



Federal Government Changes Mortgage Rules

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TREB PRESIDENT'S COLUMN AS IT APPEARS IN THE TORONTO SUN

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Recent announcements by the federal government on mortgage rules appear to be a response to current conditions in the U.S. housing market, where lending practices have contributed to broader economic troubles.

Although facilitating home ownership is a worthy goal, the federal government believes it must be balanced with making sure that the economy is on solid financial footing. With this in mind, the government recently announced that it will be changing its rules for guaranteeing mortgages, thus impacting the types of mortgages to be offered by financial institutions. The changes announced by the federal government mean that it will,

- only guarantee mortgages with maximum amortizations of no more than 35 years;
- only guarantee mortgages where purchasers have a minimum down payment of at least five per cent.

The changes will take effect on October 15, 2008, and would apply only to new mortgages. Existing mortgages or individuals currently with pre-approvals would not be affected.

The Toronto Real Estate Board (TREB) recognizes that the five per cent down payment program has enabled many Canadians, who might not have been able to obtain a mortgage from lenders worried about their investment, to achieve the dream of home ownership. It was only a little more than 16 years ago that the Canada Mortgage and Housing Corporation announced this program that allows buyers to purchase a home with as little as five per cent down payment. In fact, it started out in 1992 as a temporary program for first time buyers but was expanded in 1998 to include repeat buyers and established as a permanent program.

Home ownership is a worthy goal; it contributes to an individual's financial security and helps our communities to grow and prosper. This is why the government tries to assist people to purchase homes with policies that allow financial institutions to provide flexible mortgage arrangements, including longer amortizations and / or lower down payments. In recent years, through these policies, we have seen mortgages offered with amortizations as long as 40 years, with no down payment required. If not for these policies, banks typically would require 25 per cent down payments and no more than 25 year amortizations.

According to the International Monetary Fund, the increase in house prices in Canada is based on sound economic factors such as low interest rates, rising incomes, and a growing population. Furthermore, according to the federal government, the percentage of bank mortgages in arrears in Canada is stable at 0.27 per cent, near the lowest levels experienced since 1990 and well below the highs of 0.65 per cent experienced in each of 1992 and 1997.

The federal government's recent announcements will tighten the way mortgages are offered, but, while flexible financing can help, achieving the dream of home ownership takes effort; it always has, and it always will. REALTORS® are proud of their work to help make these dreams a reality.

Maureen O'Neill is President of the Toronto Real Estate Board, a professional association that represents 28,000 REALTORS® in the Greater Toronto Area.