



# Trends Worth Watching in the Mortgage Marketplace

## Interest Rates:

### Leaving Rock Bottom Behind

In June, the Bank of Canada raised the overnight rate target by ¼ per cent—the first increase in three years. Prior to this change, the rate had been kept at the minimum ¼ per cent since April of 2009 to make money easier to borrow and to bolster economic conditions.\*

Many Canadians have grown accustomed to the low-interest-rate environment of recent years, but they should expect further rate hikes as the national economy continues to recover.

By obtaining or refinancing a mortgage while the cost of funds is still low, homeowners can benefit from relatively affordable housing payments for years to come. For those with significant equity, it may be possible to borrow for renovations or improvements that can enhance the property's resale potential, or for other uses such as paying for a child's education, funding a business or investing for retirement.

Whatever your goals, higher rates mean it could cost more to obtain financing that meets your needs and fits your budget. If your personal situation warrants a move or a refinance in the near future, it might be best to research your options sooner rather than later. If you are currently shopping for a property, ask your mortgage professional about the benefits and risks of locking a rate.

\*Source: Bank of Canada

## Look for an Upswing

The key policy rate or target for the overnight rate is the interest banks charge each other for loans. The Bank of Canada sets the target rate eight times a year in an effort to influence the supply of money in the Canadian economy. Changes in the target typically affect rates for consumer loans and mortgages as well.

The June 1 rate hike was the first time rates were pushed up since the middle of 2007. Robust economic growth and healthy employment gains indicate that the Bank of Canada will most likely continue to raise short-term rates as needed to control inflation throughout 2010 and 2011.

Source: The Bank of Canada

## Are You Missing Out?

The difference in payments between a loan of 5.5% and 7.5% is \$363 a month, \$4,356 per year—or \$21,780 over 5 years.

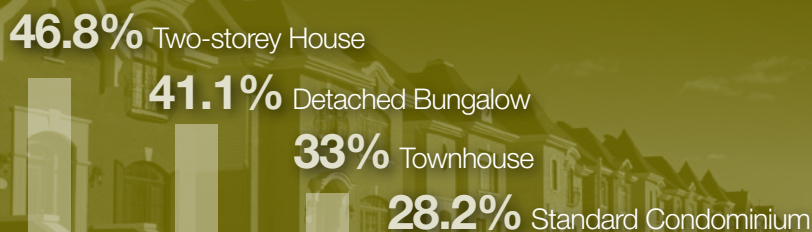
Principal and interest payments on a 5-year fixed rate loan in the amount of \$300,000 and amortized over 25 years.			
Interest Rate	Monthly Payment	Over 1 year	Over 5 years
5.5%	\$1,831.18	\$21,974.16	\$109,870.80
6.5%	\$2,009.48	\$24,113.76	\$120,568.80
7.5%	\$2,194.67	\$26,336.04	\$131,680.20



# Affordability on the Decline

Home prices in Canada grew rapidly through the first half of 2010. Increasing prices have started to impact affordability, especially in the higher cost areas of the country. Climbing interest rates could make it more difficult to afford a home purchase, or even put it out of reach for some first-time buyers who choose to wait.

Percentage of a typical household's pre-tax income needed for the average:



(Based on homeownership costs including mortgage payments, utilities and property taxes)

Source: The Wall Street Journal

## Higher Standards Make Good Sense

Existing government rules and the Canadian banks' underwriting guidelines work to ensure that borrowers can afford to repay the mortgages they are sold. In April of 2010 the following policy changes were implemented for government-insured mortgages to support the long-term stability of Canada's housing market.

- To help citizens prepare for higher interest rates in the future, all borrowers must meet the standards for a five-year fixed rate mortgage, even if they choose a loan with a lower rate and shorter term.
- Borrowers may refinance their home to 90% of its current value, reduced from 95%, making it less likely that they would owe more than the property is worth if housing prices should fall in the future.
- To reduce speculation, buyers of non-owner occupied rental properties must invest 20% of the purchase price for an insured mortgage. Previously, only 5% was required.

Generally, buyers need at least 5% for a down payment and acceptable debt ratios to qualify. Mortgage insurance is usually required for down payments less than 20%. Canadians can also tap into their RRSP for down payment funds up to \$25,000 (\$50,000 per couple). Gross Debt Service ratios, or the percentage of borrowers' gross monthly income committed to housing costs, typically should be less than 32%. Total Debt Service ratios, which also include other debts, should not exceed 40%.

Source: Canada Department of Finance, Canada Mortgage and Housing Corporation

# Well-Prepared

According to the Canada Housing and Mortgage Corporation's 2010 Mortgage Consumer Survey, Canadian borrowers are predominantly mortgage savvy and confident in their purchase decisions. 90% of first-time buyers said that they made their mortgage decision with a good understanding of the options available to them, 81% of homebuyers felt quite comfortable with their current mortgage debt, and 92% agreed that "homeownership is a good long-term investment."

It might take a little more effort to secure a suitable loan these days, but phenomenal rates could make it well worth investigating your options with your mortgage professional.

