



mortgageinsights

Insights from CAAMP's Fall 2012 Research

Highlights from CAAMP's Fall 2012 Consumer and Industry Surveys

introduction

mortgage**insights** was written based on findings taken from research conducted by Maritz Research Canada for the Canadian Association of Accredited Mortgage Professionals.

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about the research

Consumer results are taken from CAAMP's Fall 2012 Consumer Survey. This research was conducted online among a population of 2,018 Canadians, weighted to representative proportions in terms of home ownership and mortgage status within each region of Canada. This survey was fielded in October, 2012.

Industry results are taken from CAAMP's Fall 2012 Industry Survey. This research was e-mail based and was conducted online. Participants include banks, credit unions, other mortgage lenders, brokers, agents, representatives from brokerage houses, and others employed or otherwise involved in the Canadian mortgage broker channel. 804 responses were received. This survey was fielded in October, 2012.

authors

this mortgage**insights** report was written by

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As the mortgage industry association representing the largest and most respected network of mortgage professionals in Canada, CAAMP is committed to providing its members with timely information about the market, and about Canadians and their priorities when obtaining a mortgage. With this priority in mind, CAAMP has partnered with Maritz Research Canada to conduct semi-annual consumer surveys for the past seven years, and annual industry surveys for the past three years.

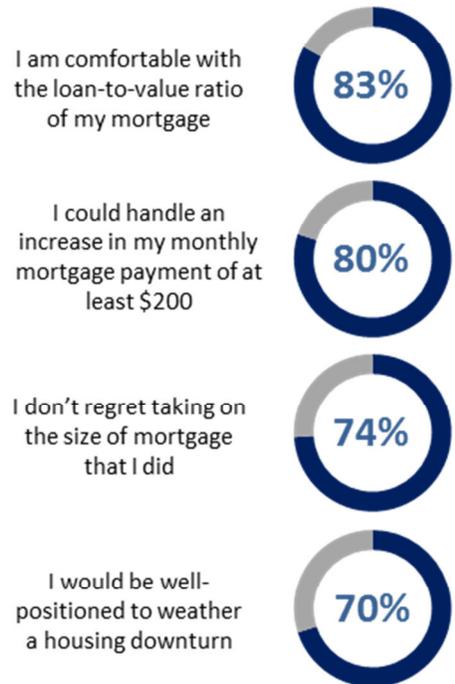
This report details many of the key findings taken from our most recent round of research, conducted in October, 2012. Along with CAAMP's semi-annual *State of the Residential Mortgage Market in Canada* reports prepared by CAAMP Chief Economist Will Dunning, this report is provided by CAAMP to its members as a tool to be used to help better understand and serve Canadian mortgage consumers, and ultimately to maintain and grow a healthy mortgage broker channel in Canada.

Economic Mindset of Canadians

Despite short-term jitters about the housing market and the economy overall, most Canadians remain confident in the long-term fundamentals of our economy, and comfortable with their personal financial situation.

For the past several years, the Canadian housing market, and the mortgage market in particular, has been the focus of intense scrutiny and speculation from media, politicians, and the general public. Often this attention has been negative, and full of predictions of bursting bubbles and crashing markets. It is no surprise then, that while an overriding confidence in their own financial situation, many Canadians are concerned with the economy overall. Despite the fact that three-quarters of mortgage-holders (74%) do not regret taking on the size of mortgage they did, 77% agree that "low interest rates have meant that a lot of Canadians have become homeowners who should probably not have". Eighty-three percent of Canadian mortgage-holders are comfortable with their own debt-to-equity ratio, yet 89% agree that "as a whole, Canadians have too much debt". These are stark contrasts, and paint a picture of Canadians who are financially comfortable, yet concerned that their neighbours may not have made prudent decisions and may not be in a position to weather a potentially rocky economic road.

I am good...

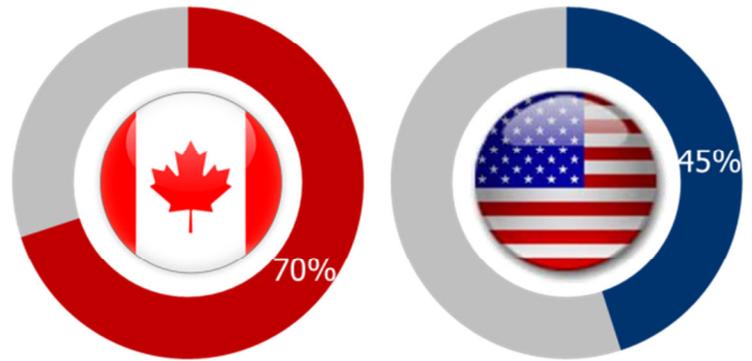


... but I worry about my neighbours



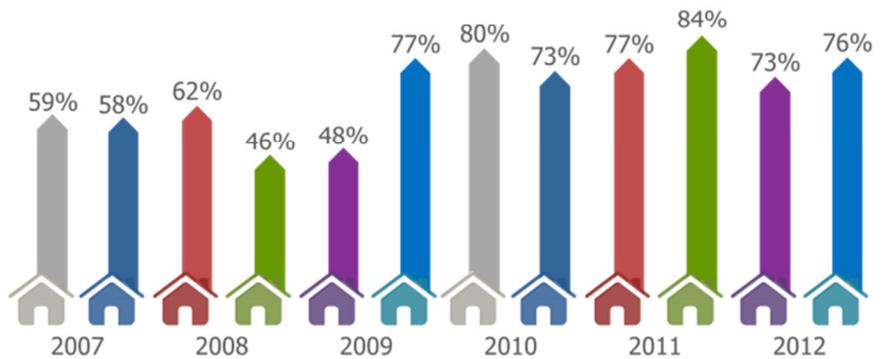
Our data suggests that Canadians' comfort levels with their debt, particularly their mortgage-debt, may be well-justified: the average Canadian homeowner holds a 70% equity stake in their home, compared with just 45%¹ among American homeowners (both numbers represent a 2 percentage point increase over one year ago). Even when the one-third of homeowners who own their homes outright are factored out, household equity levels remain slightly above one-half (51%).

Average Homeowner Equity



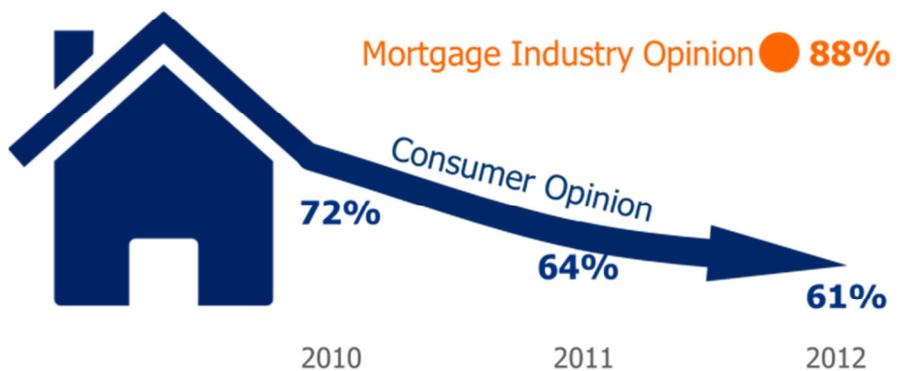
Yet another contrast in the minds of Canadians comes when thinking about the future of real estate. While short-term confidence appears to have been impacted by debt concerns and other economic issues, long-term confidence in real estate prices remains very strong. Six-in-ten Canadians tell us they fear we may be in a housing bubble, and we may see a general softening of confidence. However, when asked to think long-term, 83% remain confident that "real estate is a good long-term investment".

Consumers: "I expect home prices to increase"



All of these metrics paint a picture of a nervous Canadian public who does not know what to expect from the economy or the housing markets. For mortgage professionals, it is important to understand this dynamic as you engage with your customers. Even though their individual financial situations may be strong, it is likely that given their economic concerns, your clients are also looking to you to provide them with reassurance that the mortgage option you are recommending to them will fit all of their needs, and will remain a good fit for five years (or the term of the mortgage), regardless of what might happen in the economy.

"Now is a good time to buy real estate"



¹ <http://www.federalreserve.gov/releases/z1/Current/z1r-5.pdf>

Canadians and their Mortgages

Ability to Withstand Rate Increases

Much of the nervousness around the housing market centres around our historically-low interest rates, and the fear that rate increases would lead to default risk for many homeowners. We asked Canadians about the affordability of their current mortgage payments, and how they could cope with potential future payment increases. While some mortgage-holders are close to their comfort threshold, the vast majority say they would be well-equipped to handle meaningful increases in their mortgage payment; eighty percent say they could comfortably handle a monthly payment increase of \$200 or more. Given the fragility that remains in the US economy and in parts of the Canadian economy, it is difficult to imagine a scenario where rates would increase quickly enough to result in any significant short-term default risk in Canada.

\$200

Eighty percent of Canadian mortgage holders could comfortably handle a monthly payment increase of at least \$200.

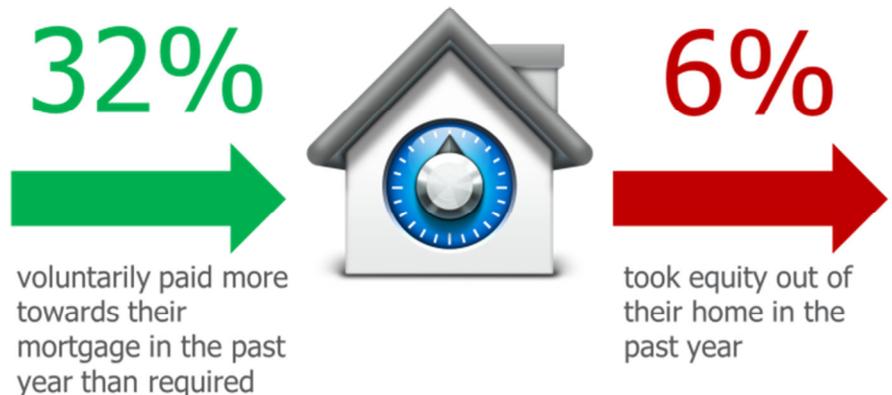
Canadians Are Being Prudent With Their Mortgages

Much has been made over the past several years about the impact of the short-lived 35 and 40-year amortization mortgages, as well as zero down payment options. While it is true that, when available, many first-time buyers took advantage of longer amortization periods and lower down payments, we believe that most took advantage of these products as financial management and insurance tools, rather than because they were being stretched

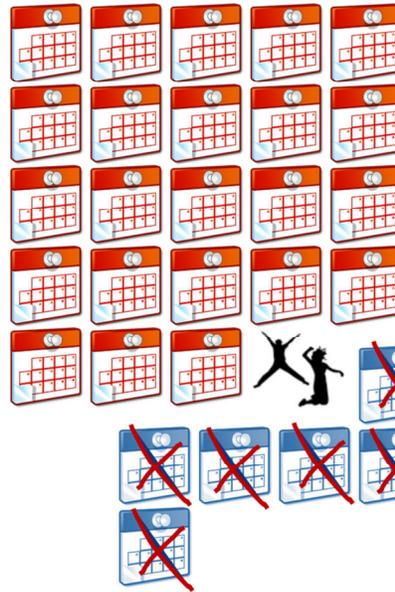
to their extreme limits of affordability. Our survey results have consistently shown a strong desire and intention among Canadians to pay off their mortgages more quickly than their original amortization periods. Data suggests that Canadians may choose a longer amortization in order to maintain a current standard of living and provide them with a buffer should their financial situation change, however most do so with very real intentions of paying their mortgages off more quickly.

Equally reassuring, not only is the desire strong for paying off mortgages quickly, but large numbers of Canadians are taking active steps to turn their goals into reality. Over the past year, nearly one-third of mortgage-holders (32%) tell us they paid more into their mortgage than they were required to, either through payment increases or lump-sum payments (compared with just 6% who took equity out of their home in the past year). While 55+ mortgage-holders appear to be slightly more comfortable paying their mortgage on schedule (just 23% accelerated payments in the past year), both young and middle-aged mortgage holders look to be aggressively shortening the life of their mortgages (33% accelerated pay down among 18-34 year old mortgage-holders, 34% among 35-54).

Unscheduled Mortgage Activity



The impact of this prudent behaviour is seen in accelerated payments for many Canadians. Our data shows that mortgages that have been paid off in the past four years were done so a full five years earlier than the original amortization period. Among those who have a mortgage currently, the average homeowner intends to pay off their mortgage more than 8 years quicker than the original contracted period.



8 years

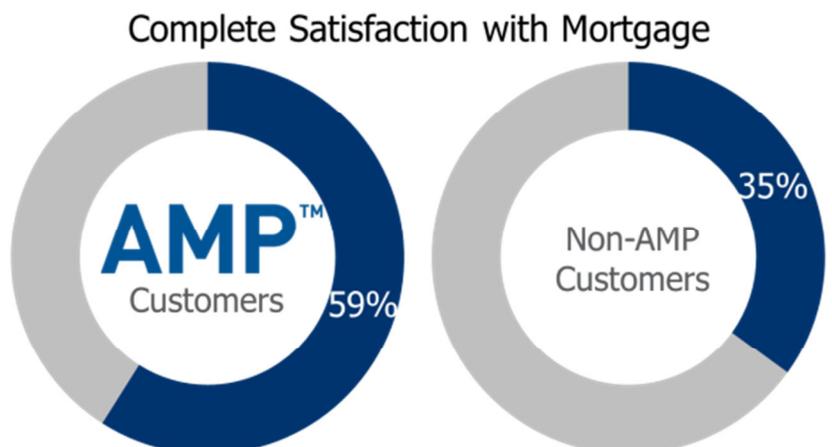
The average outstanding mortgage had an original amortization of about 31 years, while the average homeowner plans to pay off their mortgage in 23 years, a reduction of 8 years.

Mortgage Broker Channel Position

The mortgage broker channel has established itself as a major contributor to the success of the overall mortgage market, having originated one-quarter of all outstanding mortgages in Canada. Not only are brokers originating a lot of mortgages, but they are also performing very well on key customer satisfaction metrics. Overall, 51% of mortgage broker customers are very satisfied with the service provided by their mortgage professional, versus 43% among those who dealt directly with a lender rep, a statistically significant difference.



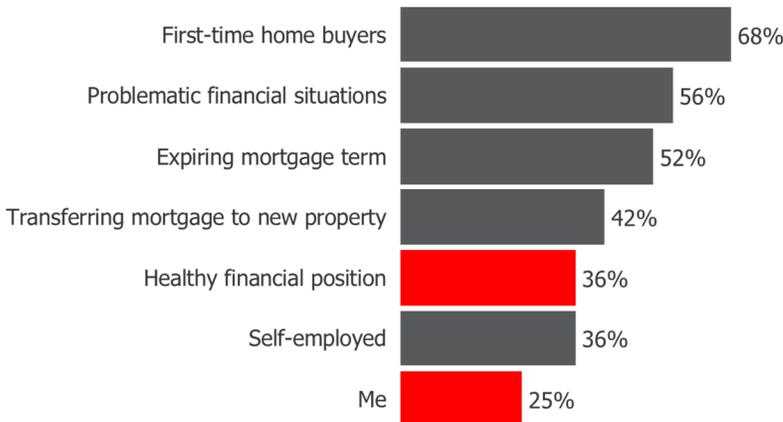
Accredited Mortgage Professionals (AMPs) are also doing a fantastic job servicing their clientele. Among those customers who identified their mortgage broker as an AMP, 59% are completely satisfied with their mortgage, compared with just 35% among those who say they did not deal with an AMP. This is a very substantial difference, and points to the professional nature of AMPs, and their ability to instill a strong sense of confidence in their clients that they have chosen the right mortgage professional.



The mortgage broker channel has seen particular strength on originations vs. renewals (going back over the course of many years, we generally see that broker share is at least 50% higher on originations than renewals), and is substantially higher among younger audiences. Again looking at all outstanding mortgages (not just those taken out recently), mortgage brokers have a market share of 29% among 18-34 year old mortgage-holders, 24% among those 35-54, and 21% among those 55+.

Despite market success, many Canadians continue to think of mortgage brokers as being best for Canadians in specific financial situations, most notably first-time home buyers and those with problematic financial situations. We asked Canadians what types of customers they felt were best-suited for the services of a mortgage broker, and the results are very interesting:

A mortgage broker would be good for...



Most interesting about these results is that virtually all mortgage holders could classify themselves as either a first-time buyer, or with an expiring mortgage term, and while each are identified as ideal broker clientele by more than one-half of Canadians, just 25% say a broker would be good for themselves (me).

So what is the disconnect? Why would a consumer say that a broker would be good for others, but not themselves? Our results shed some light on the potential answers to this difficult question.

We believe the key to more fully understanding the influencers of broker choice lies in not just thinking about the quantifiable qualities of mortgage brokers, such as rates negotiated and speed of approvals, but rather taking a more holistic view of a consumer's relationship with and perceptions of mortgage brokers.

When consumers evaluate any brand – and make no mistake, mortgage brokers are a brand – they take a wide variety of factors into consideration. **Functional attributes** are those quantifiable attributes of a product or service; for mortgage brokers, this would include rates, speed of approvals, ease of dealing with, number of lenders one has access to, etc. These are no-doubt important, but the smartest marketers understand that those are only one piece of the puzzle. Another important piece is the **emotional connection** one has with a brand, such as having a feeling of confidence, happiness, skepticism, worry, doubt, or surprise. Finally, brands also convey many of the same **personality traits** that people do; brands can be seen as old or young, flexible or ridged, up-to-date or tired, personable or arrogant, etc.

In this year's study, we conducted a version of Maritz' Comprehensive Brand Audit research methodology to fully understand the multiple dimensions of the mortgage broker "brand", compared with consumers' perceptions of banks. We measured various functional, emotional, and personality drivers to understand which are most influential in helping to form a consumer's overall opinion of mortgage brokers (and therefore their likelihood to deal with a broker in the future).

Consistent with our findings when we run similar studies in other industries and for other brands, we found that certain emotional connections and personality traits can be just as influential, or even more influential on a person's overall opinion of mortgage brokers than even the most important functional attributes. This means that, even if a broker is able to provide the best rates and speed of

approvals, if he/she is not fostering the most important emotional connections or portraying the most important personality traits with clients, many people will decide to take their business elsewhere.

We believe these findings are a large clue into why some Canadians recognize that brokers are good for other people in similar situations as themselves, but do not see brokers as being a good fit for themselves. Many people have at least a good understanding of the functional benefits brought forward by mortgage brokers, in terms of rates, customer service, etc. However, it is on the important emotional connections and personality perceptions where the broker channel is falling short in key areas.

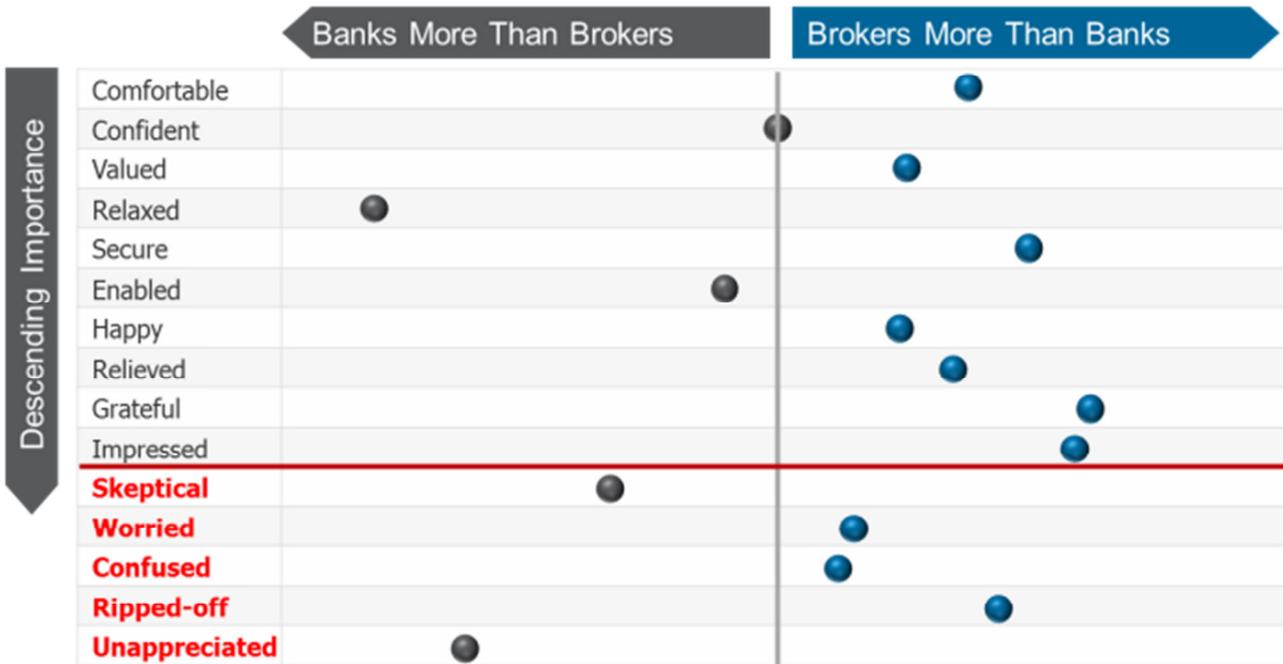
Emotional Connection

As seen below, brokers outscore banks for driving many of the key emotional drivers, including *comfortable*, *valued*, and *secure*. Two key drivers where the broker channel underperforms vs. banks are *relaxed* and *enabled*.

Unfortunately, brokers also tend to drive three negative emotions among customers to a larger degree than banks: *worried*, *confused*, and *ripped-off*.

We believe increased broker focus and attention on a few key details of the customer experience may be able to address nearly all of these shortcomings on key emotional drivers. Improved communications to clients during the mortgage process that reinforce the positive aspects of the mortgage you are providing them, the stability of the lender, and transparency about the broker income structure, could go a long way to addressing many of these emotional drivers, including *relaxed*, *worried*, and *confused*.

Consumer Emotions Driven by Mortgage Professionals



Personality Traits

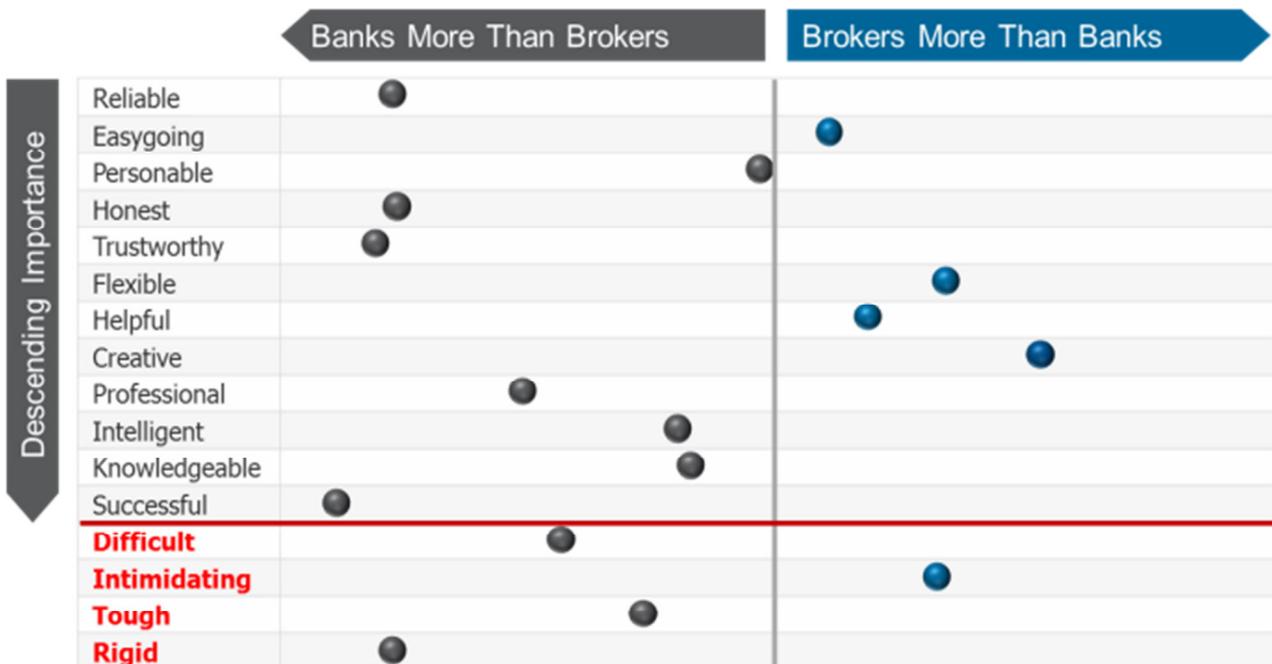
Below are results from the personality trait questions we included in our survey. The traits are ordered by their importance in driving opinions of brokers (*reliable* is the most influential positive attribute, and *successful* is the least important positive attribute). Importance was determined through a derived importance modeling technique where we analyze survey responses to identify the attributes which, when customers feel most positively, also tend to be closely associated with overall positive feelings about mortgage brokers.

Reliable, easygoing, personable, honest, and trustworthy are the five most important personality traits, and here we start to understand where the broker channel has some work to do. Out of the top five most important personality traits, the broker channel overall is viewed in a better light than banks on just one, *easygoing*. On one other, *personable*, brokers score very close to banks, however on three attributes, *reliable, honest, trustworthy*, banks are viewed in a MUCH more positive light than brokers by most consumers.

Put bluntly, the mortgage broker channel has an image problem in regards to perceived *reliability, honesty, and trustworthiness*. This is not to say that people necessarily think brokers are dishonest or untrustworthy, but rather that banks have a clear advantage in these areas.

For mortgage brokers, while it is important to always remain competitive on functional attributes (rates, etc.), our results show that it is just as important for you to establish strong relationships with your customers, and to convey a strong sense of *reliability, honesty, and trustworthiness* to your clientele.

Consumer perceptions of Mortgage Professional Personality Traits



Broker Channel Brand Mapping

The final step of our brand analysis is to look at where the mortgage broker channel brand stands right now in terms of consumer perception, and map that against the attributes we have shown to be the most important to consumers.

Our analysis points to a few key areas that we believe the mortgage broker channel should focus its improvement efforts on, in order to improve overall perceptions. If improvements in these areas are perceived by consumers, the broker channel overall will be in a better position to increase brand choice and loyalty.

Specifically, we recommend the broker channel focus on improving the following:

- Making customers feel more **confident** with brokers, their advice, and their partners
- Making customers feel more **relaxed**
- Improving **reputation** overall
- Focusing on products with **flexible payment structures** (not at the expense of rates)
- Being viewed as **reliable**
- Being viewed as **personable**
- Being viewed as **honest**
- Being viewed as **trustworthy**

Mortgage Broker Channel: Brand Mapping Exercise

Current Broker Strengths

Broker Channel Desired State

<p>Emotional Connections</p>	<ul style="list-style-type: none"> • Grateful • Impressed • Secure • Comfortable 		<ul style="list-style-type: none"> • Comfortable • Confident • Valued • Relaxed
<p>Functional Drivers</p>	<ul style="list-style-type: none"> • Best rates • Can get the best mortgage for me • Works hardest for me 		<ul style="list-style-type: none"> • Good reputation • Can get the best mortgage for me • Flexible payment structure • Best rates
<p>Personality Attributes</p>	<ul style="list-style-type: none"> • Creative • Flexible • Helpful • Easygoing 		<ul style="list-style-type: none"> • Reliable • Easygoing • Personable • Honest • Trustworthy

Attributes in RED above are important to consumers, but are not currently viewed as broker channel strengths. Improving the broker channel's reputation in these areas will have the most impact on consumers' overall likelihood to do business with a mortgage broker.



The challenge of the mortgage broker channel is that brand perceptions come partly from the communications issued by centralized organizations and associations such as CAAMP, but a huge element of establishing the "broker brand" comes from the interactions brokers and agents are having with customers all over

the country. For the broker channel in Canada, each and every partner – CAAMP, lenders, brokerage houses, brokers, and agents – needs to be communicating and acting on the messages and attributes described above in order to see a true shift in the way consumers view mortgage brokers.

Lender Choice

Besides the brand image components discussed in the previous section, consumers take a wide variety of factors into consideration when making a mortgage selection. One key factor is the specific lender a broker has recommended to a client.

As in previous years, consumers told us overwhelmingly that, all things being equal, they would have at least a slight preference to have their mortgage with their primary bank. While this does represent a hurdle for brokers who are recommending other lenders to their clients, it is not an insurmountable barrier in most cases. As shown below, only a small percentage of people are actually willing to pay more to have their mortgage with their bank, and for many it is a small preference.

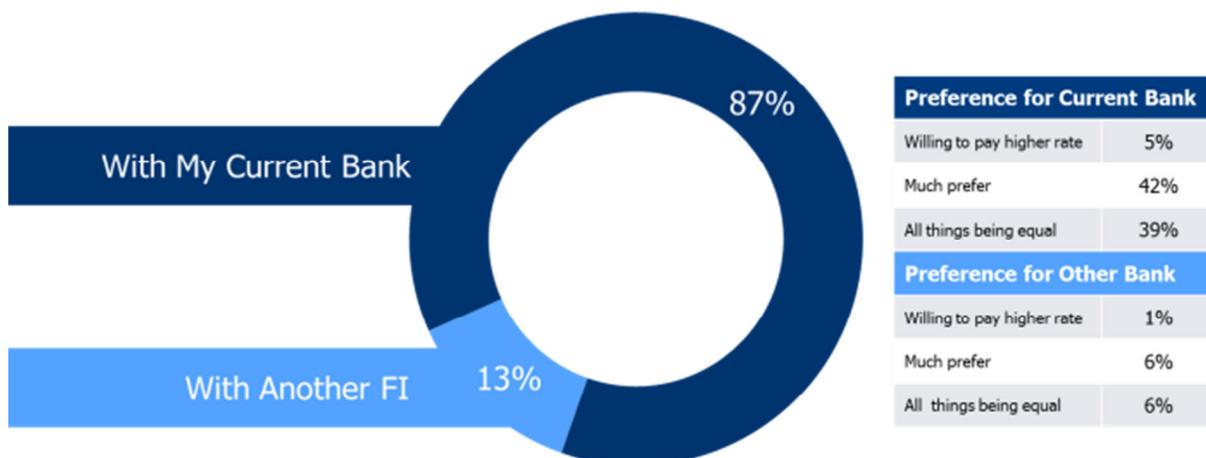
For mortgage brokers and monoline lenders, these findings underline the importance of full communication with clients about the benefits

of dealing with a lender who the customer may not be familiar with. Specifically, customers told us the following messaging would be most likely to make them comfortable enough to do business with an unfamiliar lender:

- The broker has dealt with the lender many times in the past, and clients have always been happy
- The lender has been operating in Canada for many years (a specific number is probably best to share)
- Number of current mortgages the lender has outstanding

Brokers should be prepared to speak highly of their experience with the lender they are recommending, and lenders should provide brokers with materials supporting their reputation and credibility.

I would rather have my mortgage...



Mortgage Satisfaction

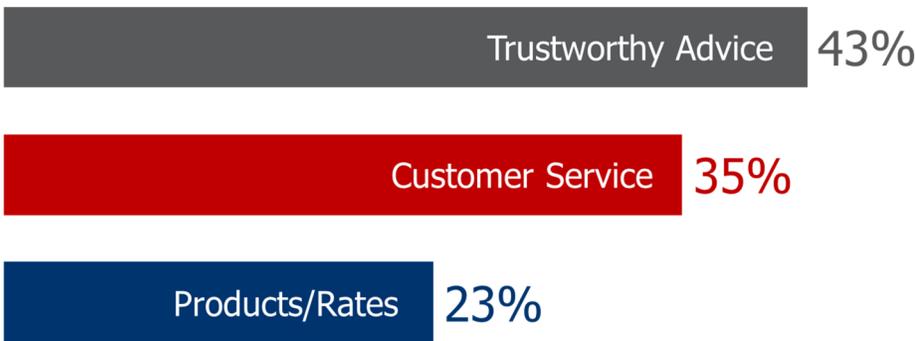
As we have already discussed, the mortgage broker channel is doing a very good job satisfying customers when compared with the direct-to-lender channel. This is not to say, however, that there are not improvements to be made.

Understandably, brokers and lenders are often focused on rates. Rates are incredibly important when securing business from a client, but we see that it is not as significant a

factor in driving customer satisfaction and loyalty.

Customer satisfaction with a mortgage broker is driven by success in several specific areas, but what we have seen is that satisfaction is most strongly driven by a series of qualities we have grouped together related to the *trustworthy advice* a customer has received from their broker through the process of obtaining their mortgage. Specifically, *trustworthy advice, providing information to make informed decisions, the broker understood my needs, and helping me understand my options* are key drivers of satisfaction.

Drivers of Satisfaction with Mortgage Professional



Customer service attributes are the second most influential drivers of satisfaction, specifically *personalized service* and *ease of doing business with*.

Finally, *products/rates* are a distant third in driving customer satisfaction. Once a customer has made the decision that a broker can provide them with an acceptable product/rate, it really isn't the product or rate that makes them truly happy.

For mortgage brokers, while rates may get customers through your front door and into your office, what will truly leave you with a satisfied customer base is the quality of the advice and the customer service you provide them along the way.

Rank Order: Specific Drivers of Satisfaction with Mortgage Professional



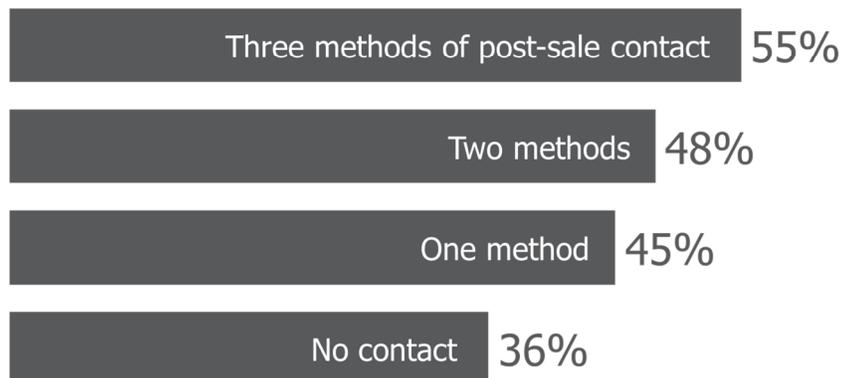
Post Sales Contact

In past years we have shown that the ideal contact frequency for a mortgage broker after the initial sale of a mortgage is about 4-6 times per year, or once every 2 or 3 months.

Perhaps equally as important as contact frequency are the methods used to contact customers. Our study shows clear evidence that communication strategies that effectively use multiple modes of communication over the course of a year tend to be most effective at maintaining and growing customer satisfaction and loyalty.

Brokers who contact their customers using three methods (e.g. one in-person visit, one phone call, and a few emails) per year have, on average, much more satisfied customers than those who used fewer methods of post-sale contact.

Satisfaction with Service Provided by Mortgage Professional



For mortgage brokers, there is no doubt a cost-benefit analysis will need to take place when considering how often, and with how many clients a visit or phone call should be made rather than email. It may not be feasible, or even desired by all clients, but our results show that, when effectively implemented, a multi-modal communications strategy is a great customer relationship management tool.

Broker/Lender Dynamics

Consumer loyalty is a tricky topic in the mortgage broker channel. Both brokers and lenders maximize their profitability when they retain a customer's business for multiple terms. However, if a consumer is loyal to either the broker or the lender, there is a good chance the other party will only benefit from having that customer for one mortgage term rather than repeat business. Spend enough time in broker circles, and invariably you will hear discussion around the question of whether a lender has purchased a customer's business or rather rented that business from the broker for a few years. We asked the mortgage industry for its perspective on this question, and the results are interesting, if not surprising. While a large portion of the industry share the perspective that the consumer's business has neither been bought

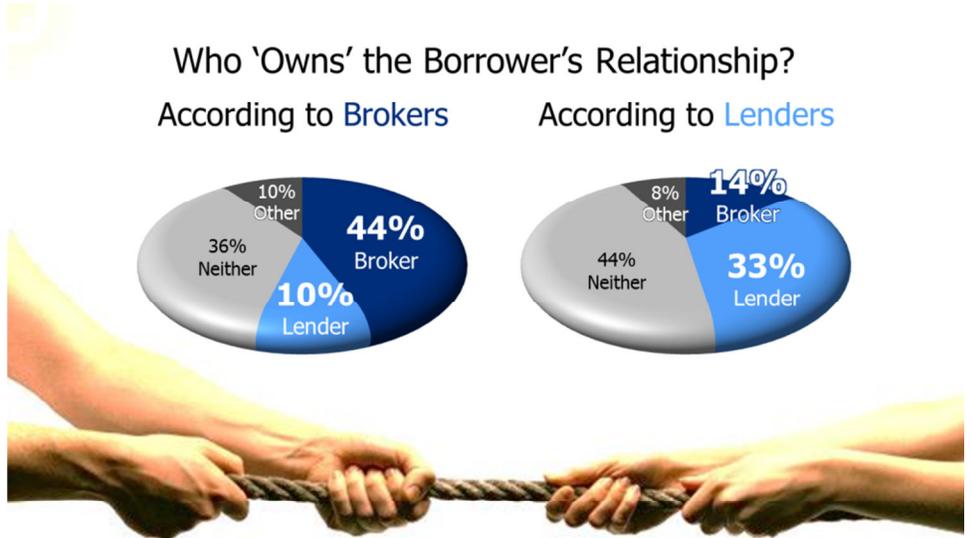
nor sold, but is rather up for grabs depending on who services the client better, there exists a large gap between how brokers answer the question compared with lenders.

Among mortgage brokers, more than four times as many respondents say the broker should 'own' the relationship (44% say the broker should 'own' the relationship, 10% say the lender). Among lenders, more than 2.5 times as many respondents say the lender 'owns' the relationship (33% lender, 14% broker).

This is a fundamental gap, and one that potentially threatens the long-term success of the mortgage broker channel. With brokers trying to attract customers to renew through them, and lenders trying to renew mortgage

directly, it is fair to argue that an unhealthy tension, and perhaps misalignment, exists between the best interests of brokers and lenders, two parties who are very much dependent on each other for success.

One potential fix to help bridge this gap is the establishment of a broker income structure that makes it mutually beneficial for brokers and lenders to keep their renewal customers with the same lender, in situations where such a situation makes the most sense for the customer. The most common structure discussed is trailer fees. Though it is a topic that generates a lot of interest, our numbers show there may not be a great deal of interest among either lenders or brokers to have trailer fees become a substantially larger component of broker compensation. Brokers tell us that, on average, up-front commission represents 85% of their current income structure, and when asked how they would like their income to be broken down in the future, this number drops only 5 percentage points to 80%. The average lender respondent would like to see up-front commissions make up an average of 68% of broker commissions in the future. Interestingly, lenders appear to have nearly as much appetite for consumer fees as they do for trailer fees in the future.



Broker Commission Structure

Commission	Brokers NOW	Brokers: Future Desired State	Lenders: Future Desired State
Up-Front Commission	85%	80%	68%
Trailer Fees	9%	16%	19%
Consumer Fees	5%	4%	13%

Broker compensation is a fundamental component of a healthy mortgage broker channel in Canada, and it is difficult to imagine a fully optimized channel in which brokers and lenders have not somehow bridged the gap we see between their future vision for broker compensation. Mortgage brokers and lenders should continue discussing and addressing this important topic.

Closing

It is likely that brokers and lenders will always have issues to think about, to discuss, and perhaps to debate with each other. Most business environments, the mortgage broker channel included, are most successful when there is a healthy level of tension between parties. As researchers and consultants to CAAMP and to the mortgage industry in Canada, it is our job to continuously identify areas of tension, and areas for potential improvement for the broker channel and its participants.

Along these lines, several areas of focus have been identified, and recommendations for improvement have been made throughout this document. However, we caution the reader of this report from focusing solely on the areas for improvement – there are many good news stories also included in this report, which give us an opportunity to applaud each other and ourselves for huge successes over the past several years, and the past year in particular. The broker channel continues to enjoy highly satisfied customers. AMPs are over-indexing even more on satisfaction, with numbers nearly 70% higher than non-AMPs. One-quarter of all outstanding mortgages were originated by a broker, and the broker channel is even more successful among many groups, including first-time home buyers. More and more, customers are understanding the value proposition of the channel, and are viewing brokers in a positive light.

The mortgage industry is made up of people who love their jobs, and take the responsibility of helping people with the biggest investment of their lives very seriously. In our humble view, customers of mortgage brokers have made a very wise decision, and are in very good hands.

- Maritz Research Canada

about the authors, CAAMP, and Maritz Research

about the authors

Kyle Davies is an Account Director for Maritz Research Canada. He has over 9 years of experience conducting marketing-research based consulting for some of Canada's leading organizations, focused primarily in the financial services, telecommunications, and retail sectors. His work often focuses on helping clients to gain a better understanding of customer sentiment, and helping them to harness that knowledge to create happier and more loyal customers.

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Maritz Research Canada

a division of Maritz Canada Inc.

Maritz Research Canada provides consultative services based on primary marketing research to many of Canada's top companies and organizations. Our focus is on helping our clients to understand and optimize customer experience and loyalty. Maritz Research is a Gold Seal Member of Canada's Marketing Research and Intelligence Association (MRIA), and is the world's 12th-largest marketing research company.



CAAMP/ACCHA

Canadian Association of Accredited Mortgage Professionals

CAAMP is the national organization representing Canada's mortgage industry. With over 12,250 mortgage professionals representing over 1,700 companies, its membership is drawn from every province and from all industry sectors. This diversified membership enables CAAMP to bring together key players with the aim of enhancing professionalism.

In 2004, CAAMP established the Accredited Mortgage Professional (AMP) designation to enhance educational and ethical standards for Canada's mortgage professionals.

Established in 1994, CAAMP has taken a leadership role in Canada's mortgage lending industry and has set the standard for best practices in the industry.

CAAMP's other primary role is that of consumer advocate. On an ongoing basis CAAMP aims to educate and inform the public about the mortgage industry. Through its extensive membership database, CAAMP provides consumers with access to a cross-country network of the industry's most respected and ethical professionals.



CANADIAN ASSOCIATION
OF ACCREDITED
MORTGAGE PROFESSIONALS

ASSOCIATION CANADIENNE
DES CONSEILLERS
HYPOTHÉCAIRES ACCRÉDITÉS