

January 17, 2011

## Canada Imposes New Mortgage Rules

This morning, Finance Minister Jim Flaherty has announced new mortgage regulations aimed at reducing Canadians' soaring household debt.

Flaherty has unveiled three new rules:

- (1) Mortgage amortization periods will be reduced to 30 years from 35 years.
- (2) The maximum amount Canadians can borrow to refinance their mortgages will be lowered to 85 per cent from 90 per cent.
- (3) The government will withdraw its insurance backing on lines of credit secured on homes, such as home equity lines of credit.

The new rules come on the heels of a Bank of Canada announcement that Canadians' domestic debt burdens have hit record levels.

The change in amortization and refinance borrowing limits will go into effect on March 18, 2011 and the change in insurance on home equity lines of credit will go into effect on April 18, 2011.

The first change is likely to have the largest impact. Buyers who purchase a home with less than 20 per cent of the value of the home are required to purchase government-backed mortgage insurance through Canada Mortgage and Housing Corporation.

Under the new rules, mortgages amortized over longer than 30 years will no longer qualify for that insurance, making it effectively impossible to get a highly leveraged mortgage of more than 30 years in Canada.

While Flaherty called the changes "moderate," they did not include an increase to the five per cent minimum down payment Ottawa requires for a home purchase. They also stopped short of a proposal that surfaced last week which would have required 100 per cent of condo fees to be included in the list of expenses that are measured against income when financial firms consider a mortgage candidate. Currently, only 50 per cent must be included.

The ratio of household debt to disposable income has reached 147 per cent and household debt has reached \$1.4 trillion.

The International Monetary Fund has called household debt the No. 1 risk to the Canadian economy.

For more information on the regulations and their impact on our industry, you can contact us at 1-888-693-1439