



Thinking of **Buying,** **Selling** or **Refinancing?**

Government Sets New Rules You Need to Know About

The Canadian government has unveiled new guidelines that will soon apply to government-backed insured mortgages with down payments of **less than 20%**.

The amortization change has the same effect on payments as an interest-rate hike of slightly more than half of a percentage point, and is likely to have a more significant impact in local markets with higher prices, such as Vancouver or Toronto.

Source: Canada Globe and Mail, January 17, 2011

- ▶ Beginning **March 18**, the maximum amortization period will be reduced from 35 years to 30 years. As a result, some new borrowers will face higher monthly payments or could possibly qualify for less than they once expected.
- ▶ The government is also lowering the maximum amount people can borrow through a mortgage refinance from 90 to 85 per cent of the home's value.

Government officials have said these regulations are necessary to uphold the long-term stability of Canada's housing market, curb the country's growing debt levels and increase the likelihood that borrowers will be able to afford their mortgage payments if interest rates rise in the future.

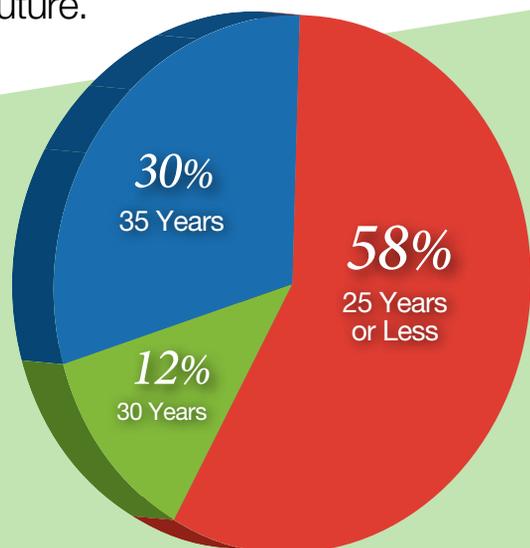
Source: Department of Finance, Canada



Taking Their Time:

Longer amortizations grew popular as housing prices rose in Canada. It's estimated that **30%** of buyers who took out a new home mortgage last year chose a 35-year repayment schedule.

Source: Canadian Association of Accredited Mortgage Professionals, November 2010



What the Changes Mean to You:

BUYERS: First-time buyers are likely to be affected the most, and some could potentially be priced out of their favourite neighbourhoods. The good news is they will still only need a minimum 5% down payment to qualify for a government-backed mortgage.

SELLERS: Some people may want to purchase a home before the regulations come into play, so the buying season could start sooner than usual. Owners who are planning to put a home on the market this spring may want to adjust their time frames—especially if they hope to appeal to first-time buyers.

REFINANCES: The new measures could reduce the amount of equity that refinancing homeowners can cash out and use for home improvements, debt consolidation, education or investments.

RENEWALS: The restrictions only apply to new loans, so borrowers with existing 35-year amortization schedules will most likely be able to extend them when their mortgage comes up for renewal.

2 Ways Buyers Could Pay

MAX AFFORDABLE HOUSE PRICE DROPS

Scenario: A couple who earns **\$120,000** annually and has **10%** to put down qualifies for...

Max house price with 35-year amortization: **\$620,000**

Max house price with 30-year amortization: **\$560,000**

MONTHLY PAYMENTS JUMP

Scenario: A **\$300,000** mortgage with a rate of **4%**

Monthly principal and interest payments spread over 35 years: **\$1,322**

Monthly principal and interest payments spread over 30 years: **\$1,427**

Additional monthly cost: **\$105**

On the plus side, the total amount of interest paid over the life of the loan is less, and homeowners would save: **\$41,850**

Source: Canada Globe and Mail, January 17, 2011

Please call your trusted real estate or mortgage professional if you would like more information about these new mortgage regulations.

