In Focus

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ECONOMICS

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Assessing the Impact of Higher Minimum Mortgage Down Payments

by Benjamin Tal

According to sources, the Ministry of Finance is touching the untouchable. Minimum down payments on mortgages in Canada are expected to rise. The move is asymmetrical. It will impact only high-ratio mortgages (less than 20% down payment) and properties valued between $500K and $1 million. The minimum down payment will rise from 5% to 10%. The motivation to the policy is clear. The attempt is to slow down the only two markets that are really moving (Toronto and Vancouver). Those markets happen also to be the most expensive ones. So linking down payment to price should do the trick. While this would have some impact, a closer look suggests that the impact will be smaller than perceived.

To get a sense of how many properties will be impacted we have to look at the share of units that are valued between $500K and $1 million and have a high-ratio mortgage.

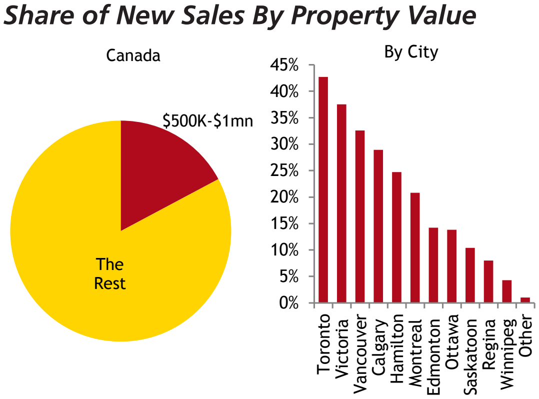
Chart one provides this info. For the country as a whole, **the share of new sales of properties (over the past year) at this price range is around 17%**. In Toronto, that ratio is over 40% and in Vancouver close to 33% (Chart 1).

Now to the other part of the equation—the high-ratio segment of the market. For the past year the share of high-ratio mortgages in total outstanding is estimated at 23% of originations. Accordingly, **for the market as a whole the new measures will impact an estimated 3.9% of mortgage originations**.

Now the share of high-ratio mortgages in the more expensive cities is actually lower than the national average due to the fact that they have a larger share of properties that are above $1 million and thus not qualified for high-ratio insurance.

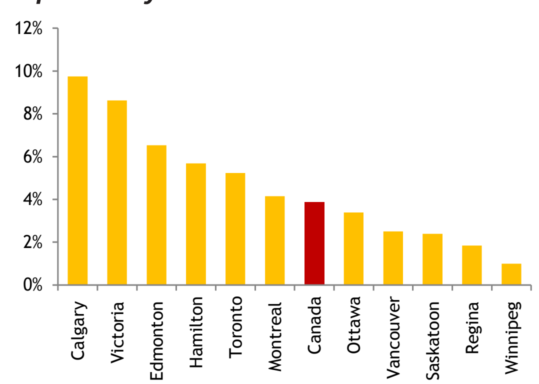
Adding this to our calculations leads to Chart 2. **In Toronto, the new measures are estimated to impact close to 5% of new sales while in Vancouver, the**

Chart 1
Share of New Sales By Property Value



Source: MLS, CREA, Brookfield, CIBC

Chart 2
Share of New Home Sales That Will Be Impacted by the New Measures



Source: MLS, CREA, Brookfield, CIBC

http://research.cibcwm.com/res/Eco/EcoResearch.html

impact will be on only 2.5% of sales. Note that the largest impact (close to 10%) will be on Calgary (due to its relatively large share of high-ratio mortgages)—not exactly a city that needs additional cooling.

The new measures reflect some creativity in the thinking regarding Canadian housing. The asymmetrical approach to pricing makes sense and is much preferred to the indiscriminate weapon of higher interest rates. However, while it sounds dramatic, our analysis suggests that the overall impact will be felt only at the margin given the relatively small segment of the market that will be impacted—even in the target markets.