



# The nesto-meter

February 2021

## **February 2nd, 2021,**

And just like that, January 2021 is already behind us! While we thought ringing in the new year would open up a whole new chapter, it is now obvious that things haven't suddenly and magically gone back to normal just yet.

As January 2021 showed a much higher level of interest for new purchases amongst our users compared to the same period last year, we can't help but think COVID-19 still has a big effect on consumers' general habits as well as the overall market seasonality in terms of homebuying. Mortgage rates are still going down, despite the fact that we thought they were already at the lowest they could possibly be in 2020, and it certainly influences our canadian users behavior as well.

In this February 2021 issue, which covers data from January 2020 to now, adding both december 2020 and January 2021 to the mix, you will find updated data on our 4 key monthly metrics: Rates volatility and variance, mortgage type trends, purchase price vs down payment and purchase timing intent.

As for our monthly deep dive, our team decided to look back at 2020 and compare our users preferences in terms of down payment percentage and lenders, between banks, credit unions and mortgage financing companies.

# KEY TAKEAWAYS

In January 2021, fixed rates were the ones moving again, just like it was the case for most of 2020

While our best insurable variable rate back in January 2020 was at 2.95%, it is now at 1.30%, a 1.65% difference!

60% of our nesto users were looking to buy a new property in January 2021, compared to 48% a year ago, in January 2020.

In both QC and ON, 65-70% of our application requests for a new property were from users who just started looking versus found a property.

In Ontario, the median purchase price was at 540 000\$ in January 2021, a 50 000\$ drop since November 2020

Canadians renewing their mortgage in 2020 tend to turn their back on big banks, for the benefit of mortgage financing companies.

5% down payment is what most canadian borrowers decided to opt for in 2020, at almost 58%.

#1

**RATES**



# A. Volatility



Fig. 1: Number of times the lowest rates offered by nesto to its users changed per month across provinces between January 1st 2020 and January 25th, 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.

In terms of mortgage rates, amongst many other things, 2020 has been a very unpredictable year! Looking at our lowest rates for insured (5-19.99% down payment) and insurable (20%+ down payment) mortgages, both 5-year fixed and variable, since January 2020, those rates have changed 68 times, for an average of 5.23 times a month and a peak of 14 changes for the month of April 2020 alone.

Comparing January 2021 to the last months of 2020, we can see an increase in the number of rate changes in Quebec and Ontario, usually a result of lenders trying to gain market share as the homebuying season starts up. This year, it's hard to put our finger on the most recent influences to our first 2021 rate drop as seasonality patterns have gone out the window.

## Volatility - by type

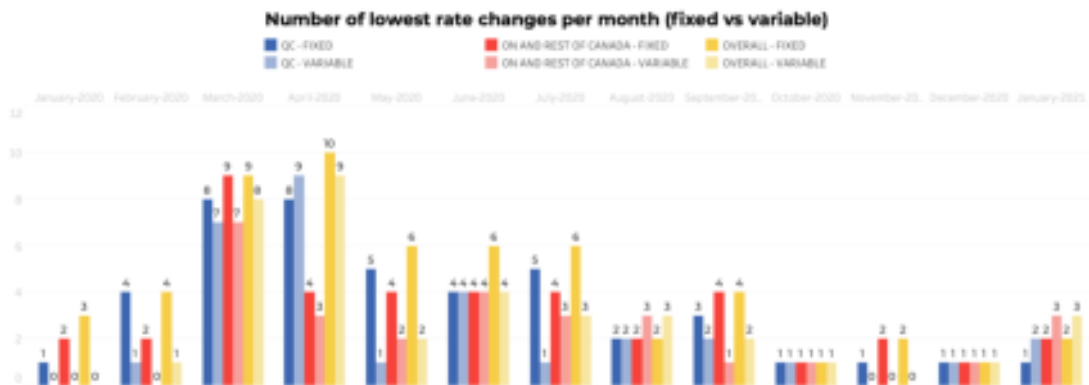


Fig. 2: Number of times the lowest rates offered by nesto to its users changed per month across provinces between January 1st 2020 and January 25th, 2021 and comparing fixed to variable rates. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment).

Amongst the changes we noticed in January 2021, fixed rates were the ones moving most often, just like it was the case for most of 2020. While Quebec rates changed only once in the last month, the remaining canadian provinces saw 2 rate changes. While these recent changes appear to be driven by competition, it's important to mention that we are once again seeing rates surpass what we thought was previously was the lowest level we would see.

## B. Variance: Lowest rates

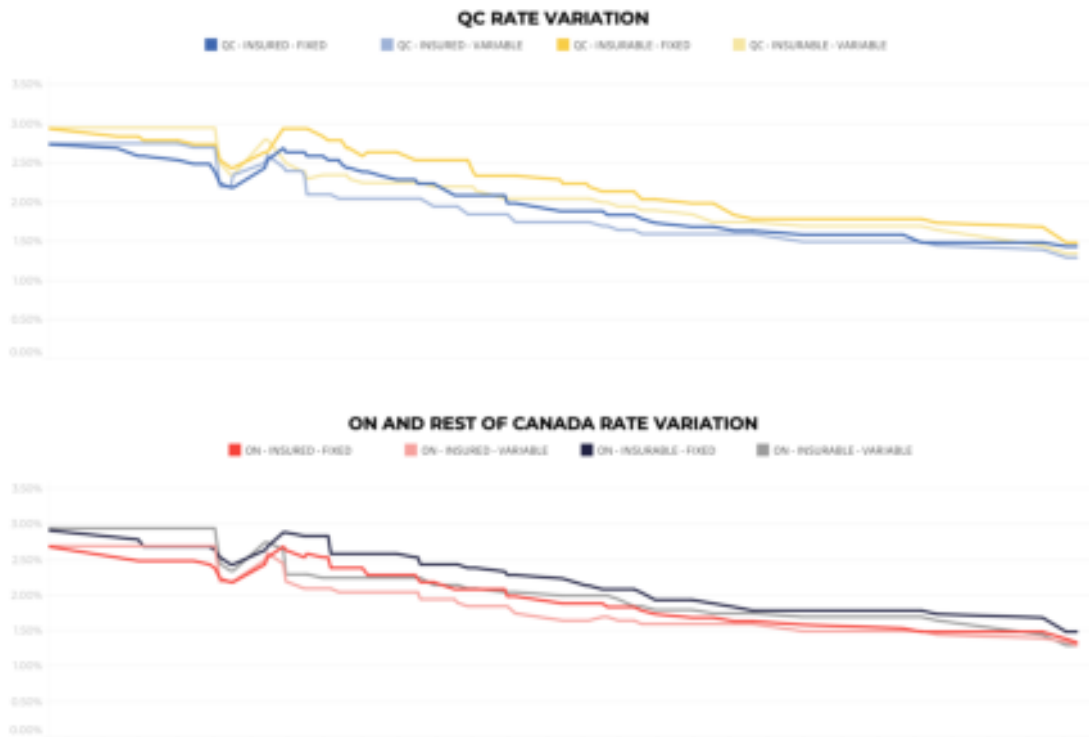


Fig. 3: These graphs show the rate variance from January 1st 2020 to December 25th 2021 in Quebec compared to Ontario and the rest of Canada.

So, our best rates have changed 68 times in the last 12 months but, by how much?

According to this graph, since January 2020, the highest insurable variable rate reached 2.95% while the lowest was at 1.30%, a 1.65% difference. Our data also indicates that the trend we observed at the end of 2020 is still in effect for the beginning of 2021: fixed and variable rates for the same category (insured or insurable) remain close to each other, especially insured rates, with only a 0.04-0.1% difference between them compared to the usual 1.00% in previous years. In a normal environment, lenders could and likely would increase the discount offered with their variable rates in order to increase the attractiveness of the product and balance their fixed vs variable selling ratios. Today, we're not seeing enough reduction to the variable discounts in order to influence consumer decisions.



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

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

Variable

	Lowest rate	Highest rate	Difference
Rate (insured)	1.30%	2.95%	-1.65%
Monthly payment	\$1,268.00	\$1,529.00	-\$261.00
Total payments	\$76,082.00	\$91,717.00	-\$15,635.00
Total interest paid	\$19,262.00	\$44,276.00	-\$25,014.00
Total principal paid	\$56,820.00	\$47,441.00	\$9,379.00
Money saved	\$15,635.00		
Balance remaining	<b>\$267,945.00</b>	<b>\$277,324.00</b>	<b>-\$9,379.00</b>



Table 1: This table represents the effect of a 1.65% rate difference on a 350k home, with 10% down payment and a 25 year amortization after a 5 year term.

This table represents the effect of a 1.65% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term. You think 1.65% ain't that much? Let's see!

**Scenario 1:** You signed a mortgage at 2.95%, our highest insurable variable rate of the past 12 months. This 1,65% rate difference would have you end up paying \$25,000 more in interest over the course of only 5 years!

**Scenario 2:** You signed a mortgage at 1.30%, our lowest insurable variable rate seen this year (and since many years!). In this situation, you'll end up saving over \$15,000 in monthly mortgage payments over 5 years!





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# MORTGAGE TYPE TRENDS

# Purchase vs Renewal vs Refinance

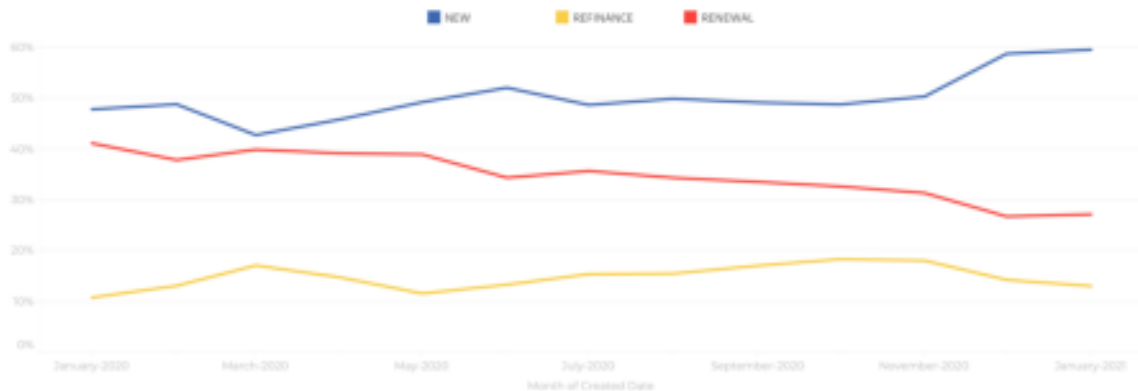


Fig. 4: Trends for proportion of purchases (new mortgages) vs renewals vs refinances from January 1st 2020 to January 25th, 2021. Sum is 100% for each month.

In the mortgage world, like in most industries, every year follows a similar “pattern”, which creates seasonality: The buying season, the renewal season, refinance season and so on. In 2020, with the pandemic disturbing every aspect of what we considered normal, there was no such thing as seasonality, or at least, it didn't influence the mortgage market when and where we'd expect it to.

Now, what about 2021? Are we starting to see actual trends?

Heading into the new year, from November 2020 to January 2021, we can see purchases (new homes) are taking a major portion of user intent. In fact, 60% of our nesto users were looking to buy a new property in January 2021, compared to 48% a year ago, in January 2020.

As the interest for new purchases increases, refinances are down about 5% from November 2020, while renewals remain stable. Just like every year, the first week of January was full of refinance applications resulting from many Canadians reviewing their household budgets. We expected refinance volume to increase throughout the month but to our surprise it was overshadowed by new purchase requests.



#3

# **PURCHASE TIMING INTENT**

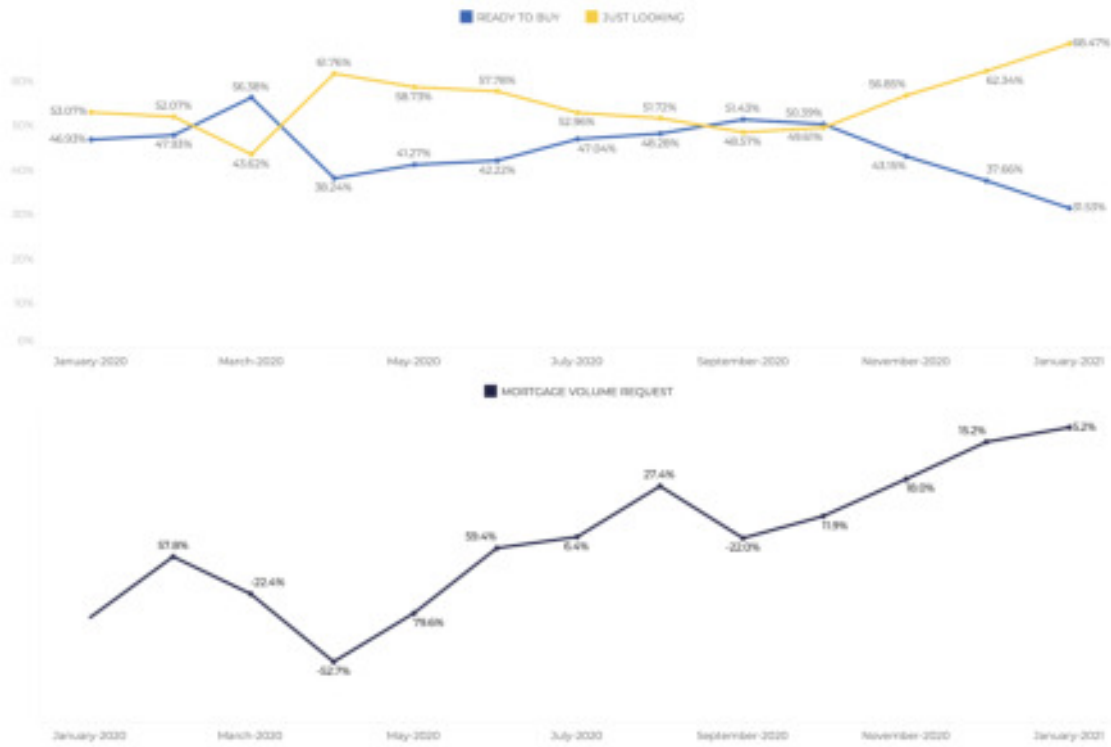


Fig. 5: Purchase intent: proportion of users "ready to buy" vs "just looking" in nesto's mortgage process, showing month by month from January 1st 2020 to January 25th, 2021.

As stated earlier, almost 60% of our users had the intent to purchase a new property in January 2021, but were they ready to buy, or just getting started in the process (self declared: Just looking)?

In the upper graph, we notice users who declared to be "just looking" have gained enormous traction since November, continuing into the new year, representing over 68% of our users' timing intent.

As for overall demand, we recognized a large volume increase through Q4 that is snowballing into Q1. The demand has resulted in nesto adjusting staffing priorities in order to facilitate what we predict to be another very active and busy year in the real estate and mortgage space.

# By Province

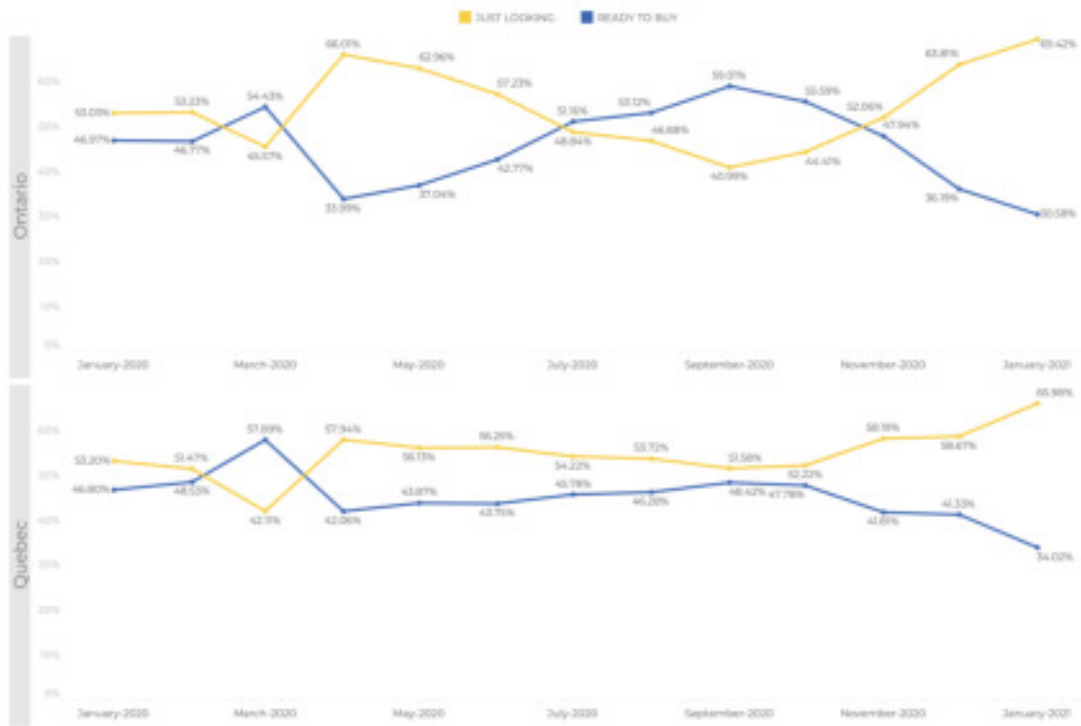


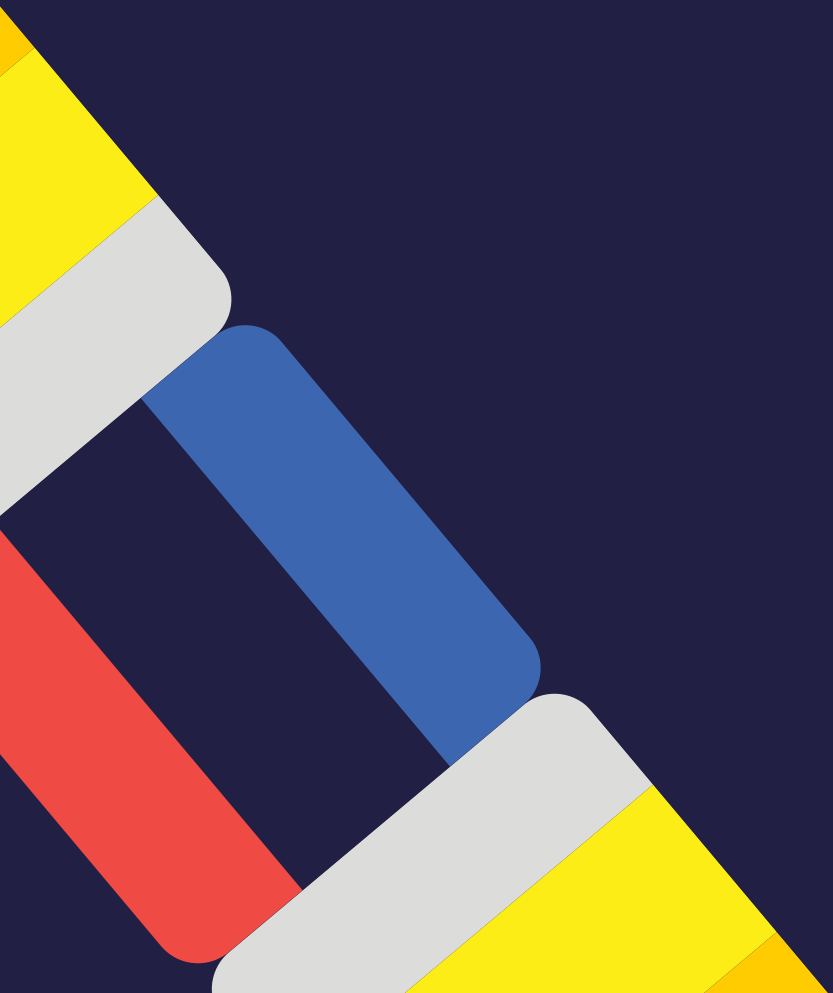
Fig. 6: Purchase timing intent proportion of users "ready to buy" vs "just looking" in nesto's mortgage process, from January 1st 2020 to January 25th 2021 in Quebec and Ontario.

Looking at this timing intent from a province to province perspective, we notice the same pattern is reflected in both QC and ON, with 65-70% of our application requests for a new property being from users who have just started looking versus found a property.

Following the 2020 trend, we can expect these "just looking" to evolve towards more "live deals (self declared: my offer is accepted)" over the coming weeks.

#4

# Property value and down payment



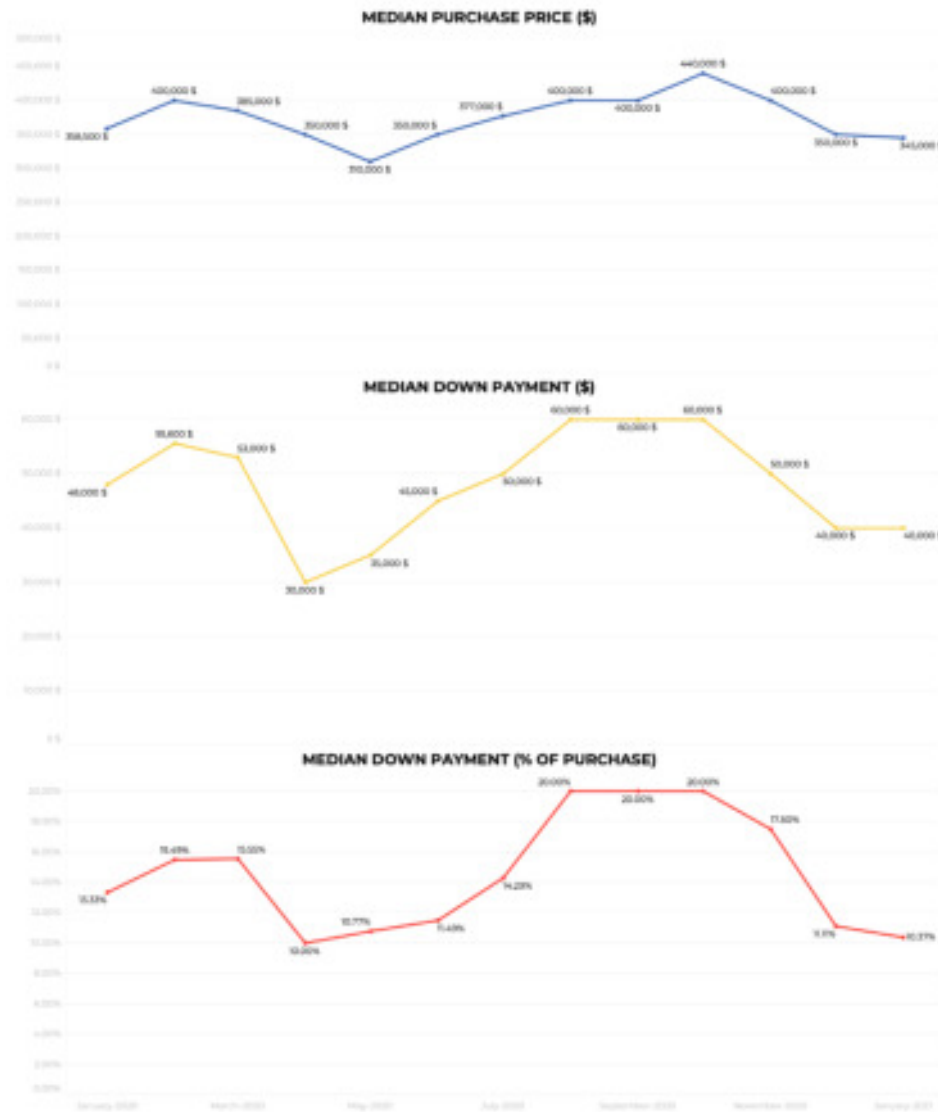


Fig. 7: Graph of intended purchase price vs down payment (in dollars and percentage) from January 1st 2020 to January 25th 2021.

After an increase of the median amounts for both the projected property value and down payment in October 2020, in November, the same amounts dropped again, our median purchase price going from 449,000\$ back to 400,000\$ and our median down payment amount, down from 62,000\$ to 50,000\$. From December 2020 to January 2021, median price and down payment continued their downward trend, the median down payment percentage down to nearly 10%, much lower than January 2020, at 13%.

# By province

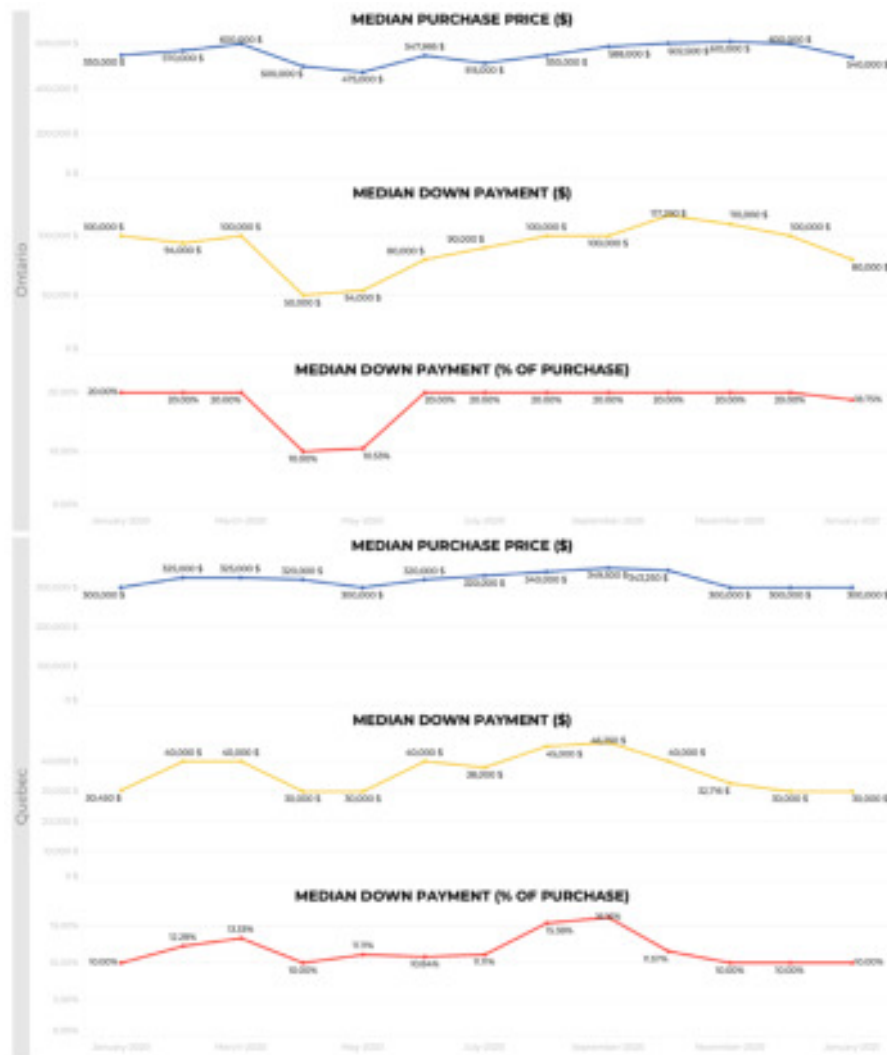


Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage) from January 1st 2020 to January 25th 2021 in Ontario and Quebec.

Comparing the data by province helps highlight the changes in the generic view, and understand that Quebec and Ontario are two, very different mortgage markets!

In Ontario, many of our tracked metrics dropped since November 2020. The median purchase price was at 540 000\$ in January 2021, a 50 000\$ drop in only 2 months. While the median down payment also dropped by 30 000\$ since last November, the percentage of median down payment remains very close to 20%, with a slight decrease in January 2021.

In Quebec, the down payment percentage remains stable, at 10% of the property value since November. Comparing year to year, it seems like we had very similar numbers back in January 2020.

A trend we recognize through our user engagement that is more prominent in Ontario vs Quebec, is that many young home buyers in ON are starting off with a substantial gift from the bank of mom and dad. We will take a deeper look into the gifted down payment applications in a future report.



# DEEP DIVE

A look at 2020



# 1. Who are nesto users renewing their mortgage from?

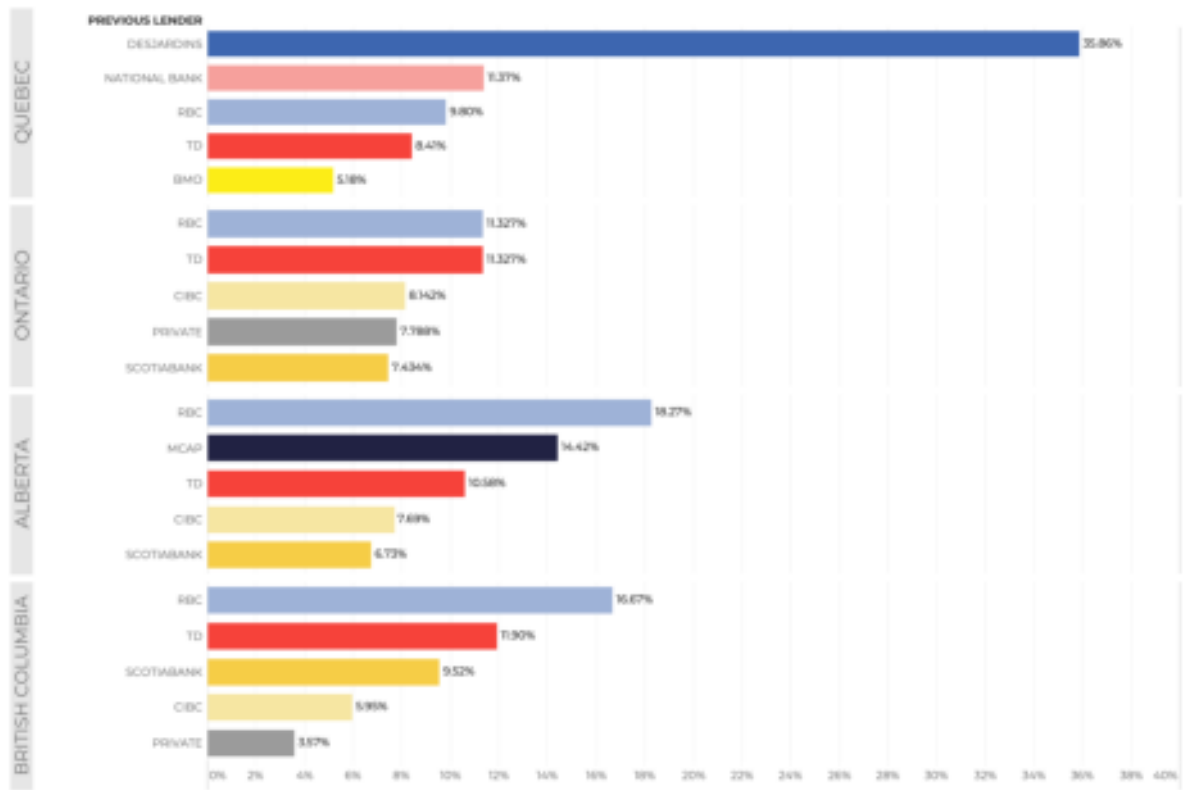


Fig 9: Looking at the top 5 lenders nesto users were renewing from in 2020 by province.

When the time comes to renew their mortgage, Canadian customers will often shop around for a better rate or better conditions, especially if they weren't able to do so the first time around. Since 2020 was such a particular year in so many ways, we were interested to see which lenders our nesto users would most generally renew their mortgage from, by province. To be clear, the lenders within the graph above are the existing lenders holding the users mortgage when the user engages nesto for a better rate and mortgage product offer.

Amongst our Quebec renewals, the vast majority were previously with Desjardins (34%), followed by National Bank, RBC and other big banks. Considering Desjardins holds the most sizable share of the broker channel mortgage market in Quebec, it's not surprising they appear most frequently, but we do believe this ratio is further influenced by the press that has plagued the major Quebec lender over the last 24 months.

In Ontario and BC, those who decided to renew their mortgage with nesto were also mostly coming from big banks. This is to be expected but at the same time, highlights a major discrepancy with what borrowers are expecting from their bank in exchange for their years of loyalty and timely payments compared to what they are offered as renewal terms. It's also not surprising that we don't see many users shopping for a better deal when their current lender is a "mortgage financing company" such as MCAP, First National, etc who's only line of business is mortgages.

In Alberta, nesto renewers currently with a big bank are just as likely to investigate their options but one noteworthy find was that MCAP, a mortgage finance company generally known for best rates and customer service, was the existing lender on about 15% of our user requests. This anomaly is somewhat concerning and could be related to MCAP's position on the economic issues facing the province, resulting in less competitive renewal offers to influence borrowers to move lenders or pay them out as opposed to be renewed.

Overall, what our 2020 data tells us about renewals is that the majority of Canadians with strong credit and repayment history are taking the time to look for better rates and conditions for their next mortgage, often turning their back on the big bank that gave them their first savings account. Borrowers who remain a little too nervous to leave the bank will still do their homework, and leverage the non-bank offers received by mortgage brokers to negotiate with against their bank's mortgage specialist. Most of our users believe it isn't worth the time they would need to take off work to beg their bank for something they feel that they deserved up front.

## 2. How much down payment (%) are consumers down for?

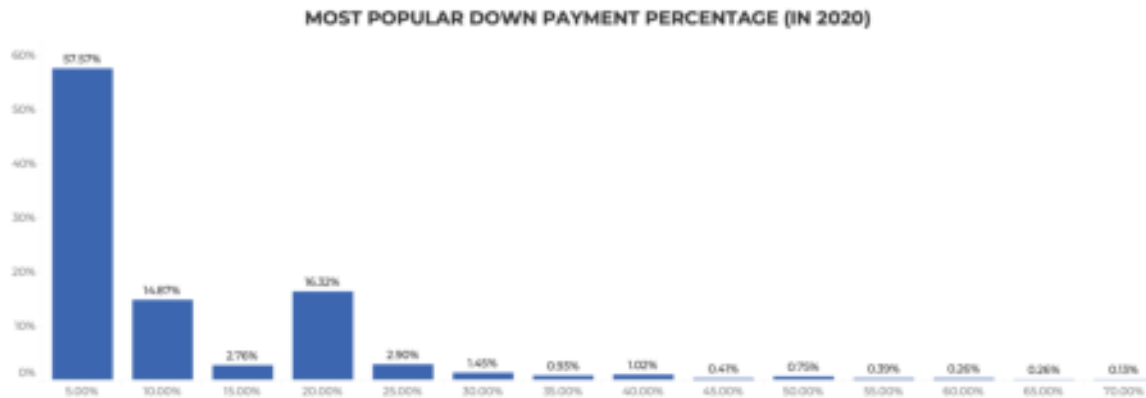


Fig 10 : Percentage of down payment % nesto users opted for in 2020.

In Canada, the minimum down payment required to become a homeowner is 5%, and that's the percentage most of our users decided to opt for in 2020, at almost 58% of the total requests. Does this have anything to do with their plans being altered due to COVID-19? Is the major increase in home pricing responsible for that minimum down payment? Our user responses varied greatly but one common theme used as justification for putting 5% down was related to the many accessible investment instruments that may yield returns exponentially higher than the cost of mortgage financing at < 2%. In other words, many financially savvy borrowers who are beneath the 20% down payment required to avoid CMHC insurance have been opting to use the bare minimum needed as downpayment to retain as much money as possible in their existing investment vehicles.

In second came 20% down payment, which is also the minimum amount required to avoid paying mortgage insurance and very close 3rd was 10%, a good balance between decreasing the mortgage amount, insurance premium ratio, and keeping money aside to cover all of the other expenses related to being a homeowner.

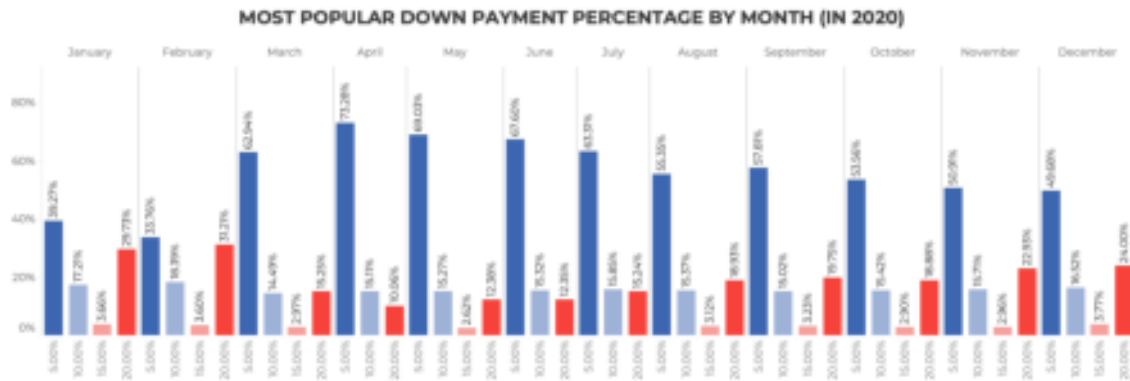


Fig 11: Percentage of down payment nesto users opted for in 2020, divided by month.

Looking at the same numbers, but on a monthly scale, we can clearly see the trend developing through the pandemic towards a minimal down payment as reported last fall. From March to July 2020, nesto users would rather put 10% than 20% down payment on a house, while the 20% down payment was always much more popular in the months preceding the first lockdown.

As fall 2020 hit, 20% down payments started to gain in popularity again, surpassing 10% down payments every month until 2021.

### 3. Bank vs mortgage financing company: What's our users choice?

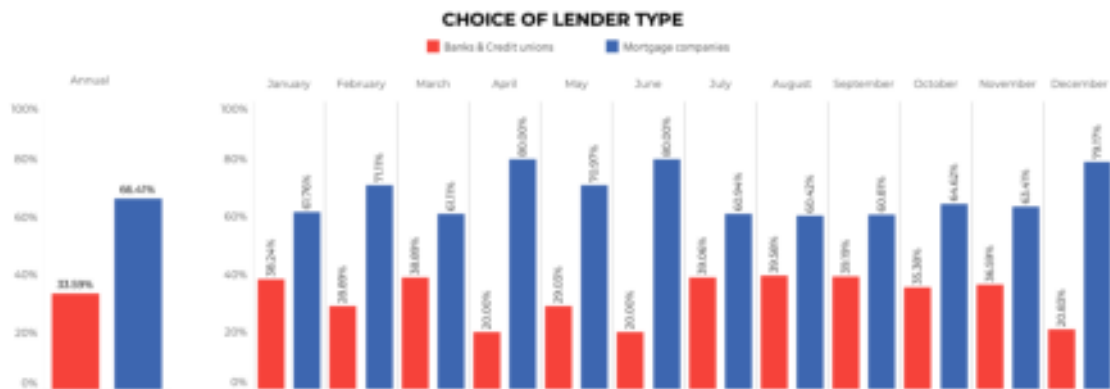


Fig 12: Percentage of nesto users choosing banks and credit unions versus mortgage financing companies in 2020

What type of mortgages lenders did our nesto users opt for in 2020: Big banks and credit unions or mortgage financing companies?

Looking at our first graph, showing our overall data for the whole country, Canadians chose mortgage financing companies over banks and credit unions 66% percent of the time in 2020, that's 2 times out of 3! While banks and unions gained some traction during the fall, they reached a small 21% of our overall demand at the end of the year. Each lender that we decide to support serves a purpose and whether our users end up with a mortgage financing company, credit union, or big bank, we're proud that they had an unbiased and transparent opportunity to understand the best mortgage products(and rates too!) for their needs using our platform.

# CONCLUSION

From the end of 2020 to the beginning of 2021, we saw a major increase of interest for new purchases: 60% of our nesto users were looking to buy a new property in January 2021, compared to 48% a year ago, in January 2020. While these intentions might not result in immediate purchases (68% of our users admit to be “just looking”), it is still an uncommon trend for that particular time of the year.

Are low rates influencing this behavior? Most certainly! While our best insurable variable rate back in January 2020 was at 2.95%, it is now at 1.30%, a 1.65% difference! And there is still no indication of a rate increase anytime soon.

Looking back at 2020, it is interesting to note that a vast majority of our users are opting for mortgage financing companies as opposed to the traditional leaders, being big banks, when it comes to contracting a mortgage. While most of our users had opted for the 5% minimum required down payment this year, the pandemic has clearly not yet made a noticeable reduction to the amount of Canadians at this moment in time who are qualified and actively shopping for a home.

# 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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