



**Genworth**  
Financial  
Canada

*The HOMEOWNERSHIP Company*



## **GENWORTH FINANCIAL CANADA FIRST-TIME HOMEBUYER'S MONITOR**

**UNDERSTANDING THE MORTGAGE KNOWLEDGE GAP  
December 2008**

The Genworth Financial Canada December 2008 First-Time Homebuyer's Monitor tests Canadians' knowledge of common homebuying terms, concepts and perceptions. Results are based on interviews with 1,500 respondents from across the country who plan to purchase a home in the next 24 months, or plan to purchase a home or property for the first time.

# FIRST-TIME HOMEBUYER'S MONITOR

## Expert Commentary

The following survey results demonstrate important gaps in first-time buyers' knowledge of the homebuying process. Across the board, findings show that there is a limited understanding of mortgages, mortgage default insurance and the terms and concepts associated with them. Not all homebuyers are alike, though; a closer look at the responses to the study's 'mortgage quiz' questions uncovered three distinct first-time buyer segments with different degrees of mortgage knowledge: Mortgage 'Novices', 'Learners' and 'Experts'.



While there are important distinctions between buyer segments, it is clear that all groups – regardless of their sophistication and level of experience – could benefit from greater education around the homebuying process. Here's why: Insufficient mortgage knowledge may mean that first-time homebuyers are not as comfortable with the homebuying process as they should be, and may ultimately pay the price for their mortgage knowledge gap.

Mortgage and financial professionals alike agree that homebuyers have a greater chance of achieving their ideal homeownership scenario if they are armed with the facts and comfortable with their decisions. This gives industry professionals an important role to play in helping to educate first-time homebuyers and lessening their anxiety about purchasing decisions.

For example, Genworth Financial Canada has developed homeownership.ca to help prepare prospective homebuyers with tips, tools and mortgage information. With the right knowledge and planning, these buyers will be sufficiently equipped to take advantage of the housing market opportunities that await them.

## Not All First-Time Homebuyers Are Alike

Our survey results demonstrate important gaps in first-time buyers' knowledge of the homebuying process. Across the board, findings show that there is a limited understanding of mortgages, mortgage default insurance and the terms and concepts associated with them. Not all homebuyers are alike, though; a closer look at the responses to the study's 'mortgage quiz' uncovered three distinct first-time buyer segments with different degrees of mortgage knowledge: Mortgage 'Novices', 'Learners' and 'Experts'.

### INSIGHT

These demonstrated knowledge gaps affirm the need for additional homebuyer education, for all First-Time Homebuyers, particularly the 'Learners and Novices'.

# FIRST-TIME HOMEBUYER'S MONITOR

## Limited Understanding of the Homebuying Process

Of all the mortgage terms queried, none were universally understood. Most telling was the fact that fewer than one in 100 respondents were able to correctly answer all 10 mortgage quiz questions. Not surprisingly, those 'Experts' who scored better on the mortgage quiz claimed to understand a wider variety of homebuying terms than low scorers (Learners and Novices). Some terms, however, produced similar low levels of understanding among all the groups. Sixty-eight per cent incorrectly thought that a 'mortgage term' is the length of time it takes to pay off the full amount loaned, and terms such as 'debt service ratio' and 'conventional versus high ratio down payments' were the most confusing, with only about one in 10 respondents claiming to know what they mean.

Based on these results it is clear that all groups—regardless of their sophistication and level of experience could benefit from greater education around the homebuying process.

### INSIGHT

Insufficient mortgage knowledge may mean that first-time homebuyers are not as comfortable with the homebuying process as they should be, and therefore not fully prepared to take advantage of the emerging buyer's market.

## Fair Understanding of Generalities Related to a Mortgage

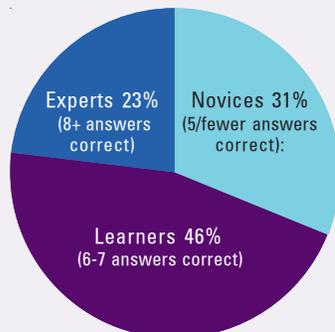
At a high level, Experts, Learners and Novices alike have a general understanding of what goes into a mortgage and the steps needed to buy a home. For example, 86 per cent are aware that reducing their amortization period saves money on interest, and 83 per cent of respondents correctly answered that multiple factors could impact a credit rating.

Awareness tended to break down, though, when responses are analyzed within the context of the three segments. Novices had some trouble recognizing that open term mortgages allowed borrowers to pay down balances without penalties. Just 59 per cent believed this statement to be true, compared to the 78 per cent of total respondents who correctly answered this question. Similarly, only one in three Learners (39 per cent) knew that bi-weekly accelerated payments paid down a mortgage the fastest, even though the majority of total respondents (67 per cent) correctly recognized this statement to be true. Interestingly though, a large percentage of total respondents - 21 per cent believe that payment plans do not matter.

### INSIGHT

While basic mortgage principles are generally understood, many first-time buyers may have difficulty navigating options that allow them to pay down their mortgage faster and save money over the long run. These buyers are most likely to miss out on opportunities to maximize their financial well-being.

### Profile of a First-Time Homebuyer



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# FIRST-TIME HOMEBUYER'S MONITOR

## Lack of Understanding of Mortgage Specifics

When we asked respondents to answer questions that delve deeper into mortgage specifics, responses clearly demonstrate that first-time homebuyers, even those belonging to the Expert segment, need more information on the specifics related to mortgages.

Questions that touched upon more complicated details of the homebuying process caused the most confusion. For example, responses were almost evenly split as to whether variable rate mortgages would allow you to pay less interest (54 per cent offered the correct answer). And respondents were unclear as to where their monthly payments should be in relation to their gross income. Only four in 10 (38 per cent) knew that housing costs should not exceed 40 per cent of gross income.

Learners and Novices in particular had difficulty with questions related to monthly payments and mortgage types. In many cases, they were unaware of the savings benefits some payment options and programs offer. For instance, Learners and Novices tended to understate the amount they could withdraw from an RRSP. Even Experts had trouble identifying the correct answer -- only 72 per cent offered the correct amount of \$20,000.

Learners and Novices also were also the least likely to realize the true financial impact of making an extra mortgage payment per year. Novices are especially confused: 33 per cent believe it shortens the life by five years, 27 per cent say eight years and 28 per cent believe it doesn't shorten the life of a mortgage at all.



### INSIGHT

While all those surveyed indicated their desire to purchase a home in the near future, their lack of mortgage understanding may hamper their ability to achieve the home they want.

### In Short:

- Trends suggest that we are entering a market beneficial to first-time homebuyers. Without the right knowledge of the fundamentals, these buyers may not be able fully maximize options like accelerated payments or Homebuyer Plans. In other words, they may miss out on important money saving opportunities.
- While some first-time homebuyers have a good grasp of the homebuying process, most individuals could benefit from learning more; less than one quarter of these buyers are considered 'Experts'.
- Homebuyers have a greater chance of achieving their ideal homeownership scenario if they are armed with the facts and comfortable with their decisions. Industry professionals have an important role to play in helping to educate first-time homebuyers and lessening their anxiety about purchasing decisions.
- In response, Genworth Financial has developed homeownership.ca to help prepare prospective homebuyers with tips, tools and mortgage information. With the right knowledge and planning, these buyers will be sufficiently equipped to take advantage of the housing market opportunities that await them.

**Find out how you rank. Test your own mortgage knowledge at [www.homeownership.ca/TEST](http://www.homeownership.ca/TEST).**

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