



# Access to Housing Finance Among Recent Immigrants

PRA Inc.

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# Purpose

Immigrants face many hurdles and challenges. This study investigates the challenges recent immigrants may face when purchasing a home.



# Objectives

The purpose of this study was to provide a general profile of recent immigrant homeowners based on 2001 and 2006 census data in order to assess the following:

- how recent immigrants interact with the mortgage lending market
- how Canadian financial institutions adapt to the circumstances of immigrant borrowers
- how lenders evaluate recent immigrant mortgage applicants
- how issues in the transfer of foreign documents affect mortgage availability.



# Methodology

- Literature review
- Data analysis
  - Citizenship and Immigration Canada (CIC) Annual Reports
  - PUMF data (2001 Census, 20% Sample)
  - Custom tabulation data (2006 Census)
- Key informant interviews



# Study caveats

- **Scope**

- It is difficult to generalize findings for recent immigrant borrowers as a whole as general characteristics are not necessarily applicable to specific groups of immigrants.

- **Methodology**

- Few organizations assist immigrants with homeownership.
- Community organizations tend to deal with employment, ESL/FSL, refugees, and immediate rental housing needs.
- The main key informants were mortgage brokers and real estate agents.

- **Data availability and quality**

- Limited 2006 data became available as study neared completion, so the analysis had to rely on 2001 data.
- 2001 PUMF data support limited analysis.



# Profile of immigration and recent immigrants to Canada – Definitions

- **Family class**
  - sponsored by a Canadian citizen or permanent resident (may include a spouse or other direct relation)
- **Economic immigrants**
  - selected for entry to Canada based on “their skills and ability to contribute to Canada’s economy”
  - classified as Investors, Entrepreneurs, and Self-Employed
- **Provincial/Territorial immigrants**
  - economic immigrants selected by provinces/territories and by agreement with CIC to meet particular labour market needs
- **Other**
  - includes retirees, temporary resident permit holders, and immigrants admitted to Canada on compassionate or humanitarian grounds



# Profile of immigration and recent immigrants to Canada – Stability

## Percentage of permanent residents by immigration category (1998-2006)

Immigration category	Year of immigration				
	1998	2000	2002	2004	2006
<b>Family class</b>	29%	27%	27%	26%	28%
<b>Economic immigrants</b>	56%	60%	60%	57%	55%
<b>Refugees</b>	13%	13%	11%	14%	13%
<b>Other immigrants</b>	1%	<1%	2%	3%	4%

Source: CIC, 2007, p.2; Percentage calculations by PRA. Columns may not sum to 100% due to rounding



# Profile of immigration and recent immigrants to Canada

- **Skilled workers** are the largest group of permanent residents, representing the majority of Economic Immigrants.
- **Spouses and children** are the majority of immigrants within the Family category.
- **Ontario receives most of the immigrants and refugees** (about half in 2006), followed by Quebec and British Columbia.



## Key findings – 2001 PUMF data

### **Immigrants and non-immigrants have a similar propensity to be homeowners.**

- There is a tendency for immigrant owners to include family households.
- Immigrant households have more maintainers. (Households with three or more maintainers comprise 4% of immigrant owners but only 1% of non-immigrant owners.)
- 74% of immigrant homeowners are male compared to 67% of non-immigrant owner maintainers.
- Recent immigrants are more likely to rent (72%) than to own.
- Most recent immigrant homeowners (71%) are family households with mortgages.



# Summary – 2001 PUMF data

**Recent immigrants homeowners are also more likely than immigrant homeowners as a whole and non-immigrant homeowners to:**

- own a condominium
- have a mortgage
- be part of a census family household of a couple with children
- have a dwelling unit with no need for either major or minor repairs
- belong to a household with three or more household maintainers
- have a higher number of persons per household
- have a male primary household maintainer.



# Summary – 2006 Census data

- Immigrant homeownership was higher than non-immigrant homeownership in Canada's CMAs, except in Quebec (which also had lower rates of non-immigrant homeownership than the rest of Canada).
- Among the five case study CMAs, recent immigrant homeownership was
  - highest in Vancouver (43%)
  - lowest in Montreal (14%)
  - in the 33% to 37% range for Winnipeg, Toronto, and Halifax.



# Summary – 2006 Census data

## **Among the five case study CMAs, recent immigrant homeowners had some tendency to**

- occupy dwelling units constructed between 1996 and 2005
- own different types of dwelling units, depending on the CMA
  - Recent immigrant homeowners in Winnipeg are most likely to own a single detached unit (79%).
  - In Vancouver and Toronto, this figure falls to 34%.
- occupy houses in the same states of repair as “non-recent” immigrant and non-immigrant homeowners
- comprise slightly higher proportions of households with two maintainers.



## Comparison of 2001 and 2006 immigrant cohorts

A greater percentage of recent immigrants to Canada have become homeowners in the 2006 census (35%) compared to 2001 (28%).

- 59% of those who had immigrated 5 to 10 years earlier were homeowners in 2006.
- 48% of the corresponding group in 2001 owned their home.

<b>Comparison of homeownership between Canadian immigrant cohorts using 2001 and 2006 Census Data</b>		
<b>Year of immigration</b>	<b>% Homeowners (2001 Census)</b>	<b>% Homeowners (2006 Census)</b>
2001-2006	N/A	35%
1996-2000	28%	59%
1991-1995	48%	63%
Before 1991	71%	77%

Source: 2001 PUMF Families File & Custom Tabulation of 2006 Census Data. Calculations by PRA.



## Four groups of recent immigrant borrowers

The study identified four groups of recent immigrant borrowers through interviews with key-informants:

- **Affluent borrowers:** These borrowers are usually economic immigrants in CIC's entrepreneur or investment subclass.
- **Mid-range borrowers:** These borrowers are usually economic immigrants, either skilled trades-people or professionals, who are quickly able to practice their trade or apply their qualifications in Canada.
- **Combined household borrowers:** Cohabitation of extended families is an accepted cultural norm among this group of recent immigrant borrowers.
- **Minimum qualification borrowers:** Recent immigrants in this group may originate from anywhere in the world and are often just able to meet the minimum qualifications for insured mortgages.



# Interaction between new immigrants and lenders

- Recent immigrants without financial experience in their country of origin often have difficulty with Canadian financial practices.
- Familiarity with Canadian financial practices depends on recent immigrants' country of origin, cultural norms, and affluence.
- Recent immigrants' decisions are usually influenced by friends or family who already reside in Canada.
- Some choose lenders based on familiarity, especially if an institution has an overseas presence or staff who speak their language.
- Once a recent immigrant has applied for a mortgage and been refused by one or more lenders, the primary concern becomes obtaining a mortgage loan with the most reasonable terms, and the actual lender is not important.
- Recent immigrants tend to use a mortgage broker if they have been referred to one by a real estate agent or if they have been initially refused a loan by their financial institution.



# Service guidelines for lenders (U.S. experience)

Seidman and Tescher (2004) note that low-income individuals, including new immigrants, are generally underserved by most financial institutions.

Schoenholtz and Stanton (2001) provide several suggestions for how lenders can serve immigrant customers, including the following:

- Direct staff to become more aware of immigrants as potential customers for financial services.
- Provide training for staff on the immigrant experience and on different cultural perspectives on borrowing and saving, and on financial institutions generally.
- Hire staff who speak relevant languages (e.g., Spanish in the U.S.).
- Develop relationships with immigrant communities through community-based organizations.
- Advertise on foreign language radio.
- Sponsor media programs to educate listeners in financial literacy, home-buying, and homeownership.

No Canadian studies in lender responses appear to exist.



# Risk factors for lenders

The key risk factors that lenders consider for recent immigrants are:

- the employment status of the borrower, i.e. the type of occupation and the length of time the person has been employed in their job
- the size of the down payment and the portion of the down payment originating as a gift
- the income of the borrower and their ability to pay housing costs
- the credit history of the borrower
- the length of time the borrower has lived in Canada.



# Barriers to mortgage lending

Barriers to mortgage lending exist. The number of recent immigrants who face barriers to mortgage lending is difficult to quantify based on interview data, as key informants had varying estimates based on personal experience. However, there are four basic kinds of barriers:

- **Credit history**

- According to key informants, the lack of a Canadian credit history is the most significant barrier.

- **Income/wealth**

- Income is not usually a barrier for affluent borrowers who can provide a 35% to 40% down payment and meet other lender requirements for non-insured loans.
- Income is, however, a critical condition for borrowers who need insured loans.

- **Employment**

- Employment (stability and history) is a key condition for obtaining mortgage support.
- Since foreign credentials are often not recognized, once an immigrant develops a stable work history in Canada with sufficient income, the home ownership “problem” usually resolves itself.

- **Down payment**

- For conventional borrowers, the down payment itself was not a barrier, but lender requirements for deposits or proof that the source of funds was legitimate was sometimes mentioned as a barrier.



# Strategies used to overcome barriers to mortgages qualification

- One strategy is to **combine households**, putting three or four names on the title.
  - This sometimes occurs among friends, but most often among extended family members.
  - It tends to occur most often in metropolitan Toronto and Vancouver.
- Another strategy is to “rent” from a family member while saving for a down payment.
- Sometimes recent immigrants will use **mortgage brokers**, particularly if they have been referred to one by a real estate agent or if they have been initially refused a loan by their financial institution.



# Credit history

- According to industry informants, lack of credit history in Canada is a key issue for immigrants and continues to be problematic despite flexibilities granted to new immigrants by the CMHC Newcomers to Canada product.
- Canadian financial institutions do not generally recognize credit history reports from most countries.
- From a survey and focus group research of immigrants in Nova Scotia, Attalah and Rebolo (2006) found the following:
  - A lack of Canadian credit history prevents immigrants from obtaining all forms of credit.
  - Immigrants may try to obtain a credit card to establish a credit history, but are not always successful.
  - Non-recognition of foreign credit records by Canadian financial institutions is an important barrier.
  - Most recent immigrants learned about the Canadian financial system and the importance of credit histories within three months of their arrival.
  - Some institutions have introduced financing programs targeted to immigrants.



# Credit history

- Many key informants mentioned a “secured” credit card as a key first step for recent immigrants to develop a Canadian credit history.
- One key informant recounted a set of recommendations they often make to recent immigrants to develop a good credit history:
  - Don’t miss a payment for anything, no matter how small.
  - If you find a job you like, stick with it for the time being.
  - If you are renting and you like the place, stay there awhile.
  - Get a credit card, even a secured credit card, with a minimum limit of \$1,500.
  - If possible, get a small car loan and pay it off, even if you have the money to pay cash.
  - Most importantly, never exceed 80% of your allowable credit limit, as doing so will reduce your credit rating.
- Key informants reported that immigrants may unintentionally reduce their credit rating by “shopping around” for a mortgage or any other loan.
  - If they start a process and then withdraw as the “deal” is being made, lenders may record this as evidence of unreliable behaviour.



# Foreign records

- Key informants said that obtaining foreign bank records was often time-consuming, that is, if the institutions were able to provide information at all.
- Obtaining foreign credit reports was considered more problematic by key informants than obtaining foreign banking records.
- Furthermore, once obtained, foreign documents are not always accepted by Canadian financial institutions because the documents:



# Conclusions

- Typical challenges that recent immigrants face include:
  - having sufficient credit history in Canada
  - having a sufficient down-payment
  - having sufficient income to make mortgage and housing payments.
- Issues exist pertaining to the transferability of foreign documents such as credit history reports, letters of reference from financial institutions, and banking records.
- Recent immigrants must develop a Canadian credit history in order to qualify for a mortgage.
- Lenders are generally aware of the barriers faced by new immigrants, but this is not always reflected at individual branches.



# Conclusions

- For insured mortgages, the key risk factors that lenders consider for recent immigrants are essentially the same as those for other mortgage borrowers.
- For conventional mortgages, lenders place less emphasis on employment and greater emphasis on the financial assets of the borrower and on the value of the underlying real estate.
- Geographic concentrations of identified groups of recent immigrant borrowers may exist, but relationships with lenders do not appear to vary geographically.
- Financial institutions will offer specialized service as the market demands.