



November 2007

marketsmarts

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Mortgage Smart

MORTGAGE INNOVATION IN THE WORLD OF FINANCIAL SERVICES



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Mortgage Smart

Rising real estate prices across Canada continue to jeopardize the dream of home ownership for many Canadians. As this unfortunate trend continues banks, credit unions and other lenders have begun to offer solutions beyond the traditional 'fixed rate, fixed term' mortgage of days past. Consumers can now choose to lower their monthly costs by amortizing beyond 25 years or by choosing unique mortgage solutions including the new One-and-Only Account offered by Canadian Tire Bank. Lenders around the world also offer a glimpse of what may be coming to Canada such as the Fresh Start Mortgage sold in the UK and Home Rewards Loan offered in Australia. Closer to home we can look to First Calgary Savings and their First Call Real Estate Program and the Community Builder Mortgage offered by Grand Forks Credit Union for inspiration.

This issue of marketsmarts will examine the current mortgage landscape as well as mortgage innovation and how lenders in Canada and from around the world are helping consumers achieve their dream of home ownership.

A stack of four books is shown against a light blue background. The top book is open, with its pages fanned out to form a triangular shape, resembling a roof. The three books below it are closed and stacked on top of each other. The spines of the books are visible, and the pages are a light cream color.

the housing & mortgage market

The Housing & Mortgage Market

Fueled by historically low interest rates and a booming economy sparked by an international hunger for commodities, Canada's housing sector has been on a tear. Home sales and prices across all regions of the country have seen healthy gains, particularly in the resource-rich west. The Canadian Real Estate Association reports that 2007 is expected to be another in a consecutive string of recording breaking years for home sales, with unit sales nationally reaching nearly 501,000.

According to RBC Economics Research, the average price of a detached bungalow in Canada has reached more than \$300,000 a 12% increase from a year earlier. The western provinces saw the greatest price growth on a year-over-year basis, led by Saskatchewan (up 52%) and Alberta (up 46%). Regional disparity is also evident in housing affordability, where in some markets conditions have become extreme. In its assessment, RBC Economics Research determined that for a detached bungalow in Vancouver, nearly 71% of median pre-tax household income is now

required to service the cost of a mortgage including principal, interest, property taxes and utilities (the "affordability %"), leaving homes in this market available to only the most resourceful buyers. By contrast, in the Atlantic region only 30% of income is required to support a similar property.

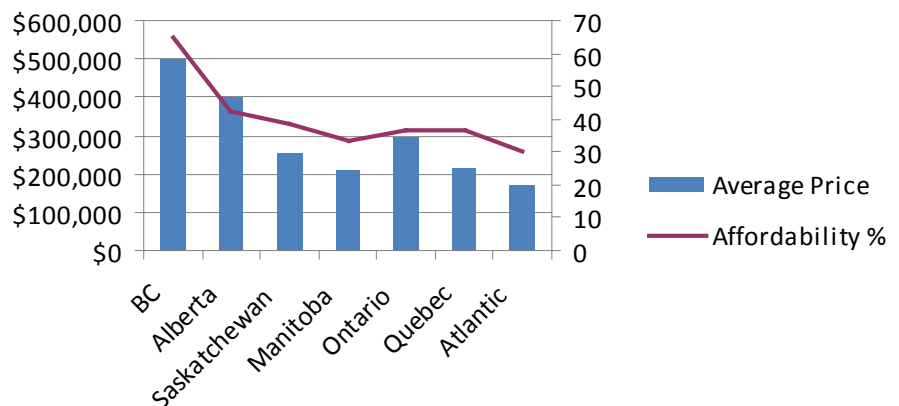
Looking ahead, Canada's real estate market is expected to remain healthy, due to strong economic performance anchored by the lowest unemployment rate in decades, moderate wage gains, positive consumer sentiment and interest rates that remain relatively low. However, there are indications that future performance is unlikely to match the blistering pace of recent years. Countering the strong, and in some markets bubble-like, price gains, is a noticeable softening in other areas. The Conference Board of Canada, in its Metropolitan Housing Outlook Summer 2007, predicts that housing starts, almost flat in 2006, will drop by nearly 9% this year and a further 6% next year as pent up demand for housing begins to wane. Nationally, the average price of a new home is expected to rise at an average annual rate of 3.4% through 2011.



\$300,000

According to RBC Economics Research, the average price of a detached bungalow in Canada has reached more than \$300,000 – a 12% increase from a year earlier.

Home Prices & Affordability by Region
Detached Bungalow 2007Q2



Source: RBC



NEW KID ON THE BLOCK

Competition for the reverse mortgage customer in Canada is about to heat up. In August, New Zealand based reverse mortgage provider, **Seniors Money International**, announced it will go head-to-head with **Canadian Home Income Plan**, or **CHIP**, the dominant player in the Canadian reverse mortgage market. Seniors Money Canada, as the Canadian operation will be known, will initially offer its reverse mortgage product in southwestern Ontario, with plans to expand nationally in 2008, assisted by a distribution agreement struck with leading mortgage broker Mortgage Alliance. The company is looking to capture market share by offering variable rates at 1.25% over prime, compared to CHIP's prime plus 2%. And, there are no early repayment penalties with Seniors Money Canada. The market is attractive for potential entrants. According to 2001 census data, 93% of Canadian seniors aged 65 or older lived in private households, and their numbers are growing rapidly.

Sidebar continued on next page.

Provincially, price gains are expected to range from 4.2% in Alberta to 2.3% in Atlantic Canada. Resale home prices nationally are forecast to grow slightly faster at 4.7%, with more balanced conditions in most markets, remaining tightest in the western provinces.

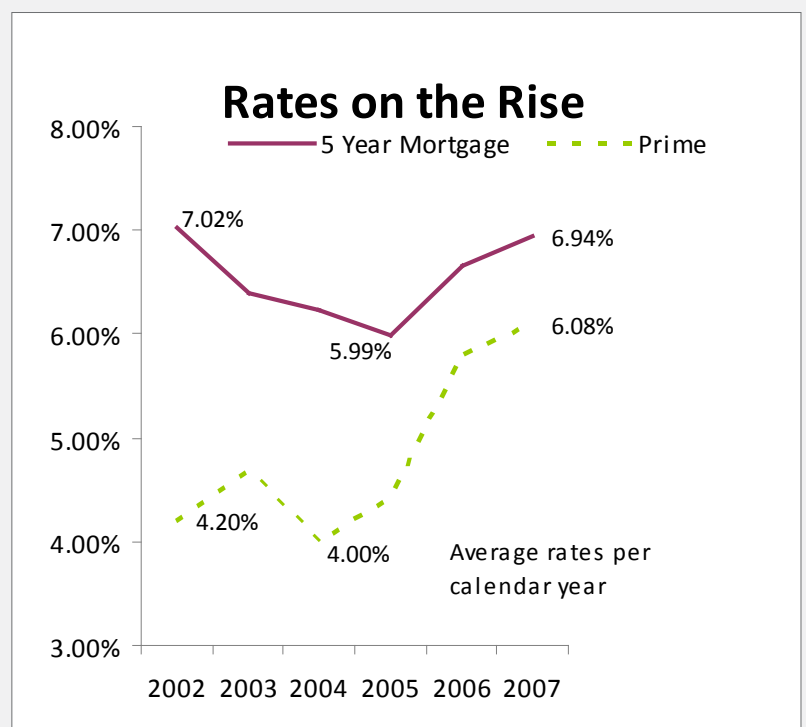
Along with the torrid pace of sales and price appreciation in residential real estate, mortgages have become a hot financial service. Nationally, the dollar volume of mortgage approvals jumped an average of 19.5% annually from 2001 to 2005, as residential mortgage funding took an increasing share of the Canadian credit market. However, moderating housing demand, due in part to climbing interest rates, led the dollar value of approvals to increase by just 3.1% last year. This weakening growth was supported only by continued price strength in home sales as approval volumes actually fell. The Conference Board of Canada expects mortgage approvals to fall a further 5.1% this year and 1.7% in 2008.

Looking ahead, for mortgage marketers the environment will likely be increasingly competitive, as the real estate sector cools down and accommodative long term interest rate declines begin to reverse. Home shoppers will continue to look for ways to enter the market affordably and

deal with higher debt service levels and financing costs. This leaves opportunities for continuing creativity from financial institutions in developing and marketing mortgages that address customer needs while maintaining margins.

High Ratio Lending Extends the Market

Rapidly rising home prices have helped to fuel the high ratio mortgage market in recent years as greater numbers of home shoppers sought to access the market in the face of deteriorating affordability. Lenders responded by creating mortgage products to make homes more affordable and credit more accessible to greater numbers of wishful home buyers. From longer amortization periods to specialized products appealing to specific niches such as the self employed, the high ratio segment has grown more quickly than the mainstream mortgage market in recent years. The Conference Board of Canada reports that since 2001, high ratio mortgage dollar volume grew an average of 18.3% per year, compared to



Source: Bank of Canada



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Amortization Comparison

Example: \$200,000 mortgage at 7.50%

*Continued from
previous page*

In 2006, there were 4.3 million people aged 65 plus, 11.5% more than in 2001. Many of these seniors are debt free or have substantial equity built up in their homes. In its 2006 financial report, CHIP parent Home Equity Income Trust reported over \$104 million in new mortgages, up 18% from the year prior.

But are reverse mortgages a good deal?

By not requiring regular repayments, reverse mortgages often appeal to those on tight budgets. However, homeowners in need of retirement income may be better served by other lending products such as a home equity line of credit. Just some of the advantages are that rates are often lower, the borrower has flexibility to sell the residence without the prospect of repaying the funds borrowed immediately, and the interest paid is visible and does not accumulate sight unseen. If a member is seeking to utilize the equity in their home to generate retirement income, credit unions have attractive borrowing alternatives to reverse mortgages that should be discussed.

	Monthly Payment	Monthly Savings vs. 25 Years	Total Interest	Additional Total Interest vs. 25 Years
25 Years	\$1,463	-----	\$238,933	-----
30 Years	\$1,383	\$80	\$297,800	\$58,867
35 Years	\$1,332	\$131	\$359,508	\$120,575
40 Years	\$1,299	\$164	\$423,634	\$184,701

conventional mortgage growth of 15.6% annually.

The introduction of 30, 35 and 40 year mortgages has improved the affordability picture, allowing many buyers to purchase homes that would be unattainable under a traditional amortization structure. For example, assuming a \$200,000 mortgage at 7.50%, a 25 year standard amortization creates a monthly payment of \$1,463. However, the monthly payment for the same mortgage taken over 40 years drops by more than 11%, to \$1,299. The trade-off of the extension strategy is much higher total interest expense in the long run.

CIBC World Markets estimates that 40% to 50% of new mortgages taken out in the past year have had amortization lengths beyond 25 years. "The 40 year mortgages are quite popular," comments Steve Mennill, director of product and strategic direction for Canada Mortgage and Housing. "People get more cash flow to use at their discretion for a longer payment period."

Canadians Open to Innovation

Stretching affordability for buyers beyond traditional boundaries has the potential to create economic difficulties if these efforts

are done too aggressively. Evidence of this comes from the United States, where mortgage lending to customers with weaker credit profiles, the 'subprime' market, reached a fever pitch and subsequently unraveled, bringing home sales down with it. CIBC World Markets reported that south of the border the share of interest-only mortgages jumped from 5% in 2003 to 20% in 2006, while the number of subprime mortgages more than doubled to 22% of the market.

In Canada, so far, lenders have taken a more conservative approach, with interest-only and subprime mortgages representing 1% and 5% of mortgage originations respectively. Despite the risks evident in subprime lending as witnessed by the American experience, the subprime market in Canada is expected to grow to \$70 billion or 9% of the mortgage market in the next five years, according to forecasts by the Canadian Association of Accredited Mortgage Professionals (CAAMP). This is likely to support continued product innovation that will eventually filter through to the mainstream mortgage market. What's more, the popularity of innovative products such as longer term amortizations is conditioning Canadians to expect financial institutions to think

66%

66% of Canadians surveyed think it is very important to have paid off their mortgage by retirement.

59%

Among those in the 55+ age bracket, 59% think it is very important to have paid off their mortgage by retirement – the lowest percentage among all age groups surveyed.

beyond the mainstream in what they offer. A survey conducted by Maritz Research on behalf of CAAMP in spring 2007, revealed that a majority (51%) of residential mortgage holders in Canada are aware of new alternative mortgage products, with the largest portion (38%) believing these products were a positive development for the marketplace. The survey results further revealed that non-owners (those who rent or live with others), had a more favourable attitude than homeowners, suggesting that first-time buyers will likely be more receptive to options that make it easier for them to own a home, while existing homeowners are more likely to see possible risks in these alternative products.

Market Rate Driven, but Not Uniform

Beyond offering insights to attitudes towards alternative products, CAAMP research also ascertained what customers valued most in their mortgages, and also found distinct differences between age groups (table on next page). Over two-thirds, 67% listed rate as the most important reason they are satisfied,

followed by flexibility (34%), payment options (21%) and service (17%). Rate was particularly important among the youngest segment, while flexibility, payment options and service issues became relatively more prominent with age. Interestingly, cash back and rewards, often promoted by financial marketers, were cited by only 2% of customers as a reason for satisfaction.

Another difference in attitudes toward mortgages across age groups is found in RBC's latest *Annual Homeownership Survey* released this spring. It found that baby boomers seem less concerned than their younger counterparts with being mortgage free when they retire. While 66% of Canadians surveyed thought it is very important to have paid off their mortgage by retirement, among those 55 plus, the percentage dropped to 59%, the lowest of all the age groups. Further, 37% of the 55 plus segment still had a mortgage on their homes. "Most Canadians still think it's important to pay off their mortgage by the time they retire, and we see a huge jump in those that have paid it off once they hit 55. Yet,



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Top Reasons for Satisfaction with Mortgages

Reason	Age Group			Total
	18-34	35-54	55+	
Mortgage Rate	74%	67%	55%	67%
Flexibility	29%	35%	39%	34%
Payment Plan Options	15%	23%	23%	21%
Good service	14%	18%	20%	17%
Ability to Make Lump Sum/Extra Payments	13%	9%	12%	11%
Duration or Length of Mortgage	15%	9%	10%	11%

Source: Pollara survey for CAAMP, Fall 2006

it appears that the level of importance in being mortgage free in retirement is decreasing for boomers,” commented Catherine Adams, vice-president of Home Equity Financing for RBC Royal Bank.

This research has implications for product design. It suggests that while all age groups still value interest rate above all else in their mortgage, older segments are less price-driven and place a relatively high value on product flexibility and service capabilities of the lender. Further, it’s apparent that going forward, many older Canadians are likely to be carrying mortgage debt into their later years, making it crucial for financial marketers to continue to keep their eye on this

segment’s borrowing needs.

All-in-one accounts, green mortgages and peer-to-peer lending are but a few examples of the wave of product innovation that is occurring in the mortgage market. As competition increases, interest rates rise and home sales moderate, it is likely that lenders will continue the trend of appealing to niche segments of the market to sustain growth. What follows are examples of new or innovative mortgage products that credit unions can use as inspiration in their own product development efforts.



products in focus

Canadian Tire Launches One-and-Only Account



Canadian Tire has joined Manulife Bank and Envision Financial in offering Canadians an 'all in one' mortgage account. Called the One-and-Only Account, the product is being piloted in Kitchener-Waterloo, London and Calgary.

The One-and-Only Account works similarly to Manulife's One account and Envision's Redfrog, allowing customers to combine demand balances, mortgages, lines of credit, credit card balances and other personal debts into one product. The One-and-Only Account will lend up to 80% of the home's value and enable the customer to consolidate higher interest debt, saving interest expenses over the long term. Any savings or deposits made to the account, paycheques for example, automatically lower the net debt outstanding, saving still more. These features give the customer the ability to pay off their debts faster. "It automatically makes your money work harder," Pam Dodaro, associate vice-president of Canadian Tire Financial Services told the Toronto Star. Unlike Manulife's One which charges a monthly fee of up to \$14, there are no transaction fees with Canadian Tire's offering. Customers can access their account via ABM, cheque, phone or online at www.myctfs.com as well as use Direct Payment.

Canadian Tire's multi-media advertising effort to launch the product utilizes television, direct marketing and in-store elements. The campaign introduces 'Morty' a white costumed character who personifies the burdensome traditional mortgage. Potential customers who want to discover how the One-and-Only Account works (with the option of watching a video tutorial) can visit www.mortgageinyourway.com. The site includes a calculator that allows the visitor to enter their current debts, savings and monthly cash flow to determine how much money they might save. Those who sign up for the One-and-Only Account will also enjoy no set up or appraisal fees (if using Canadian Tire's service provider), and receive \$100 in bonus Canadian Tire money when the account is opened.

One criticism of all-in-one accounts is that customers can often do better rate wise by shopping for a mortgage independently. The One-and-Only Account's current variable rate set at prime exceeds the posted rate of comparable variable rate products that can be found elsewhere. Shoppers with other lenders have the capability to negotiate further discounts, unlike Canadian Tire's one-price-fits-all approach. "But with the One-and-Only Account, as well as your mortgage you're also paying down other higher, unsecured debt," says Canadian Tire's Dodaro. She believes that the interest savings offered by paying down combined debts faster, outweighs any rate advantage that can be had at another institution. Customer can choose to set up part of the debt at fixed rates, but will have only limited prepayment options, thus losing the advantage of pooling loans and savings to reduce interest costs.

Canadian Tire One-and-Only Account

Sample Scenario

(using calculator from www.mortgageinyourway.com)

Debt*

\$200,000 fixed mortgage @ 6%

\$20,000 unsecured loan @ 8.25%

\$8,000 credit card @ 18.50%

Total Debt: \$228,000

Total Monthly Debt Payments: \$2,340

Savings

\$3,000 chequing

\$5,000 cashable GIC

Monthly Net Income after Debt Payments, Taxes & Monthly Expenses: \$160

**One
-and-
Only
Account**

**Prime Rate
@ 6.25%**



Switching to the **One-and-Only** Account versus current path, saves **\$120,402** in interest and shortens amortization period to **10 years**.

** for simplicity, scenario assumes no penalty to switch mortgage and 2% minimum monthly repayment on credit card balance*

Total Repayment Period:

10 years (vs. 25)

Total Interest Saved: \$120,402

One major benefit the Canadian Tire product and its peers offer is the ability to use savings, often earning meager returns, to offset debt. Savings balances, while not generating interest directly in the all-in-one account, can generate a higher return in the form of interest expense saved when applied against debt. For example, funds that would normally sit in a 1% savings account, will

earn a far greater return if used to reduce a 6% mortgage balance. And, because these savings balances do not generate interest that is taxable, this account structure is especially beneficial to those in higher tax brackets. In summary, the One-and-Only Account is not for everyone, but is best suited to those with a myriad of higher interest debt or larger savings to place in the account.



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The One-and-Only Account is offered through Canadian Tire Bank and is the retailer's latest foray into financial services. The Bank, with \$860 million in assets, launched high interest savings, GICs and residential mortgages last fall.

All-in-One Accounts: the UK Experience

Why are Canadian lenders tinkering with the all-in-one mortgage concept? Firstly, it has been successful elsewhere. Originally developed in Australia, the offset or current account mortgage as it is known abroad, was introduced to the United Kingdom in 1997. The concept arrived in Canada in 1999 with the release of Manulife One.

Statistics suggest that about 8% of British mortgage holders have an offset product. In Australia, which has offered offset product much longer, estimates of market penetration are as high as 50%. There are indications that in the past year offset mortgages have been gaining greater traction in the UK, with 49% year-over-year growth versus a 15% gain for non-offset lending¹. Further, a 2005 research report released by ICM, revealed that 60% of British homeowners were aware of offset mortgages, more than double the percentage in 2000. By comparison, just over a third of Canadians are aware of the all-in-one account concept.²

What attracts lenders is the profile of the typical offset mortgage customer. Market research from the UK shows this customer to be older, having a higher income, being an experienced borrower (rather than a first-time buyer) and purchasing a more expensive home funded by larger borrowings.

Mortgages Go Green

As sensitivity to environmental issues grows, lenders are developing products to accommodate the public's interest in going green with their borrowing decisions. One initiative is the green mortgage. Citizens Bank of Canada launched its green mortgage this past spring offering a traditional mortgage packaged with eco-extras like a curb side recycling box, compact fluorescent bulbs, coupons for energy efficient products and services, and a complimentary home energy audit. TD Canada Trust is reportedly looking at green lending options ranging from cuts in mortgage rates to extended lines of credit for green home purchasers³. So how can your credit union get involved?

Stretch the Dollar. Offer members the chance to save money by examining options like preferred rates for those building or purchasing green homes, or conducting renovations to improve energy

Mortgage Borrower Profile, UK, 2006

	Median Age	Purchase Price (£)	Loan Amount (£)	Gross Income (£)
Offset	41	225,458	121,223	49,143
Non-offset	38	164,972	103,724	38,245

Source: CML / BankSearch Regulated Mortgage Survey

efficiency. A recent survey by Investors Group indicated that 63% of Canadians are willing to spend up to \$10,000 on home improvements to save 25% on annual energy costs; don't neglect this market.

Help the Planet. Support your members' efforts to reduce their carbon footprint by donating funds to environmentally-oriented causes on their behalf. Consider a reforestation program: plant a specific number of trees per mortgage funded, to reduce the home's carbon impact. This approach has been used successfully for years by eco-sensitive lenders in Britain.

Partner Up. Look for existing programs that can extend your credit union's green impact in mortgage lending. Genworth Financial Canada and CMHC both offer 'energy efficient' mortgage programs to insured mortgage customers. Under these programs, homebuyers who purchase energy efficient homes or refinance to make energy conserving renovations can receive a 10% insurance premium refund. For more information visit www.genworth.ca or www.cmhc.ca.

For more ideas on how your credit union can help the environment, click here to download the May 2007 Market Smarts, Greener Steps to a Smaller Footprint.

Peer-to-Peer Lending Takes Off



Just as the internet had a revolutionary impact on how consumers conduct routine banking transactions, its influence has now spread to the lending arena. Also known as social lending, peer-to-peer

lending, or lending between private parties rather than using a traditional financial intermediary such as a bank or credit union, is nothing new (see page 17 sidebar on Vancity). What is new is the ease at which this form of credit access can be facilitated, thanks to the internet.

Peer-to-peer lending is taking off led by the success of the burgeoning industry's two major players. San Francisco-based Prosper facilitates loans up to \$25,000, and has captured over 400,000 users and funded \$85 million in loans since emerging in early 2006. Predating Prosper's launch by a year, Britain's Zopa has attracted more than 170,000 users, and has declared expansion plans to the US. Zopa's success has undoubtedly been a reflection of the mood of the British populace. In a recent survey 74% of Britons expressed a preference to borrow through a peer-to-peer entity such as Zopa, rather than a traditional bank. Even the venerable Richard Branson has gotten into the act after acquiring a majority stake in American peer-to-peer lender, CircleLending. Virgin Money, as the newly rebranded entity is known, focuses on facilitating loans between friends and family. "This is very timely because of what's happening in the US credit markets," Asheesh Advani, chief executive officer of Virgin Money commented to Reuters. "Banks in general are tightening up, so this is a wonderful alternative for people who are looking to seek a loan." A dynamic marketer in other industries it has entered, it will be interesting to observe the impact Virgin will have on peer-to-peer lending's evolution.

Under the typical peer-to-peer lending model, borrowers first go through a credit check, indicate how much money

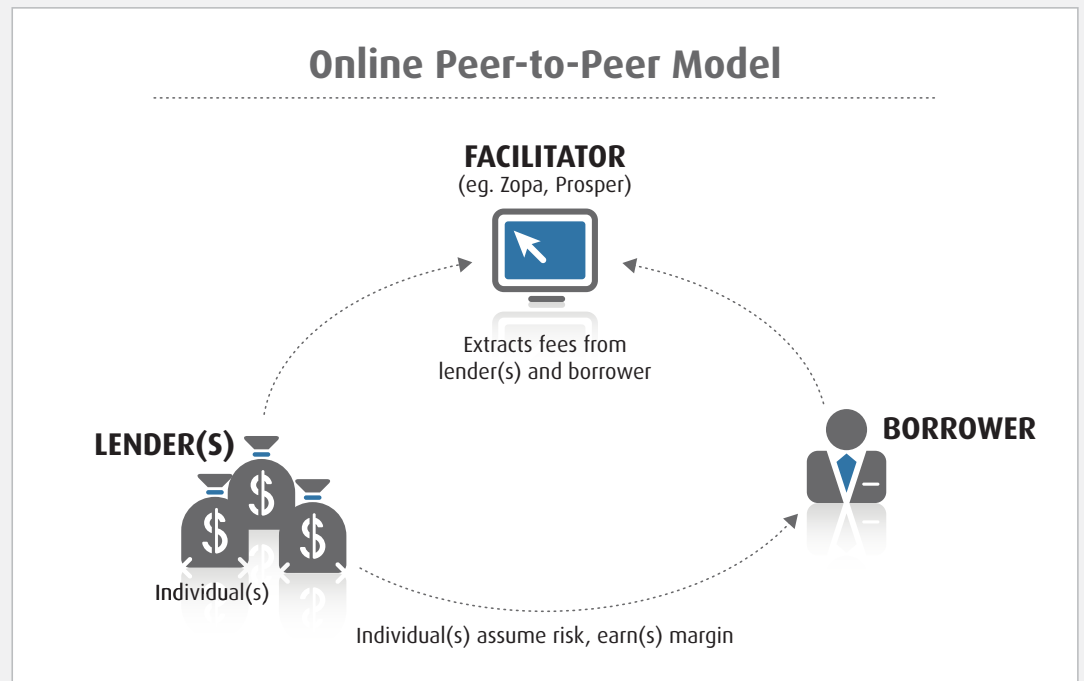
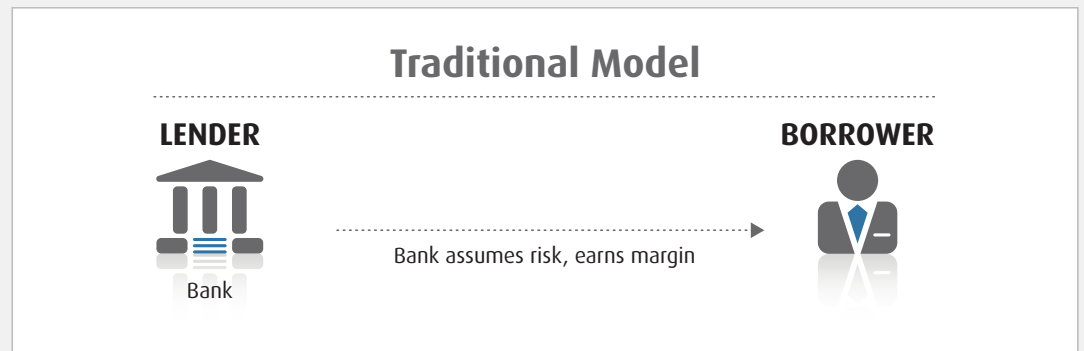
WHAT IS PEER-TO-PEER LENDING?

Wikipedia.org defines Peer-to-peer lending as, "a means by which borrowers and lenders may transact business without the traditional intermediaries, such as banks. It can also be known as Social Lending."

Apples and Oranges: Traditional Lending vs. Peer-to-Peer Lending

“And everyone's happy – lenders get great returns, borrowers get great rates, and there's not a bank or a bank manager in sight.”

--Zopa.com



they're seeking and the rate they're willing to pay. In addition to their credit profile, borrowers may also post personal information to draw a connection to a lender, for example, identifying an affiliation like school attended, employer, place of birth, or even revealing the story behind the loan request. Potential lenders can then 'bid' on the entire amount, or more often, a portion of the loan. An origination fee is collected from the borrower and an annual servicing fee from the lender. For example, with Prosper, borrowers pay up to 2% and lenders up to 1% of the loan balance.

To date, peer-to-peer lending has mostly appealed to borrowers seeking small unsecured loans that mainstream lenders might not offer, and who want an alternative to high rate credit cards or costly pay day loan companies. Individual lenders are attracted to the higher rates they can earn on their excess funds, albeit at greater risk of default than what would be experienced through a traditional bank loan. Then, as Zopa.com succinctly puts it: *And everyone's happy – lenders get great returns, borrowers get great rates, and there's not a bank or a bank manager in sight.*



VANCITY LENDS ENTREPRENEURS A HAND

Through its Peer Lending Program, Vancity provides microcredit to aspiring entrepreneurs who lack collateral for a traditional business loan. Members participating in the program guarantee each other's loans to create enterprises aimed at business skill development and simple income generation, typically between \$500 and \$1,000 a month.

Initial loans are for \$1,000, increasing to as much as \$5,000 depending on whether the peer group member remains in good financial standing and their enterprise's success. New immigrants can particularly benefit from Vancity's efforts, as the credit union states that 67% of immigrants don't have access to credit through Canadian financial institutions when they arrive in the country. From a credit risk perspective, the program has been very successful, with a 96% loan repayment rate. In addition to helping those who would otherwise face difficulty accessing resources, Vancity believes the program's participants are potentially loyal, profitable customers for the long term, and a source of positive referrals. For more information on Vancity's Peer Lending Program, [click here](#).

In Canada, it's likely that Toronto-based CommunityLend will be first out of the gate to offer peer-to-peer lending over the web, with plans to enter the market this fall. "You don't have to get dressed in a suit and sit in a stuffy office in front of a banker asking you all kinds of questions," Michael Garrity co-founder of CommunityLend told the *Globe & Mail*. "We provide an alternative with a rate that is completely formed by a free market." Garrity, the former vice-president of marketing at Canada Post's online bill payment division has partnered with Colin Henderson, former head of online banking at Bank of Montreal to create CommunityLend. The company is waiting for federal and provincial licensing.

Canadians may prove a receptive audience for peer-to-peer lending if their use of online social networks is any indication. A new Ipsos Reid study has found that 37% of those surveyed have visited an online social network

like Facebook or MySpace, and 29% have placed a profile on at least one site. Usage is dramatically higher among 18-34 year olds. "This is a staggering result given that these sites didn't exist four years ago. The growth in use of these sites simply hasn't been matched by any other Internet activities we've ever seen," commented Scott Patton, Senior Research Manager in Western Canada, in a company press release.

What remains to be seen is whether the popularity of peer-to-peer lending will one day rival the success of other peer-to-peer applications such as music sharing, or how it will eventually impact mortgage lending. Figures from Prosper's 2007 People-to-People Lending Market Survey indicate the firm's average loan size is still relatively small at just under \$7,000; however, this is 37% higher than a year earlier, indicating the peer-to-peer format is gradually making inroads to more fertile lending ground.

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sampling of mortgage innovation



Yorkshire Building Society – Fresh Start Mortgage



Recognizing that divorce or the end of a relationship is a stressful time financially, particularly for the partner who didn't handle the couple's finances, Yorkshire Building Society of the UK offers its Fresh Start Service to help its members caught in these circumstances.

A component of its offering is the Fresh Start Mortgage. With a 0% rate for the first six months, this mortgage product assists customers in their transition to a new life by helping to minimize monthly payments in the short term.

Yorkshire also takes a broader view on income when calculating borrowing capacity under the program, by including maintenance payments at a pre-tax level (equivalent to 130% of maintenance actually received) and family tax credits. In addition to the mortgage component, the Fresh Start Service also addresses financial security matters like insurance, provides personal counseling opportunities, legal assistance, and a free advice guide discussing the many facets of relationship breakdown. Yorkshire's research into the consequences of divorce or separation on couples found that financial concerns head the list of worries for both men and women, particularly whether they will have enough money to live on.

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For more information, contact **Terra McGuire** at **604 730 6446** or tmcguire@cucbc.com.



CreditUnionCentral 

One of the UK's largest building societies with 1.8 million members, in 2006 Yorkshire was recognized as Mortgage Magazine's Lender of the Year for the second straight time. As the magazine explains, "The Yorkshire has won because of its breadth of products, offering great value in both the long and the short term. It has won for its innovative products, designed to help borrowers who may otherwise struggle to be accepted for or to fund a mortgage."

HSBC Australia – Home Rewards Loan

Where extended rate discounts early in the term are found among variable rate mortgages offered in Canada, HSBC Australia has taken a diametrical approach to rate structure with its Home Rewards Loan. Under the plan, the rate reduces over time. The rate is initially set at the Home Rewards standard variable rate. It then reduces by 25 bps at the end of the first year, and a further 50 bps at the end of the second year, where the rate then remains for the balance of the term. Structured in this way, the Home Rewards Loan provides a powerful incentive for clients to remain with HSBC over the long term.

The Bank's research indicated that almost half of homeowners surveyed planned to live in their homes for at least eight years, and if they sold, the majority would purchase another home immediately, supporting the creation of a product with a longer term benefit. What's more, HSBC found that 85% of borrowers surveyed preferred a home loan that offers a reducing rate over time, rather than lower rates for an introductory period. "HSBC's Home Rewards Loan is a welcome innovation for Australian customers," commented Steve Martinelli,

head of mortgages for HSBC Australia, upon the March 2005 product release. "Home Rewards aims to satisfy the savvy Australian borrower who is looking for more from their lender because they're in the property market for the long haul." Figures from late 2006 indicated that the Home Rewards Loan represented about 10% of all loans written by the Bank.

First Calgary Savings – First Call Real Estate Program



Grow your mortgage book without advertising? First Calgary Savings may have the answer with its First Call Real Estate program. First Call assists members purchase or sell a home by connecting them with a select network of realtors who represent leading real estate firms including RE/MAX, Royal LePage, and Century 21. The realtors, typically First Calgary members themselves who have a strong relationship with the credit union and understand the organization's values and culture, are able to offer an attractive package that includes a 1% discount on a First Calgary fixed rate mortgage, an extended 6 month rate guarantee (far exceeding what's usual in the market), savings on home appliances, electronics, furniture and more through Sears, and a discount on moving services.

Staff add the second critical piece to the marketing plan, says Doris LaTouche, manager of First Call. "Employees are our best form of advertising", she comments. She explains First Calgary representatives are able to offer additional benefits of a

vacation package, and choice of a \$250 WestJet travel certificate or Petro Canada gas card, to members. And, realtors appreciate the referrals they receive from the credit union, saving them time prospecting. Staff members can reap the rewards of their hard work by earning incentives for any deals that close (e.g. getting a \$250 gift certificate of their own).

LaTouche says the credit union is very pleased with the growing level of activity through First Call, and the program is well on its way to achieving its mortgage sales targets for the year. The program has also experienced a very low turnover rate among realtors participating with First Calgary, a further testament to its success. The combination of committed realtor partners and a skilled First Calgary team has created a winning program, without relying on traditional advertising

to generate business.

Grand Forks Credit Union – Community Builder Mortgage

Seeking new ways to build its business and support local community organizations, last



year 10,000-member Grand Forks Credit Union became the first credit union in BC to offer the Community Builder Mortgage program, originally developed by Alterna Savings of Ontario.

The Community Builder Mortgage is a 5 year, competitively priced mortgage (guaranteed to meet or beat the rates advertised online by TD Canada Trust and Royal Bank for a comparable term). Under the program, non-profit organizations such as service clubs, school committees, libraries and sports teams

Call for entries!

2008

Achievement in Marketing Excellence Awards

Showcase your best marketing and communications efforts of the year at the 2008 AIME awards competition. Enter to win, and gain the respect, admiration, and recognition you and your team deserve.

Deadline to enter:
Thursday April 17th, 2008.

Winners will be announced at the AIME Awards Gala Dinner held at MACU's 18th Annual Strategic Marketing Conference. The 2008 conference will be held in beautiful Whistler, British Columbia June 5th and 6th, 2008.

For more information regarding the AIME awards competition contact Jim Walker, Vice Chair MACU at jwalker@cucbc.com or visit www.macu.ca.

The logo for MACU Marketing Association for Credit Unions features the acronym "MACU" in a large, bold, blue font, with "MARKETING ASSOCIATION FOR CREDIT UNIONS" in a smaller, blue font below it.

“The non-profit wins because through the Community Builder Mortgage, their fundraising efforts are made much easier.”

*--Angela Soukoreff
Grand Forks Credit Union*

are eligible to earn funds by introducing their members, friends, neighbours and supporters to Grand Forks Credit Union. In this way, local residents become ambassadors for the credit union, extending its marketing efforts. When a Community Builder Mortgage is taken out by someone presenting a group's Letter of Introduction to branch staff, the credit union donates 0.50% of the principal amount to the non-profit. “It's a three way win,” explains Angela Soukoreff, Manager, Marketing & Communications for Grand Forks Credit Union. “The non-profit wins because through the Community Builder Mortgage, their fundraising efforts are made much easier. The borrower wins by getting a terrific rate. And, the credit union does more business in the community.” She further points out that as the credit union's business grows its capacity to do even more in the community increases, adding to program's positive impact.

Launched through a marketing effort that included many evenings attending non-profit meetings to explain the initiative, Grand Fork's Community Builder Mortgage program now counts over 40 groups registered, with more than \$62,000 donated year-to-date, a credible achievement for a smaller, rural-based credit union.

Alterna Savings was recognized with the 2005 Ethical Funds Company Building a Better Future Award and the 2005 National Credit Union Innovation Award from Credit Union Central of Canada for developing the Community Builder Mortgage concept.

Genworth Financial Canada

Genworth Financial Canada is an example of a lending organization that recognized the dynamism of the lending market and

has gone beyond offering one-size-fits-all mortgage insurance. In addition to now offering insurance on amortizations up to 40 years, Genworth has developed independently branded products targeting the needs of niche markets in the high ratio mortgage segment.

The Business For Self program is geared to commissioned sales people and the self-employed; two groups with income that is often not easily verifiable making it difficult for them to be properly evaluated using a traditional credit review. Recent immigrants can find it difficult to obtain credit, but by meeting some minimal criteria including a three month full time work history in Canada, these new arrivals can qualify for Genworth's New to Canada program. Finally, with skyrocketing real estate prices across the country far outstripping the pace of income growth, many potential homebuyers, particularly the young, have had to turn to family for assistance to make their home ownership dreams a reality. The First Mortgage Family Plan enables people to help buy a home for immediate family members who possess strong credit, but who do not meet typical debt service income requirements. These programs are available with as little as 5% down and extended amortizations up to 40 years are available.

Genworth's clients benefit further by being eligible for Homebuyer's Privileges, a series of discounts, rebates and specials on a package of home-related products and services including appliances, electronics, furniture, books, moving services and more.

For further details on the products mentioned, or to see Genworth Financial Canada's full range of specialized programs visit http://www.genworth.ca/mi/eng/product_solutions/all_genworth_products.html.



recent mortgage promotions

Examples of recent mortgage promotions are BMO Bank of Montreal's Five for Five and HSBC's The Big One Sale.

BMO Bank of Montreal



Five for Five offers service fee savings over the long term to entice customers. For a seven week period concluding October 31, customers who took out a new five year mortgage or renewed or refinanced an existing mortgage for a five year term received BMO's Performance Plan unlimited transaction package (a \$13.95 monthly value) at no charge for the term of their mortgage. The Bank points out that over the full mortgage term, the customer would save over \$800 in fees, which for some could mean an extra mortgage payment.

HSBC Canada

HSBC Canada's The Big One Sale offers 1% bonuses on a range of products including GICs, investments, RRSPs and loans.

Until November 17, HSBC was offering a 1% discount on its loans and lines of credit, pricing its five year variable rate mortgages at prime minus 1%. Beyond the pricing benefits the Bank also created a contest, the Big One Challenge, where entrants have the opportunity to win '1% of \$1 million!', featuring a grand prize draw of \$10,000 and daily prizes of Canon PowerShot digital cameras. Contestants enter on-line and receive bonus entries for correctly answering trivia questions relating to HSBC (e.g. how many countries and territories HSBC is represented in?). Registering using a mobile phone earns additional contest entries. For more contest details, visit www.hsbc.ca.



summary

It's been real estate's turn to shine. Supported by historically low interest rates and a healthy economy, Canadians have been buying homes in record numbers. This enthusiasm has driven not only mortgage volumes, and consequently strong profits for lenders, but also spawned greater creativity in product design with more emphasis on niche marketing. With rising rates and a slowing real estate sector anticipated, an increasingly competitive environment for lenders including credit unions, means product creativity will continue to have a prominent role in propelling growth. Longer amortizations to extend affordability have been a major development, but growing interest in other alternative product concepts is further improving lenders ability to serve specific customer needs effectively. Canadian Tire, through its banking subsidiary, has become the latest player to offer an all-in-one mortgage, the One-and-Only Account. This concept has enjoyed success in the UK, and particularly in Australia, by providing borrowers with the opportunity to save interest and pay down debt more quickly. Another more recent innovation is peer-to-peer lending facilitated through the internet, giving borrowers who might otherwise have difficulty accessing credit through traditional channels a new avenue to borrow directly from private individuals. Average loan amounts through peer-to-peer lending are rising quickly, suggesting that this progressive model may one day impact larger credit transactions such as mortgages. On the verge of being offered in Canada, peer-to-peer lending could find particularly fertile ground here, given Canadians' world leadership in adopting

banking technology and eagerness to engage each other through social networking websites. Other programs abroad, such as HSBC Australia's Home Reward Loan and its unique variable rate pricing and Yorkshire Building Society's Fresh Start Mortgage, are examples of concepts that may eventually arrive in Canada. Credit unions have also put in place innovative programs like the Community Builder Mortgage and First Calgary's First Call Real Estate program, to supplement their mainstream marketing efforts and expand their mortgage books. What can your credit union do?

Understand the lending environment – a slowing market means mortgage lending will likely be more difficult going forward, putting greater pressure on margins. Taking inspiration from the product concepts reviewed here will make your credit union more resistant to price competition.

Understand your member –members seeking credit vary greatly across a number of dimensions including values, life stage, borrowing capacity and comfort with debt, presenting a multitude of challenges and opportunities. For example, older borrowers may be less rate sensitive, but place a premium on service. Many first time homebuyers contending with significant mortgage debt will be well served by income protection products. Demand for green loans is likely to grow as Canadians become increasingly aware of the impact their activities have on the world around them. Who are your members? What do they want?

Understand what's next – Peer-to-peer lending is one example of a rapidly evolving service that will be coming

to Canada. The all-in-one mortgage concept, successful elsewhere, is still in its infancy here; should your credit union be considering it?

By understanding product development trends, the evolving market and their own members' characteristics and needs, credit unions can be 'mortgage smart', creating products to not only keep pace with the competition, but ensure an edge in solidifying profitable member relationships and fostering new ones.

1 Council of Mortgage Lenders, Housing Finance, June 2007

2 Manulife Financial (May 15, 2007). Press Release.

3 Sheila Brady, "Banks aim to help homebuyers go green", Victoria Times Colonist, October 7, 2007