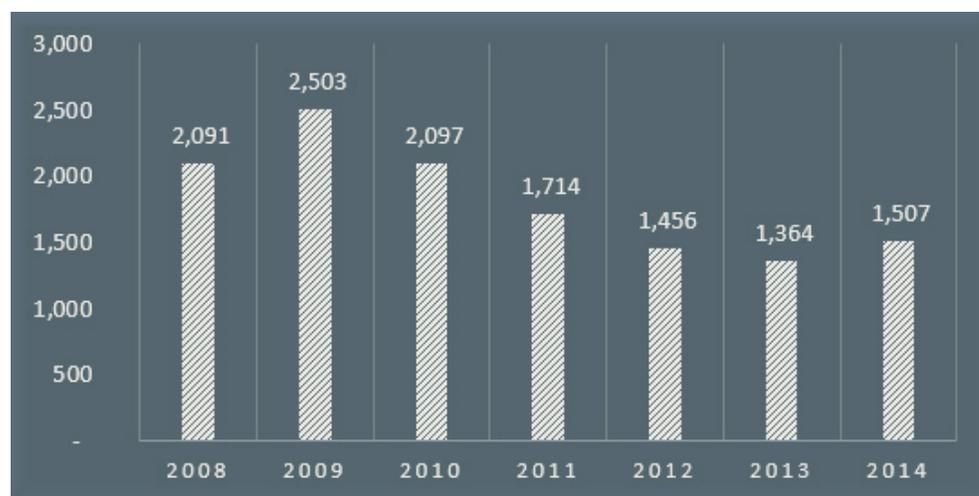


Foreclosures: First Increase in Québec in Five Years

In Québec, 1,507 residential properties were foreclosed¹ for failure to pay the mortgage in 2014. This represents 143 more foreclosures, or a 10 per cent increase, compared to 2013. However, this level was much lower than that observed during the 2008-2009 recession and the two subsequent years. Chart 1 shows the evolution of the number of residential foreclosures in Québec.

CHART 1
NUMBER OF RESIDENTIAL FORECLOSURES IN QUÉBEC



Sources : JLR, QFREC compilations

In Québec, 1,507 residential properties were foreclosed for failure to pay the mortgage in 2014. This represents 143 more foreclosures, or a 10 per cent increase, compared to 2013.

The Foreclosure Process

Normally, when a mortgage holder is in default of payment, the mortgage lender issues the mortgage holder a 60-day **notice of exercise**ⁱ warning them that their mortgage is in default and that their property will be seized if they do not remedy the situation. In most cases, it is assumed that the borrower will find a way to repay the amount owed. One of the options for the mortgage holder is to sell their property, as it generally allows them to repay the mortgage loan and the other fees incurred due to the payment default. The property is **foreclosed** if the borrower is not able to repay the full amount that is owed. When this happens, the lender then has two main options available to remedy the outstanding debt: a **sale by judicial authority** or a **taking in payment**ⁱⁱ.

Geographically, the number of foreclosures increased in 12 of the province's 17 administrative regions in 2014, as shown in Table 1.

¹ Foreclosures preceded by at least one notice of exercise.

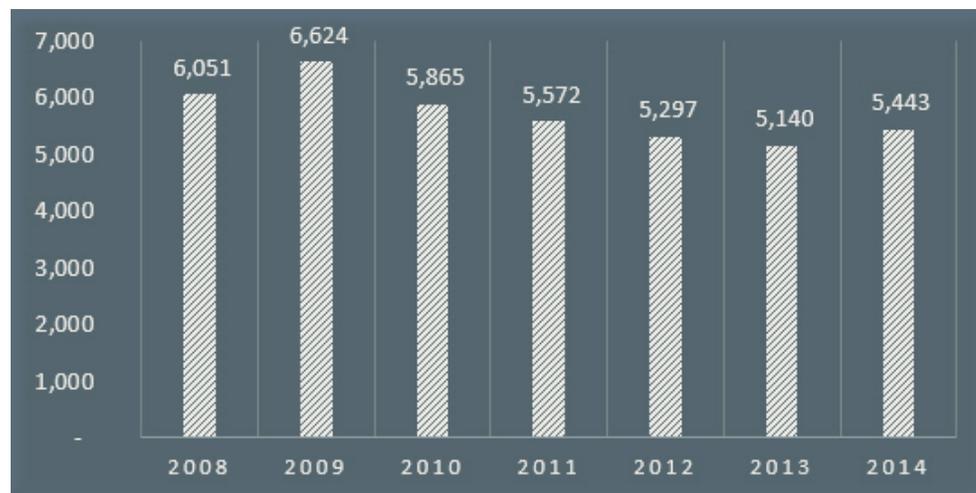
TABLE 1
Number of Foreclosures by Administrative Region

Administrative Region	2013	2014	Variation	2010-2014 Average
Abitibi-Témiscamingue	12	22	**	22
Bas-Saint-Laurent	45	44	-2%	42
Capitale-Nationale	72	76	6%	67
Centre-du-Québec	50	57	14%	59
Chaudière-Appalaches	56	83	48%	66
Côte-Nord	8	10	**	12
Estrie	72	60	-17%	82
Gaspésie--Îles-de-la-Madeleine	10	20	**	12
Lanaudière	192	191	-1%	224
Laurentides	210	210	0%	251
Laval	42	50	19%	67
Mauricie	64	61	-5%	66
Montérégie	289	333	15%	353
Montréal	75	104	39%	117
Nord-du-Québec	2	4	**	4
Outaouais	119	130	9%	136
Saguenay--Lac-Saint-Jean	46	52	13%	47
Province	1,364	1,507	10%	1,628

Source: JLR

In parallel with the increase in foreclosures, the number of first notices of exercise² also increased in 2014, as 5,443 homeowners received a first notice of exercise from their mortgage lender indicating that they had to repay all late payments and other amounts owed within 60 days, otherwise their property would be foreclosed. Chart 2 shows the evolution of the number of Québec homeowners who received a notice of exercise for the first time.

CHART 2
Number of First Notices of Exercise in Québec



Sources: JLR, QFREC compilations

² A homeowner may receive more than one notice of exercise. An example of this occurs when a homeowner, after receiving a first notice, manages to repay the mortgage arrears and all other costs incurred, but is faced with late payments once again, which leads to a second foreclosure process.

In 2014, 5,443 homeowners received a first notice of exercise from their mortgage lender indicating that they had to repay all late payments.

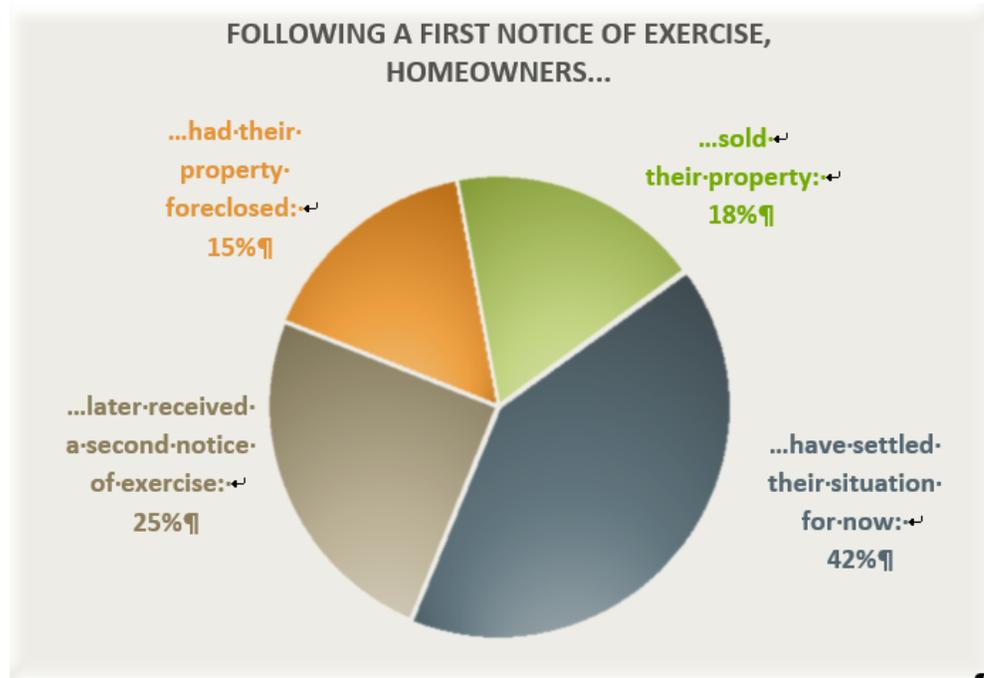
It is worth noting that the increase in the number of foreclosures and notices of exercise go hand-in-hand with a slight increase in the proportion of mortgages in arrears, which grew from 0.34 per cent at the end of 2013 to 0.36 per cent in December 2014. The deterioration of these indicators is in part due to the poor employment situation: in 2014, more than 15,000 jobs were lost in Québec which could compromise some homeowners' ability to make their monthly mortgage payments.

Measures Taken by Homeowners who Defaulted on Their Mortgage Loan

As shown in Chart 3, more than half of all homeowners who received a first notice of exercise in 2014 managed to rectify their situation. Among the 5,443 homeowners who received a first notice of exercise in 2014, 2,261 regained control of their situation and emerged from their foreclosure process, while 984 were able to sell their property and thereby avoid foreclosure. However, some 1,365 homeowners were only able to remedy their situation temporarily, and ultimately received a second notice of exercise. Finally, 833 homeowners were unable to repay or renegotiate with their lender, which resulted in the foreclosure of their property.

In 2014, more than 15,000 jobs were lost in Québec which could compromise some homeowners' ability to make their monthly mortgage payments.

CHART 3
Measures Taken by Homeowners Following a First Notice of Exercise, 2014



Sources : JLR, QFREC compilations

More than half of all homeowners who received a first notice of exercise in 2014 managed to rectify their situation.

What is Gained or Risked When Buying a Foreclosed Property

The Risks

Foreclosed properties are sold without legal warranty, at the buyer's risk and peril. In accordance with the Civil Code, sellers have an obligation to guarantee the validity of their right of ownership and the intrinsic quality of the property in question. However, the law allows sellers to exclude this legal warranty if the indication "without legal warranty" is declared in the deed of sale, a clause that all parties to the deed of sale must agree to. The buyer therefore does not have any recourse in the event that a defect or problem is discovered relating to the right of ownership.

In practice, many additional costs should also be expected when buying a foreclosed property. The buyer is often responsible for providing the certificate of location at his or her own expense and for paying a deposit on the property when presenting the promise to purchase. Furthermore, in most cases, the liquidators will only accept promises to purchase without any conditions.

Finally, because the property is sold as-is, buyers can almost always expect to carry out significant renovations and repairs.

The Benefits

Not surprisingly, foreclosed properties are sold, on average, for less than other properties. According to data from the Centris[®] system, single-family home foreclosures sold, on average, for \$151,771 across the province, while the average price of regular single-family homes was \$265,536, a difference of more than \$113,000³. The same situation applies to condominiums and plexes, with average price differences of more than \$97,000 and \$179,000, respectively.

In addition, liquidators of foreclosed properties are usually more flexible on the selling price. Centris[®] data show that, on average, residential properties sold as repossessions in 2014 were sold at 92 per cent of the most recent asking price, compared to 94 per cent for all residential sales, which reflects the creditor's readiness to liquidate these properties.

Although buyers wanting to purchase a foreclosed property seem to benefit from their affordability and price flexibility, they must act quickly because these properties do not stay on the market for long: for single-family homes, the average selling time was 72 days⁴ in 2014, compared to 114 days for all homes in the province. For condominiums, the average selling time was 83 days and for plexes it was 73 days, compared to 132 days and 100 days, respectively. Table 2 compares average prices and selling times for single-family homes that are foreclosed and those that still belong to their owner.

In practice, many additional costs should also be expected when buying a foreclosed property.

Not surprisingly, foreclosed properties are sold, on average, for less than other properties.

Liquidators of foreclosed properties are usually more flexible on the selling price.

³ Foreclosed properties are not necessarily a representative sample of all properties. The differences in price do not take into account the geographic location of properties or their physical characteristics.

⁴ In practice, brokerage contracts granted to real estate brokers for the sale of a foreclosure do not usually exceed four months, which limits the average selling time.

TABLE 2

Comparison of Average Prices and Selling Times for Single-Family Homes

	Average Price		Average Selling Time	
	Foreclosure	Not	Foreclosure	Not
Capitale-Nationale	\$159,269	\$264,679	68	118
Estrie	\$124,267	\$219,817	81	136
Montréal	\$355,600	\$512,026	64	88
Outaouais	\$149,973	\$237,104	70	93
Chaudière-Appalaches	\$96,801	\$181,194	86	133
Laval	\$221,529	\$316,984	59	85
Lanaudière	\$137,879	\$225,796	72	117
Laurentides	\$161,267	\$251,103	75	123
Montérégie	\$177,168	\$275,409	67	111
Centre-du-Québec	\$87,619	\$151,369	73	122
Province	\$151,771	\$265,536	72	114

Source: QFREB by the Centris® system

The year 2014 was marked by the poor performance of the employment market, which was reflected in different spheres of the economy. As we indicated in the Word From the Economist in March 2015, the level of household debt continued to rise, the number of bankruptcies increased and the proportion of mortgages in arrears also increased slightly. Through the JLR database, we were able to observe an increase in the number of first notices of exercise issued and an increase in foreclosures. However, the year 2015 has already started more positively, with improved job creation, a slight economic acceleration and a real estate market where sales and prices are rising.

ⁱ The 60-day timeframe is set by law. This timeframe may be negotiated by agreement and may be extended following an agreement between the borrower and the lender. The borrower usually tries to “buy time”.

ⁱⁱ The sale by judicial authority implies that the conditions of the sale are determined by a judgement issued by a court and gives the lender the right to initiate any other legal proceedings to recover the entire debt if the sale of the property is not sufficient; however, the taking in payment that is initiated by the lender requires that the lender be satisfied with the value of the property handed over as final payment.

If you have any questions or comments about the content of this article, please contact us by email at: stats@fcic.ca.

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