Mortgage Rules Tightened

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In an effort to crack down on speculators and to discourage people from taking on too much debt, Ottawa is tightening mortgage rules again. These new rules are expected to take effect April 19, 2010.

There is growing concern that the housing market in Canada may be overheating. Finance Minister Jim Flaherty stresses that while there is no bubble in Canada's real estate market now, these new mortgage measures are a proactive step to help prevent a housing bubble from occurring.

All borrowers will need to meet stricter criteria in order to get a mortgage. To qualify for a Canada Mortgage And Housing Corporation (CMHC) insured mortgage, borrowers will need to be able to service the debt based on a five year fixed-rate mortgage, up from the current standard of three years. This measure should ensure borrowers will be able to handle increases in their variable rate mortgages when interest rates start rising, perhaps as early as this summer.

The down payment that borrowers must have for speculative investments will also be raised. Prospective home purchasers wanting to buy a property where they won't be living will need to have a 20% down payment.

While investment properties, such as rental units, are not the intended targets of this change, they do appear to be affected. Flaherty said, 'What we're [aiming] at is the speculation in multiple condo markets, in particular.' Many think this move may be an effective measure to prevent rampant real estate speculation like what occurred in many areas of the United States, which then led to catastrophic property value decreases and mortgage foreclosures.

To discourage the kind of mortgage refinancing that often creates unmanageable debt levels when interest rates rise, tighter restrictions will be imposed on how much people can borrow against their homes. The new limit will be 90%, down from the current 95% of the property value.

'We are encouraging people to build equity over time, using home ownership as an effective way to save, rather than a vehicle for quick cash,' Flaherty said. The minister has been advised to be stricter on who can get new mortgages. The government has also been warned by economists not put on the brakes too hard so what some say is a fragile economic recovery isn't stifled.

In July 2008, the Department of Finance announced changes to the rules for government guaranteed mortgages that became effective October 15, 2008. These changes made it no longer possible to get CMHC mortgage insurance for 100% loan-to-value mortgages or 40-year amortization financing.

While these changes appear to make it more difficult for some people to purchase a home, they are intended to have a 'stabilizing effect on the housing market.' These measures should also help prevent a devastating real estate bubble burst like the recent one in the United States.

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