



Investment in home ownership is not for everyone

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I feel for young people trying to get their toe in the door of today's overpriced housing market. But the feds are right to pull the plug by withholding guarantees on 40-year, no-down-payment mortgages.

Because, while buying a home may be the best investment many of us will ever make, it is never a sure thing. And there are times when people are better off not owning a home.

Broadly speaking, there are two sets of circumstances where it's best not to own.

One was sadly common in both the Prairies and Atlantic Canada when I lived in those regions, and we can expect to see more of it here as the economic lifeblood drains from some of B.C.'s forest-dependent towns. In a place with no jobs and flagging real estate sales, a home is no asset. It's deadweight, an anchor around the neck. It just holds people back from moving somewhere they can find a job.

Of course, the problem of having an unsaleable home in a waning markets isn't caused by 40-year mortgages. But the other main circumstance in which a home becomes a burden -- when it's bought by someone who can't afford it -- is tied tightly to this ill-advised policy.

The appeal of this kind of mortgage is two-fold. You don't need money in your pocket to buy. And the payments will be as low as they can possibly be -- though the need to keep making them goes on, and on, and on.

So you'll love it if you're a speculator who wants the most-possible property for the least-possible cash outlay in the expectation that prices will continue to rise. Who cares about paying down principal in order to build equity if you're counting on ever-higher prices to do that for you?

You might also embrace a 40-year mortgage if you want maximum flexibility in how much you pay each month. It offers the lowest mandatory payment so, as long as you can overpay at will, you can have the best of both worlds. You can pay the bare minimum when money's tight, and overpay to gnaw down the principal when you've got some extra.

Not a bad plan -- as long as you actually make those extra payments whenever you can.

Finally, you'll accept a 40-year mortgage -- though you may not like the thought of such daunting debt looming so far into your future -- if you're desperate. If you can't pay rent and save, if you can't see home ownership within your grasp any other way, you may see this as your last hope.

If there was ever a justification for a public policy to foster these mortgages, it's to make money available to this last group. The speculators and those who find it a convenient money-management tool are merely free riders; it's not a good use of public money to support them.

But nor is it good use of public money, I would argue, to lure people into buying homes they might not be able to hang onto. As is illustrated by the U.S. mortgage crisis -- a catastrophe that finally spurred Ottawa to rethink its mortgage guarantees -- the economy takes an immense hit when a lot of people find themselves with debts larger than the value of their homes.

Conventional wisdom holds that no similar meltdown can take place in Canada, but I wouldn't bet the farm (or my home).

With as many as 90 per cent of first-time homebuyers reported to be choosing 40-year repayments, what happens if interest rates soar by the time they have to renew? If prices suddenly plummet? If people start losing jobs in a recession?

Unless enough time has passed for no-down-payment buyers to build some substantial equity -- and equity builds painfully slowly with a 40-year mortgage -- a lot of people could be in trouble.

Federal mortgage insurance would help protect the lenders in these situations, of course, but only at great public expense.

A better option, I think, is for people to wait until they can afford to buy. And, in an odd way, this policy change will help them.

One of many factors that drive Metro Vancouver home prices is the number of buyers. And it's an artificially high number as long as people are enticed into the market with no down payment and lowest-possible repayment schedules. If those kinds of would-be buyers no longer qualified to borrow, there'd be a little less pressure on prices.

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