

## Credit squeeze hits 40-year mortgages

New rules, including no zero-down loans, will cool real-estate market, curb first-time buyers, experts say

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Government aims to avoid housing meltdown like the one that hit U.S.

The federal government will no longer guarantee 40-year or zero-down mortgages in an effort to avoid a housing crisis such as the sub-prime mortgage meltdown that rocked the housing market in the United States. And that could cause British Columbia's housing market to cool even further.

In an announcement Wednesday, the government said government-backed mortgages would require a minimum down payment of five per cent and would be limited to a maximum amortization period of 35 years.

The borrower would also need a specified minimum credit score.

"Today's announcement marks a responsible and measured approach by the government to ensure Canada's housing market remains strong and to reduce the risk of a U.S.-style housing bubble developing in Canada," a release issued by the federal Department of Finance said.

All mortgages issued by federally regulated lenders with down payments of less than 20 per cent require insurance, and the government backs the insurance whether it is provided through the Canada Mortgage and Housing Corp. or private insurers, such as Genworth Financial.

So most low-down-payment mortgages will be affected, said Tsur Somerville, director of the centre for urban economics and real estate at the Sauder School of Business at the University of B.C.

And that will dampen B.C.'s already cooling housing market.



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 A Cloverdale mortgage consultant says 85 to 90 per cent of first-time homebuyers have chosen a 40-year amortization.

"The scuttlebutt is that lots and lots and lots of first-time buyers are using the 40-year [amortization option]," Somerville said. "So if you force them back to a 35-year, it means they are not going to be able to pay the same kind of price.

"So it definitely has a dampening effect on the marketplace."

And the market has already showed signs of slowing so "this will certainly put more pressure to limit the growth of prices," Somerville said.

Feisal Panjwani, a senior mortgage consultant with Invis in Cloverdale estimates that 85 to 90 per cent of his first-time buyers have chosen the 40-year option.

But most could qualify for a shorter term, he said. Instead they pick a 40-year period with lower payments so they have the flexibility to pay more than required but go back to the lower amount if they hit a rough patch, he said.

So the effect of shortening the amortization period may not be so bad. But taking away the zero-down option could have an effect on the market, he said.

"That zero-down program has been quite popular," Panjwani said.

A survey by the Canadian Association of Mortgage Professionals last fall found that 37 per cent of borrowers surveyed had mortgages with amortization periods greater than the traditional 25 years, the organization's president and CEO Jim Murphy said in an interview.

The results are not broken down by province but Murphy suspects the number is greater in B.C.'s Lower Mainland, which has the highest prices and the largest mortgages in the country.

"These are popular products," Murphy said.

"So I think it's big news. I think it's important news ... particularly in a market like the Lower Mainland where prices are high," he added.

The new rules are to take effect Oct. 15, 2008 to allow existing mortgage pre-approvals to be used or expire, the government said in its release.

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