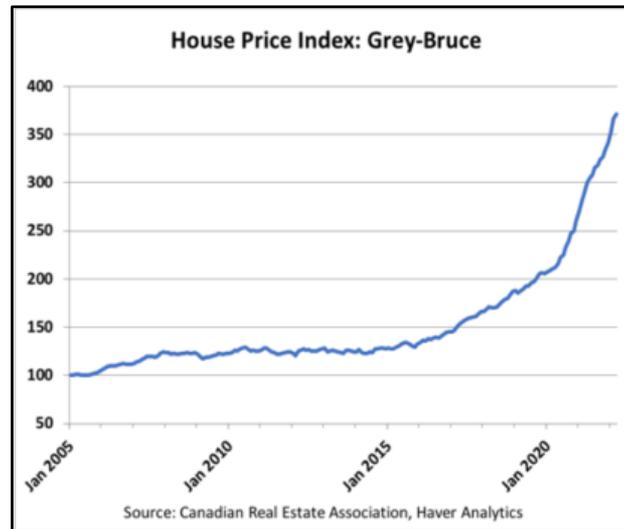
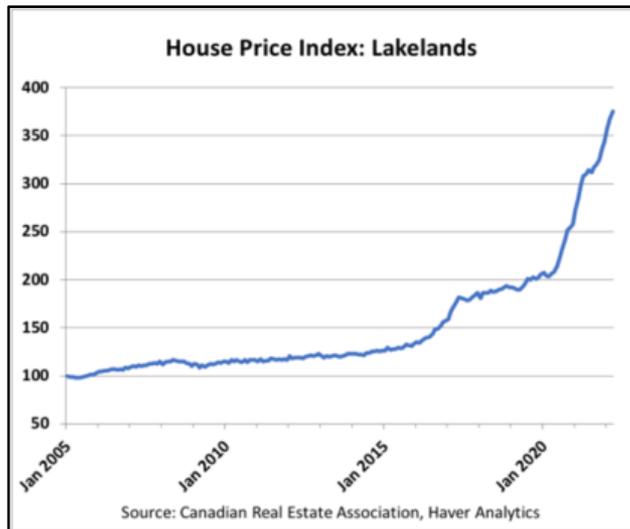
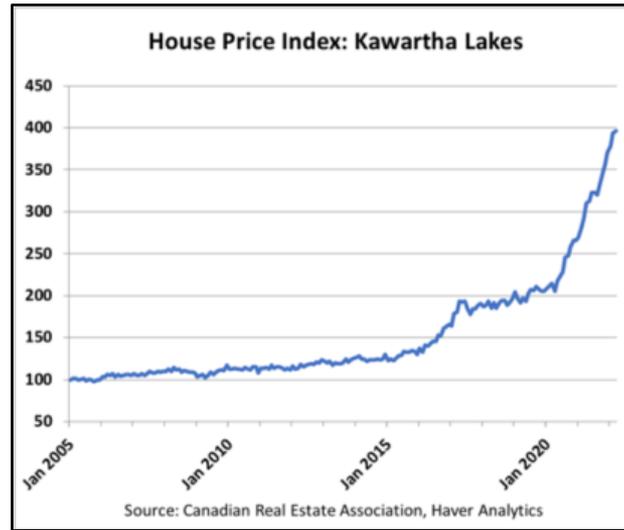
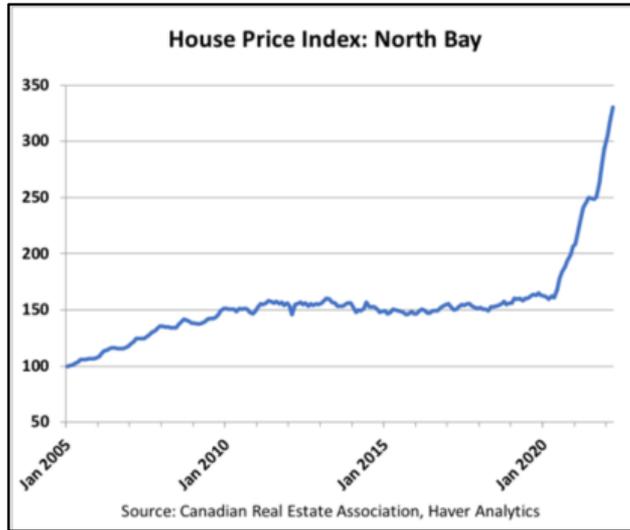


Rates have risen so sharply that for buyers purchasing an investment condo today, headline cash flows are negative by over \$1,000/month. Even with mortgage principal paydown included, no economic return outside of future rent growth or capital appreciation. Demand could plummet.



Significant rental supply coming in certain parts of the country, both in terms of purpose built rentals and new condos...roughly half of which end up in the rental pool in major metros.

Can cottage country hold these prices?



Highly discretionary purchases, illiquid market prone to big moves in either direction.

Have never fared well during a hiking cycle.

Retracing half of the post-COVID bounce would leave prices up 40-50% from early 2020 but DOWN 25% from current levels.

16. What comes next?

- Distressed sales will ripple through the market until mid-summer.
- Those who don't HAVE to sell will pull listings similar to 2009, 2016 in BC, 2017 in Toronto.
- Inventory trends during the summer will be an important indicator. If they continue to build significantly, could signal a much deeper downturn.
- Potential difference from prior mini-downturns:
 - Higher rates could create a longer tail of motivated sellers and could have a more significant/longer-lasting impact on demand than B20/foreign buyer bans.
 - Sales will likely fall 35-50% from Q1 levels by year end. Much larger decline than prior cycles.
 - More supply in the construction pipeline.

Mortgage application volumes are already tanking.

Will be down 40-50% y/y by Q3.



Ron Butler
@ronmortgageguy

For Those Who Like Mortgage / RE Stats

The 3 Mortgage Insurers in Canada: CMHC, Sagen and Canada Guaranty are down just a touch less than 40% on unit application volume for April

That's a YoY number

This stat should represent a number with no Investor purchases

6:40 PM · May 7, 2022 · Twitter for Android

29 Retweets 5 Quote Tweets 238 Likes



Ron Butler
@ronmortgageguy

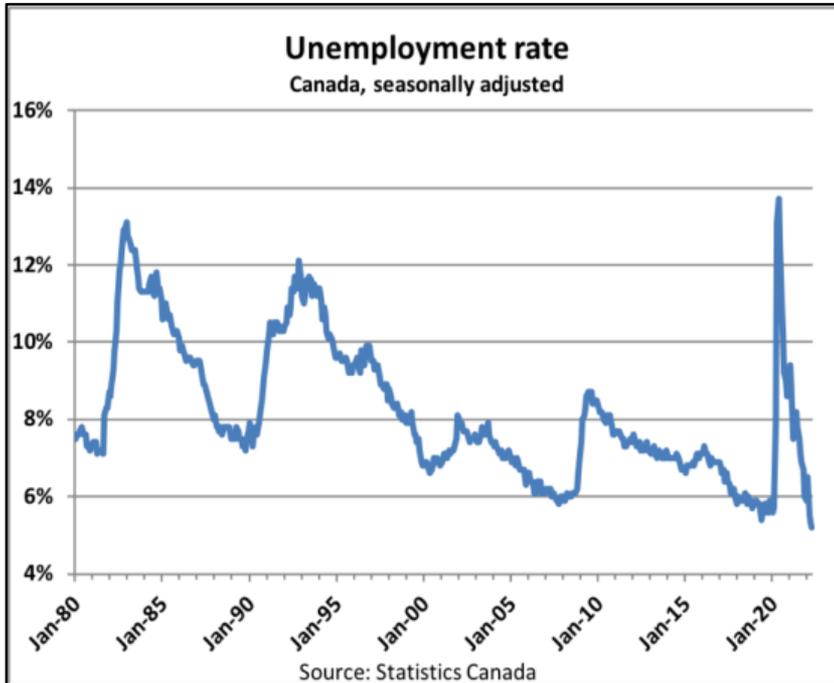
New Mortgage Lending is Falling Off a Cliff in Ontario

Huge Mortgage Broker Lender that in March used to need 9 days just to get a first look at a new submission is now down to 4 hours from submission to issuing a commitment

4:20 PM · May 11, 2022 · Twitter for Android

39 Retweets 15 Quote Tweets 377 Likes

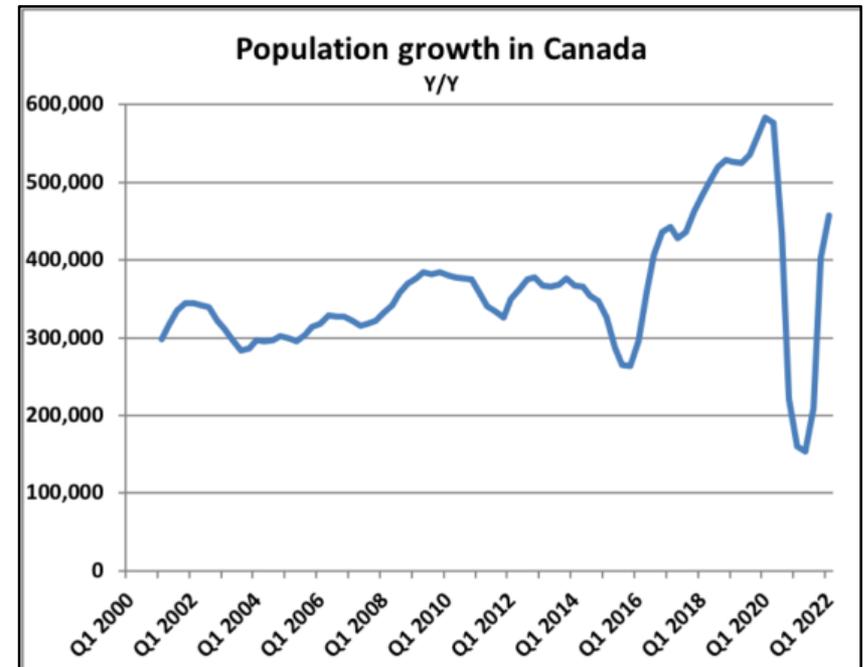
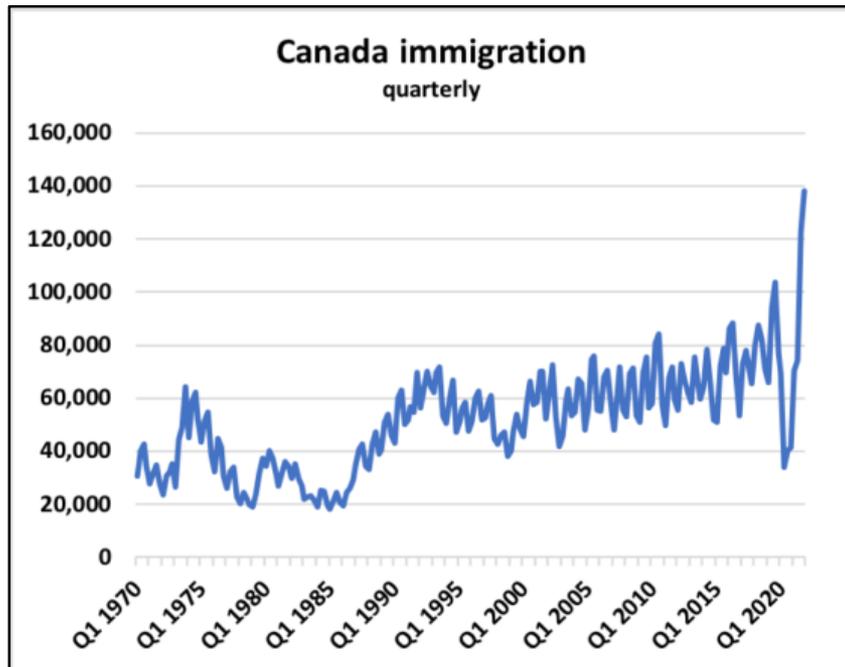
17. Before you get too bearish...



The market is not without very real fundamentals. Labour market is firing on all cylinders. Record low unemployment rate...



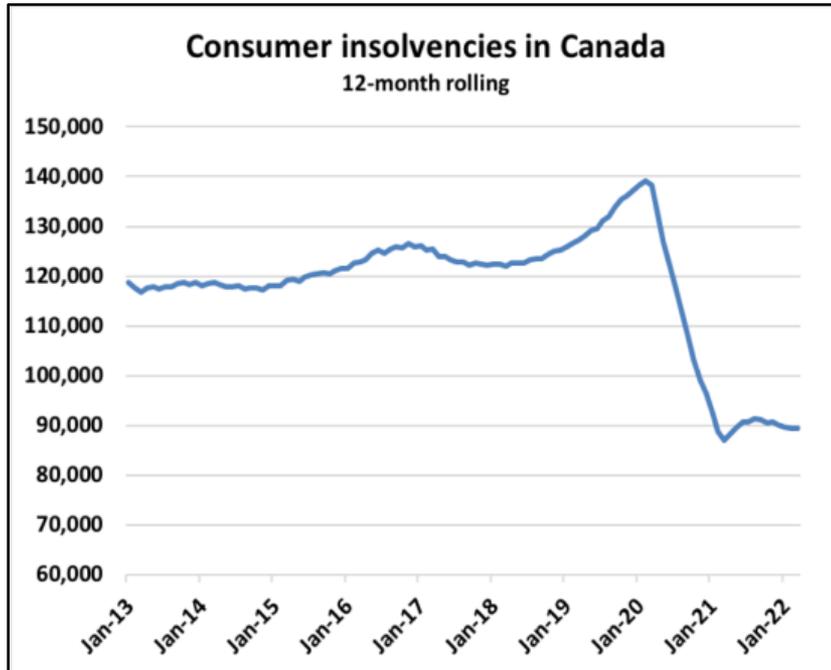
...and with plenty of jobs still to fill = strong wage growth later this year?



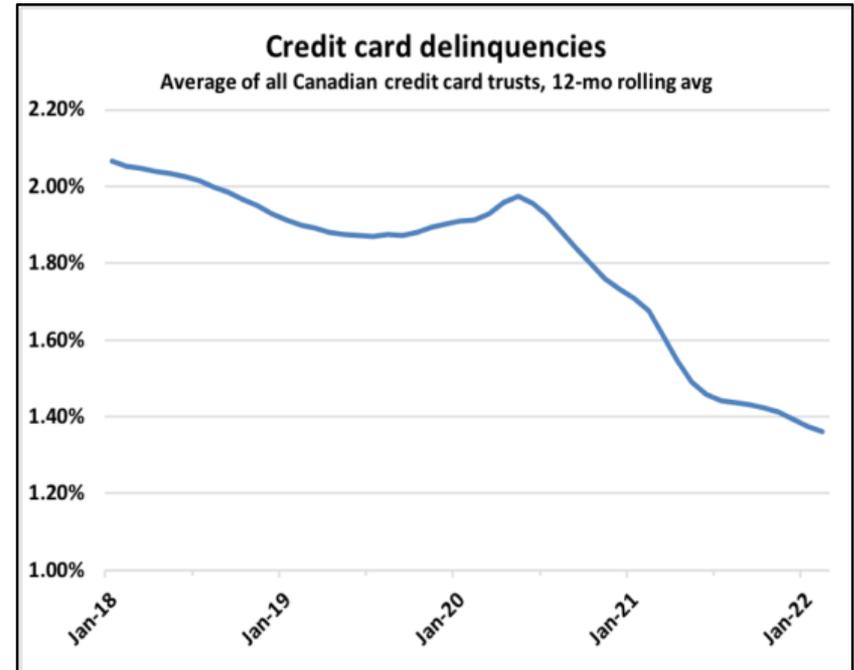
Don't fight the Fed(eral immigration targets)?

Record immigration with still more to come.
 Feds targeting a record 432,000 new permanent residents in 2022.

Total population growth is rebounding strongly off the COVID lows.

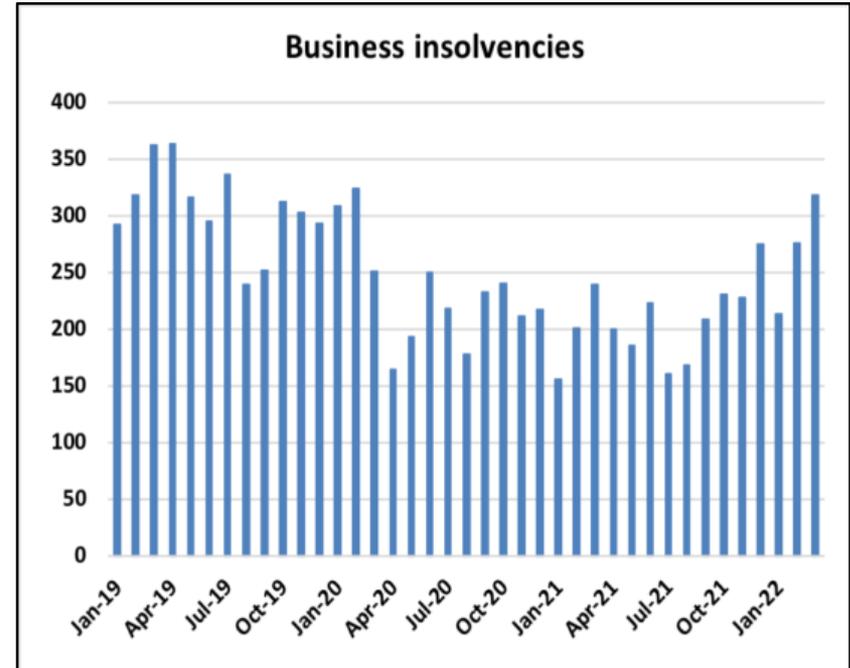
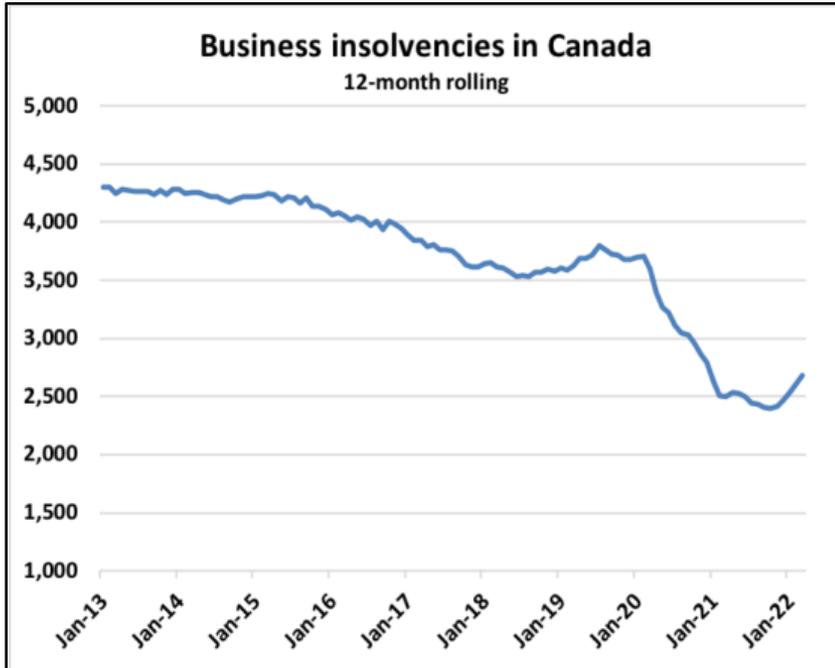


Still absolutely no signs of distress among consumers. Insolvencies remain 40% below pre-COVID levels.



Credit card trust data show payment rates at all-time highs (ie consumers still flush with cash) while delinquencies are at all-time lows.

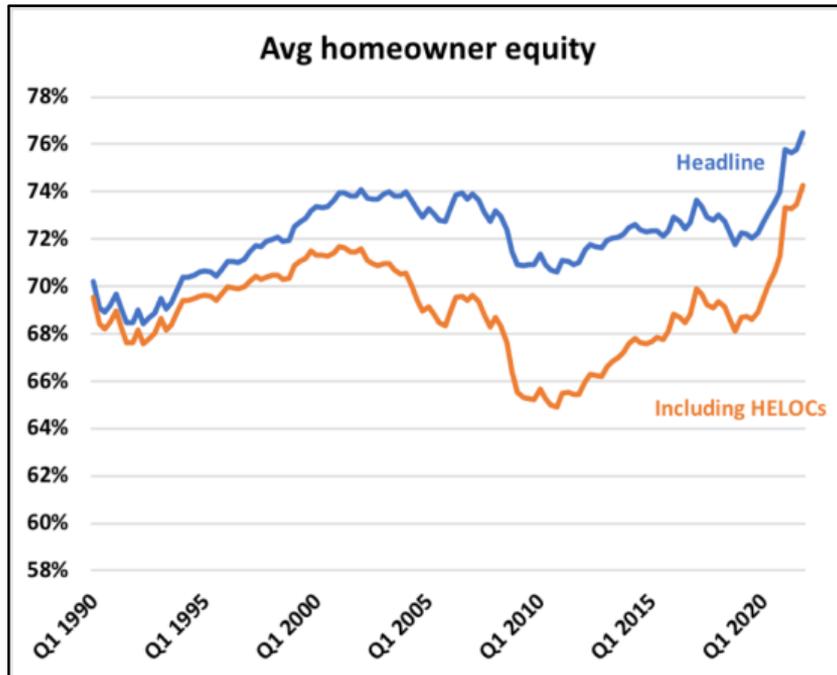
Will change soon, but a long ways to go to get back to “normal”, let alone recessionary levels.



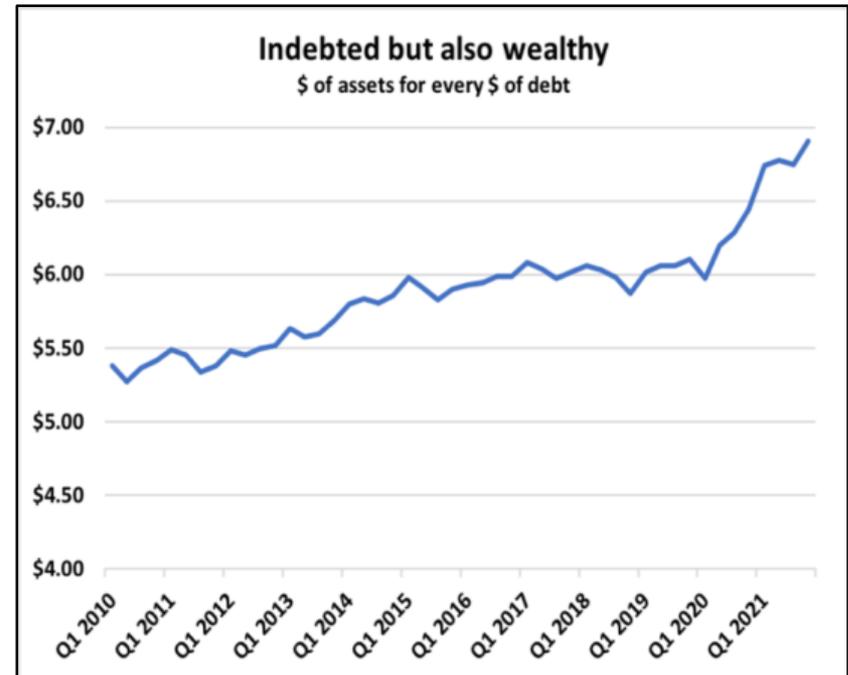
Different story with business insolvencies. Starting to move sharply off the recent lows.

Up 33% y/y in March...driven by 146% y/y jump in Ontario!

Monthly filings hit the highest level since pre-pandemic and are rising quickly.



Most homeowners are well insulated from a housing downturn. Homeowner equity is at the highest level on record.



Asset side of the balance sheet still looks solid. Nearly \$7 of (admittedly illiquid) assets backing every dollar of debt. Highest ratio in 20 years.