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Flaherty tightens mortgage taps

By CBC News
CBC News

Finance Minister Jim Flaherty has announced new rules aimed at preventing homebuyers from getting into financial difficulty when mortgage rates rise.

Federal finance Minister Jim Flaherty announced new rules Tuesday aimed at preventing homebuyers from getting into financial difficulty when mortgage rates rise.

After consulting with major Canadian lenders, Flaherty outlined the latest weapons at Ottawa's disposal aimed at removing some of the speculative froth in the housing market.

"There is no evidence of a housing bubble, but we're taking prudent steps today to prevent one," he said at a news conference in Ottawa. "If some lenders aren't willing to act themselves, we will act."

Broadly speaking, the plan unveiled has three components.

First, Ottawa will require that all borrowers meet the standards for a five-year fixed-rate mortgage, even if they choose a variable mortgage with a lower rate or a shorter term.

"This will guard against higher rates in the future," Flaherty said.

Second, the rules would lower the maximum Canadians can withdraw when refinancing their mortgages to 90 per cent of the value of their home, from 95 per cent.

And finally, Ottawa will now require a minimum 20 per cent down payment to qualify for CMHC insurance for non-owner-occupied properties purchased as an investment.

The last rule is aimed at reining in would-be real estate speculators who own multiple properties beyond their primary residence.

"We want to discourage the tendency some people have to use a home as an ATM, or buy three or four condos on speculation," Flaherty said.

Minimum down payment unchanged

There had been speculation the Department of Finance might implement legislation raising the minimum down payment from five to 10 per cent of a home's value, or reduce the maximum amortization period from 35 years to 30 years.

Those measures were not part of Flaherty's announcement Tuesday, but all options are still on the table should circumstances change, Flaherty said.

The adjustments to the mortgage insurance guarantee framework, to be implemented as of April 19, 2010, are not likely to revolutionize the industry. Indeed, current policies at some large Canadian lenders are similar to the first peg of Flaherty's plan.

After Tuesday's announcement, the Bank of Montreal noted that it already requires its high-ratio borrowers to be able to qualify using the five-year rate. And all banks currently test all mortgage applicants on a three-year fixed-rate mortgage rule, Toronto-Dominion bank says.

"While we do not believe that Canada faces a housing bubble, we fully support the minister's actions," Bank of Montreal said in a release. "Given the prospect of higher interest rates and the recent run-up in housing prices in some markets across Canada, the measures announced today are prudent."

"This is a little bit late in telling Canadians we need to be more cautious in taking out a mortgage," RBC Global Asset Management chief economist Patricia Croft said in reaction to Flaherty's announcement.

Though she stopped short of calling Canadian real estate in bubble territory already, she said the April 19 date for implementation is actually likely to cause more short-term stimulation of the market, as people scramble to get in under the deadline.

"If you wanted to buy a house, wouldn't you now do it before April?" Croft asked. "It's even more evidence that house prices are going to cool down later this year."

In terms of the impact on real estate buyers, the policy change will have an effect on a large portion of new buyers, TD Bank deputy chief economist Craig Alexander said in a report Tuesday. "Perhaps a quarter of all new mortgage originations might be influenced," he said.

The requirement that all buyers are held to the five-year fixed-rate standards will be particularly important, Alexander said. Based on the average home price of $337,000, a buyer with only five per cent down would require roughly $9,200 more in annual income to qualify under the new rules, he estimated.

For its part, the Canadian Association of Accredited Mortgage Professionals says it supports the amendments, calling them preventative measures against possible future risk.

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