Tougher mortgage lending rules announced

Bid to curb Canadian household debt levels by Finance Minister Jim Flaherty

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Finance Minister Jim Flaherty is cracking down on Canadians' ability to qualify for a mortgage, in the government's latest attempt to rein in consumer debt.

Photograph by: Mike Cassese/Reuters, Mike Cassese/Reuters

OTTAWA -- Finance Minister Jim Flaherty is cracking down on Canadians' ability to qualify for a mortgage, in the government's latest attempt to rein in consumer debt.

Flaherty announced Monday the government is reducing the maximum amortization period for government-backed mortgages to 30 years from 35 years. The change will affect mortgages with a loan-to-value ration over 80 per cent.

Canadians will only be able to borrow up to 85 per cent of the value of their homes, down from 90 per cent.

In addition, the government is withdrawing backing for lines of credit secured by people's homes.

The changes to the country's mortgage rules come amid rising concern about the record levels of household debt, which, measured as a ratio of money owed to disposable income, nears a startling 150 per cent as of the third quarter of last year. That surpasses the level of debt held by U.S. households, whose appetite for borrowing helped stoke the financial crisis of a few years ago.

The Bank of Canada recently warned debt levels are growing faster than income, adding the risk posed by consumer indebtedness to the domestic economy would continue to escalate without a "significant change" in how consumers borrow and banks lend.

Last Friday, Prime Minister Stephen Harper acknowledged his government was considering changes to the rules governing mortgages. He said the government "remains concerned about growth in the level of household debt.

In February 2010, Flaherty moved to toughen up the mortgage rules amid worries that Canada was in the midst of a housing-market bubble. The reforms, since introduced, compelled borrowers to meet standards for a five-year fixed-rate mortgage, even if the buyer wanted a shorter-term, variable rate loan.

They further required purchasers of rental properties to issue a 20 per cent down payment as opposed to five per cent. The moves played a role, observers say, in slowing down real-estate activity. While the federal government looks to curb borrowing, economists say the Bank of Canada may have to follow by raising its key interest rate sooner rather than later.

The central bank issues its latest rate statement Tuesday and it is expected to hold its benchmark rate at its present one per cent level as signs indicate the economy may be benefiting from renewed business and consumer confidence in the United States.

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