

New mortgage rules aimed at curbing debt levels

Concern over rising consumer debt has prompted Ottawa to make three changes to Canada's mortgage rules (announced Monday, January 17), which include:

1. the maximum amortization period has been reduced to 30 years from 35 for government insured mortgages (i.e. loan-to-value ratios of more than 80 per cent);
2. the maximum amount Canadians can borrow to refinance their mortgages has been reduced to 85 per cent from 90 (just a year ago the government reduced refinancing to 90 per cent from 95); and,
3. government insurance backing on home equity lines of credit has been withdrawn.

30 year maximum amortization for high ratio mortgages (down from 35 years)

The 35-year amortization mortgages have been very attractive to homebuyers as a way to get into the housing market and reduce their monthly payments. Mortgage planners would often recommend starting at 35 years when more payment flexibility is required i.e. to help with a young family or if income is uneven, but then over time increasing payments to escalate mortgage paydown and lessen overall interest. For a \$250,000 five-year mortgage at 4 per cent interest, monthly payments for a 35-year mortgage are \$1,102. At 30 years, the monthly payment increases to \$1,189.

Protect at least 15% of your equity.

Refinancing your home to pay down high-interest debt is still a smart strategy to save interest in the long term. However, there are common sense limits to using your home as a piggy bank, of course, and

now the new rules dictate that you must protect at least 15 per cent of your equity, up from 10 per cent. Where this could cause a problem is with those who are overextended on high-interest debt. They may no longer be able to payout all of these debts and get on a sounder financial footing with a lower payment and less interest costs. This change also means homeowners will have less access to their equity for investing, renovations, or to fund educational needs.

Home equity lines of credit no longer qualify for government mortgage insurance

Ottawa is also taking action to reduce the increasing use of home equity lines of credit, or HELOCs by withdrawing CMHC insurance on those with less than 20 per cent loan to value, a product option that was not widely used. Secured credit lines will still be available to 80 per cent loan to value.

These mortgage changes come into effect on March 18, 2011, with the withdrawal of government insurance backing on home equity lines of credit effective April 18, 2011. They are unlikely to affect the majority of Canadians, although there could be a flurry of activity before March 18 – as homebuyers move up purchases and refinances. The most significant change will be the reduced access Canadians will have to their equity to refinance and consolidate high interest debt into a lower mortgage rate, a strategy used to save thousands in interest and lower monthly payments to ease cash flow.

If you are looking to purchase or refinance, you may want to take action before these new rules come into effect. Call us today!

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