

**Carney Right About Real Estate Bubble;
Mortgage Requirements Should be Tightened**

**BDO Dunwoody Weekly CEO/Business Leader Poll
By COMPAS in *Canadian Business*
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1.0. Overview

COMPAS' combination CEO poll for three weeks of Canadian Business website reports examines the views of business panelists on three themes. The theme released this week relates to the Bank of Canada Governor's implicit warnings about a real estate bubble and what should be done.

Governor Carney's warnings about an implicit real estate bubble were well received. Panelists want mortgage requirements tightened.

These are the key findings from this past week's Internet survey of CEOs and business leaders on the COMPAS panel. The weekly business survey is undertaken for *Canadian Business* magazine under sponsorship of BDO Dunwoody LLP.



2.0. Carney Right About Real Estate Bubble; Mortgage Requirements Should be Tightened

Detailed findings appear in the following tables.

(Q3) The Bank of Canada Governor has warned Canadians against accumulating excessive household debt. His apparent concern is about a housing bubble that could burst once interest rates begin climbing. On a 7 point scale where 7 means well founded and 1, the opposite, how well founded is the Bank Governor's concern?

Mean	7	6	5	4	3	2	1	DNK
5.7	21	44	25	6	2	1	2	0

(Q4) Should the Government of Canada urge mortgage lenders to tighten up on their terms, requiring significantly higher down payments? How much do you agree with this view on a 7 point scale where 7 means agree strongly and 1, disagree strongly?

Mean	7	6	5	4	3	2	1	DNK
4.8	15	20	31	15	9	8	3	0

The following verbatims provide a nuanced sense of panel opinion:
2010 will be somewhat of a repeat of 2009. The fact that there will be little or no growth means that overextended companies unable to support that debt load on reduced



revenue levels will fail and place more people on the unemployment line.

There is a recent increase in the strength of the US \$ but that is only because the alternates are not very good. However the US \$ is overextended as well and the only way to keep it at a high level is through low interest rates. However the overall debt levels will place pressure on being able to do so. When interest rates increase, the US \$ will fall despite paying a higher return as there will be greater instability caused by a greater inability to manage that additional cost. The same applies to all levels of government, compounded by higher unemployment reducing revenues and increasing social program costs.

Although Mark Carney is right about the vulnerability of Canadian holds, but the suggested solution is not on the right track.

Doesn't make sense to allow Canadian to use their housing investment as part of their RRSP contribution?

Both Governments and Mortgage Lenders must provide better education on the subject of the cost of borrowing. Borrowers must understand mortgage requirements when interest rates change especially when future rates increase as well as when values decline and the compound effects if both happen simultaneously. This education must be done to advise and educate rather than to create fear.

Excessive debt, especially credit card debt, while making the card issuers rich has done a huge disservice to those who can least afford it. If you can't make a small purchase with cash don't make it until you can.

We may be in for another housing based financial crash. What many fail to realize is that if you have a low interest rate and a high mortgage loan amount, a single point increase in the interest rate can significantly increase ones



monthly payments; an increase that many will be unable to pay. (i.e.: a 1 percentage point increase on an existing 5% mortgage rate is actually a 20% increase to ones monthly payments. It would have only been a 10% increase in ones payments if one had a 10% mortgage and there was an increase of 1 percentage point. Beware of a second bump in the road.

3.0 Methodology

The COMPAS web-survey of CEOs and leaders of small, medium, and large corporations was conducted December 16-18, 2009. Respondents constitute an essentially hand-picked panel with a higher numerical representation of small and medium-sized firms.

Because of the small population of CEOs and business leaders from which the sample was drawn, the study can be considered more accurate than comparably sized general public studies. In studies of the general public, surveys of n=117 are deemed accurate to within approximate 9.1 percentage points 19 times out of 20. The principal and investigator on this study is Conrad Winn, Ph.D.

