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Flaherty tightens mortgage taps

By CBC News
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"In 2008 and again in 2010, our government acted to protect and strengthen the Canadian housing market," Flaherty told a news conference in Ottawa. "We continue to do so today."

Flaherty unveiled three main changes:

- The maximum amortization period for a government-insured mortgage was lowered from 35 to 30 years.
- The upper limit that Canadians can borrow against their home equity was lowered from 90 per cent to 85 per cent.
- Government insurance backing on home equity lines of credit, or HELOCs, has been removed.

The first change is likely to have the largest impact. Buyers who purchase a home with a down payment less than 20 per cent of the value of the home are required to purchase government-backed mortgage insurance through Canada Mortgage and Housing Corporation.

P.O.V.:

If you're a homeowner, how much of your mortgage do you still have to pay off? Take our survey. [http://www.cbc.ca/news/pointofview/2011/01/mortgages-how-much-do-you-still-have-to-pay-off-1.html]

Under the new rules, mortgages amortized over longer than 30 years will no longer qualify for that insurance, making it effectively impossible to get a highly leveraged mortgage of more than 30 years in Canada.

After companies began insuring mortgages of 40 years or more, Ottawa set the limit at 35 years in 2008 before Monday's move lowered it to 30.

Aims to stem tide on consumer debt

"This measure will significantly reduce the total interest payments for Canadian homeowners," Flaherty said.

He was referring to the fact that anyone taking a longer amortization on a mortgage would pay much more in interest over time.

Under current rules, a five per cent, 35-year mortgage would have a monthly cost of $1,514. When the new rules come in on March 18, a 30-year mortgage at five per cent will have a monthly payment of $1,610 - a $96 difference per month, but over the life of the mortgage, that adds up to $56,139 in savings.

Flaherty pitched the lowering of the amount that can be borrowed against home equity to 85 per cent as a move to ensure Canadians retain more equity in their homes.

"This will promote saving through home ownership and limit repackaging consumer debt into mortgages," he said.

The final change, to remove government insurance on HELOCs, came as a result of Ottawa's concern that certain financial institutions were allowing homeowners to roll too many consumer purchases into CMHC-insured mortgages.

"I think that's particularly risky because some of those loans are not used to create housing. They're used to buys boats, and cars and big-screen televisions," Flaherty said. "That's not the business that home insurance was designed for."

While Flaherty called the changes "moderate," they did not include an increase to the five per cent minimum down payment Ottawa requires for a home purchase. They also stopped short of a proposal that surfaced last week that would have required 100 per cent of condo fees to be included in the list of expenses that are measured against income when financial firms consider a mortgage candidate. Currently, only 50 per cent must be included.

Watchers reacted largely positively to the news.

"The speculation had been that tighter mortgage insurance rules would be included in the upcoming federal budget," BMO economist Michael Gregory noted.

But with speculation that the budget might trigger an election, the Conservative government clearly thought the issue was important enough to bring forward before a budget document that might never get passed, Gregory said.

"For the new homebuyer, the reduced amortization is a significant change that should soften the demand for homes/mortgages below what they otherwise would have been."

The head the Canadian Association of Accredited Mortgage Professionals said the changes should help to increase equity in homes and ease fears about growing consumer debt levels.

But Jim Murphy said his association had suggested that Ottawa tighten qualification standards for 35-year mortgages, rather than abolishing them altogether.

Still, he is happy the government did not raise minimum down payment levels, which he said could have stalled the housing market. Murphy said the rule changes will likely spark a rush of buyers into the housing market before March and will pull more sales into the first part of the year.

The changes also come following recent warnings from the Bank of Canada on household debt levels.

In December, bank governor Mark Carney cautioned Canadian households and businesses not to be lulled by current low interest rates, because repercussions from a hike could be swift.

Rates 'will rise'

"While rates are low by historical standards, they eventually will rise," Flaherty said Monday. He dismissed the notion that the announcement was timed to precede the bank's next decision on interest rates, which are set to be revealed Tuesday.

"The particular timing today is not related to the interest rate announcement," Flaherty said. "The governor and I speak regularly, and we discuss these types of issues [and] we make an effort to make sure government policy complements the Bank of Canada's monetary policy."

Last week, Agathe Côté, a deputy governor at the bank, told a Kingston, Ont., audience that a sudden weakening in the Canadian housing sector could affect other areas of the economy given the high debt loads of some households.

If that shock hits, Canadians would be expected to cut back on their spending, she said.

Flaherty's announcement is the second time in three years that the government has clamped down on mortgage rules. In 2008, the government brought in several alterations, including:

- Cutting the maximum amortization period to 35 years from 40.

- Requiring a minimum down payment of five per cent.
- Establishing a requirement for a consistent minimum credit score.
- Introducing new loan-documentation standards.