



MORTGAGE LENDING FLIP-FLOP

by Peter Dolezal [The Naked Homeowner](#)

About two years ago, the Federal government made two major changes to mortgage lending requirements, which made it much easier for individuals and families to qualify for a high-ratio (less than 20% down-payment) mortgage. Up to that time, to qualify for the required insured loan from any bank, credit union, or trust company, the borrower had to have a minimum 5% down-payment, and was generally limited to a 25-year amortization.

Then the rules changed. The 5% down-payment requirement was eliminated and mortgage amortizations were stretched from 25 years to a maximum of 40 years. These two changes proved a boon to many, especially the first-time buyer. The changes were particularly welcome in the nation's highest-priced markets of Vancouver and Victoria.

On July 9, 2008, the government moved to tighten the lending rules. It largely reversed the previous changes. Effective October 15, 2008:

- 1) The minimum 5% down-payment requirement is reinstated;
- 2) The maximum 40-year amortization drops to 35 years;
- 3) Borrowers will have to demonstrate a consistent minimum credit-rating score;
- 4) Loan documentation standards will be tightened.

All mortgage holders who were approved under the relaxed rules of the past two years will not be affected. But all new buyers, requiring a high-ratio mortgage, *will* be subject to these changes. This will be particularly tough on the first-time buyer, who will now need to save at least \$15,000 for a down-payment on a typical \$300,000 condominium purchase in our area, plus several thousand dollars in closing costs.

The Federal Department of Finance announced the new rules as being “a prudent and cautious approach” designed to “reduce the risk of a U.S.-style housing bubble developing in Canada”. What is surprising, is that this tightening of credit comes at a time when arrears in mortgage payments in Canada, are at a rate of 0.27%, the lowest it has been since 1990.

What does this mean for us locally? For the next few months until the new rules take effect, we may see a flurry of activity at the entry level of our market, as first-time buyers rush to complete a purchase before October 15.

After October 15, the real estate market Canada-wide, is bound to be affected. Whenever it becomes more difficult for entry into home ownership, that slowdown ripples upwards through the entire market. The present condo owner will find it harder to sell, and will be delayed in buying a more expensive property, and so on, up the price-line. How seriously this will impact real estate market activity and price, remains to be seen, but the effect will not be positive.

There is no question that over the past two years, real estate activity and prices nation-wide, have been stimulated by a surge of new home buyers. Removing that stimulus may be good long-term public policy, but its shorter-term impact could be significant.

I applaud the Federal government for its caution in not wanting to put Canada at risk of experiencing a future market meltdown, as has occurred in the past year in the U.S. due to its disastrous, sub-prime

mortgage meltdown. Our government is wise in taking preventative action in advance of such risk materializing in Canada. It is unfortunate however, when a policy flip-flop of this magnitude occurs within a short two-year period.

The original loosening of lending rules was clearly not a well-conceived policy change.

The new rules apply to all lenders who are governed by Canada's Bank Act, such as banks, credit unions and trust companies. The rules do not prevent a rich relative from funding a zero down-payment mortgage, over as many years as he wishes. Indeed, for the future first-time buyer, family assistance in purchasing that first home, will again in many cases, prove necessary.

If you are a prospective first-time buyer, it may not be too late to qualify under the existing rules and to purchase before the October 15 deadline. A visit to your nearest mortgage broker or bank will help you confirm your eligibility for the necessary mortgage.