The nesto-meter

May 2021

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May 11, 2021

Saying the last 12 months have been hectic is quite the euphemism. While the mortgage industry usually sees ups and downs, we could say that March 2021 and onward has been a steep roller coaster ride, one that's finally reaching the end of its course, it seems.

Back in May 2020, we saw 7 rate changes in the span of a month and rates were at the lowest they'd been in a while. Until they dropped again and again, for several more months, to reach their lowest point in January 2021, at 1.39% fixed and 1.25% variable. In February, our fixed rates finally started moving back up, reaching 1.84% in March 2021, while our best variable rates dropped again, to 1.20% (prime -1.25%). Then, for the first time in more than a year, we saw absolutely no change in the best rates at all in April 2021. Just, stability. In this May 2021 issue, which covers data from January 2020 to now, you will find updated statistics on our 4 key monthly metrics: Rates volatility and variance, mortgage type trends, purchase price vs down payment, and purchase timing intent.

For our monthly deep dive, we looked at the evolution of approval delays in Quebec and Ontario and tackled again the question of fixed vs variable, comparing our users' initial choice versus their final decision after speaking to an advisor.

KEY TAKEAWAYS

Since April 2020, our lowest rates have changed a total of 55 times, which also means an average of 4.23 times per month.

For the first time in over a year, there were no changes to our lowest rates in April 2021.

In April 2021, the real estate market is still hot, and new purchases still represent a little over 50% of our overall demand.

April 2021 is seeing slightly more renewals than refinances, following the trend we observed in March versus February 2021.

Looking at our total canadian volume requests, we saw a big jump in April compared to March 2021, with a 31% increase in overall demand.

Ontario: Approval delays for refinances are still very high with lenders prioritising other transactions with more sensitive deadlines, further amplified by shortage of evaluator availability.

The largest number of our users since nesto's inception are opting for a 5 year variable rate mortgage

#1

RATES

A. Volatility

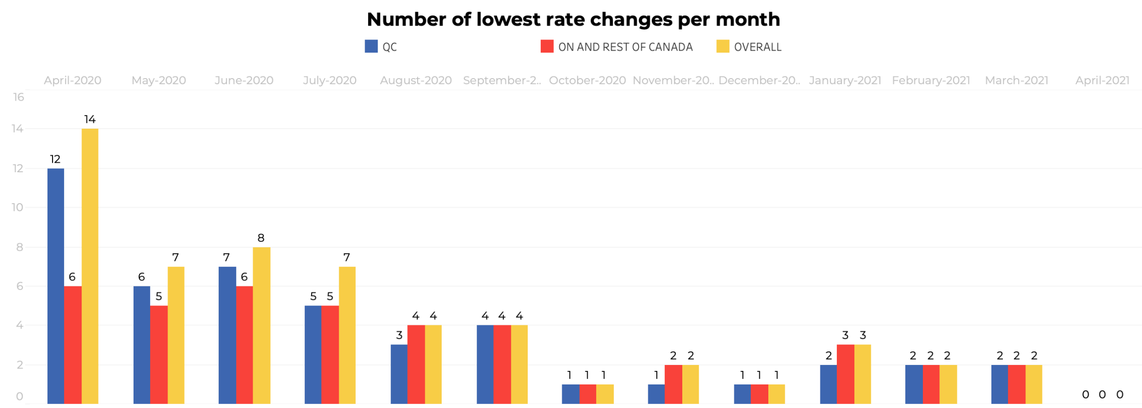

Fig. 1: Number of times the lowest rates offered by nesto to its users changed per month across provinces between March 1st 2020 and May 1st, 2021. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable (20%+ down payment) and corresponds to the lowest rate nesto could offer its clients at the time.

In terms of rate volatility, since April 2020, our lowest rates for insured (5-19.99% down payment) and insurable (20%+ down payment, but within insurer guidelines) mortgages, both 5-year fixed and variable, have changed a total of 55 times, which also means an average of 4.23 times per month.

For the first time in over a year, indeed, there were no changes to our lowest rates in April 2021.

Comparing the last 6 months to what we saw at the beginning of the pandemic, we are following a much more stable trend.

Volatility - by type

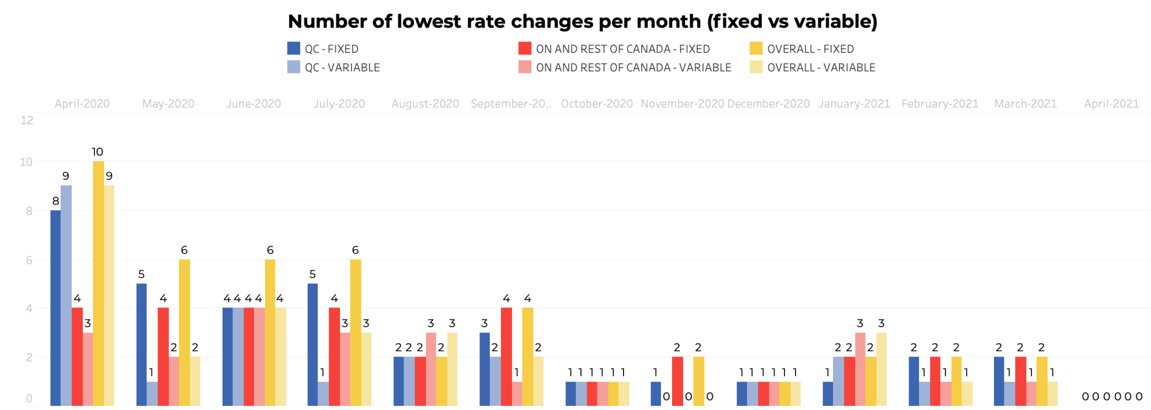

Fig. 2: Number of times the lowest rates offered by nesto to its users changed per month across provinces between April 1st 2020 and May 1st, 2021 and comparing fixed to variable rates. Lowest rates looked at were fixed and variable insured (5-19.99% down payment) as well as fixed and variable insurable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

As mentioned previously, since there were no rate changes in the last month, our rate volatility for the lowest fixed and variable rates remains the same.

The last 2 adjustments occured back in March 2021 , where we saw 2 rate changes with fixed rates, upwards, while variable rates only saw one change, down lower than the best available in February 2021 thanks to a deeper discount from the prime rate. Since then, our lowest rates remained stable, both in Quebec and the rest of Canada.

Volatility - Up or Down: difference due to fixed rate increase

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

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

Fixed

	Lowest rate	Highest rate	Difference
Rate (ROC fixed insurable)	1.84%	1.39%	0.45%
Monthly payment	$1,350.00	$1,282.00	$68.00
Total payments	$81,017.00	$76,892.00	$4,125.00
Total interest paid	$27,385.00	$20,611.00	$6,774.00
Total principal paid	$53,631.00	$56,281.00	-$2,650.00
Money saved	-$4,125.00		
Balance remaining	**$271,134.00**	**$277,324.00**	**-$6,190.00**

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Table 1: This table represents the effect of a 0.45% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term

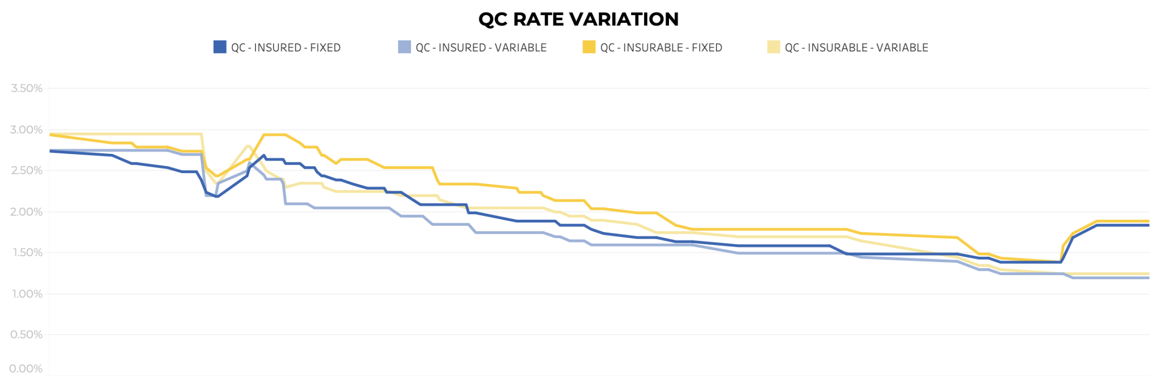
Again, no rate changes in the last month also means the difference between our lowest and our highest fixed insured rate in Canada remains the same.

With the fixed rates having increased back in February and March 2021, we decided to compare our highest to our lowest fixed insured rates from February 2020 to May 2021 and demonstrate the effect of this 0.45% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term.

Scenario 1: You signed a mortgage at 1.39%, our lowest insured fixed rate in 2020. Good for you! You'll end up saving almost $7,000 in interest fees over the course of 5 years compared to today's best rate!

Scenario 2: You recently signed a mortgage at 1.84%, our highest insured fixed rate so far in 2021. It's still a very good rate, but at a 0.45% rate difference, you'll end up spending a little over $4,000 more in total payments over 5 years!

B. Variance: Lowest rates



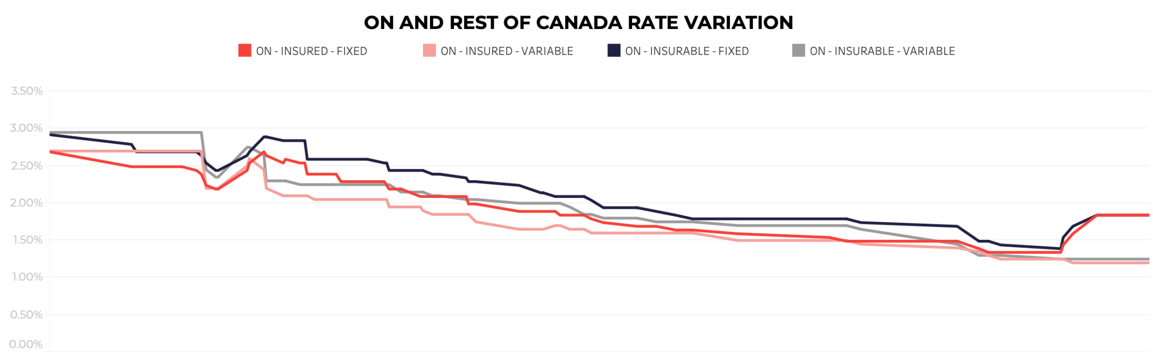


Fig. 3: These graphs show the rate variance from January 1st 2020 to May 1st 2021 in Quebec compared to Ontario and the rest of Canada.

Looking back 16 months, since January 2020, our best rates have changed by 1.35-1.70% - the highest insurable variable rate was at 2.95% while the lowest was at 1.25%, which makes a 1.70% difference.

While fixed rates had been trending downward since April 2020, they made the first signigant move upwards in February 2021. The trend contunitued into March 2021, still pulling further away from their lowest variable loan-to-value equivalents which dropped once again in March 2021, to 1.20% (prime -1.25%).

All through April 2021, nesto's best rates have seen no variations at all.

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

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

Variable

	Lowest rate	Highest rate	Difference
Rate (ROC variable insurable)	1.25%	2.95%	-1.70%
Monthly payment	$1,261.00	$1,529.00	-$268.00
Total payments	$75,634.00	$91,717.00	-$16,083.00
Total interest paid	$18,513.00	$44,276.00	-$25,763.00
Total principal paid	$57,121.00	$47,441.00	$9,680.00
Money saved	$16,083.00		
Balance remaining	**$267,644.00**	**$277,324.00**	**-$9,680.00**

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Table 2: This table represents the effect of a 1.70% rate difference on a 350k home, with 10% down payment and a 25 year amortization after a 5 year term.

With no rate changes in April 2021, this month's table showcases the exact same rate difference we observed the previous month. It represents the effect of a 1.70% rate difference on a 350k home, with 10% down payment and a 25 year amortisation after a 5 year term.

Scenario 1: You signed a mortgage at 2.95%, our highest insurable variable rate seen in over a year. This 1.70% rate difference would have you end up paying $16,000 more in monthly mortgage payments over 5 years!

Scenario 2: You signed a mortgage at 1.25%, our lowest insurable variable rate seen in the last 13 months. In this situation, you'll end up saving over $25,000 in interest fees over the course of only 5 years!

#2

MORTGAGE TYPE TRENDS

Purchase vs Renewal vs Refinance

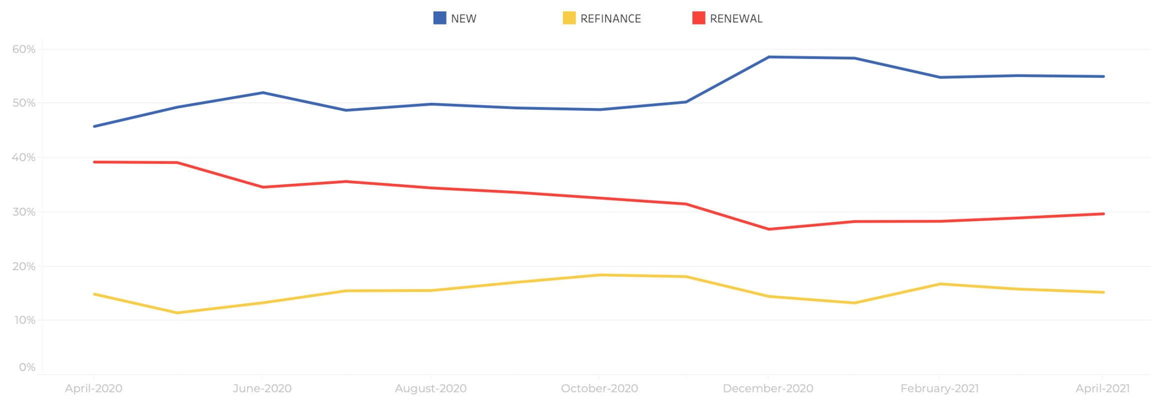

Fig. 4: Trends for proportion of purchases (new mortgages) vs renewals vs refinances from April 1st 2020 to May 1st, 2021. Sum is 100% for each month.

In April 2021, the real estate market is still very active and while the request volume for new purchases still represents a little over 50% of our overall demand, we are seeing a tiny uptick in renewal intent vs refinance intent, continuing the trend we observed in March versus February 2021.

#3

PURCHASE TIMING INTENT

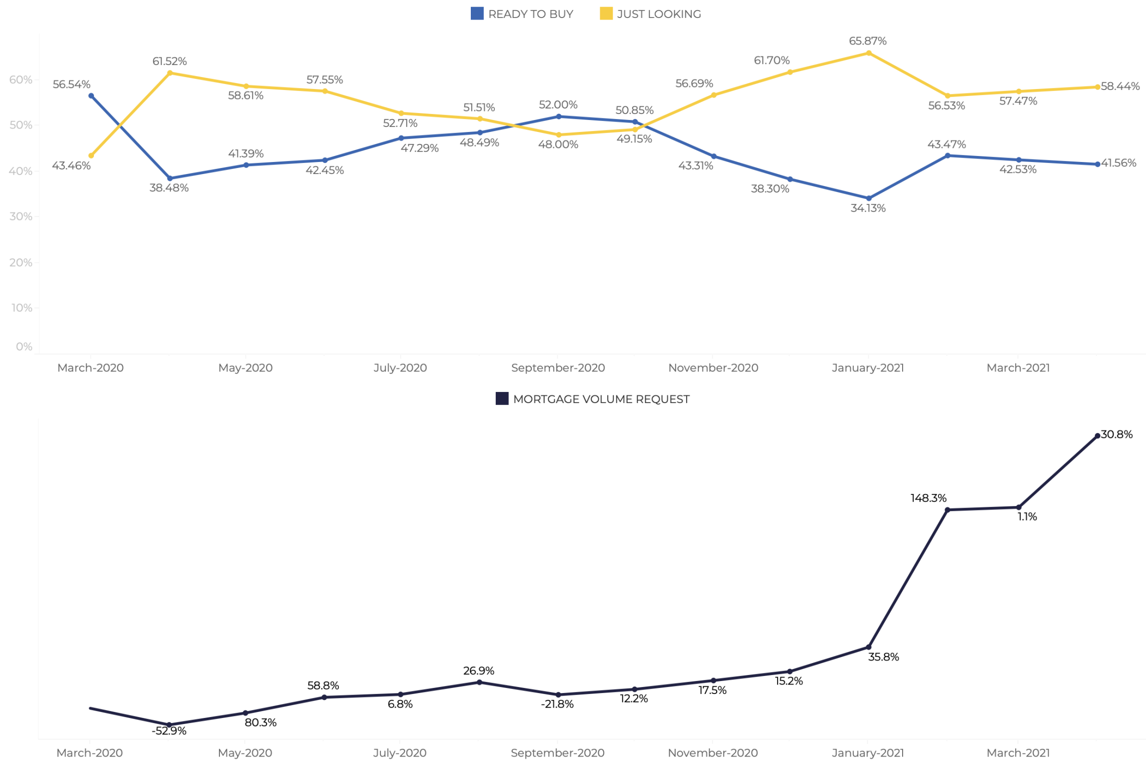

Fig. 5: Purchase intent: proportion of users "ready to buy" vs "just looking" in nesto's mortgage process, showing month by month from April 1st 2020 to May 1st, 2021.

Comparing April 2021 to March 2021, the purchase timing intent of our users remains consistent with what we saw in February and March 2021, with the percentage of those "just looking" gaining a 1% increase in the last month.

Looking at our total canadian mortgage volume requests, we felt a large uptick in April compared to March 2021, with a 31% increase in overall demand.

Although this spike is surely anchored to marketing efforts and real estate market seasonality, we believe it is amplified by a shift in the consumer mindset towards where they feel safe obtaining financial products and general advice. For as long as one remembers, our parents were a primary source for financial wisdom and professional referrals. Fast-forward to today, where personal due diligence often starts on the internet, technology focused companies like nesto are easily found along side social proof confirming a secure, user-empowering and transaparent mortgage experience.

It's clear to us that Canadians seek an unbiased opinion where they are assured, not just told, that the professional's commission or paycheck will not interfere with or influence the advice received.

By province

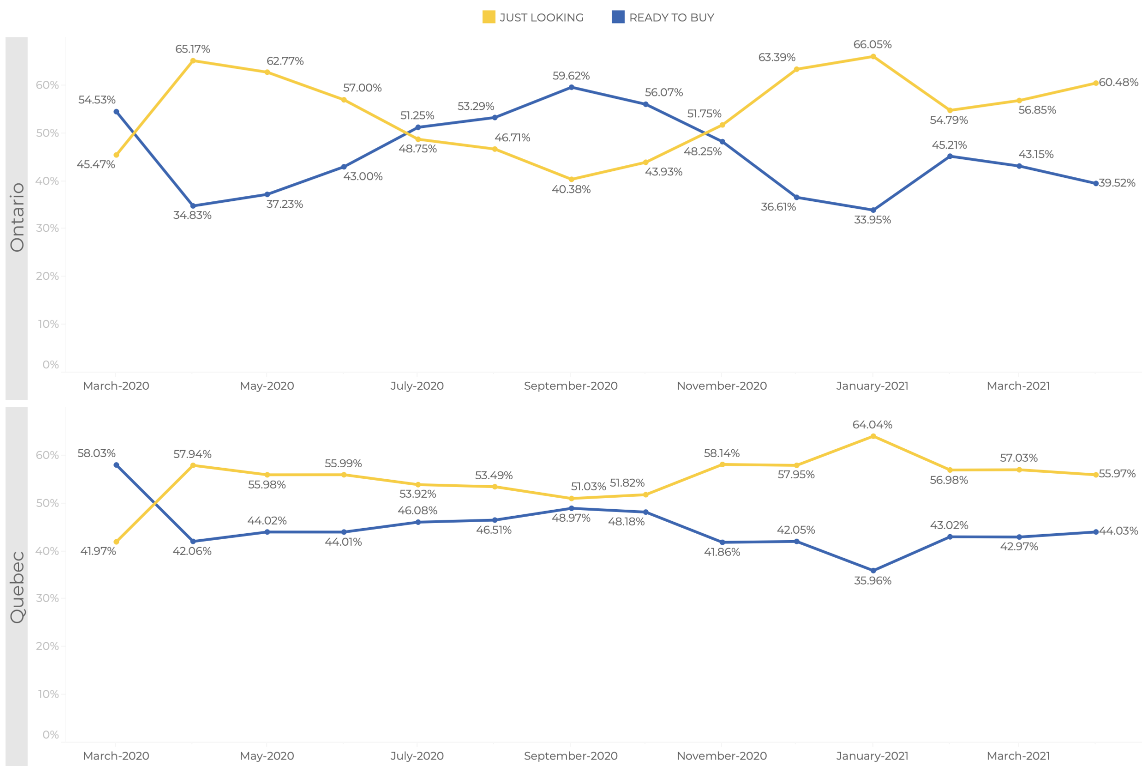

Fig. 6: Purchase timing intent proportion of users “ready to buy” vs “just looking” in nesto’s mortgage process, from April 1st 2020 to May 1st, 2021 in Quebec and Ontario.

Now looking at our results by province, we notice that the overall trend of intent seems to be reflected in both Quebec and Ontario. The percentage of those just looking has increased in the last month, especially in Ontario, by a little less than 10% since February 2021, coinciding with our first rate increase in over a year. As we saw rates increasing again in the next few months, the percentage of those “ready to buy” kept going down.

Following the 2020 trend, we were expecting to see a lot more of those were were “just looking” evolving towards live transactions or “ready to buy”, but instead, pre approvals and rate curious users remained steady again in April 2021, possibly related to their difficulty in finding a home to purchase within their price range in this seller’s market.

#4

PROPERTY VALUE AND DOWN PAYMENT

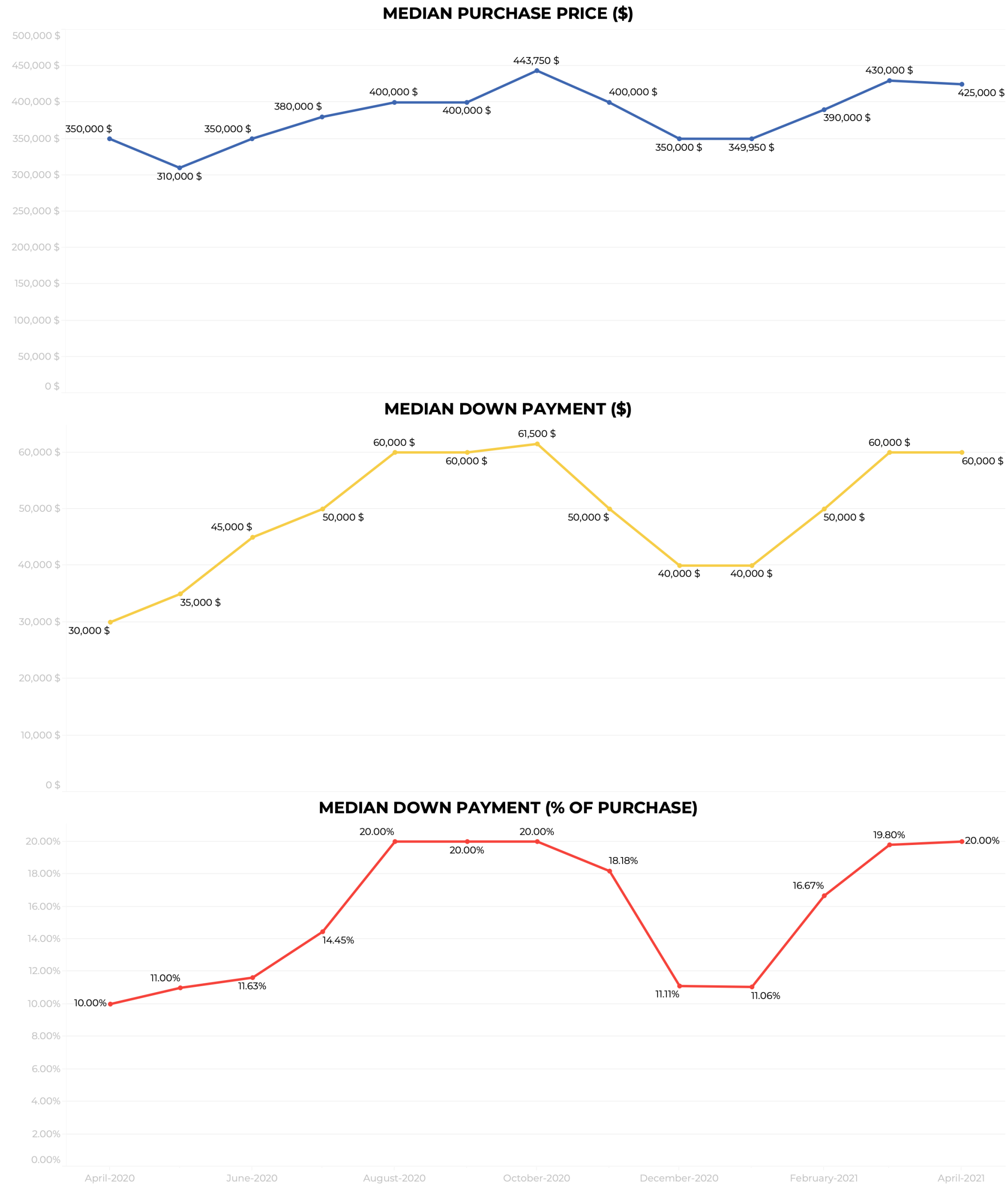

Fig. 7: Graph of intended purchase price vs down payment (in dollars and percentage) from April 1st 2020 to May 1st, 2021.

Just like we saw a big drop in both median down payment and purchase price from October to December 2020, followed by a big jump from January to February 2021, what our data is showing us now, in April 2021, is some steadiness.

While the current real estate market remains very hot, those who are still planning to buy a house in the near future have no choice but to follow the tendencies of the market and, in order to maintain their expectations of home ownership, put more money on the table than they anticipated.

After a steep increase from February to March 2021, the median down payment and purchase price remained steady for the past 2 months. Our median purchase price for Canada is now at $425, 000, while our median down payment is still at 20%.

By province

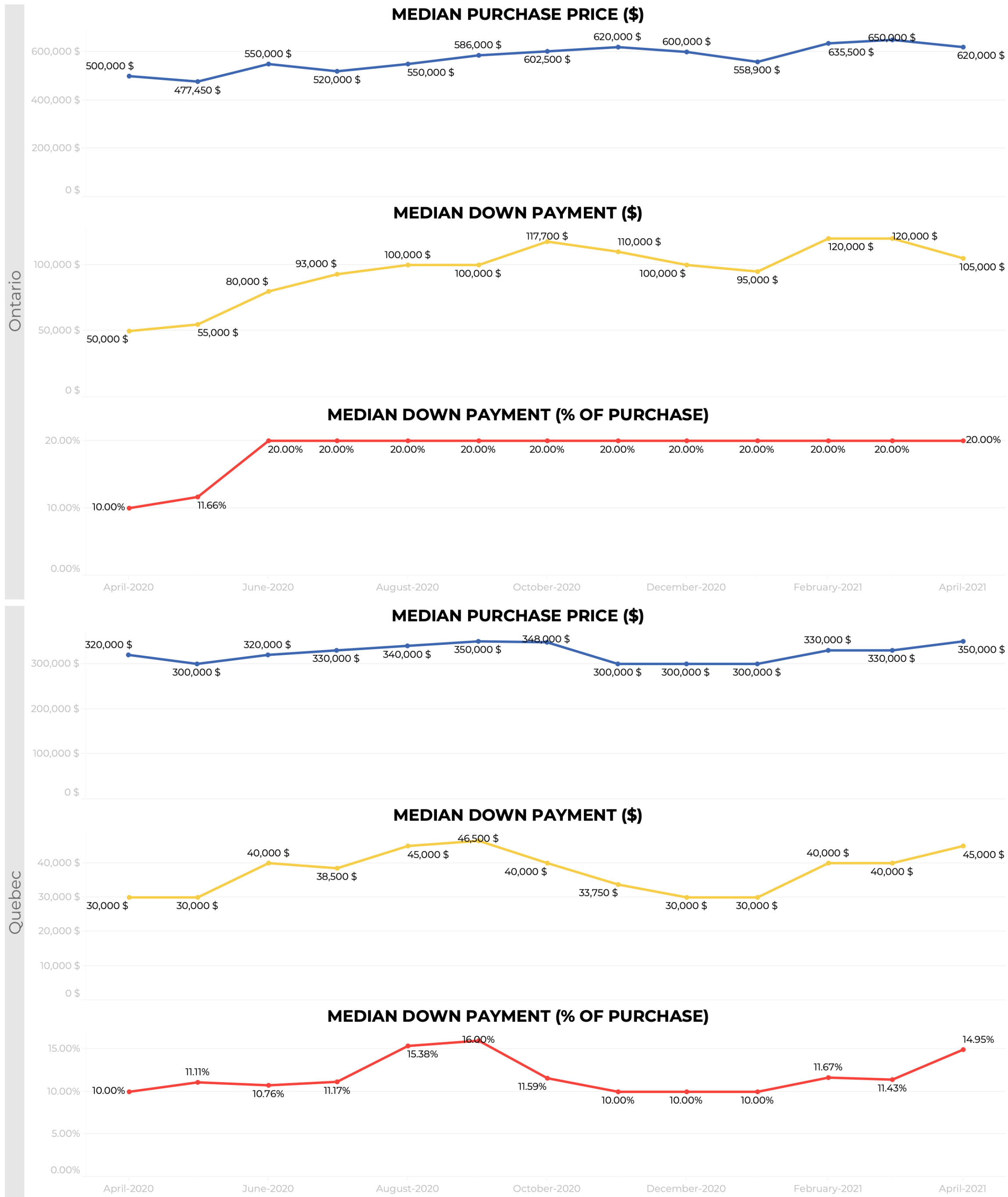

Fig. 8: Graph of intended purchase prices vs down payment (in dollars and percentage) from April 1st 2020 to May 1st, 2021 in Ontario and Quebec.

Now, let's change perspective and look at the same results on a province to province scale. While our Ontario median down payment remains at 20% for the eleventh month in a row, in Quebec, it increases by almost 4%, from 11.5% to approximately 15% between March and April 2021.

Looking at median purchase price, Quebec numbers increased slightly from last month, now at $350,000, while Ontario numbers decreased by $30,000, from $650,000 to $620,000 in April 2021.

DEEP DIVE

1. APPROVAL DELAYS - ONTARIO

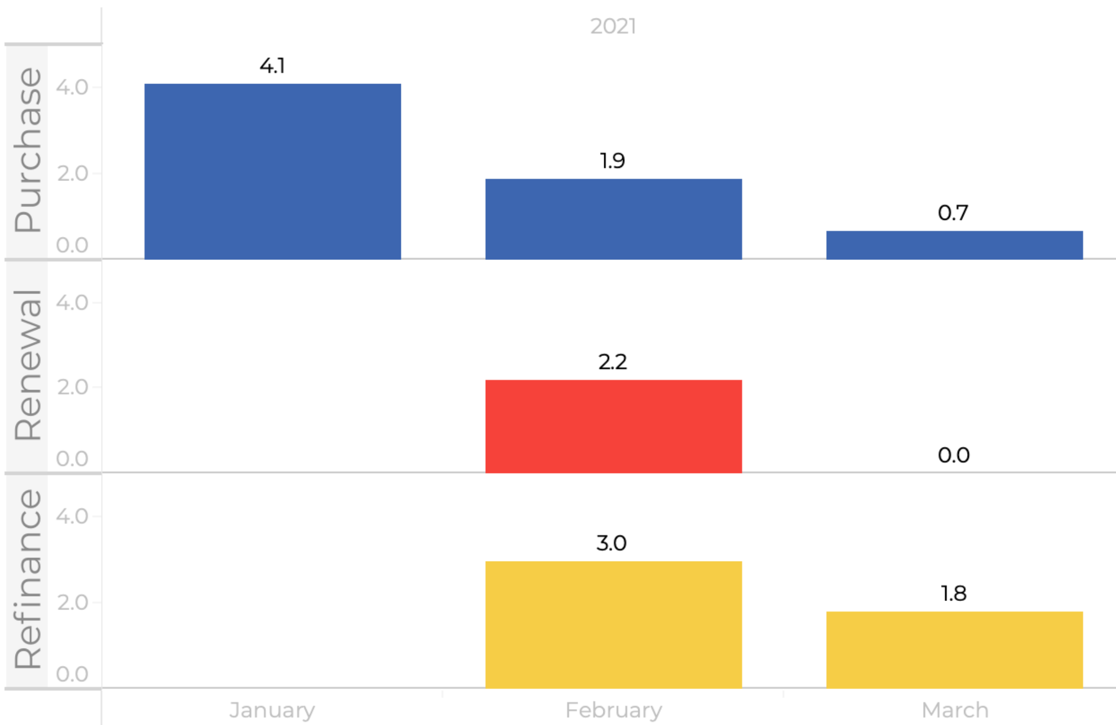

Fig 9a: Approval delays in Ontario as of April 1st, 2021

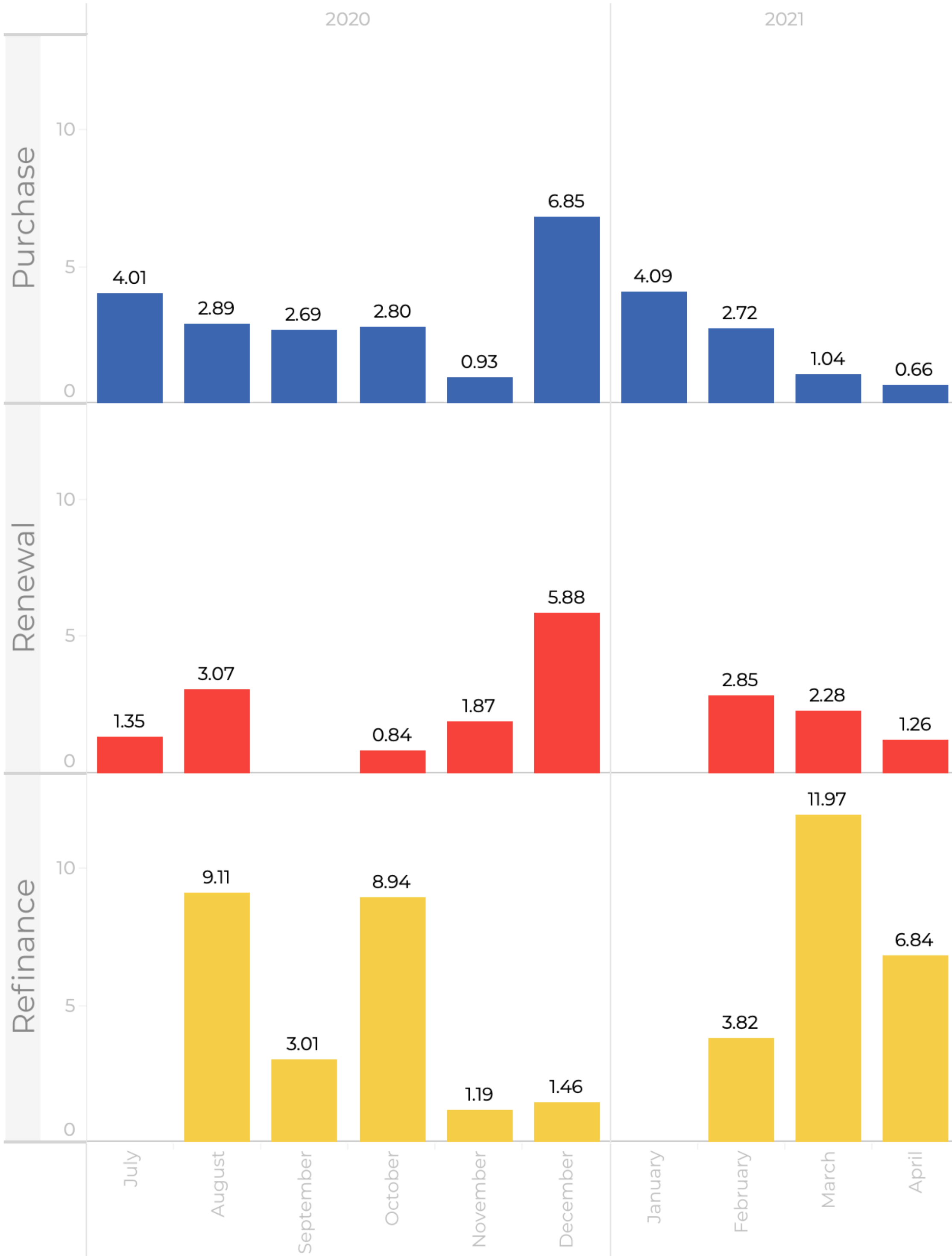

Fig 9b: Approval delays in Ontario as of May 1st, 2021

Revisiting approval delays since July 2020, we decided this time to split our data by mortgage type (new, renewal, refinance) and focus specifically on Ontario.

When last reported, the approval delays for refinances requests submitted in March 2021 were an average of 2 days. As these users' applications matured throughout the month, the average approval delays for March reached a high of 12 days. Namely due to lenders prioritising purchases and renewals with more sensitive deadlines over refinances, further amplified by shortage of appraiser/evaluator availability.

Now back at an average delay of 7 days for refinances submitted in April 2021, we do expect this number to increase similarly to March, reaching a new high considering delays are already 3 times higher than at the same time for last month.

Please keep in mind these delays refer to user applications that started at nesto.ca in the month they are allocated to in the chart.

2. APPROVAL DELAYS GENERAL

For the majority of 2020, any delays with regards to your approval could be linked to a number of factors with or without the influence of COVID or any pandemic measures. While 2021 has demonstrated our lender's incredible resilience to economic uncertainty and their ability to adapt, 2021 has also exposed a new bottle-neck for Canadian borrowers that has yet to be solved: Property Valuations.

As a result of rising fixed rates, economic opportunity and other factors, we have noted a significant increase in refinance volumes. From a lending perspective, a refinance transaction carries slightly more risk than a purchase, or a renewal and as a result, an appraisal is required almost 100% of the time. Add this increased evaluator utilisation to another issue: Sales data does not support current sale prices. In order to avoid an appraisal, a lender would need to be able to confirm market value via other means, sometimes referred to as an Automated Valuation Method(AVM). Record high prices across the nation make this data validation a seemingly rare victory as of late and result in a significantly increased reliance on full appraisals, which must be done in person by a 3rd party apprasier or evaluator, but not to be confused with home inspector.

3. FIXED VS VARIABLE

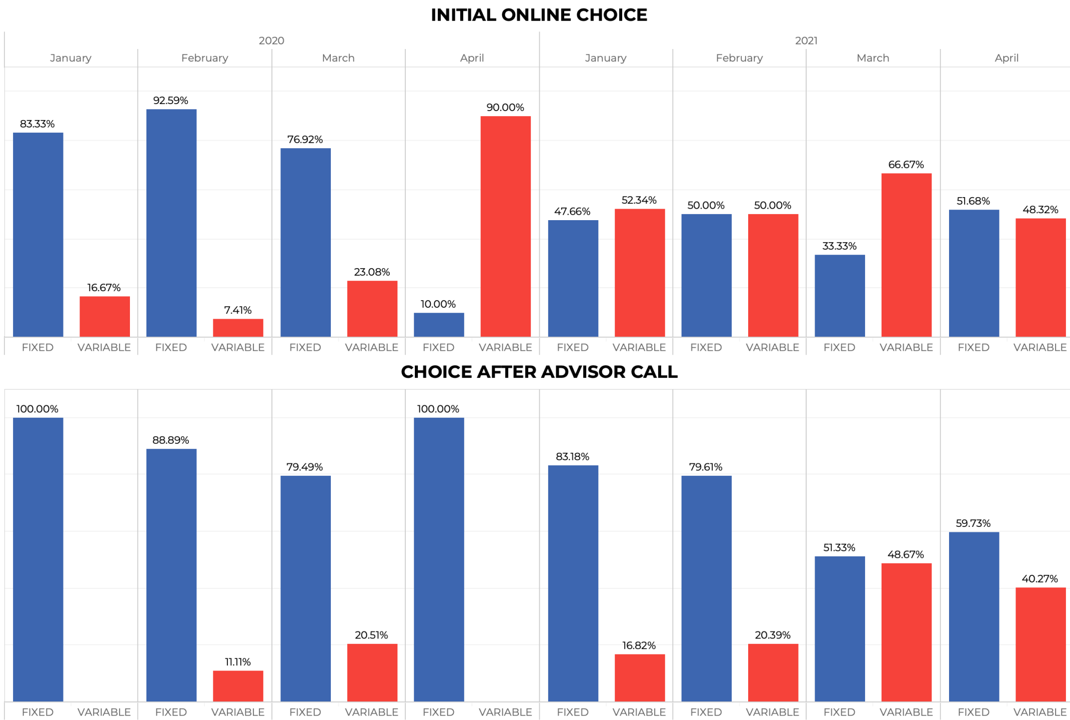

Fig 10: This table shows our users Initial vs final choice between fixed and variable rate, comparing data from January to April 2020 vs 2021.

Looking at the evolution of initial interest vs final choice regarding the option of a fixed vs variable rate:

- In April 2020, the COVID related significant increase in fixed rates caused the initial interest in variable options to rise from 23% of requests up to 90%. While the interest was there, majority users still opted for the "safety" of the fixed rate at that time.
- In April 2021 and leading to it from January, the initial interest between the two(with an approx. spread of .60%) is relatively even. Signalling a new trend that has developed since the arrival of COVID-19 and pandemic measures.

Forward to the final decision between a fixed or variable rate mortgage after speaking with a mortgage advisor, the largest number of our users since nesto's inception are opting for a 5 year variable rate mortgage. This trend is the result of a widening spread between the best fixed and best variable, coupled by the security associated with the small 3 month interest penalty (as opposed to the risk of a large Interest Rate Differential penalty associated with fixed rate products). Add the above to an assumption that the Bank of Canada will follow a similar path of recovery as they did following the 2008 financial crisis with regards to the prime rate, borrowers feel like the most savings along with the most opportunity will be realized if they go variable. In my biased opinion, life for many is more of a variable today than ever before and I feel that this is the appropriate choice for those who can afford the risk of increasing payments throughout their 5 year term in exchange for a much less penalty exposure.

For information purposes, a .25% increase to the prime rate is equal to an increase of approx. $12.50/month for every $100,000 borrowed, if the amortization remaining is 25 years.

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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